

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, 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 in this Official Statement, interest (and original issue discount) on the 2019A 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2019A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”



\$283,325,000
CITY OF RIVERSIDE, CALIFORNIA
REFUNDING ELECTRIC REVENUE BONDS, ISSUE OF 2019A

Dated: Date of Delivery

Due: October 1, as shown on inside cover

Description of the 2019A Bonds. The bonds captioned above (the “2019A Bonds”) will be issued by the City of Riverside (the “City”) in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2019A Bonds. Purchasers of the 2019A Bonds will not receive physical certificates representing their interests in 2019A Bonds purchased. Principal of, premium, if any, and interest on the 2019A 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 2019A Bonds.

The 2019A Bonds will bear interest at the rates per annum shown on the inside cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months). Each 2019A Bond will bear interest from the interest payment date before its date of authentication (i) unless it is authenticated (a) during the period after a Record Date but on or before the next interest payment date, in which event it will bear interest from that interest payment date, or (b) prior to the first Record Date, in which event it will bear interest from the dated date of the 2019A Bonds, or (ii) unless at the time of authentication interest is in default, in which event it will bear interest from the interest payment date to which interest has been paid or provided for. “Record Date” means the close of business on the 15th day of each month preceding an interest payment date.

Interest will be payable semiannually on April 1 and October 1, commencing April 1, 2019.

Redemption Prior to Maturity. The 2019A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See “DESCRIPTION OF THE 2019A BONDS – Redemption Provisions.”

Purpose of the 2019A Bonds. The 2019A Bonds are being issued to provide funds, together with other available moneys, to: (i) defease and redeem in full the City’s outstanding Electric Revenue Bonds, Issue of 2008D; (ii) redeem a portion of the City’s Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A (the “2008A Bonds”) and Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C (together with the 2008A Bonds, the “Prior Variable Rate Bonds”); (iii) pay the termination cost associated with terminating the portion of the City’s outstanding interest rate swaps allocated or related to Prior Variable Rate Bonds; and (iv) finance capital projects for the City’s electric utility system (the “Electric System”). Proceeds of the 2019A Bonds will also be used to pay certain costs of issuance. See “PLAN OF FINANCE.”

Security for the 2019A Bonds. The 2019A Bonds are special limited obligations of the City, and are a charge upon and are payable solely from and secured by a lien upon the Net Operating Revenues of the Electric System and other funds, assets and security described in the Resolution (as described in this Official Statement). They do not constitute a general obligation or indebtedness of the City. “Net Operating Revenues” is generally defined as Gross Operating Revenues less Operating and Maintenance Expenses. Operating and Maintenance Expenses include certain take-or-pay obligations under contracts with joint powers agencies, including payments with respect to bonds issued by such joint powers agencies. See “THE ELECTRIC SYSTEM.” **The City is not funding a debt service reserve account for the 2019A Bonds.**

Existing Parity Debt. The 2019A Bonds are secured by and payable from Net Operating Revenues on a parity with outstanding bonds in the aggregate principal amount of \$514,270,000 as of January 1, 2019 (of which \$232,140,000 is being refunded by the 2019A Bonds), which are referred to in this Official Statement as the “Prior Parity Bonds.” See “PLAN OF FINANCE – Outstanding Parity Bonds.”

Future Parity Debt. The City is authorized to issue additional bonded indebtedness and to incur additional obligations that are secured by a lien upon and payable from Net Operating Revenues on a parity with the Prior Parity Bonds and 2019A Bonds, as described in this Official Statement.

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, but not defined, on this cover page have the meanings set forth in this Official Statement.

The 2019A Bonds are offered when, as and if issued and received by the Underwriters, 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. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Norton Rose Fulbright US LLP, Los Angeles, California, is acting as counsel to the Underwriters. It is expected that the 2019A Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about February 26, 2019.

Goldman Sachs & Co. LLC

Barclays

BofA Merrill Lynch

**CITY OF RIVERSIDE, CALIFORNIA
REFUNDING ELECTRIC REVENUE BONDS
ISSUE OF 2019A**

**MATURITY SCHEDULE
Base CUSIP: 768874†**

\$238,740,000 Serial Bonds

<u>Maturity Date (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP Number†</u>
2019	\$5,140,000	5.00%	1.38%	102.144	TY5
2020	10,350,000	5.00	1.44	105.599	TZ2
2021	10,825,000	5.00	1.48	108.934	UA5
2022	11,350,000	5.00	1.54	112.061	UB3
2023	13,180,000	5.00	1.60	115.010	UC1
2024	13,845,000	5.00	1.64	117.897	UD9
2025	7,905,000	5.00	1.74	120.233	UE7
2026	8,125,000	5.00	1.83	122.386	UF4
2027	8,330,000	5.00	1.94	124.121	UG2
2028	8,535,000	5.00	2.03	125.778	UH0
2029	8,735,000	5.00	2.15	125.741 ^c	UJ6
2030	10,055,000	5.00	2.33	123.897 ^c	UK3
2031	10,510,000	5.00	2.47	122.485 ^c	UL1
2032	11,025,000	5.00	2.59	121.289 ^c	UM9
2033	11,550,000	5.00	2.68	120.402 ^c	UN7
2034	10,090,000	5.00	2.75	119.717 ^c	UP2
2035	10,545,000	5.00	2.82	119.037 ^c	UQ0
2036	21,775,000	5.00	2.89	118.361 ^c	UR8
2037	22,865,000	5.00	2.95	117.785 ^c	US6
2038	24,005,000	5.00	3.01	117.213 ^c	UT4

\$19,590,000 5.00% Term Bond due October 1, 2043, Yield: 3.18% Price: 115.610^c CUSIP:† 768874 UU1

\$24,995,000 5.00% Term Bond due October 1, 2048, Yield: 3.26% Price: 114.865^c CUSIP:† 768874 UV9

c: Priced to par call on April 1, 2029.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriters take any responsibility for the accuracy of such numbers.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Rusty Bailey, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Mike Soubirous, 3rd Ward
Chuck Conder, 4th Ward

Chris Mac Arthur, 5th Ward
Jim Perry, 6th Ward
Steve Adams, 7th Ward

BOARD OF PUBLIC UTILITIES

Jo Lynne Russo-Pereyra, Chair
David Austin, Vice Chair

David M. Crohn
Jeanette Hernandez
Jennifer C. O'Farrell

Gildardo Ocegüera
Elizabeth E. Sanchez-Monville
Andrew C. Walcker

CITY OFFICIALS

Al Zelinka, *City Manager*

Edward Enriquez,
Chief Financial Officer/City Treasurer

Todd Corbin,
Utilities General Manager

Gary G. Geuss
City Attorney

Todd L. Jorgenson,
*Utilities Assistant General Manager
Water*

Susan D. Wilson,
Assistant City Attorney

Aileen Ma,
*Interim Utilities Assistant General Manager
Finance & Administration*

Colleen J. Nicol,
City Clerk

Daniel E. Garcia,
*Utilities Assistant General Manager
Resources*

Marie Ricci,
Assistant Chief Financial Officer

George R. Hanson,
*Utilities Assistant General Manager
Energy Delivery*

BOND COUNSEL

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

MUNICIPAL ADVISOR

PFM Financial Advisors LLC
Los Angeles, California

DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Samuel Klein and Company
New York, New York

Neither the City nor the Underwriters have authorized any dealer, broker, salesman or other person to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2019A Bonds in any jurisdiction in which such offer to sell or solicitation of an offer to buy is unlawful.

This Official Statement is not to be construed as a contract with the purchasers of the 2019A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion (whether or not expressly so described in this Official Statement) are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2019A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have 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 Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2019A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2019A BONDS AT LEVELS ABOVE THOSE THAT 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 involves 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 in this Official Statement, 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 that it contains is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2019A Bonds.

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OFFICIAL STATEMENT

\$283,325,000
CITY OF RIVERSIDE, CALIFORNIA
REFUNDING ELECTRIC REVENUE BONDS, ISSUE OF 2019A

INTRODUCTION

This Official Statement, including its appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the “**City**”), of the bonds captioned above (the “**2019A Bonds**”).

Authority for the 2019A Bonds

The 2019A Bonds are authorized and issued pursuant to the following, which are referred to collectively in this Official Statement as the “**Law**”:

- (i) the City Charter;
- (ii) 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 Ordinance No. 6815 adopted by the City Council on July 26, 2005; and
- (iii) Resolution No. 17662 adopted by the City Council on January 8, 1991 (the “**Master Resolution**”), as previously amended and supplemented, and as amended and supplemented by an eighteenth supplemental resolution providing for the issuance of the 2019A Bonds (the “**Eighteenth Supplemental Resolution**”), which was adopted by the City Council on January 22, 2019. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Eighteenth Supplemental Resolution, is referred to collectively in this Official Statement as the “**Resolution**.”

Purpose of the 2019A Bonds

The 2019A Bonds are being issued to provide funds, together with other available moneys, to:

- (i) defease and redeem in full the City’s Electric Revenue Bonds, Issue of 2008D, which were issued on May 20, 2008, in the aggregate principal amount of \$209,740,000 and are currently outstanding in the aggregate principal amount of \$191,715,000 (the “**2008D Bonds**”);
- (ii) redeem a portion of the City’s variable rate electric revenue bonds listed below (collectively, the “**Prior Variable Rate Bonds**”; see “PLAN OF FINANCE – Outstanding Parity Bonds”):

- (a) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A (“**2008A Bonds**”), which were issued on May 1, 2008, in the aggregate principal amount of \$84,515,000 and are currently outstanding in the aggregate principal amount of \$65,965,000; and
- (b) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C (“**2008C Bonds**”), which were issued on May 1, 2008, in the aggregate principal amount of \$57,325,000 and are currently outstanding in the aggregate principal amount of \$41,075,000;
- (iii) pay the termination cost associated with terminating the portion of the City’s outstanding interest rate swaps allocated or related to the Prior Variable Rate Bonds (the “**Swap Termination Cost**”); and
- (iv) finance capital projects for the City’s electric utility system (the “**Electric System**”).

Proceeds of the 2019A Bonds will also be used to pay certain costs of issuance. See “PLAN OF FINANCE.”

The Electric System

The Electric System operates as a vertically integrated utility providing service to virtually all electric consumers within the city limits of the City, which encompasses 81.5 square miles. The Electric System’s power supply requirements are met through:

- (i) the City’s (a) internal generation consisting of (1) 40 megawatt (“**MW**”), simple cycle, combustion turbines known as the Springs Generating Project (the “**Springs Generating Project**”) and (2) the four unit, 196 MW, power plant known as Riverside Energy Resource Center (“**RERC**”) Units 1, 2, 3 and 4, and (b) the 29.5 MW combined-cycle Clearwater Cogeneration Facility located in Corona, California (“**Clearwater**”);
- (ii) entitlements in the Intermountain Power Project (“**IPP**”) Generating Station, the Hoover Power Plant and, through the City’s participation in the Southern California Public Power Authority (“**SCPPA**”), SCPPA’s Palo Verde Nuclear Generating Station Project (“**PVNGS**”);
- (iii) long-term power purchase agreements for renewable energy;
- (iv) purchases of firm energy from various western utilities when it is available at an economical price or when needed to satisfy periods of peak demand; and
- (v) energy purchases through the California Independent System Operator (“**CAISO**”) centralized markets.

The Electric System provides service throughout the City to domestic, commercial, industrial, agricultural, municipal and other customers. For the fiscal year ended June 30, 2018, the number of customers of the Electric System was 109,619 and the total megawatt hours (“**MWh**”) generated and purchased was 2,305,200. See “THE ELECTRIC SYSTEM.”

Security for the 2019A Bonds; Rate Covenant

Nature of Pledge. Pursuant to the Law, the 2019A Bonds are special limited obligations of the City and are secured by a pledge of and are a charge upon, and are payable solely from and secured by a lien upon, the “**Net Operating Revenues**” of the Electric System and other funds, assets and security described under the Resolution. The term Net Operating Revenues is generally defined to mean Gross Operating Revenues less Operating and Maintenance Expenses. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS.” Operating and Maintenance Expenses include certain take-or-pay obligations under contracts with joint powers agencies, including payments with respect to bonds issued by such joint powers agencies. See “THE ELECTRIC SYSTEM – Joint Powers Agency Obligations.”

Rate Covenant. The City is obligated by the Resolution to prescribe, revise and collect rates and collect charges for the services, facilities and electricity of the Electric System during each Fiscal Year in an amount sufficient to pay Operating and Maintenance Expenses and to pay debt service on the Bonds and other obligations payable from Net Operating Revenues, with specified requirements as to priority and coverage (when coverage is required, the City may take into account any unrestricted funds of the Electric System designated by the City Council by resolution and available to pay Operating and Maintenance Expenses or debt service on the Bonds). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Net Operating Revenues” and “– Rate Covenant.” Electric rates are established by the City of Riverside Board of Public Utilities (the “**Board**”), subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission (the “**CPUC**”) or any other state agency.

Limited Obligation. The general fund of the City is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2019A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2019A Bonds. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. None of the principal of or interest or redemption premium (if any) on the 2019A Bonds constitutes a debt of the City or 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 Electric System and other funds, security or assets that are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2019A Bonds.

Outstanding Parity Bonds

The 2019A Bonds are secured by and payable from Net Operating Revenues on a parity with outstanding bonds in the aggregate principal amount of \$514,270,000 as of January 1, 2019 (of which \$232,140,000 is being refunded by the 2019A Bonds), which are referred to in this Official Statement as the “**Prior Parity Bonds.**” See “PLAN OF FINANCE – Outstanding Bonds.”

Additional Bonds and Parity Debt

The City is authorized under the Resolution to issue additional bonds (“**Additional Bonds**”) that are secured by a pledge of and a charge upon, and that are payable from, Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 2019A Bonds and the Prior Parity Bonds. The Prior Parity Bonds, the 2019A Bonds and any Additional Bonds are referred to in this Official Statement as the “**Bonds.**”

The City is also authorized to issue and incur additional parity obligations that do not constitute Bonds, but are secured by and payable from Net Operating Revenues on a parity with the Bonds.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Additional Bonds and Parity Debt.”

Debt Service Reserve Account Not Funded

A separate reserve account is being established for the 2019A Bonds; however, the City is not funding the account and has no obligation to fund the account in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Debt Service Reserve Account Not Funded.”

Joint Powers Agency Obligations

The City participates in certain contracts with the Intermountain Power Agency, a political subdivision of the State of Utah (“**IPA**”), and SCPPA. Obligations of the City under the agreements with IPA and SCPPA constitute Operating and Maintenance Expenses of the City payable prior to any of the payments required to be made on the Bonds and any Parity Debt. Agreements between the City and IPA and the City and SCPPA are on a “take-or-pay” basis, which requires payments to be made whether or not applicable projects are completed or operable or whether output from such projects is suspended, interrupted or terminated. All of these agreements contain “step-up” provisions obligating the City to pay a share of the obligations of a defaulting participant. Any “step-up” obligation relating to the City’s participation in transmission projects that it would be responsible for would be included in the City’s Transmission Revenue Requirement (“**TRR**”) as approved by the Federal Energy Regulatory Commission (“**FERC**”) (that would require filing a new TRR at the FERC) and would be recovered from all CAISO grid users. The City’s participation and share of principal obligation (without giving effect to any “step-up” provisions) for each of the joint powers agency projects in which it participates are detailed under the heading “THE ELECTRIC SYSTEM – Joint Powers Agency Obligations.”

Subordinate Obligations

The City has incurred certain obligations and has the right to issue additional obligations that are secured by and payable from Net Operating Revenues on a subordinate basis to the Bonds and Parity Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations.”

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2019A Bonds to provide certain financial information and operating data relating to the Electric System and 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 2019A Bonds, the security and sources of payment therefor, the Electric 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 in this Official Statement to the 2019A 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 Financial Report of Riverside Public Utilities may be obtained from the Utilities Assistant General Manager / Finance and Administration of the City of Riverside Public Utilities Department, at 3750 University Avenue, 3rd Floor, Riverside, California 92501, or the City's website at <https://www.riversideca.gov/utilities/about-rpu/annual-reports.asp>.

Financial and statistical information set forth in this Official Statement, except for the audited financial statements included in APPENDIX B and unless otherwise indicated, is unaudited. The source of such information is the City, unless otherwise stated.

All capitalized terms used in this Official Statement and not otherwise defined shall have the meanings provided in the Resolution.

PLAN OF FINANCE

General

The Series 2019A Bonds are issued to provide funds, together with other available moneys, to: (i) defease and redeem in full the 2008D Bonds; (ii) redeem a portion of the Prior Variable Rate Bonds; (iii) pay the termination cost associated with terminating the portion of the City's outstanding interest rate swaps allocated or related to the Prior Variable Rate Bonds (referred to herein as the Swap Termination Cost); and (v) finance capital projects for the Electric System.

Proceeds of the 2019A Bonds will also be used to pay certain costs of issuance.

Refunding Plan

Full Defeasance and Redemption of 2008D Bonds. The City will deliver a portion of the proceeds of the 2019A Bonds and certain other available funds to the Fiscal Agent, as escrow agent (the "**Escrow Agent**"), for deposit into an escrow fund (the "**2008D Escrow Fund**") established under an escrow agreement (the "**2008D Escrow Agreement**"), as described below.

On the Closing Date, the City and the Escrow Agent will enter into the 2008D Escrow Agreement. Under the 2008D Escrow Agreement, on the Closing Date, the City will cause to be transferred to the Escrow Agent for deposit into the 2008D Escrow Fund the amount of \$195,993,339.59 in immediately available funds. The amount deposited into the 2008D Escrow Fund will be held as cash or invested by the Escrow Agent in Federal Securities. The maturing principal of and interest on such Federal Securities will be sufficient, together with amounts held as cash in the 2008D Escrow Fund, to pay the redemption price of the 2008D Bonds on April 1, 2019 (the "**Redemption Date**").

The refunded 2008D Bonds consist of the maturities listed below.

**City of Riverside
Electric Revenue Bonds, Issue of 2008D**

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number†</u> <u>(Base: 768874)</u>
2019	\$3,650,000	4.000%	PZ6
2020	3,755,000	4.000	QA0
2021	3,825,000	4.125	QB8
2022	4,015,000	4.250	QC6
2023	1,050,000	4.500	QD4
2023	5,600,000	5.000	QE2
2024	1,500,000	4.500	QF9
2024	5,500,000	5.000	QG7
2025	425,000	4.500	QH5
2025	6,915,000	5.000	QJ1
2026	1,050,000	4.500	QK8
2026	6,480,000	5.000	QL6
2027	125,000	4.500	QM4
2027	7,570,000	5.000	QN2
2028	140,000	4.500	QP7
2028	7,735,000	5.000	QQ5
2033	48,015,00	5.000	QR3
2038	385,000	4.750	QS1
2038	83,980,000	5.000	QT9

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The redemption price of the 2008D Bonds will equal the par amount to be redeemed, together with accrued interest to the Redemption Date, without premium. On the Closing Date, as a result of the deposit of funds into the 2008D Escrow Fund, the 2008D Bonds will be defeased and all liability of the City with respect to them will be discharged.

Sufficiency of the deposit in the 2008D Escrow Fund to pay the redemption price of the 2008D Bonds on the Redemption Date will be verified by Samuel Klein and Company, New York, New York (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY" below.

The amount held by the Escrow Agent in the 2008D Escrow Fund are pledged solely to the payment of the 2008D Bonds. None of the funds deposited into the 2008D Escrow Fund will be available for the payment of debt service on the 2019A Bonds.

Redemption of 2008A Bonds and 2008C Bonds. On the Closing Date, the City will provide instructions to the Fiscal Agent to govern the money that will be used to redeem the 2008A Bonds and 2008C Bonds on the Redemption Date. On the Closing Date, the City will cause a portion of the proceeds of the 2019A Bonds, together with certain other available moneys, to be transferred to the Fiscal Agent in the amounts of \$31,430,320.41 and \$8,905,258.17 to be held in trust. Such amounts will be applied as described in the next paragraph. The City will pay

interest due on the Redeemed Prior Variable Rate Bonds on March 1, 2019, and April 1, 2019, using other available moneys from the City's Electric Fund.

Amounts held in trust by the Fiscal Agent, as described above, will be held as cash or invested by the Fiscal Agent in Federal Securities. The maturing principal of and interest on such Federal Securities, together the amounts held as cash, will be applied to redeem \$31,500,000 principal amount of the 2008A Bonds and \$8,925,000 principal amount of the 2008C Bonds (such portions, the "**Redeemed Prior Variable Rate Bonds**" and together with the 2008D Bonds, the "**Redeemed Prior Bonds**") on the Redemption Date.

The 2008A Bonds and 2008C Bonds are term bonds scheduled to mature on October 1, 2029, and October 1, 2035, respectively. A schedule of mandatory sinking account payments for each of the 2008A Bonds and 2008C Bonds is provided below. The principal amount of each of the 2008A Bonds and 2008C Bonds being redeemed will be credited against the respective mandatory sinking account payments for such Series as set forth in the table below.

City of Riverside
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A
CUSIP Number† 768874 PS2

Redemption Date (October 1)	Principal Amount Outstanding	Principal Amount to Be Redeemed
2019	\$4,775,000	\$4,775,000
2020	4,950,000	4,950,000
2021	5,150,000	5,150,000
2022	5,300,000	5,300,000
2023	5,550,000	5,550,000
2024	5,775,000	5,775,000
2025	6,000,000	--
2026	6,435,000	--
2027	6,865,000	--
2028	7,330,000	--
2029 (maturity)	7,835,000	--

The portions of the 2008A Bonds and 2008C Bonds not being redeemed on the Redemption Date will remain outstanding on a parity basis with the 2019A Bonds, as described under the heading entitled "– Outstanding Parity Bonds."

City of Riverside
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C
CUSIP Number† 768874 PU7

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u> <u>Outstanding</u>	<u>Principal Amount</u> <u>to Be Redeemed</u>
2019	\$1,775,000	\$1,775,000
2020	1,825,000	1,825,000
2021	1,900,000	1,900,000
2022	1,950,000	1,950,000
2023	750,000	750,000
2024	725,000	725,000
2025	725,000	--
2026	700,000	--
2027	725,000	--
2028	725,000	--
2029	725,000	--
2030	4,350,000	--
2031	4,500,000	--
2032	4,675,000	--
2033	4,825,000	--
2034	5,000,000	--
2035 (maturity)	5,200,000	--

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The redemption price of the Redeemed Prior Variable Rate Bonds will equal the par amount to be redeemed, together with accrued interest to the redemption date, without premium. Notwithstanding the transfer of amounts to the Fiscal Agent to hold in trust, as described above, the City will remain liable for debt service on the Redeemed Prior Variable Rate Bonds until they are paid off on the Redemption Date.

None of the amounts held by the Fiscal Agent in respect of the 2008A Bonds and 2008C Bonds will be available for the payment of debt service on the 2019A Bonds.

Partial Termination of Swap Agreements

The City previously entered into swap agreements associated with the Prior Variable Rate Bonds in order to hedge against adverse interest rate movements. The current aggregate notional amount of the swaps (referred to as the Swap Agreements under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations – Existing Subordinate Debt") is \$146,050,000. On the Closing Date, the City will use a portion of the proceeds of the 2019A Bonds to pay the Swap Termination Cost and the portions of the swaps allocated or related to the Redeemed Prior Variable Rate Bonds will be terminated. Effective April 1, 2019, the notional amount of the swaps will be reduced by an amount corresponding to the principal amount of the Redeemed Prior Variable Rate Bonds.

For more information about the Swap Agreements, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations – Existing Subordinate Debt."

Financing of Capital Projects for the Electric System

A portion of the proceeds of the 2019A Bonds will be deposited into the 2019A Construction Fund and used to finance certain costs of the Electric System's Capital Improvement Program, which is described under the heading entitled "THE ELECTRIC SYSTEM – Capital Improvement Program."

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the 2019A Bonds are as follows:

Sources:	
Principal Amount of 2019A Bonds	\$283,325,000.00
Plus: Original Issue Premium	49,794,665.30
Available Amounts Relating to Redeemed Prior Bonds	8,723,210.94
Total Sources	\$341,842,876.24
Uses:	
Redemption of 2008A Bonds ⁽¹⁾	\$31,430,320.41
Redemption of 2008C Bonds ⁽¹⁾	8,905,258.17
Redemption of 2008D Bonds ⁽¹⁾	195,993,339.59
Swap Termination Cost ⁽²⁾	1,674,500.00
2019 Construction Fund ⁽³⁾	103,072,000.00
Costs of Issuance ⁽⁴⁾	428,821.11
Underwriters' Discount	338,636.96
Total Uses	\$341,842,876.24

(1) See "– Refunding Plan."

(2) See "– Partial Termination of Swap Agreements."

(3) See "– Financing Capital Projects for the Electric System."

(4) Includes legal fees; fees of the Fiscal Agent, Municipal Advisor, Verification Agent, Escrow Agent, and rating agencies; printing costs; and other costs incurred or to be incurred in connection with the issuance of the 2019A Bonds.

Outstanding Parity Bonds

General. The 2019A Bonds will be secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds, which prior to the refunding of the Redeemed Prior Bonds, consisted of the Bonds listed in the table below.

Name of Issue	Outstanding Principal Amount
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A ⁽¹⁾	\$65,965,000 ⁽³⁾
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C ⁽²⁾	41,075,000 ⁽³⁾
Electric Revenue Bonds, Issuance of 2008D	191,715,000 ⁽³⁾
Electric Revenue Bonds, Issue of 2010A (Federally Taxable Build America Bonds - Direct Payment) ⁽⁴⁾	133,290,000
Electric Revenue Bonds, Issue of 2010B (Tax-Exempt Bank Qualified) ⁽⁴⁾	2,210,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A ⁽⁵⁾	41,025,000
Refunding Electric Revenue Bonds, Issue of 2013A ⁽⁶⁾	38,990,000
Total	<u>\$514,270,000⁽³⁾</u>

⁽¹⁾ Issued pursuant to the Master Resolution and Resolution No. 21611, adopted on April 22, 2008.

⁽²⁾ Issued pursuant to the Master Resolution and Resolution No. 21613, adopted on April 22, 2008.

⁽³⁾ As described above under the heading “– Refunding Plan,” a portion of the proceeds of the 2019A Bonds, together with certain other available moneys, will be used to defease and redeem the outstanding 2008D Bonds and redeem \$31,500,000 principal amount of the 2008A Bonds and \$8,925,000 principal amount of the 2008C Bonds.

⁽⁴⁾ Issued pursuant to the Master Resolution and Resolution No. 22127, adopted on November 23, 2010.

⁽⁵⁾ Issued pursuant to the Master Resolution and Resolution No. 22193, adopted on April 5, 2011, in a private placement transaction.

⁽⁶⁾ Issued pursuant to the Master Resolution and Resolution No. 22357, adopted on June 18, 2013.

Multi-Modal Bonds.

2008A Bonds and 2008C Bonds. The 2008A Bonds and 2008C Bonds are multi-modal bonds and currently accrue interest at a variable rate in a weekly mode. The 2008A Bonds and 2008C Bonds are each supported by a letter of credit that expires in 2021 and is subject to the terms and conditions of a related reimbursement agreement. Under each reimbursement agreement, the bond trustee, acting as tender agent, may make draws on the related letter of credit. Any draw made under a letter of credit will constitute an advance to the City only if on the date the letter of credit provider pays such draw (i) the representations and warranties contained in the reimbursement agreement are true and correct in all material respects as of such date and (ii) no event has occurred and is continuing, or would result from such payment, which constitutes a default under the reimbursement agreement.

The City is required to repay each advance on the earliest of: (i) the date on which the letter of credit is replaced by an Alternate Credit Support Instrument (as defined under the Resolution); (ii) the date on which any 2008A Bonds or 2008C Bonds, as applicable, purchased with funds disbursed under the related letter of credit in connection with a draw thereon are redeemed, prepaid or canceled pursuant to the Resolution; (iii) the date on which any 2008A Bonds or 2008C Bonds, as applicable, purchased with funds disbursed under the related letter of credit are remarketed pursuant to the Resolution; (iv) the date on which all 2008A Bonds or 2008C Bonds, as applicable, are converted to bear interest at a rate other than the Weekly Interest Rate (as defined in the Resolution); (v) the fifth anniversary of the 180th day following the earliest outstanding advance under the reimbursement agreement (such 180th day being the “**Amortization Commencement**”).

Date,” such fifth anniversary being the “**Amortization End Date**” and the period beginning on the Amortization Commencement Date and ending on the Amortization End Date being the “**Amortization Period**”); and (vi) the date that the letter of credit is terminated prior to its stated expiration date.

Unless an advance is otherwise paid in full on the repayment date described above and so long as no default has occurred under the reimbursement agreement, from and after the related Amortization Commencement Date, each advance is payable by the City in quarterly installments, with the final installment in an amount equal to the entire then outstanding principal amount of such advance due and payable on the Amortization End Date. Each quarterly installment is the amount of principal that will result in equal (as nearly as possible) aggregate quarterly installments over the applicable Amortization Period.

Unreimbursed advances may bear interest at a default rate substantially in excess of the current interest rates on such bonds. For more information, see “Note 4 – Long-Term Obligations – Letters of Credit” in the Electric System’s audited financial statements for the fiscal year ended June 30, 2018, which is attached to this Official Statement as APPENDIX B.

2011A Bonds. The 2011A Bonds are multi-modal bonds and currently accrue interest at a variable rate (based on the London Interbank Offered Rate (“**LIBOR**”)) in an index interest rate mode and are subject to mandatory tender on April 27, 2020. During an index interest rate period, if the City failed to pay the purchase price of the 2011A Bonds on a mandatory tender date (a “**Purchase Default**”), the 2011A Bonds would become subject to special mandatory redemption with principal (plus accrued interest) payable in the amount of (i) 1/19th of the purchase price payable on a quarterly basis beginning on the first business day that is the 181st day after such mandatory tender date, and in full on the third anniversary of such mandatory tender date or (ii) 1/12th of the purchase price of the 2011A Bonds on a quarterly basis beginning on the first business day that is 91st day after such mandatory tender date, and in full on the third anniversary of such mandatory tender date. In the event of a Purchase Default, the 2011A Bonds may bear interest at a default rate substantially in excess of the current interest rates on such bonds.

Debt Service Requirements

The following table sets forth the estimated debt service on the Prior Parity Bonds and 2019A Bonds, assuming no optional redemption.

Debt Service Requirements⁽¹⁾

Fiscal Year Ending June 30	Prior Parity Bonds Principal	Prior Parity Bonds Interest ⁽²⁾	2019A Bonds Principal	2019A Bonds Interest	Total Bonds Debt Service ⁽²⁾	Treasury Credits ⁽³⁾⁽⁴⁾	Total Bonds Debt Service Net of Treasury Credits ⁽²⁾⁽³⁾⁽⁴⁾
2020	\$4,795,000	\$15,295,738	\$5,140,000	\$14,037,750	\$39,268,488	\$(3,272,636)	\$35,995,852
2021	5,005,000	15,081,614	10,350,000	13,650,500	44,087,114	(3,249,927)	40,837,187
2022	5,210,000	14,832,686	10,825,000	13,121,125	43,988,811	(3,202,639)	40,786,172
2023	5,410,000	14,567,571	11,350,000	12,566,750	43,894,321	(3,151,431)	40,742,890
2024	4,335,000	14,315,966	13,180,000	11,953,500	43,784,466	(3,094,920)	40,689,546
2025	4,490,000	14,060,977	13,845,000	11,277,875	43,673,852	(3,033,833)	40,640,020
2026	11,400,000	13,654,732	7,905,000	10,734,125	43,693,857	(2,969,924)	40,723,933
2027	11,960,000	13,152,641	8,125,000	10,333,375	43,571,016	(2,900,937)	40,670,079
2028	12,630,000	12,616,536	8,330,000	9,922,000	43,498,536	(2,826,656)	40,671,880
2029	13,295,000	12,048,796	8,535,000	9,500,375	43,379,171	(2,748,826)	40,630,345
2030	14,025,000	11,444,500	8,735,000	9,068,625	43,273,125	(2,667,203)	40,605,922
2031	13,675,000	10,831,170	10,055,000	8,598,875	43,160,045	(2,581,602)	40,578,442
2032	14,245,000	10,199,201	10,510,000	8,084,750	43,038,951	(2,490,917)	40,548,034
2033	14,800,000	9,537,512	11,025,000	7,546,375	42,908,887	(2,394,855)	40,514,031
2034	15,395,000	8,846,938	11,550,000	6,982,000	42,773,938	(2,294,050)	40,479,887
2035	16,030,000	8,125,662	10,090,000	6,441,000	40,686,662	(2,188,252)	38,498,410
2036	16,705,000	7,372,548	10,545,000	5,925,125	40,547,673	(2,077,210)	38,470,463
2037	6,645,000	6,815,832	21,775,000	5,117,125	40,352,957	(1,960,675)	38,392,281
2038	6,970,000	6,347,877	22,865,000	4,001,125	40,184,002	(1,838,398)	38,345,603
2039	7,320,000	5,856,730	24,005,000	2,829,375	40,011,105	(1,710,067)	38,301,038
2040	34,295,000	4,329,220	3,545,000	2,140,625	44,309,845	(1,243,180)	43,066,665
2041	35,990,000	1,714,268	3,720,000	1,959,000	43,383,268	(421,010)	42,962,258
2042	2,380,000	315,750	3,910,000	1,768,250	8,374,000	-	8,374,000
2043	2,500,000	193,750	4,105,000	1,567,875	8,366,625	-	8,366,625
2044	2,625,000	65,625	4,310,000	1,357,500	8,358,125	-	8,358,125
2045	-	-	4,525,000	1,136,625	5,661,625	-	5,661,625
2046	-	-	4,750,000	904,750	5,654,750	-	5,654,750
2047	-	-	4,985,000	661,375	5,646,375	-	5,646,375
2048	-	-	5,235,000	405,875	5,640,875	-	5,640,875
2049	-	-	5,500,000	137,500	5,637,500	-	5,637,500
2050	-	-	-	-	-	-	-
Total	\$282,130,000	\$231,623,837	\$283,325,000	\$193,731,125	\$990,809,962	\$(54,319,148)	\$936,490,814

- (1) A portion of the proceeds of the 2019A Bonds, together with certain other available moneys, will be used to defease and redeem the outstanding 2008D Bonds and redeem \$31,500,000 principal amount of the 2008A Bonds and \$8,925,000 principal amount of the 2008C Bonds. Accordingly, this table excludes debt service for the 2008D Bonds and the to-be-redeemed portions of the 2008A Bonds and 2008C Bonds. See “– Refunding Plan.” Totals may not add due to rounding.
- (2) Assumes an annual interest rate of 3.111% on the hedged portion of the 2008A Bonds, 3.204% on the 2008C Bonds and 3.201% on the 2011A Bonds. This reflects the anticipated effect of the swap agreements described in “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations.” Also assumes an interest rate of 3.500% on the unhedged portion of the 2008A Bonds.
- (3) Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986 (the “Code”), which the City will elect to receive under Section 54AA(g)(1) of the Code. These amounts are included in Gross Operating Revenues. See also “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Rate Covenant – Future Change in Rate Covenant.”
- (4) On March 1, 2013, automatic spending cuts within the federal government took effect as a result of the so-called “sequester.” For the period of October 1, 2018, through and including September 30, 2019, the cuts include a 6.2% reduction in amounts payable by the federal government to issuers of Build America Bonds (and other direct pay bonds) under Section 6431 of the Code, as determined by the Office of Management and Budget (the “2018-19 Sequestration Rate”). Because the 2010A 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 2010A Bonds than previously scheduled in order to offset the impact of the sequester. Pursuant to the Bipartisan Budget Act of 2018, the sequester extends through fiscal year 2027. The sequestration rate for federal fiscal years 2020 through 2027 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage; however, this table assumes that the 2018-19 Sequestration Rate remains in effect through the final maturity of the 2010A Bonds on October 1, 2040.

DESCRIPTION OF THE 2019A BONDS

The following is a summary of certain provisions of the 2019A Bonds. Reference is made to the 2019A Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion in this Official Statement is qualified by such reference. See “APPENDIX C – Summary of Certain Provisions of the Resolution.”

General

The 2019A Bonds will be dated their date of delivery and mature on the dates and in the respective amounts, and bear interest at the respective rates per annum (calculated on the basis of a 360-day year consisting of twelve 30-day months), shown on the inside cover of this Official Statement.

The 2019A Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the 2019A Bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2019, to the owners of record at the close of business on the 15th 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 2019A 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 2019A 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 30 days preceding any interest payment date specifying the wire transfer instructions for such Owner. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Payments of defaulted interest will be paid by check to the Owners as of a special record date to be fixed by the Fiscal Agent, notice of which special record date will be given to the Owners by the Fiscal Agent not less than 10 days prior to that date. See “APPENDIX F – Book-Entry Only System.”

Each 2019A Bond will bear interest from the interest payment date before its date of authentication (a) unless it is authenticated (i) during the period after a Record Date but on or before the next interest payment date, in which event it will bear interest from that interest payment date, or (ii) prior to the first Record Date, in which event it will bear interest from the dated date of the 2019A Bonds or (b) unless at the time of authentication interest is in default, in which event it will bear interest from the interest payment date to which interest has been paid or provided for.

So long as any 2019A Bond is registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**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 will 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 2019A Bonds maturing on and after October 1, 2029, are subject to redemption prior to their stated maturity dates, at the option of the City, from any source of available funds, in whole or in part on any date on and after April 1, 2029, at a redemption price of 100% of the principal amount to be redeemed, without premium, plus accrued but unpaid interest to the redemption date.

Mandatory Sinking Account Redemption of 2019A Bonds. The 2019A Bonds maturing on October 1, 2043, are subject to mandatory sinking account redemption, in part, on October 1, 2039, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts shown in the following table, without premium:

Redemption Date	
<u>(October 1)</u>	<u>Principal Amount</u>
2039	\$3,545,000
2040	3,720,000
2041	3,910,000
2042	4,105,000
2043 [†]	4,310,000

† Maturity

The 2019A Bonds maturing on October 1, 2048, are subject to mandatory sinking account redemption, in part, on October 1, 2044, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts shown in the following table, without premium:

Redemption Date	
<u>(October 1)</u>	<u>Principal Amount</u>
2044	\$4,525,000
2045	4,750,000
2046	4,985,000
2047	5,235,000
2048 [†]	5,500,000

† Maturity

The 2019A Bonds maturing on October 1, 2043, and October 1, 2048, are hereafter referred to as “**2019A Term Bonds.**”

Mandatory Sinking Account Payments for 2019A Term Bonds of a maturity will be reduced to the extent the City has purchased 2019A Term Bonds of such maturity and surrendered such 2019A Term Bonds to the Fiscal Agent for cancellation. If 2019A Term Bonds of a maturity have been redeemed as provided for under the caption “– Optional Redemption” above, then the amount of the 2019A Term Bonds so redeemed will be credited to such future Mandatory Sinking Account Payments for such 2019A Term Bonds as determined by the City. A reduction of Mandatory Sinking Account Payments in any 12-month period ending on October 1 will reduce the principal amount of 2019A Term Bonds redeemed on that October 1.

Selection of 2019A Bonds for Redemption. If less than all 2019A Bonds are to be redeemed, the maturities of 2019A Bonds to be redeemed may be selected by the City. The City will 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 2019A Bonds. If the City does not give notice of its selection, such Fiscal Agent will select the Bonds to be redeemed in inverse order of maturity. If

less than all of the 2019A Bonds of like maturity are to be redeemed, the particular 2019A Bonds or portions of 2019A Bonds to be redeemed will 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 will give notice of the redemption of 2019A Bonds to (i) the Owners of the 2019A Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption will be given by first class mail to the Owners of the 2019A 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 will not affect the sufficiency of the proceedings for the redemption of 2019A Bonds.

In the event of an optional redemption of 2019A Bonds, if the City will not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of the redemption price of the 2019A Bonds to be redeemed at the time of such mailing, such notice of redemption will state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefore with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2019A Bonds or portions thereof so called for redemption will become due and payable on the redemption date, and upon presentation and surrender of such 2019A Bonds at the place specified in such notice of redemption, such 2019A Bonds will be redeemed and paid at said redemption price. If on the redemption date, moneys for the redemption of the 2019A Bonds to be redeemed will be available therefor on the redemption date, then from and after the redemption date, interest on the 2019A Bonds to be redeemed will cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS

Net Operating Revenues

Pursuant to the Law, the 2019A Bonds are special limited obligations of the City, secured by a pledge of, a charge upon and payable, as to the principal thereof, the interest thereon and any premium upon redemption thereof, solely from the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the Prior Parity Bonds and any Additional Bonds or Parity Debt issued in the future.

The Resolution defines “**Net Operating Revenues**” as Gross Operating Revenues less Operating and Maintenance Expenses, plus (for purposes of determining compliance with the City’s rate covenant only) the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

“**Gross Operating Revenues**” consist of (i) all revenues from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction, and (ii) all amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps (“**Subordinate Swap Receipts**”), including the Swap Agreements (see “– Subordinate Obligations”).

“Operating and Maintenance Expenses” are the expenses of operating and maintenance of the Electric System, including payments to certain joint powers agencies and any necessary contribution to the retirement system of the Electric System employees.

Limited Obligation

The general fund of the City is not liable for the payment of the principal of or interest and redemption premium on the 2019A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2019A Bonds. No Owner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. None of the principal of or interest or redemption premium on the 2019A Bonds constitutes a debt of the City or 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 Electric System and other funds, security or assets that are, under the terms of the Resolution, pledged to the payment of the principal of or interest and redemption premium (if any) on the 2019A Bonds.

Resolution Flow of Funds

The City has created the Electric Revenue Fund pursuant to the City Charter, which secures the payment of the Bonds and Parity Debt. The Electric Revenue Fund includes several accounts, namely, the Bond Service Account, the Renewal and Replacement Account and the Surplus Account. The Resolution provides that the Interest Account and the Principal Account will be created as subaccounts within the Bond Service Account. The Electric Revenue Fund and all of the accounts and subaccounts therein are held and administered by the Treasurer.

The 2008A Reserve Account has been created under Resolution No. 21611, adopted by City Council on April 22, 2008, and the 2008C Reserve Account has been created under Resolution 21613 adopted by City Council on April 22, 2008, both of which are held by the Fiscal Agent.

The City did not fund debt service reserve accounts for the 2010 Bonds, 2011A Bonds, or 2013A Bonds and is not funding a debt service reserve account for the 2019A Bonds (see “– Debt Service Accounts Not Funded”).

Electric Revenue Fund. All Gross Operating Revenues will be deposited with the Treasurer and placed in the Electric Revenue Fund. So long as any Bonds remain Outstanding, the Treasurer will transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the following funds and accounts and will set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each fund or account (including requirements arising from any deficiencies caused by the lack of Gross Operating Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

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 Electric System for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the Bonds and any Parity Debt or the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

Bond Service Account. Following the required transfers for the payment of the Operating and Maintenance Expenses of the Electric System for that month, the City will set aside and transfer within the Electric 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:

Interest Account. The Treasurer will set aside in the Interest Account as soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date 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 all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such fund, (b) with respect to Outstanding Paired Obligations, such amount as will be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, (c) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; *provided, however*, that the amount of the deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will 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 the deposit into the Interest Account for any month will be increased (but only to the extent the amount payable by the City was or will 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 and (d) only after all deposits have been made for such month in the Principal Account and the Bond Reserve Accounts as provided in the sections entitled "Principal Account" and "Reserve Accounts; Supplemental Deposit" below, respectively, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of the Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (i) the interest to become due and payable on the interest payment dates falling within the next six months upon 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) and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (d) above. Payments of interest for Parity Debt that are required to be

placed in any debt service fund to pay interest on such Parity Debt will rank and be made pari passu with the payments required to be placed in the Interest Account.

Principal Account. The Treasurer will deposit in the Principal Account as soon as practicable in each month an amount equal to at least (i) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months plus (ii) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds 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 will be refunded on or prior to their 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 towards such principal to be so refunded or paid. No deposit need be made into the Principal Account so long as there will be in such fund moneys sufficient to pay 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. 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 will rank and be made pari passu with the payments required to be placed in the Principal Account.

Reserve Accounts; Supplemental Deposit. The Treasurer will deposit as soon as practicable in each month into any reserve account established pursuant to a Supplemental Resolution for a Series of Bonds and into any reserve account established for Parity Debt upon the occurrence of any deficiency therein, (i) one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and (ii) 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 to restore such reserve account to the amount required to be maintained therein.

The Treasurer will, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount described in clause (d) under "Interest Account" above.

Excess Earnings and Certain Other Amounts. Following the transfers described above as required by the Resolution, the Treasurer will deposit into the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the Prior Parity Bonds, the 2019A Bonds, and any other Bonds or Parity Debt the amount, if any, at such times as will 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 in the Renewal and Replacement Account as soon as practicable in each month such 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 will be applied to acquisition and construction of renewals and

replacements to the Electric System to the extent provision therefor has not been made from other sources.

Surplus Account. On the first day of each calendar month, any amounts remaining in the Electric Revenue Fund after the above transfers and uses have been made, will be transferred to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds that are subject to call and redemption prior to maturity or for the purchase from time to time in 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, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) will not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any lawful manner.

Application of Funds in the Bond Service Account.

Interest Account. Amounts in the Interest Account will be used and withdrawn by the Treasurer solely for the purpose of (i) paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity), (ii) making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers and (iii) paying amounts due under Subordinate Obligations.

Principal Account.

(a) All amounts in the Principal Account will be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the Bonds when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers.

(b) Notwithstanding paragraph (a) above, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (i) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (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) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Rate Covenant

Existing Covenant. The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which, after making allowances for contingencies and error in estimates, will be at least sufficient to pay the following amounts in the order set forth:

- (a) Operating and Maintenance Expenses;
- (b) the interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;
- (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 that are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under the Subordinate Obligations).

The charges will be so fixed that the Net Operating Revenues will be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above. For purposes of determining compliance with this rate covenant, Net Operating Revenues includes the amounts on deposit, as the date of determination, in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

Future Change in Rate Covenant. Pursuant to the Resolution No. 21934 adopted by the City Council on November 17, 2009, certain provisions of the Master Resolution were amended so that at such time as the 2008A Bonds, 2008C Bonds and 2008D Bonds are no longer outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), the following paragraph will be added to the rate covenant:

“For purposes of calculating the interest due [under (b) above under the subheading “– Existing Covenant,”] if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt will be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.”

The foregoing paragraph will be applicable to the calculation of interest due and for determination of Maximum Annual Debt Service with respect to the 2010A Bonds.

As described under the heading “PLAN OF FINANCE,” a portion of the proceeds of the 2019A Bonds, together with certain other available moneys, will be used to defease and redeem the outstanding 2008D Bonds and redeem portions of the 2008A Bonds and 2008C Bonds. The latest final maturity date of the unredeemed portions of the 2008A Bonds and 2008C Bonds is October 1, 2035, although such Bonds could be redeemed earlier.

Debt Service Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. Although a separate reserve account is being established for the 2019A Bonds, the

City is not funding such account and has no obligation to fund the account in the future. The owners of the 2019A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Additional Bonds and Parity Debt

The City may incur additional obligations payable from Net Operating Revenues as described below.

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 will be issued having any priority in payment of principal or interest from the Electric Revenue Fund or out of any Net Operating Revenues payable into such fund over the Outstanding Bonds.

Additional Bonds and Parity Debt. The Resolution provides that, except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt will be issued or incurred unless:

- (i) the City is not in default under the terms of the Resolution,
- (ii) either:
 - (a) the Net Operating Revenues, calculated in accordance with 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 one month before the issuance of 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 for the first complete fiscal year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt will be in operation as estimated by and set forth in a Certificate of the City,

plus, in either case, at the option of the City, either or both of the items designated under (1) and (2) below, will have amounted to at least 1.10 times the Maximum Annual Debt Service in any fiscal year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt, and

- (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 will be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

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

- (1) 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 Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or

with the proceeds of bonds 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 (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City; and

- (2) An allowance for earnings arising from any increase in the charges made for the use of the Electric 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 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 of the City.

For definitions of “Maximum Annual Debt Service” and other capitalized terms used in this Official Statement, see “APPENDIX C – Summary of Certain Provisions of the Resolution.” See also “– Rate Covenant” above for a change to the definition of Maximum Annual Debt Service that will be effective when the 2008A Bonds and 2008C Bonds are no longer outstanding. See “PLAN OF FINANCE.”

Subordinate Obligations

Under the Resolution, the City reserves the right to issue and incur obligations that are payable from Net Operating Revenues on a basis that is junior and subordinate to the payment of the Bonds or Parity Debt.

Existing Subordinate Obligations.

Swap Agreements. The City previously entered into an interest rate swap agreement in the form of an International Swaps and Derivatives Association, Inc. (“**ISDA**”) Master Agreement and Schedule and related Transactions thereunder with Merrill Lynch Capital Services, Inc. (the “**2004 Swap Provider**”) in connection with the City’s Electric Revenue Bonds, Issue of 2004B (the “**2004 Swap Agreement**”). The 2004 Swap Agreement has been subsequently associated with the 2008A Bonds. The obligations of the 2004 Swap Provider under the 2004 Swap Agreement were guaranteed by Merrill Lynch & Co., Inc. (the “**2004 Swap Guarantor**”). The 2004 Swap Agreement has a scheduled termination date of October 1, 2029.

According to a representative of Bank of America Corporation, following the merger of the 2004 Swap Provider and Bank of America Corporation, the identities of the 2004 Swap Provider and 2004 Swap Guarantor have not changed. The 2004 Swap Provider and 2004 Swap Guarantor are wholly owned subsidiaries of Bank of America Corporation. *The City can provide no assurances as to the accuracy of the information summarized in this paragraph.*

The current notional amount of the 2004 Swap Agreement associated with the 2008A Bonds is \$63,950,000. In connection with the refunding of a portion of the 2008A Bonds, the 2004 Swap is being terminated in part and the notional amount thereof will be reduced from and after the Redemption Date. Effective as of April 1, 2019, the notional amount of the 2004 Swap Agreement will be \$32,450,000.

The City also entered into two interest rate swap agreements (each, a “**2005 Swap Agreement**” and collectively, the “**2005 Swap Agreements**”) in the form of an ISDA Master Agreement and Schedule and Related Transactions thereunder with Bear Stearns Capital Markets Inc. (the “**2005 Swap Provider**”; collectively with the 2004 Swap Provider, the “**Swap Providers**”) in connection with its Electric Refunding/Revenue Bonds, Issue of 2005A (the “**2005A Bonds**”), and Electric Refunding/Revenue Bonds, Issue of 2005B (the “**2005B Bonds**”). The 2005 Swap Agreements were subsequently associated with the City’s Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B (the “**2008B Bonds**”) and the 2008C Bonds, respectively. Upon the refunding of the 2008B Bonds with the proceeds of the 2011A Bonds, the 2005 Swap Agreement associated with the 2008B Bonds became associated with the 2011A Bonds. The obligations of the 2005 Swap Provider under the 2005 Swap Agreements were guaranteed by The Bear Stearns Companies Inc. (the “**2005 Swap Guarantor**”). Each 2005 Swap Agreement has a scheduled termination date of October 1, 2035.

Pursuant to a certain Assignment Agreement, dated as of May 2, 2011, by and among the City, Bear Stearns Capital Markets Inc., as assignor, and JPMorgan Chase Bank, as assignee, JPMorgan Chase Bank succeeded to the rights and assumed the obligations of the 2005 Swap Provider effective as of May 3, 2010.

The current notional amount of the 2005 Swap Agreement associated with the 2008C Bonds is \$41,075,000. In connection with the refunding of a portion of the 2008C Bonds, the 2005 Swap associated with the 2008C Bonds is being terminated in part and the notional amount thereof will be reduced from and after the Redemption Date. Effective as of April 1, 2019, the notional amount of such 2005 Swap Agreement will be \$32,150,000.

The current notional amount of the 2005 Swap Agreement associated with the 2011A Bonds is \$41,025,000.

The obligation of the City to make regularly scheduled payments to the Swap Providers under the 2004 Swap Agreement and 2005 Swap Agreements (collectively, the “**Swap Agreements**”) is subordinate to the City’s obligation to make payments on the Bonds and Parity Debt. Under the Swap Agreements, the City pays a fixed rate of interest on specified notional amounts. In return, each Swap Provider pays a variable rate of interest equal to a percentage of the LIBOR one-month index plus 12 basis points on a like notional amount, all as provided in each applicable Swap Agreement. The periodic amounts payable by a party under each of the Swap Agreements are netted against the payments to be received by such party.

Both the City and the Swap Providers have the right to terminate the Swap Agreements prior to their respective stated termination dates under certain circumstances, including a default or the occurrence of certain termination events, and the City may be required to make a substantial termination payment to the respective Swap Provider. In the event of early termination of any Swap Agreement, there can be no assurance that the City will (i) receive any termination payment payable to the City by the respective Swap

Provider, (ii) have sufficient amounts to pay any termination payment payable by it to the respective Swap Provider or (iii) be able to obtain replacement Swap Agreements with comparable terms. The City will use a portion of the proceeds of the 2019A Bonds to terminate an amount of the Swap Agreements corresponding, as applicable, to the Redeemed Prior Variable Rate Bonds, all as further described above and under “PLAN OF FINANCE” in this Official Statement. In connection with the termination of Swap Agreements, the City has entered into such protocols, including any amendments or supplements to the Swap Agreements, to comply with ISDA’s Dodd-Frank Documentation Initiative and other requirements, including responses to regulatory requirements binding others, imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

There is no guarantee that the floating rate payable to the City pursuant to each Swap Agreement will match the variable interest rate on the related Bonds at all times or at any time. Under certain circumstances, the respective Swap Provider may be obligated to make a payment to the City under a Swap Agreement that is less than the interest due on the related Bonds. In such event, the City would be obligated to pay such insufficiency from Net Operating Revenues. This has occurred on certain occasions.

Any amounts received by the City from the 2004 Swap Provider under the 2004 Swap Agreement and from the 2005 Swap Provider under the 2005 Swap Agreements constitute Gross Operating Revenues under the Resolution.

Revolving Credit Facility. On February 1, 2019, the City entered into a revolving credit agreement (the “**Revolving Credit Agreement**”) with U.S. Bank National Association. Under the terms and conditions of the Revolving Credit Agreement, the City may borrow up to \$35,000,000 for purposes of the capital or operating financing needs of the Electric System (the “**Revolving Credit Facility**”). Each advance under the Revolving Credit Facility that is allocated to the Electric System will be secured by a subordinate pledge of Net Operating Revenues and accrue interest at a variable rate calculated by reference to LIBOR on the first calendar day of each month. The Revolving Credit Facility matures three years after its execution (the “**Maturity Date**”); however, any advance not paid on the Maturity Date will convert to a term loan that will amortize in equal quarterly payments commencing 90 days after the Maturity Date, and the term loan will accrue interest at a variable rate and become due and payable in full on the third anniversary of the Maturity Date. U.S. Bank National Association, as lender under the Revolving Credit Facility, has the right to terminate the commitments and accelerate amounts due by the City thereunder following certain events of default specified therein, including failure to meet covenants and payment defaults.

The periodic payments due to the City from counterparties under the City's outstanding Swap Agreements and the amounts payable by the City under the Revolving Credit Facility (as well as interest payments payable on the 2011A Bonds, as noted under the heading "PLAN OF FINANCE – Outstanding Parity Bonds") are calculated by reference to LIBOR. On July 27, 2017, the Financial Conduct Authority (the "**FCA**"), the U.K. regulatory body currently responsible for the regulation and supervision of LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the "**FCA Announcement**"). It is not possible to predict the effects of the FCA Announcement or how any prospective phasing out of LIBOR as a reference rate and transition to an alternate benchmark rate will be implemented, but increased volatility in the reported LIBOR rates may occur and the level of such LIBOR-based swap and interest payments may be affected.

Future Subordinate Obligations. Nothing in the Resolution limits the ability of the City to issue or incur obligations that 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 Bonds and all Parity Debt and which subordinate obligations are payable as to (but not limited 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 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. Further, nothing in the Resolution limits the ability of the City to issue or incur obligations that are junior and subordinate to the payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith and which subordinated obligations are payable 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 (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by this Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

Under the provisions of the California Constitution and Article XII of the City Charter, the City owns and operates both the electric and water utilities for its citizens. The City's Public Utilities Department (the "**Department**") exercises jurisdiction over the electric and water utilities owned, controlled and operated by the City. The Department is under the management and control of the City Manager, subject to the powers and duties vested in the Board and in the City Council, and is supervised by the Utilities General Manager who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. Todd Corbin, Utilities General Manager, is a Certified Public Accountant, and holds a Bachelor of Science in Business Administration/Accounting from Indiana University of Pennsylvania and a Master of Public Administration from California State University, San Bernardino. He joined the City in November 2018 with nearly 30 years of California utility experience, including serving as General Manager of the Jurupa Community Services District for six years. Prior to that, he served in various management roles including Assistant General Manager of the Cucamonga Valley Water District in Rancho Cucamonga.

Mr. Todd L. Jorgenson, Utilities Assistant General Manager/Water, holds a Bachelor of Science and a Master of Science in Civil Engineering from Brigham Young University and a Master of Business Administration from California State University, San Bernardino. He has been with the City since 2004 and served in various management roles including Interim Utilities General Manager, Engineering Manager, Operations Manager and Senior Engineer. He has over 20 years of experience in the utility industry.

Ms. Aileen Ma, Interim Utilities Assistant General Manager/Finance & Administration, is a Certified Public Accountant, and holds a Bachelor of Science in Business Administration with an Accounting emphasis from California State University, Los Angeles and a Master of Business Administration from University of California, Irvine. She has over 21 years of experience in audit, accounting and finance administration. She has been with the Department since 2006 and has served in the positions of Utilities Principal Analyst and Utilities Fiscal Manager.

Mr. Daniel E. Garcia, Utilities Assistant General Manager/Resources, holds a Bachelor of Science in Business Management from Woodbury University and has over 30 years of multi-utilities experience including water, electric and gas. He has been with the Department since 2007 and has served in various management roles including Market Operations Manager and Interim Planning Manager-Resources.

Mr. George R. Hanson, Utilities Assistant General Manager/Energy Delivery, holds a Bachelor of Science degree from University of California Irvine and a Master of Science degree from California State University Long Beach in Civil Engineering and is a registered Professional Engineer in the State of California. He has been with the Department since 2010 and has served in various management roles including Engineering Manager and Electric Field Manager. He has been involved in the electric utility industry for 27 years.

Board of Public Utilities

The Board, created by Article XII, Section 1201 of the City Charter, currently consists of nine members appointed by the City Council. As set forth in said Article XII, the Board, among other things, has the power and obligation to: (1) consider the annual budget for the Department during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager; (2) within the limits of the budget of the Department, authorize and award bids for the purchase of equipment, materials or supplies, exceeding the sum of \$50,000, and authorize the acquisition, construction, improvement, extension, enlargement, diminution or curtailment of all or any part of any public utility system, and no such purchase, acquisition, construction, improvement, extension, enlargement, diminution or curtailment may be made without such authorization; (3) within the limits of the budget of the Department, make appropriations from the contingency reserve fund for capital expenditures directly related to the appropriate utility function; (4) require of the City Manager monthly reports of receipts and expenditures of the Department, segregated as to each separate utility, and monthly statements of the general condition of the Department and its facilities; (5) establish rates for water and electric revenue producing utilities owned, controlled, or operated by the City, but subject to the approval of the City Council; (6) approve or disapprove the appointment of the Utilities General Manager, who shall be the Department head; (7) make such reports and recommendations to the City Council regarding the Department as it shall deem advisable; (8) designate its own secretary; and (9) exercise such other powers and perform such other duties as may be prescribed by ordinance not inconsistent with any of the provisions of the City Charter.

The voters in the City passed Measure MM (the “**Measure**”) on November 2, 2004, which became fully effective upon approval of the City Council on May 17, 2005. The Measure amended the City Charter provisions and granted the authority to award bids and authorize procurement contracts to the Board. It streamlines the process for procurement approvals by eliminating the need for City Council approval, assuming funding authority exists in the Department’s budget, as adopted or amended by the City Council. Contracts that are subject to the Measure are public works, goods, and non-professional and professional services. Contracts related to property acquisitions/dispositions, power and transmission and other negotiated agreements are not affected by the Measure, and remain subject to prior approval requirements established by the City Council.

The present members of the Board and their respective terms of appointment are:

Jo Lynne Russo-Pereyra – Chair of the Board, appointed to the Board in 2017, current term expires March 1, 2021. Ms. Russo-Pereyra has over 19 years’ experience in the water industry and has served as an Assistant General Manager for a local water district.

David R. Austin – Vice Chair of the Board, appointed to the Board in 2013, current term expires March 1, 2021. Mr. Austin is retired from the City’s Fire Department.

David M. Crohn – Appointed to the Board in 2016, current term expires March 1, 2020. Mr. Crohn is an Associate Professor in the Department of Environmental Sciences at a local university.

Jeanette Hernandez – Appointed to the Board in 2018, current term expires March 1, 2022. Ms. Hernandez is a legal assistant at a local county court.

Jennifer C. O’Farrell – Appointed to the Board in 2015, current term expires March 1, 2023. Ms. O’Farrell is an Executive Director for a non-profit organization of the Inland Empire.

Gildardo Ocegüera – Appointed to the Board in 2017, current term expires March 1, 2021. Mr. Ocegüera is a retired high school principal with prior experience as a teacher and high school and community college counselor.

Elizabeth E. Sanchez-Monville – Appointed to the Board in 2016, current term expires March 1, 2022. Ms. Sanchez-Monville has over 17 years' experience in government, where she has led advocacy efforts for publicly-owned utilities in California.

Andrew C. Walcker – Appointed to the Board in 2013, current term expires March 1, 2021. Mr. Walcker is a Principal of a local consulting company.

There is also one vacancy on the Board. Kevin D. Foust was appointed to the Board in 2016 and resigned effective February 5, 2019. The City Council is in the process of filling this vacancy.

The Department's administrative offices are located at 3750 University Avenue, 3rd Floor, Riverside, California 92501.

Employment Matters

Employee Relations. As of July 1, 2018, 489 City employees were assigned specifically to the Electric System. Certain functions supporting the Electric System operations, including meter reading, customer billing and collections, are performed by the staff of the Riverside Public Utilities Department. Substantially all of the non-administrative City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers (“**IBEW**”). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2021. Portions of the administrative staff are represented by the Service Employees International Union (“**SEIU**”). The City and the SEIU are parties to a Memorandum of Understanding that expires on June 30, 2020. While not under a memorandum of understanding, all unrepresented employees have compensation and benefit packages approved by the City Council. On December 13, 2016, the City Council approved changes for unrepresented employees through January 2021.

The Electric System has faced no strikes or other work stoppages within the last 10 years, and the City does not anticipate any in the near future.

Employee Retirement System. Retirement benefits to City employees, including those assigned to the Electric System, are provided through the City's participation in the California Public Employees Retirement System (“**CalPERS**”), an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. CalPERS issues a separate, publicly available financial report that includes financial statements and required supplemental information of participating public entities within the State of California. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95811 or at www.calpers.ca.gov. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8% of their annual covered salary. The City has

a multiple tier retirement plan with benefits varying by plan. 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. All the bargaining units included in the Miscellaneous CalPERS Plan, including Management, SEIU, and IBEW employees of the Electric System and the City's water utility ("**Water System**"), 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, which addressed concerns associated with salary increases in the year immediately prior to retirement. This change was 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.

Under the current plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier –
 - The retirement formula is 2.7% at age 55 for unrepresented employees hired before October 19, 2011. Effective January 1, 2018, the employees were required to pay 2% of the employee contribution of their pensionable income, with the City contributing the other 6%. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion is a three-year increase of 2% (2019), 2% (2020) and 2% (2021). By 2021, employees will be contributing the entire 8% of their pensionable income.
 - The retirement formula is 2.7% at age 55 for SEIU employees hired before June 7, 2011. The employees were required to pay 6% of their pensionable income with the City contributing the other 2%. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion is a two-year increase of 1% (2019) and 1% (2020). By 2020, employees will be contributing the entire 8% of their pensionable income.
 - The retirement formula is 2.7% at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2% of their total pensionable income with the City paying the remaining 6%. Effective November 1, 2018, employees are required to pay an additional portion of their pensionable income. This portion is a three-year increase of 2% (2018), 2% (2019) and 2% (2020). By 2020, employees will be contributing the entire 8% of their pensionable income.

- 2nd Tier - The retirement formula is 2.7% at age 55, and:
 - SEIU employees hired on or after June 7, 2011, pay their share (8%) of contributions.
 - All other Miscellaneous Plan 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% to 8% based on bargaining group classification. Classic members (CalPERS members prior to December 31, 2012) hired on or after January 1, 2013, may be placed in a different tier.

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, which limits the benefit to 120% of the Social Security wage index limit for 2017 of \$142,530 for employees not covered by Social Security and \$118,775 for employees participating in Social Security. 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.

CalPERS Discount Rate Adjustment. On March 14, 2012, the CalPERS Board voted to lower the CalPERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "**CalPERS Discount Rate**") from 7.75% to 7.5%. On November 17, 2015, the CalPERS Board approved a new funding risk mitigation policy to incrementally lower the CalPERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing CalPERS Discount Rate by at least four percentage points. On December 21, 2016, the CalPERS Board voted to lower the CalPERS Discount Rate to 7.0% over the three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rates went into effect on July 1, 2018, for the City. Lowering the CalPERS Discount Rate likely means employers that contract with CalPERS to administer their pension plans (such as the City) will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under PEPRA, will likely also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans.

The Electric System's total annual contributions to CalPERS for the fiscal years ended June 30, 2018, and 2017, were \$9,073,000 and \$9,447,000, respectively. In addition, the Electric System is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and of which the City refinanced a portion in May 2017 (the "**Pension Obligation Bonds**"). The Electric System's total proportionate share of the outstanding principal amount of the Pension Obligation Bonds was \$10,418,000 and \$12,312,000 as of June 30, 2018 and 2017, respectively. That share will amortize based on the amortization schedule of the Pension Obligation Bonds (which extends to 2027). Payments made by the Electric System to fund its share of the Pension Obligation Bonds are payable as an Operating and Maintenance Expense. Citywide information concerning elements of the net pension liability, contributions to CalPERS and recent trend information may be found in the notes to the basic financial statements in the

City's Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year ended June 30, 2018, which may be obtained on the City's website. See also Notes 1 and 4 to the audited financial statements of the Electric System attached as APPENDIX B to this Official Statement for further discussion.

More recent information as to the actuarial status of the City's Miscellaneous Plan has been provided in CalPERS' Annual Valuation Report, dated July 2018, with respect to the City, which is the most recent actuarial valuation report available as of the date of this Official Statement. As shown in the table below, 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.

Table 1
History of City's Contribution Rate and Unfunded Liability Payment Due⁽¹⁾

<u>Fiscal Year</u>	<u>Employer Normal Cost</u>	<u>Unfunded Rate</u>	<u>Total Employer Contribution Rate</u>	<u>Unfunded Liability Payment Due</u>
2007-08	11.877%	1.418%	13.295%	N/A
2008-09	11.962	2.207	14.169	N/A
2009-10	12.043	2.176	14.219	N/A
2010-11	11.987	2.520	14.507	N/A
2011-12	11.823	6.615	18.438	N/A
2012-13	11.814	6.463	18.277	N/A
2013-14	11.851	6.463	18.314	N/A
2014-15	11.554	7.440	18.994	N/A
2015-16 ⁽²⁾	11.871	9.141	21.012	N/A
2016-17 ⁽²⁾	12.250	10.728	22.978	N/A
2017-18 ⁽²⁾	12.136	N/A	N/A	\$15,683,043
2018-19 ⁽²⁾	12.314	N/A	N/A	19,422,351
2019-20 ⁽²⁾	12.866	N/A	N/A	22,752,102

(1) Beginning in fiscal year 2017-18, CalPERS collects employer contributions toward the plan's unfunded liability as dollar amounts instead of the prior method of a contribution rate. This change is expected to address potential funding issues that could arise from a declining payroll or reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to the underfunding of the plans. Although employers will be invoiced at the beginning of each fiscal year for their unfunded liability payment, the plan's normal cost contribution will continue to be collected as a percentage of payroll.

(2) Sourced from CalPERS' Annual Valuation Report, dated July 2018. The rates reflect the effect of PEPRA enactment. PEPRA is discussed earlier in this section.

In addition, the report provides the recent history of the actuarial accrued liability, the market value of assets, funded ratio and the annual covered payroll as shown in the table below. The funded ratio is an indicator of the short-term solvency of the Miscellaneous Plan.

Table 2
City's Funding History

Valuation Date (June 30)	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
2007	\$770,088,775	\$847,867,117	N/A ⁽¹⁾	110.1%	\$102,434,585
2008	828,351,283	795,222,167	N/A ⁽¹⁾	96.0	110,869,947
2009	921,349,334	590,044,979	\$331,304,355	64.0	110,317,579
2010	952,499,597	660,844,061	291,655,536	69.4	106,590,492
2011	998,216,259	786,080,314	212,135,945	78.7	108,106,192
2012	1,046,199,578	766,804,452	279,395,126	73.3	110,037,157
2013	1,086,925,211	847,232,156	239,693,055	77.9	110,552,014
2014	1,180,549,024	972,056,589	208,492,435	82.3	110,534,205
2015	1,228,644,007	969,285,454	259,358,553	78.9	111,185,202
2016	1,277,998,975	949,866,377	328,132,598	74.3	113,072,729
2017	1,317,421,178	1,029,759,135	287,662,043	78.2	118,644,799

⁽¹⁾ Information on Unfunded Liability not available for Valuation Date of June 30, 2007 and June 30, 2008.

Other Post-Employment Benefits. The Electric System contributes to two single-employer defined benefit healthcare plans: the Stipend Plan and the 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 IBEW retirees and beneficiaries pursuant to their collective bargaining agreement. Benefit provisions for the Stipend Plan are established and amended through the memorandum of understanding with IBEW as approved by the City Council, which currently provides for the Electric System to make contributions on a “pay-as-you-go-basis.” The union establishes the benefits paid to retirees and the City is not required by law or contractual agreement to provide funding for the plan other than as specified in the memorandum of understanding, which currently provides for a contribution of \$100 per month per active IBEW employee.

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 Electric System’s healthcare plans and, as such, an implicit subsidy exists. The Electric System’s contributions to the Implied Subsidy Plan are established by the City Council. The Electric 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.

Effective for the fiscal year ended June 30, 2018, the Governmental Accounting Standards Board (“**GASB**”) issued its Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement requires a net OPEB liability to now be reported on the balance sheet of the financial statements, similar to the net pension liability. GASB Statement 75 requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For the fiscal year ended June 30, 2018, the OPEB expense recorded for the Electric System was \$683,099. The Electric System’s net OPEB liability as of June 30, 2018 was \$8,283,000.

Additional information regarding the City’s citywide retirement plans and OPEB, including information regarding the assumptions used to determine the pension and OPEB liabilities and the funding requirements therefor, can be found in Notes 14 and 15 to the basic financial

statements in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2018, which may be obtained on the City's website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

Investment Policy and Controls

Unexpended revenues from the operation of the Electric System, including amounts held in the Electric Revenue Fund prior to expenditure as described in this Official Statement, are invested under the direction of the City 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 quarterly 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, federal agency securities, corporate notes that are rated at least "A", certificates of deposit and money market funds, including the State of California Local Agency Investment Fund. The City entered into certain interest rate swap agreements in connection with previously issued Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations."

The City's investment policy requires the investment of City funds to be made in accordance with Section 53600 et seq. of the California Government Code and the City's Investment Policy approved by the City Council on December 15, 2015. In the past, in connection with its budget-adoption process, the City Council has annually delegated authority to the City's Treasurer for responsibility over investments. See Note 2 to the audited financial statements of the Electric System attached as APPENDIX B to this Official Statement and Note 3 to the City's basic financial statements in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2018, which may be obtained on the City's website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

THE ELECTRIC SYSTEM

General

The Electric System operates as a vertically integrated utility providing service to virtually all electric consumers within the city limits of the City, which encompasses 81.5 square miles. The Electric System provides service throughout the City to domestic, commercial, industrial, agricultural, municipal and other customers. For the fiscal year ended June 30, 2018, the number of customers of the Electric System was 109,619.

Power Supply

The Electric System’s power supply requirements are met through:

- (i) the City’s Springs Generating Project, RERC Units 1, 2, 3 and 4 and Clearwater (see “– City-Owned Generating Facilities”);
- (ii) entitlements in the IPP Generating Station, the Hoover Power Plant and, through the City’s participation in SCPPA, PVNGS (see “– Entitlements”);
- (iii) long-term power purchase agreements for renewable energy (see “– Renewable Resources”);
- (iv) purchases of firm energy from various western utilities when it is available at an economical price or when needed to satisfy periods of peak demand (see “– Firm Contracts and Market Purchases”); and
- (v) energy purchases through the CAISO centralized markets (see “– Firm Contracts and Market Purchases”).

For the fiscal year ended June 30, 2018, the overall average net cost of generation and transmission was 7.4 cents per kilowatt-hour (“kWh”).

During the fiscal year ended June 30, 2018, the Electric System generated and purchased a total of 2,305,200 MWh of electricity for delivery to customers throughout the City. The following table sets forth the amounts in MWh and percentages of electricity obtained by the City during the fiscal year ended June 30, 2018.

Table 3
Annual Electricity Supply⁽¹⁾
Fiscal Year Ended June 30, 2018

<u>Resources</u>	<u>MWh</u>	<u>Percentage</u>
Renewable Resources	798,200	34.6%
Firm Contracts and Market Purchases.....	633,500	27.5
IPP Generating Station.....	627,100	27.2
Springs, RERC and Clearwater.....	114,500	5.0
PVNGS.....	102,900	4.4
Hoover Power Plant	29,000	1.3
Total	<u>2,305,200</u>	<u>100.0%</u>

⁽¹⁾ Includes native load, losses, and wholesale power sales.

The system peak for the fiscal year ended June 30, 2018, and the new historic system peak, of 640.3 MW was set on August 31, 2017. The following table sets forth, in MWh of electricity, the total purchases of power and Electric System peak demand during the periods shown.

Table 4
Total Energy Generated and Purchased and Peak Demand

	Fiscal Year Ended June 30,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
From City's Own Generation (MWh)...	91,500	65,000	76,400	119,000	122,700
From Other Sources (MWh).....	<u>2,188,000</u>	<u>2,252,100</u>	<u>2,251,000</u>	<u>2,190,500</u>	<u>2,182,500</u>
System Total (MWh) ⁽¹⁾	<u>2,279,500</u>	<u>2,317,100</u>	<u>2,327,400</u>	<u>2,309,500</u>	<u>2,305,200</u>
System Peak Demand (MW)	577.9	604.4 ⁽²⁾	598.6	581.7	640.3 ⁽²⁾
System Native Load (MWh).....	2,148,000	2,165,000	2,169,000	2,197,000	2,195,000

⁽¹⁾ Before system losses.

⁽²⁾ Increase primarily due to warmer weather patterns.

City-Owned Generating Facilities

City-owned generating facilities include the City's Springs Generating Project, RERC Units 1, 2, 3 and 4, and Clearwater.

Springs Generating Project. The Springs Generating Project (which began commercial operations in 2002) consists of four natural gas, simple cycle, turbine generators, each with a capacity of 10 MW (for a total of 40 MW). The Springs Generating Project is used primarily to serve the Electric System's native load during periods of super peak power demand in the City. These facilities are also available to be used if normal operations of the Electric System are disrupted and will provide essential emergency services within the City, such as hospital care, traffic control and police and fire dispatching.

RERC Units 1, 2, 3 and 4. RERC Units 1 and 2 are natural gas-fired, simple-cycle plants located in the City, consisting of two General Electric LM 6000 SPRINT combustion turbines, nominally rated at 49 MW each (net power at site conditions) and related sub-transmission lines. The construction of the units was completed in June 2006. The units have a combined operating capacity of 98 MW with emission levels that allow for approximately 1,200 hours of run time per unit, per year. RERC Units 3 and 4 are of the same make, model and operating characteristics as RERC Units 1 and 2 and achieved commercial operation on April 1, 2011. RERC Units 3 and 4 have a combined operating capacity of 98 MW with emission levels that allow for approximately 150 hours of run time per unit, per month. All four RERC Units serve the Electric System's native load when economically feasible or during periods of peak power demand in the City, enhance reliability and service delivery to customers and provide energy and ancillary services in the CAISO markets. See "– California Independent System Operator."

Clearwater. Clearwater consists of a single, GE LM2500, combustion turbine generator operating in combined cycle with one RENTECH heat recovery steam generator, and one SHIN NIPPON steam turbine generator. The gross plant output of Clearwater is 29.5 MW. The City acquired Clearwater from the City of Corona, California, effective September 1, 2010. Clearwater has been included in the City's resource portfolio, and the necessary air quality permits to operate Clearwater up to a baseload configuration are in place. Clearwater is also utilized by the City to

meet the local resource adequacy requirements of the CAISO. See “– California Independent System Operator.”

Decommissioning of SONGS. The City has a 1.79% undivided ownership interest in Units 2 and 3 of San Onofre Nuclear Generating Station (“**SONGS**”); however, on June 7, 2013, Southern California Edison Company (“**SCE**”), as principal owner and operating agent, announced its plan to retire Units 2 and 3 of SONGS permanently, triggering the start of decommissioning. Consequently, the Units are no longer a power resource for the Electric System. The process of decommissioning the nuclear power plant is expected to take many years and is governed by Nuclear Regulatory Commission regulations. According to the 2017 Decommissioning Cost Estimate provided by SCE, the total decommissioning costs for Units 2 and 3 are estimated at \$4.7 billion, of which the Electric System’s Share is approximately \$84 million. The Electric System has established trust accounts and an unrestricted designated decommissioning reserve to accumulate resources for the decommissioning process. As of June 30, 2018, the Electric System has paid \$23.5 million for its share of the decommissioning costs from the trust accounts. The remaining estimated costs of \$60.6 million are expected to be fully covered by the trust accounts and the unrestricted designated decommissioning reserve, which at June 30, 2018, had a value of \$57 million and \$8 million, respectively; however, due to the uncertainty of future unknown costs, the Electric System will continue to set aside funds in the unrestricted designated decommissioning reserve of \$1.6 million annually, as approved by the Board and City Council. On October 1, 2018, the City applied \$11,005,000 received in settlements and refunds in connection with the decommissioning of SONGS to the defeasance of a portion the 2008D Bonds in the same amount.

Fuel Supply/Procurement. The City’s RERC, Springs and Clearwater generating plants are fueled by natural gas. The City procures natural gas from credit-approved counter-parties for its natural gas generation plants on a monthly and daily basis. Historically, the summer months have been the City’s primary focus for natural gas procurement as the City has reliability requirements to run internal generation during high load days. Additionally, natural gas procurement is needed when it is determined to be more economical to run internal generation than to buy from the CAISO energy markets. Finally, natural gas procurement is needed to meet resource adequacy obligations and to meet the reliability needs of the City during line outages or system emergencies that occur.

Entitlements

IPP Generating Station. The City has a 7.617% (approximately 137.1 MW) entitlement in the coal-fired IPP Generating Station Units 1 and 2 located near Lynndyl, Utah, which were declared to be commercially operational in June 1986 and May 1987, respectively. The City has entered into a power sales agreement with the IPA, as the owner of IPP, which obligates the City to purchase its share of capacity and energy of IPP on a take-or-pay basis (the “**IPP Contract**”). The IPP Contract expires in 2027. See “– Joint Powers Agency Obligations.”

IPP consists of: (a) two coal-fired, steam-electric generating units with net ratings of 900 MW each and a switchyard located near Lynndyl, Utah; (b) a rail car service center located in Springville, Utah; (c) certain water rights; and (d) certain transmission facilities consisting primarily of the Southern Transmission System (the “**STS**”). See “Transmission Facilities – Southern Transmission System.”

There are 35 utilities that purchase the output of IPP, consisting of the City, and the California cities of Los Angeles, Anaheim, Burbank, Glendale and Pasadena, 23 members of IPA, and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada

and Wyoming. IPP is operated by the City of Los Angeles, through its Department of Water and Power (“**LADWP**”).

The IPP Generating Station’s annual coal requirement is approximately 3.6 million tons. LADWP, in its role as the operating agent of the IPP, buys coal under contracts to fulfill this supply requirement of the IPP. Coal is purchased under a portfolio of fixed price contracts that are of short and long-term in duration. LADWP has reported that from now through 2019, coal presently under contract is sufficient, with the exercise of available options, to meet the IPP’s annual coal requirements, with lesser amounts of coal under contract thereafter through 2024. IPA attempts to maintain a coal stockpile at IPP that is sufficient to operate the plant at current plant capacity factors for about 60 days, in the event of a disruption in coal supply.

Transportation of coal to IPP is provided to IPA primarily by rail under its agreements with the Utah Railway and Union Pacific Railroad companies, and the coal is transported primarily in Intermountain Power Agency-owned railcars. Coal can also be transported, to some extent, in commercial trucks.

Under Senate Bill 1368, the City is precluded from renewing the IPP Power Purchase Contract at the end of its term in June 2027. See “– Electric System Strategic Plan – Power Resource Portfolio Management” and “DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – Senate Bill 1368 – Emission Performance Standard.”

In order to facilitate the continued participation in the IPP, the IPA Board of Directors issued the Second Amendatory Power Sales Contract, which amended the IPP Contract allowing the plant to replace the coal units with combined cycle natural gas units by July 1, 2025. IPA and purchasers representing 100% of IPA’s generation entitlement share completed and executed the Renewal Power Sales Contract, which will allow such participants to continue taking power from the IPP fueled initially by natural gas for the period of 2027 through 2077. After extensive discussions among IPA and the IPP participants, it was determined that the participants’ demand would not support the current design capacity of the currently, contractually obligated repowering plan (“**IPP Repower Project**”) of 1,200 MWs. As a result, the IPP Coordinating Committee, the IPP Renewal Contract Coordinating Committee and the IPA Board of Directors concluded that it was in the best interest of the participants to downsize the future IPP Repower Project from 1,200 MW, to 840 MW, and to redesign the power block. Such reduction in megawatts and the change in configuration would be considered an “Alternative Repowering” under the Second Amendatory Power Sales Contract. On September 11, 2018, the City Council approved an “Alternative Repowering” for the IPP and the amendments to the Second Amendatory Power Sales Contract and the Renewal Power Sales Contract. The City’s entitlement share in the Alternative Repowering Project is 4.167% (35 MW).

Under provisions of the Renewal Power Sales Contract, certain California participants, including the City, have the right to exit completely from the IPP Repower Project or any Alternative Repowering by providing a written notice to IPA at least 90 days prior to November 1, 2019, terminating its Renewal Power Sales Contract. The Department’s Power Resources division has recommended that the City terminate its Renewal Power Sales Contract.

Hoover Power Plant. The Hoover Power Plant is located on the Arizona-Nevada border approximately 25 miles east of Las Vegas, Nevada, and is owned and operated by the U.S. Department of the Interior’s Bureau of Reclamation (the “**Bureau**”). The power from the project is marketed by the Western Area Power Administration (“**Western**”).

Modern insulation technology made it possible to “uprate” (i.e., improve the power output) the nameplate capacity of existing generators. The Hoover Uprating Project consisted principally

of the uprating of the capacity of the 17 existing generating units at the hydroelectric power plant of the Hoover Dam. The City along with the cities of Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Pasadena, and Vernon obtained entitlements totaling 127 MW of capacity and approximately 143,000 MWh of allocated energy annually from the Hoover Uprating Project. In 1987, to reflect these entitlements, these cities entered into contracts with the Bureau providing for the advancement of funds for the uprating and with Western for the purchase of power from the Hoover Uprating Project. Subsequently, the City and the cities of Anaheim, Azusa, Banning, Burbank and Colton (the “**Hoover Participants**”) entered into assignment agreements with SCPA to assign their entitlements in return for SCPA’s agreement to provide funds to the Bureau to pay for the Hoover Participants’ share of the Hoover Uprating Project costs. The City obtained a 31.9% (30 MW) entitlement interest in SCPA’s approximately 94 MW interest in the total capacity and allocated energy of Hoover Dam. The City executed a power sales contract with SCPA under which the City agreed to make monthly payments on a take-or-pay basis in exchange for its entitlement of SCPA’s proportionate share of capacity and allocated energy. The Hoover Uprating Project was completed in 1993. The City’s entitlement in the Hoover project through SCPA terminated on September 30, 2017. From and after October 1, 2017, SCPA had no bonds outstanding with respect to the Hoover Uprating Project.

The City renegotiated and executed new agreements with the Bureau and Western, which became effective on October 1, 2017 and expire on September 30, 2067. The City’s entitlement is approximately 30 MW (1.461% of the total project); however due to low lake levels resulting from prolonged drought conditions, the City’s available capacity entitlement has been reduced to approximately 24 MW as of June 2018.

PVNGS. The City has a 5.4% (12 MW) entitlement interest in SCPA’s 5.91% ownership interest in PVNGS, including certain associated facilities and contractual rights, 5.44% ownership in the Arizona Nuclear Power Project High Voltage Switchyard and associated contractual rights, and 6.55% share of the rights to use certain portions of the Arizona Nuclear Power Project Valley Transmission System. The City has entered into a power sales agreement with SCPA that obligates the City to purchase its share of capacity and energy on a take-or-pay basis.

PVNGS consists of three nearly identical nuclear electric generating units located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. Units 1, 2 and 3 (each designed for a 40-year life) achieved firm operation on January 27, 1986, September 18, 1986, and January 19, 1988, respectively.

Units 1, 2 and 3 each operate under a 40-year Full-Power Operating License from the NRC. The Full-Power Operating Licenses for Units 1, 2 and 3 expire in 2025, 2026 and 2027, respectively. In April 2011, the NRC has approved 20-year license extensions for all three units, allowing the three units to extend operations until 2045, 2046 and 2047, respectively. SCPA has informed the City that all other permits, licenses and approvals necessary to operate the PVNGS have been secured. Arizona Public Service Company (“**APS**”) is the Construction Manager and Operating Agent of PVNGS and the Westwing 500 kV Switchyard. The high-voltage switchyard portion of the PVNGS was constructed, and is being managed, by Salt River Project Agricultural Improvement and Power District.

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. SCPA’s records indicate that the aggregate balance of the external accounts for decommissioning was approximately \$175.5 million at June 30, 2018. Based on the most recent 2016 estimate of decommissioning costs prepared by TLG Engineering, SCPA has advised the City that it estimates that the City’s share of the amount required for decommissioning of PVNGS is over funded. No assurance can be given, however, that such amount will be

sufficient to fully fund SCPPA's share of decommissioning costs at license expiration and commencement of decommissioning activities. SCPPA has advised the City that it anticipates receiving a new estimate of decommissioning costs every three years. The next study is anticipated to begin December 31, 2019.

APS currently stores spent nuclear fuel in on-site pools near the Units. The pools have reached capacity, and additional on-site spent fuel storage has been used until a permanent repository for high-level nuclear waste developed by the federal government becomes available. The additional onsite spent fuel storage has been provided by an independent spent fuel storage installation. The installation uses dry cask storage similar to that being used at other nuclear plants, such as SONGS, and is designed to accept all spent fuel generated by PVNGS during its lifetime. As of October 31, 2018, 152 casks, each containing 24 spent fuel assemblies, have been put into storage using the installation.

APS ships all of its low-level radioactive waste to available disposal sites in Utah and South Carolina. In August 1995, a storage facility for low-level radioactive materials was opened at PVNGS to allow temporary on-site storage in case the disposal sites are not available. APS estimates that the storage facility has sufficient storage capacity to store all low-level radioactive waste produced at PVNGS until the end of operations. This on-site storage facility remains fully available.

For information about certain seismic risks relating to PVNGS, see "RISK FACTORS – Casualty Risk."

Renewable Resources

In an effort to increase the share of renewables in the City’s power portfolio, the City entered into power purchase agreements (each, a “PPA”) with various entities described below in general on a “take-and-pay” basis.

For a discussion of California law relating to renewable portfolio standards, the adoption of a plan by the City with respect to such standards, and the City’s compliance with its plan, see “DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – Senate Bill X1-2 – California Renewable Energy Resource Act.” For a discussion of other California law relating to renewable energy, See also “DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – Senate Bill 350 – Clean Energy and Pollution Reduction Act of 2015” and “– Senate Bill 100 – The 100 Percent Clean Energy Act of 2018.”

**Table 5
Long-Term Renewable PPAs in Operation**

<u>Supplier</u>	<u>Type</u>	<u>Maximum Contract</u> ⁽¹⁾	<u>Contract Expiration</u>
Salton Sea Power LLC	Geothermal	46.0 MW	05/31/2020
CalEnergy – Salton Sea Portfolio	Geothermal	40.0 MW ⁽²⁾	12/31/2039
WKN Wagner	Wind	6.0 MW	12/22/2032
SunEdison - AP North Lake	Photovoltaic	20.0 MW	08/11/2040
Dominion Columbia II	Photovoltaic	11.1 MW	12/22/2034
GlidePath Power Solutions – GPS Cabazon Wind LLC	Wind	39.0 MW	01/01/2025
Capital Dynamics – Kingbird Solar B, LLC	Photovoltaic	14.0 MW	12/31/2036
sPower			
Summer Solar	Photovoltaic	10.0 MW	12/31/2041
Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041
Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/19/2036
Capital Dynamics – Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040
American Renewable Power – Loyalton	Biomass	0.8 MW	04/19/2023
Total		<u>229.2 MW</u>	

⁽¹⁾ All contracts are contingent on energy delivered from specific related generating facilities. The City has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the City.

⁽²⁾ Increases to 86 MW in 2020. See “– Salton Sea.”

Salton Sea. On May 20, 2003, the City and Salton Sea Power LLC (“**Salton Sea**”) entered into a ten-year PPA for 20 MW of geothermal energy (the “**Salton Sea PPA**”). On August 23, 2005, the City Council approved an amendment to the PPA that increases the amount of renewable energy available to the City from 20 MW to 46 MW effective June 1, 2009, through May 31, 2020.

On May 14, 2013, the City Council approved a new 25-year PPA with CalEnergy, the parent of Salton Sea, for additional renewable geothermal power (the “**CalEnergy PPA**”). Under the CalEnergy PPA, power is provided from a portfolio of ten geothermal generating units, instead of a single generating unit, with an increasing amount of delivery that started with 20 MW in 2016 and increasing to 40 MW in 2019 and 86 MW in 2020. The initial price under the agreement was \$72.85 per MWh in calendar year 2016 which will escalate at 1.5% annually for the remaining term of the agreement.

Concurrently, the pricing under the Salton Sea PPA has been amended to conform to pricing in the CalEnergy PPA through the remaining term of the Salton Sea PPA. The pricing under the Salton Sea PPA increased by approximately \$7.57 per MWh, commencing July 1, 2013, to \$69.66 per MWh, with an escalation of 1.5% annually thereafter. In exchange for the increased payment under the existing agreement, the City received a significantly discounted price under the CalEnergy PPA. The cost increase under the Salton Sea PPA is approximately \$2.5 million per year for the agreement’s remaining term. This increase in price through fiscal year 2017-18 is recorded in the Statements of Net Position as unamortized purchased power in the amount of \$11.1 million, to be amortized over the term of the CalEnergy PPA.

WKN Wagner. On December 20, 2012, the City entered into a 20-year PPA with WKN Wagner, LLC (“**WKN**”) for up to 6 MW of capacity and approximately 21,000 MWh of associated renewable wind energy per year and renewable energy credits from the WKN Wagner wind project in Palm Springs, California at a levelized cost of \$73 per MWh.

SunEdison - AP North Lake. On October 16, 2012, the City entered into a 25-year PPA with AP North Lake, LLC (“**AP North**”) for 20 MW of capacity and approximately 55,000 MWh of associated renewable solar photovoltaic energy per year generated by a new facility located in the City of Hemet, California at a levelized cost of \$95 per MWh for the term of the PPA. The AP North project became fully operational in August 2015.

Dominion Columbia II. On September 19, 2013, the City entered into two 20-year power sale agreements (“**PSAs**”) with SCPPA for a combined 26 MW of solar photovoltaic energy generated by two facilities to be built by Recurrent Energy in Kern County, California. The two projects initially intended to be developed are referred to as Clearwater and Columbia II Solar Photovoltaic Projects, with a nameplate capacity of 20 MW and 15 MW, respectively. Unanticipated permitting challenges for Clearwater stalled and eventually terminated construction plans for the facility in 2014. As a result, the City received liquidated damages in the amount of \$1.3 million from the Clearwater project in fiscal year ended June 30, 2016. The liquidated damages were reported as other non-operating revenues on the Statement of Revenues, Expenses and Changes in Net Position. On March 14, 2014, a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia II project from Recurrent Energy to Dominion Resources. The Columbia II project completed construction and achieved commercial operation in December 2014. The City has a 74.29% share (11.1 MW) of the output from the Columbia II project through SCPPA, who has a 15 MW PPA with Dominion Resources. The City’s share of Columbia II is approximately 33,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$69.98 per MWh over the term of the agreements.

GlidePath Power Solutions – GPS Cabazon Wind LLC. On December 6, 2013, the City and FPL Energy Cabazon Wind, LLC (“**Cabazon Wind**”) entered into a 10-year PPA for 39 MW of capacity and approximately 71,200 MWh of associated renewable wind energy per year with an all-in price for energy, capacity and environmental attributes of \$59.30 per MWh over the term of the agreement from the Cabazon Wind Energy Center near Cabazon, California. Cabazon Wind is an existing renewable resource that has been in commercial operation since 1999. SCE purchased the output of the facility through December 2014. At the expiration of SCE’s contract, Cabazon Wind entered into new interconnection and generation agreements with the CAISO and SCE. The developer completed the implementation of the transition to the City as of January 1, 2015. Delivery under the PPA commenced on January 1, 2015. In 2018, after it was acquired by GlidePath Power Solutions, FPL Energy Cabazon Wind, LLC changed its name to GPS Cabazon Wind, LLC.

Capital Dynamics – Kingbird Solar B, LLC. On September 19, 2013, the City entered into a 20-year PSA with SCPA for 14 MW of solar photovoltaic energy generated by a facility to be built by First Solar in Kern County, California. The project is referred to as the Kingbird B Solar Photovoltaic Project, with a nameplate capacity of 20 MW. The City has a 70% share of the output from the project through SCPA, which has a 20 MW PPA with Kingbird Solar B, LLC, which was acquired by Capital Dynamics in 2018. The project became commercially operational on April 30, 2016. The City’s share from the project is approximately 35,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$68.75 per MWh over the term of the agreement.

sPower – Summer Solar, Antelope Big Sky Ranch and DSR 1 Solar. On January 17, 2013, the City entered into two 25-year Power Sales Agreements (“**PSAs**”) with SCPA for a combined total of 20 MW of solar photovoltaic energy generated by two facilities to be built in the City of Lancaster by Silverado Power, which later changed its name to sPower after a series of ownership changes. The two projects are referred to as Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The City has a 50% share of the output from each project through SCPA, who has two 20 MW PPAs with sPower. The projects became commercially operational on August 19, 2016 and July 25, 2016, respectively. The City’s share from the two projects is approximately 55,000 MWh of renewable energy per year. The price under the agreements is \$71.25 per MWh over the term of the agreements.

On July 16, 2015, the City entered into a 20-year PSA with SCPA for 25 MW of capacity and approximately 71,000 MWh of renewable solar photovoltaic energy per year generated by sPower’s Antelope DSR 1 Solar PV Project in the City of Lancaster, California with an all-in price for energy, capacity and environmental attributes of \$53.75 per MWh over the term of the agreement. The City has a 50% share of the output from the project through SCPA, who has a 50 MW PPA with sPower. The project became commercially operational on December 20, 2016.

Capital Dynamics – Tequesquite Landfill Solar. On March 11, 2014, the City and Solar Star California XXXI, LLC (“**Solar Star**”) entered into a 25-year PPA for 7.3 MW of capacity and approximately 15,000 MWh of renewable solar photovoltaic energy per year generated by a facility to be built on the City-owned Tequesquite Landfill. The project became fully commissioned and operational on September 30, 2015. The all-in price for energy, capacity and environmental attributes of \$81.30 per MWh escalating at 1.5% annually. In 2018, Capital Dynamics became the new parent company of Solar Star after acquiring it from SunPower.

American Renewable Power – Loyaltan. On November 16, 2017, the City entered into a 5-year PSA with SCPA for 0.8 MW of biomass energy generated by American Renewable Power (“**ARP**”)-Loyaltan Biomass Project. The City has a 4.48% share of the output of the project through SCPA, which has an 18 MW PPA with ARP-Loyaltan. The project became commercially

operational on April 20, 2018. The City's share of ARP Loyalton is approximately 6,358 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$97.50 per MWh over the term of the agreement. Such share satisfies a portion of the City's obligations under Senate Bill 859, as discussed under the heading "DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – Senate Bill 859 – "Budget Trailer Bill" – Biomass Mandate."

Firm Contracts and Market Purchases

The City supplements the energy available from its firm resources with energy purchased from other suppliers throughout the western United States, as well as the CAISO Integrated Forward Market ("IFM") and real time market. These purchases are made under the Western Systems Power Pool ("WSPP") Agreement and numerous short-term bilateral agreements between the City and various suppliers. Energy purchases in the CAISO markets are made under the FERC-approved CAISO Tariff.

In the fiscal year ending June 30, 2018, the City purchased 633,500 MWh of firm energy (about 27.5% of its total energy) through short-term contracts. The purchases for the fiscal year ending June 30, 2018, consisted of 425,100 MWh purchased through the CAISO IFM and 208,400 MWh purchased from WSPP counterparties. The cost of obtaining the necessary energy will depend upon contract requirements and the current market price for energy. Spot market prices are dependent upon such factors as natural gas prices, the availability of generating resources in the region, fuel type, and weather conditions such as ambient temperatures and the amount of rainfall or snowfall. Generating unit outages, dry weather, hot or cold temperatures, time of year, transmission constraints, and other factors can all affect the supply and price of energy. See "DEVELOPMENTS IN THE ENERGY MARKETS."

Wholesale Power Trading Policies and Risk Management

In October 1998, the City Council adopted formal policies for the administration of energy risk management activities within the Power Resources Division of the Electric System. These policies define the limits for power trading activities to mitigate and reduce risks associated with this business activity. The City also appointed an Energy Risk Manager in 1999 to oversee the development, implementation, and ongoing monitoring of a formalized financial risk management program for power supply activities. Since 1998, the policies have been reviewed on an annual basis, and recommended changes have been periodically adopted by the City Council.

Recently, the policies were updated to incorporate changes in regulatory and legislative requirements, including an amendment to authorized transactions, organizational structure and reporting requirements. The comprehensive updated policies were approved by the Utility's Board and City Council on February 1, 2013 and March 5, 2013, respectively, and include the Energy Risk Management Policy, a Wholesale Counterparty Risk Management Policy and an Authorized Transactions Policy. The Wholesale Counterparty Risk Management Policy was amended for non-substantive changes on April 29, 2014.

California Independent System Operator

The City serves as its own Scheduling Coordinator with the CAISO and serves as the scheduling agent, under separate Utility Service Agreements, for the Cities of Banning and Rancho Cucamonga. In addition, the City serves as the scheduling agent for SCPPA's Columbia II Solar, Kingbird B Solar, Summer Solar, Antelope DSR 1 Solar, and ARP-Loyalton Biomass projects under various Scheduling Coordinator Agreements. Services under the referenced

agreements include day-ahead and real time scheduling of power from various sources, after-the-fact validation and settlement of transactions, and billing and payments.

On July 10, 2002, the City notified the CAISO of its intent to become a Participating Transmission Owner (“PTO”) by turning over operational control of the City’s transmission entitlements (the “CAISO-Transferred Entitlements”) to the CAISO effective January 1, 2003. In November 2002, the City executed the Transmission Control Agreement (“TCA”) between the CAISO and the PTOs.

Certain of the City’s CAISO-Transferred Entitlements relate to transmission facilities, including the Southern Transmission System, that were financed by SCPPA utilizing tax-exempt bonds. The City executed certain transmission service contracts with SCPPA that prohibit the City from taking any action that would adversely affect the tax-exempt status of the SCPPA bonds. If the City were to be found to have breached such contractual obligation, the City could be subjected to significant financial liability. The TCA executed by the City and submitted by the CAISO on November 19, 2002, for approval by the FERC contained certain withdrawal provisions that the City believes will protect the tax-exempt status of the SCPPA bonds and satisfy the City’s contractual obligation to SCPPA under its transmission service contracts.

On January 1, 2003, the City became a PTO with the CAISO, entitling the City to receive compensation for the use of its transmission entitlements committed to the CAISO’s operational control. The compensation is based upon the City’s TRR as approved by FERC. Included in the City’s TRR are all costs associated with the City’s participation in SCPPA’s transmission projects (as described under the headings “– Transmission Facilities – Southern Transmission System,” “– Mead-Phoenix Transmission Project” and “– Mead-Adelanto Transmission Project”). The City obtains all of its transmission entitlements from the CAISO.

Since becoming a PTO with the CAISO, the City has filed three TRR’s with FERC. The City’s base TRR is adjusted annually for (among other things) automatic pass throughs of certain costs approved by FERC. For the fiscal year ended June 30, 2018, the City collected \$37,484,000 in TRR revenue.

Transmission and Distribution Facilities

The paragraphs that follow describe the City’s transmission facilities and entitlements and distribution facilities.

Southern Transmission System. The STS is one of three major components of the IPP. In connection with its entitlement to IPP, the City assigned its entitlement to capacity of the STS to SCPPA, in exchange for which SCPPA agreed to make payments-in-aid of construction of the STS and issued revenue bonds to finance the costs thereof. Pursuant to a transmission service contract with SCPPA, the City acquired a 10.2% (195 MW) entitlement in SCPPA’s share of the transfer capability of the STS. The City’s contractual entitlement extends until 2027. See “– Joint Powers Agency Obligations.” Among other things, the STS provides for the transmission of energy from IPP to the California transmission grid.

STS consists of the following: (a) the AC / DC Intermountain Converter Station adjacent to the IPP Generating Station’s AC switchyard in Utah; (b) the ±500 kV DC bi-pole transmission line (“**HVDC transmission line**”), 488 miles in length, from the Intermountain Converter Station to the City of Adelanto, California; (c) the AC / DC Adelanto Converter Station, where the STS connects to the switching and transmission facilities of LADWP; and (d) related microwave communication system facilities. The HVDC transmission line is capable of transmitting an amount of power that exceeds the aggregate output of the IPP Generating Station to be delivered

to the SCPPA participants. The AC/DC converter stations each consist of two solid state converter valve groups and have a combined rating of 2,400 MW (upgraded from 1,920 MW in 2010, increasing the City's total entitlement in the STS from 195 MW to 244 MW). The microwave communication facilities are used for IPP Generating Station dispatch, for communication, and for control and protection of the STS. The microwave facilities are located along two routes between the IPP Generating Station and the Adelanto Switching Station, forming a looped network.

Pursuant to the City's transmission service contract with SCPPA, the City is obligated to pay as an Operating and Maintenance Expense its share of debt service on bonds issued by SCPPA in connection with the STS on a take-or-pay basis, as well as capital costs and costs related to operation and maintenance. See "– Joint Powers Agency Obligations."

Mead-Phoenix Transmission Project. Originally in connection with its entitlement to PVNGS power, the City acquired a 4.0% (12 MW) entitlement in SCPPA's member-related ownership share of the Mead-Phoenix Transmission Project ("**Mead-Phoenix**"), which is separate from the SCPPA interest acquired on behalf of Western and the SCPPA interest later acquired on behalf of LADWP only. The City has entered into a transmission service contract with SCPPA that obligates the City to pay as an Operating and Maintenance Expense its share of debt service on bonds issued by SCPPA in connection with the SCPPA member-related interest in Mead-Phoenix on a take-or-pay basis, as well as capital costs and costs related to operation and maintenance. See "– Joint Powers Agency Obligations."

Mead-Phoenix consists of a 256-mile, 500-kV AC transmission line that extends between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the 500-kV switchyard constructed at Western's existing Mead Substation in southern Nevada with transfer capability of 1,923 MW (as a result of upgrades completed in 2009, increasing the City's total entitlement in the Mead-Phoenix from 12 MW to 18 MW). By connecting to Marketplace Substation, Mead-Phoenix interconnects with the Mead-Adelanto Transmission Project (as described below) and with the McCullough Substation. Mead-Phoenix is comprised of three project components. SCPPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563% member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership share in the Mead-Marketplace project component. Other owners of the line are APS, Salt River Project and Startrans IO, L.L.C. ("**Startrans**"). The project entered commercial operation on May 15, 1996.

Mead-Adelanto Transmission Project. In connection with Mead-Phoenix, the City has acquired a 13.5% (118 MW) entitlement to SCPPA's member-related ownership share of the Mead-Adelanto Transmission Project ("**Mead-Adelanto**"), which is separate from the SCPPA interest acquired on behalf of Western and the SCPPA interest later acquired on behalf of LADWP only. Mead-Adelanto consists of a 202-mile, 500-kV AC transmission line that extends between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation. By connecting to Marketplace Substation, the line interconnects with Mead-Phoenix and the existing McCullough Substation in southern Nevada. The line has a transfer capability of 1,291 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owner of the line is Startrans. The City has entered into a transmission service contract with SCPPA that obligates the City to pay as an Operating and Maintenance Expense its share of debt service on bonds issued by SCPPA in connection with Mead-Adelanto on a take-or-pay basis, as

well as capital costs and costs related to operation and maintenance. See “– Joint Powers Agency Obligations.” The project entered commercial operation on May 15, 1996, which coincided with the completion of Mead-Phoenix .

Sub-Transmission and Distribution. Power is supplied to the City through seven separate, 69,000-volt, sub-transmission lines from a substation that is owned and operated by SCE. These lines are used for the sole purpose of delivering electric energy from SCE’s Vista Substation to the northerly limits of the City. Each of the 69,000-volt sub-transmission lines is then interconnected to the City-owned and operated, 69,000-volt, sub-transmission system at multiple substations.

As of July 1, 2018, the City had 99.2 circuit miles of sub-transmission and 1,345 circuit miles of distribution lines, of which approximately 831 circuit miles are underground. There are 14 substations, with a combined capacity of 1,012 million volt-amperes (“MVA”). The City is currently undertaking the Riverside Transmission Reliability Project (“RTRP”), which includes the construction of a 230-69 kV, transmission substation. RTRP will provide a second point of interconnection to the California transmission grid and the addition of new 69 kV transmission lines to transmit power from the new substation and distribute energy to the City’s local distribution substations. The costs of the RTRP have been partially financed by Bonds issued in 2008 and 2010. On December 4, 2007, the City added a reliability charge to its electric rates to assist with funding the City’s portion of the cost of RTRP. RTRP is a joint project between the City and SCE. In April 2015, SCE applied for a Certificate of Public Convenience and Necessity from the CPUC for their portion of the project. The CPUC prepared a Draft Subsequent Environmental Impact Report (“SEIR”) to address changes to the project. The draft SEIR was circulated for public comment on April 2, 2018. The CPUC issued the final SEIR on October 2, 2018, marking the completion of the CPUC’s California Environmental Quality Act review process. The CPUC has begun its general proceeding process and is expected to issue a proposed decision on SCE’s application in the fourth quarter of 2019. The CPUC hosted a pre-hearing conference on November 13, 2018. On January 7, 2019, the administrative law judge issued a scoping memo setting a hearing for August 6,7 and 8, 2019, with a proposed decision anticipated to be issued by the administrative law judge by December 31, 2019, which will require approval by the CPUC commissioners.

Capital Improvement Program

As part of its budget and planning process, the City prepared a five-year Electric System Capital Improvement Program (“CIP”) for fiscal years ending June 30, 2019, through June 30, 2023, totaling approximately \$177.5 million:

	Five-Year CIP (\$000) Fiscal Years 2019-2023
Overhead	\$ 31,919
Underground	34,440
Substation	25,222
Recurring/Obligation to Serve	51,435
System Automation	<u>34,510</u>
Total	<u>\$177,526</u>

The five-year CIP is supported by the Electric System’s rate plan (see “– Electric System Rates and Charges”) and addresses the need to replace and modernize the most vital portions of the City’s aging electric infrastructure. Overhead and underground projects include the

rehabilitation and replacement of overhead equipment, such as poles, wires, transformers, and streetlights and underground equipment such as conduits and cables to improve safety, efficiency and reliability of the electric system. Substation includes improvements to neighborhood power stations to efficiently distribute power throughout the service area. Recurring projects are projects related to the Electric System’s obligation to serve new incoming load. System automation includes projects for technology, security and system automation tools and applications to improve cyber security and overall efficiency. The majority of the five-year CIP, approximately \$148 million, will be funded by bond financing (including the portion expected to be funded by 2019A Bond proceeds; see “PLAN OF FINANCE – Estimated Sources and Uses of Funds”) with the balance to be funded by a combination of rates, reserves and other resources.

Customers and Energy Sales

The following tables set forth the number of meters as of the fiscal year end and total energy sold during the periods presented.

**Table 6
Number of Meters**

		Fiscal Year Ended June 30,				
		<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Domestic ⁽¹⁾		96,820	96,664	96,934	97,372	97,531
.....						
Commercial		10,558	10,757	10,898	11,016	11,181
.....						
Industrial		898	888	891	833	854
.....						
Other		<u>82</u>	<u>79</u>	<u>53</u>	<u>53</u>	<u>53</u>
.....						
Total	– all	<u>108,358</u>	<u>108,388</u>	<u>108,776</u>	<u>109,274</u>	<u>109,619</u>
classes						
.....						

⁽¹⁾ Decrease in meters, as adjusted in fiscal year ended June 30, 2015, was most likely due to timing of billing customers. A new billing system was implemented in that fiscal year.

**Table 7
Energy Sold
(Millions of kWh)**

			Fiscal Year Ended June 30,				
			<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
	Domestic		700	711	726	730	727
.....							
	Commercial		421	428	438	448	447
.....							
	Industrial		997	995	982	996	999
.....							
	Other		30	31	23	23	22
.....							
	Wholesale		<u>4</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>0</u>
Sales ⁽¹⁾							
.....							
(2)	Total	kWh Sold	<u>2,152</u>	<u>2,167</u>	<u>2,169</u>	<u>2,198</u>	<u>2,195</u>
.....							

(1) For fiscal year ended June 30, 2018, and June 30, 2016, wholesale kWh was less than 1 million kWh.

(2) The difference between the total kWh generated and purchased and the total kWh sold is due to transmission and/or distribution system losses.

Customer Concentration

The following table lists the Electric System's top 10 customers for the fiscal year ended June 30, 2018, by type of business.

**Table 8
Top 10 Electric Customers
Fiscal Year Ended June 30, 2018
(Dollars in Thousands)**

<u>Electric Customer</u>	<u>Electric Charges</u>	<u>Percent of Total Electric Revenues</u>
Local University	\$12,548	4.1%
Local Government	8,075	2.6
Local Government	7,864	2.6
Local School District	4,442	1.4
Corporation	3,990	1.3
Corporation	3,696	1.2
Corporation	3,160	1.0
Hospital	2,778	0.9
Hospital	2,717	0.9
<u>Local University</u>	<u>2,620</u>	<u>0.9</u>
Total	\$51,890	16.9%

The City has a strong and diverse customer base with minimal exposure to customer concentration. Many of the Electric System's industrial customers have loads under 500 kW. The Electric System's three largest customers provided approximately 4.1%, 2.6% and 2.6% of its revenues, respectively, for the fiscal year ended June 30, 2018. The Electric System's five largest customers provided approximately 12.0% of revenues for the fiscal year ended June 30, 2018.

Electric Rates and Charges

The City is obligated by its City Charter and by the resolutions under which it has Electric System Revenue Bonds outstanding to establish rates and collect charges in an amount sufficient to meet its operation and maintenance expenses and debt service requirements, with specified requirements as to priority and coverage. Electric rates are established by the Board and approved by the City Council. Electric rates are not subject to the general regulatory jurisdiction of the CPUC or any other state agency. The California Public Utilities Code contains certain provisions affecting all municipal utilities such as the Electric System, including provisions for a public benefits charge. At this time, neither the CPUC nor any regulatory authority of the state nor FERC approves the City's retail electric rates, although FERC does approve the City's TRR included in the Transmission Access Charge collected from users of the CAISO transmission grid.

Although its rates are not subject to approval by any federal agency, the City is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA"). PURPA requires state regulatory authorities and nonregulated electric utilities, including the City, to consider certain ratemaking standards and to make certain determinations in connection therewith. The City believes that it is operating in compliance with PURPA.

In January 1998, the City began collecting a surcharge for public benefit programs on customer utility bills. This surcharge was mandated by State legislation (i.e., Assembly Bill 1890 and subsequent legislation) and is restricted to various socially-beneficial programs and services.

As of January 1, 2019, the Electric System has 18 rate schedules in effect. The City provides no free electric service.

A rate proposal was provided to the Board and City Council in August and September 2017 after commissioning a rate study completed by an independent third party, dated August 13, 2017. In October and November 2017, staff conducted a comprehensive community outreach effort to present and obtain feedback on the rate plan proposal. Outreach efforts included various community meetings hosted by the Riverside Public Utilities Department as well as distribution of information materials to multiple neighborhood and business groups. Joint workshops with Board and City Council were held in November 2017 and January 2018 to discuss the results of outreach and obtain direction for a required public hearing and subsequent rate adoption. After holding the required public hearing on May 14, 2018, the Board adopted and recommended the City Council approve the five-year Electric Rate Plan.

On May 22, 2018, the City Council approved a five-year electric rate plan, with rate increases effective on January 1, 2019, 2020, 2021, 2022 and 2023, with annual reviews of the adopted rates by City Council. The system average rate increase effective January 1, 2019 is 2.95%, followed by system average rate increases of 3.0% effective on January 1, 2020, 2021, 2022, and 2023. Actual increases vary by customer class and usage level. Under this plan, a new Network Access Charge will be implemented for customer classes based upon either the customer's monthly billing demand or actual energy usage, all according to the customer's applicable rate class. The Network Access Charge will recover the infrastructure and operating costs to maintain the City's distribution system to provide service to the City's customers. Additional electric rate structure changes include extending the residential summer season adjustment for energy use from three months to four months and restructuring the industrial time of use Reliability Charge from a single fixed charge to a tiered charge based on customer demand.

Historically, electric rates for the City's customers have been lower than rates for SCE customers. Based on rates in place as of June 30, 2018, the City's single family residential

customers with annual monthly average consumption of 592 kWh would pay an average of 25.5% higher rates if served by SCE.

Based on the City’s rates effective January 1, 2019, the City’s single family residential customers with annual monthly average consumption of 592 kWh would pay an average of 23.6% higher rates if served by SCE. The City cannot predict future rate actions with respect to SCE or other utilities.

The following table sets forth the average billing price per kWh for the various customer classes during the five Fiscal Years shown.

Table 9
Average Billing Price (Cents) Per Kilowatt-Hour⁽¹⁾
(Retail Sales)

	Fiscal Year Ended June 30,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	16.00	16.05	16.12	16.12	15.91
Commercial	15.94	16.02	15.92	15.96	15.90
Industrial	11.16	11.28	11.58	11.59	11.52
Other	18.51	18.29	20.91	21.29	21.29
System Averages	13.77	13.88	14.07	14.08	13.97

⁽¹⁾ Figures above do not include public benefit surcharge of 2.85% pursuant to AB 1890.
Source: City of Riverside

Billings and Collections

Electric System service charges are billed and collected on a monthly Statement of Municipal Services and combined with the charges of the City’s water, sewer and refuse utilities. The customer service, billing and collection operations are provided for all utilities by designated functions of the City’s Public Utilities, Public Works, Finance and Information Technology Departments, coordinated through Riverside Public Utilities.

Bills are due and payable on presentation, and become delinquent after 21 days. Although the City is not subject to the jurisdiction of the CPUC or other agencies, collection activities for the City substantially conform to the requirements of the California Public Utilities Code Section 10010. Accounts that have not paid their bills by the delinquency date receive an urgent notice providing an additional 10 days to pay. If no payment is received, a 48-hour notice is delivered by Utility Field Service staff, and the customer is charged a \$20 notification fee. If payment is not received by this deadline, metered service (Water and/or Electric) may be turned off approximately 1 to 5 working days later. Before service is reinstated, the customer must pay the delinquent amount and a reconnection fee ranging between \$40 and \$75, and may be required to pay a customer deposit. SB 998, enacted in 2018, will impose certain restrictions on the City’s ability to turn off water connections to customers for non-payment of water charges.

Public Utilities Department manages delinquencies of amounts billed for the City’s Electric System and water, sewer and refuse utilities. Delinquencies from inactive accounts are turned over to a collection agency 90 days after account closure.

Uncollectible Accounts

Based on the average annual amount of billable revenues reflected in the table below (approximately \$304.6 million), the City experienced an annual average of approximately 0.2%, or approximately \$603,200, of uncollectible accounts for the past five years. The City's management of its collection activities is effective as reflected by write-offs below the industry average. The following table shows the historical results of the utility's accounts receivable and collection efforts.

Table 10
History of Billings and Collections
As of June 30,
(Dollars in Thousands)

Fiscal Year	Billings	Payments	Write-Off as % of Billing ⁽¹⁾	Write-Off	Ending Accounts Receivable Balance ⁽²⁾
2014	\$299,069	\$297,920	0.214%	\$639	\$32,760
2015	303,116	304,190	0.182	551	31,135
2016	308,304	307,845	0.212	654	30,940
2017	308,017	306,847	0.220	677	31,433
2018	304,445	306,166	0.162	495	29,217

(1) Represents the amount shown under the column entitled "Write-Off" divided by amount shown under the column entitled "Billings" for the corresponding year.

(2) The ending accounts receivable balance of any fiscal year is equal to the ending balance of the previous fiscal year plus billings minus payments minus write-offs. The ending accounts receivable balance at June 30, 2013, was \$32,250.

Transfers to the General Fund of the City

Effective December 1, 1977, transfers to the General Fund of the City of surplus funds of the Electric System (after payment of Operating and Maintenance Expenses and debt service on Bonds) are limited by Article XII of the City Charter, as approved by the voters and adopted by the City Council on November 15, 1977. Such transfers are limited to 12 equal monthly installments during each fiscal year constituting a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor.

In anticipation of deregulation, the City reduced the General Fund transfer level to 9% from 10.5% in 1996. It is the City Council's policy to review this transfer annually, and as a result, the City Council increased it by \$3.0 million beginning in fiscal year 2005 and an additional \$2.0 million beginning in fiscal year 2007. Including the increases, the total amount contributed to the General Fund was below the maximum authorized by the City Charter. As of fiscal year 2009-10, the City increased the General Fund transfer from 9% to 11.5%, the maximum authorized by the City Charter, where it remains currently. The General Fund transfer is funded through the existing rate plan, thus requiring no additional rate adjustments.

The transfers to the General Fund of the City for the fiscal year ending June 30, 2018, were \$40,072,600 (approximately 11.5% of the prior fiscal year's Gross Operating Revenues). The budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2019 is \$39,886,400 (approximately 11.5% of the prior fiscal year's Gross Operating Revenues).

See “– Litigation” for a description of recent lawsuits relating to the General Fund transfer and the Electric System’s rates. If a court were to conclude that the General Fund transfer from the Electric System is not a cost of providing the service of the Electric System, then the Electric System might be required to revise its rates and charges to eliminate the revenues needed to pay the General Fund transfer, and the Electric System could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Electric System most likely would require the City to return the challenged General Fund transfer, and the Electric System would be prohibited from making any future General Fund transfers.

California Public Utilities Code 10004.5 provides for the following statute of limitations for any challenge to the validity of the Electric System’s rates:

... [A]ny judicial action or proceeding against a municipal corporation that provides electric utility service, to attack, review, set aside, void, or annul an ordinance, resolution, or motion fixing or changing a rate or charge for an electric commodity or an electric service furnished by a municipal corporation... shall be commenced within 120 days of the effective date of that ordinance, resolution, or motion.

The statute of limitations for filing a claim for a refund of electric service charges is one year from the date that the City collected an Electric System service charge that was used to make the revenue transfer payments from the Electric System.

See also “CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY” for a discussion of requirements imposed on local government taxes pursuant to Proposition 26.

Unrestricted Cash Reserves

On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy, which provided a defined level on unrestricted, undesignated and designated cash reserves in the Electric System for strategic purposes. On July 24, 2018, the Cash Reserve Policy was updated and approved by City Council reflecting the establishment of an additional designated reserve, the use of the line of credit as available reserves and other minor revisions to bring it current. This policy sets target minimum and maximum levels for the undesignated reserve to mitigate risk in the following categories: operations and maintenance, rate stabilization, capital expenditures, and debt service. The undesignated reserve can be used for any lawful purpose and has not been designated for specific capital and operating purposes. As of June 30, 2018, the balance was at \$173,136,000 for the unrestricted undesignated reserve and was within the minimum and maximum guidelines as set forth in the policy. The Electric System has obtained a revolving credit facility that will provide additional flexibility and operating liquidity. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations – Revolving Credit Facility.”

Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board and City Council. Designated reserves may be held for capital or operating purposes. Unrestricted designated cash reserve balances as of June 30, 2018, are as follows:

Additional Decommissioning Liability Reserve	\$8,245,000
Customers Deposits	4,562,000
Capital Repair and Replacement Reserve	4,865,000
Electric Reliability Reserve	62,800,000
Mission Square Improvement Reserve	1,244,000
Dark Fiber Reserve	2,303,000
Total	<u>\$84,019,000⁽¹⁾</u>

⁽¹⁾ Included as a component of unrestricted cash and cash equivalents in the Statements of Net Position in the Electric System's audited financial statements for the fiscal year ended June 30, 2018.

Joint Powers Agency Obligations

As previously discussed, the City participates in certain contracts with IPA and SCPPA. Obligations of the City under the agreements with IPA and SCPPA constitute Operating and Maintenance Expenses of the City payable prior to any of the payments required to be made on the Bonds and any Parity Debt. Agreements between the City and IPA and the City and SCPPA are on a "take-or-pay" basis, which requires payments to be made whether or not applicable projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. All of these agreements contain "step-up" provisions obligating the City to pay a share of the obligations of a defaulting participant. Any "step-up" obligation relating to the City's participation in transmission projects that it would be responsible for would be included in the City's TRR (that would require filing a new TRR at the FERC) and would be recovered from all CAISO grid users. The City's participation and share of principal obligation (without giving effect to any "step-up" provisions) for each of the joint powers agency projects in which it participates are shown in the following table. For the fiscal year ended June 30, 2018, the City's obligations for debt service on its joint powers agency obligations aggregated \$23.8 million.

Table 11
Outstanding Debt of Joint Powers Agencies
As of December 31, 2018
(Dollars in Thousands)

	<u>Principal Amount of Outstanding Debt</u>	<u>City's Participation⁽¹⁾</u>	<u>City's Share of Principal Amount of Outstanding Debt</u>
Intermountain Power Agency			
Intermountain Power Project ⁽²⁾	\$775,953	7.617%	\$59,104
Southern California Public Power Authority			
Southern Transmission System	430,305	10.200	43,891
Mead-Phoenix Transmission	10,645	4.000	426
Mead-Adelanto Transmission	<u>35,475</u>	13.500	<u>4,789</u>
Total	<u>\$1,252,378</u>		<u>\$108,210</u>

⁽¹⁾ Participation obligation is subject to increase upon default of another project participant.

⁽²⁾ Includes bonds, commercial paper, subordinate notes and line of credit. Source: IPA.

Insurance

The Electric System's insurance needs are handled by the Risk Management Section of the City's Finance Department. Liability and Workers' Compensation Internal Service Insurance fund balances are based on a reserve policy that requires the City to maintain 40% of the total combined current claims liability outstanding based on annual actuarial studies, which is completed by an outside firm.

The City, including the Electric System, is insured for Worker's Compensation coverage with a \$25 million maximum per occurrence limit, subject to a \$3 million per occurrence self-insured retention. The City is insured for general liability with a \$10 million per occurrence limit, subject to a \$3 million self-insured retention. The City also secures an additional \$10 million in excess liability coverage. The City maintains property insurance, providing all risk and equipment breakdown coverage on most City real and personal property holdings with a limit of \$1 billion, subject to an all risk deductible of \$100,000 and a \$250,000 all risk deductible for electric generating facilities. At the time of loss, valuation will be on a repair or replacement cost basis, with actual loss sustained for time element coverage, and actual cash value for all City-owned contractor's equipment.

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 Electric System facilities. In addition, many of the transmission and generation facilities relied upon by the Electric System are located at or near major active earthquake faults. Although the City has not experienced significant earthquake-related damage to its facilities, the Electric System and its power supply could be adversely affected by a major local earthquake. See "RISK FACTORS – Casualty Risk."

The City does not currently maintain earthquake insurance on the Electric System's facilities.

Litigation

CAISO. On May 11, 2004, the CAISO filed Amendment No. 60 to its tariff to modify the CAISO's process for dispatching generation and allocating associated costs. Numerous parties, including the City as a member of the "Southern Cities" group, submitted testimony to the FERC on the allocation of these costs, and a hearing was held in 2005. On October 31, 2005 the Presiding Administrative Law Judge issued an Initial Decision, and on December 27, 2006, the FERC issued an order generally affirming the determinations in the Initial Decision. The FERC order adopted the City's position with respect to "South-of-Lugo" costs, which would have resulted in a large part of these generation dispatch costs being allocated to SCE. On November 20, 2007, the FERC issued its Order on Rehearing, reversing its position on South-of-Lugo costs in a manner that would require the City to share these costs. The City and a number of other parties filed requests for rehearing of the Order on Rehearing. On September 16, 2011, FERC issued an Order Denying Rehearing of the Order on Rehearing. The City (along with other municipal electric systems) filed a timely petition for review with the United States Court of Appeals for the District of Columbia Circuit, Case No. 11-1442. The Court of Appeals denied the petition for review on November 5, 2013.

During June 2014, the CAISO issued an invoice to the City, including the surcharges arising from this case but excluding interest. The City has taken the position that no interest should apply to the surcharges, because the FERC's previous orders in the case did not direct application of interest. On October 20, 2016, the FERC issued an order stating that its previous orders had not directed the CAISO to make refunds or to collect surcharges and that the issue of interest was moot. Several parties have requested rehearing or clarification of the FERC's October 20, 2016, order, and those requests remain pending. It is not possible at this time to quantify any amounts that may be due from the City to the CAISO or from the CAISO to the City.

Olquin. On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric System from the CAISO to the Electric System revenue transfer to the City's General Fund was a violation of Proposition 26. Plaintiff sought a court order compelling the City to return to the Electric System approximately \$115 million, which represented all Electric System revenue transfers paid to the City's general fund since May 1, 2013, as well as a permanent injunction prohibiting future Electric System revenue transfers. In April of 2017, the trial court entered judgment in favor of the City, on the grounds that (1) Olquin had failed to allege a rate increase, because the contested transfer did not require the Electric System to raise its rates and (2) even if such a rate increase could be alleged, Olquin's lawsuit was untimely under the statute of limitations in Public Utilities Code Section 10004.5. Mr. Olquin subsequently passed away and Alysia Webb substituted in as plaintiff. In May 2017, Olquin/Webb filed an appeal to that judgment. On May 4, 2018, the appellate court ruled in favor of the City in a published decision, *Alysia Webb v. City of Riverside* (2018) 23 Cal.App.5th 244. No appeal has been filed to that decision, and the time within which to file the appeal has expired.

Parada I. On October 19, 2017, a writ of mandate entitled *Parada v. City of Riverside* (Parada I) was filed against the City seeking to enjoin the City from levying its electric utility users tax on the portion of electric rates that are attributable to the General Fund Transfer. On September 21, 2018, the trial court ruled in favor of the City, and on November 7, 2018, the court entered judgment in favor of the City.

Parada II. On September 12, 2018, a class action petition for writ of mandate entitled *Parada v. City of Riverside* (Parada II) was filed against the City seeking to invalidate, rescind and void under Proposition 26 the Electric System's rates, approved by City Council on May 22, 2018, which took effect on January 1, 2019, challenging the portion of the electric rates that are

attributable to the General Fund Transfer. See “– Electric Rates and Charges.” The City has not yet responded to the complaint, and no trial date has been set.

See “– Transfers to the General Fund of the City.” See also “CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY.”

Pending lawsuits and other claims against the City with respect to the Electric System are incidental to the ordinary course of operations of the Electric System and are largely covered by the City’s self-insurance program. In the opinion of the Electric System’s management and the City Attorney, such lawsuits (including the lawsuits discussed above) and claims will not have a materially adverse effect upon the financial position of the Electric System.

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 Electric 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, if actual historical cost is not available, estimated historical cost. 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. Contributed plant assets are valued at their estimated fair market value on the date of contribution. For accounting policies specifically relating to the Electric System, see the notes to the financial statements in Appendix B. See also “FINANCIAL STATEMENTS.”

Summary of Operations

The following table prepared by the City shows the Net Operating Revenues of the Electric System and historical debt service coverage for the Prior Parity Bonds for the fiscal years shown, as calculated in accordance with the flow of funds in the Resolution. The information shown is based on the audited financial statements of the City’s Electric System for such periods.

Table 12
Summary of Operations and Debt Service Coverage
(\$000)

	Fiscal Year Ended June 30,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Revenues ⁽¹⁾ :					
Residential	\$111,880	\$114,112	\$116,997	\$117,662	\$115,630
Commercial, Industrial and Other	183,923	186,509	188,252	191,670	191,026
Wholesale Sales	115	60	3	9	2
Transmission Revenues	32,630	30,587	32,924	35,497	37,484
Other	6,912	7,654	7,425	12,899	11,514
Total Operating Revenues Before (Reserve)/Recovery	335,460	338,922	345,601	357,737	355,656
Reserve for Uncollectible, Net of (Reserve)/Recovery	(589)	(1,014)	(763)	(551)	(687)
Total Operating Revenues, Net of (Reserve)/Recovery	334,871	337,908	344,838	357,186	354,969
Interest Income	6,041	3,821	5,143	1,809	2,567
Capital Contributions.....	2,890	2,139	2,434	2,367	3,170
Non-Operating Revenues	3,738	4,376	18,615	7,594	7,408
Total Revenues.....	\$347,540	\$348,244	\$371,030	\$368,956	\$368,114
Operating and Maintenance Expenses ⁽¹⁾⁽²⁾ :					
Nuclear Production ⁽³⁾	5,254	3,992	1,208	(45) ⁽³⁾	720
Production & Purchased Power ⁽⁴⁾	133,568	141,317	135,873	132,394	135,703
Transmission Expenses ⁽⁵⁾	51,939	53,356	58,145	59,497	62,981
Distribution Expenses	14,160	13,832	15,295	16,053	16,532
Customer Account Expenses.....	6,103	6,834	5,903	6,888	7,091
Customer Service Expenses.....	3,168	2,134	2,332	1,847	1,604
Administration & General Expenses ⁽⁶⁾ ..	13,540	15,168	15,737	19,210 ⁽⁷⁾	16,699
Clearing & Miscellaneous Expenses.....	13,403	13,948	15,115	16,155	16,454
Total Operating and Maintenance Expenses	\$241,135	\$250,581	\$249,608	\$251,999	\$257,784
Net Operating Revenues Available for Debt Service and Depreciation.....	\$106,405	\$97,663	\$121,422	\$116,957	\$110,330
Debt Service Requirements on Bonds..	\$49,207	\$42,017	\$42,240	\$39,585	\$40,720
Debt Service Coverage Ratio	2.16x	2.32x	2.87x	2.95x	2.71x

- (1) Operating Revenues excludes restricted revenues generated from the Public Benefits Charge (PBC). Operating and Maintenance expenses excludes expenses incurred from the related program.
- (2) In accordance with the Resolution, this excludes contributions to City's General Fund of \$38,704, \$38,178, \$38,360, \$39,230 and \$40,073 for fiscal years 2013-14 through 2017-18, respectively. These contributions do not constitute Operating and Maintenance Expenses and are subordinated to debt service on the Bonds. Also excludes depreciation and amortization.
- (3) Subsequent to the shutdown of SONGS in June 2013, Nuclear Production reflects non-decommissioning expenses and changes to decommissioning liability, which resulted in a credit balance in fiscal year 2016-17.
- (4) Includes fuel expense for City-owned generating facilities and payments to IPA and SCPPA, other than payments relating to the transmission projects with SCPPA (STS, Mead-Phoenix, and Mead-Adelanto). See "– City-Owned Generating Facilities – Fuel Supply/Procurement" and "– Joint Powers Agency Obligations."
- (5) Includes payments relating to transmission projects with SCPPA (STS, Mead-Phoenix and Mead-Adelanto).
- (6) Excludes Governmental Accounting Standards Board ("GASB") Statement No. 68 (Accounting and Financial Reporting for Pension) non-cash adjustments of (\$2,594), (\$5,036), (\$248) and \$9,056 for fiscal years 2014-15 through 2017-18, respectively. GASB Statement No. 68 became effective on July 1, 2014. Includes GASB Statement No. 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions) adjustments. GASB Statement No. 75 became effective on July 1, 2017.
- (7) Increase from prior year primarily due to the City's refinancing of pension obligation bonds resulting in an additional obligation of \$2,593 to the Electric System for its share of the bonds.

The following Statements of Net Position have been prepared by the City for the five full fiscal years shown. The information shown is based on the audited financial statements of the City's Electric System for such periods.

Table 13
Electric Statements of Net Position (\$000)

	Fiscal Year Ended June 30,				
	2014	2015 ⁽¹⁾	2016	2017	2018
Assets and Deferred Outflows of Resources					
Utility plant					
Production.....	\$267,152	\$267,197	\$267,312	\$267,312	\$267,312
Transmission.....	42,963	43,956	44,415	44,968	45,007
Distribution.....	541,381	558,436	584,010	601,306	627,891
General.....	60,600	69,814	106,746	109,899	110,392
Intangible.....	325	13,864	18,961	20,951	21,472
	<u>912,421</u>	<u>953,267</u>	<u>1,021,444</u>	<u>1,044,436</u>	<u>1,072,074</u>
Less accumulated depreciation.....	(291,478)	(318,899)	(344,166)	(375,776)	(408,057)
	<u>620,943</u>	<u>634,368</u>	<u>677,278</u>	<u>668,660</u>	<u>664,017</u>
Land.....	8,717	8,786	21,439	37,845	52,111
Intangible, non- depreciating.....	10,651	10,651	10,651	10,651	10,651
Construction in progress.....	51,105	48,604	45,326	51,636	54,475
Total utility plant.....	<u>691,416</u>	<u>702,409</u>	<u>754,694</u>	<u>768,792</u>	<u>781,254</u>
Restricted assets ⁽²⁾	205,166	182,404	135,137	131,001	118,287
Current assets:					
Cash and investments ⁽³⁾	210,929	227,425	249,247	255,496	257,155
Accounts receivable, net.....	36,680	34,423	34,397	35,432	32,799
Advances to other funds of the City.....	914	610	418	183	305
Accrued interest receivable.....	1,127	885	650	891	1,016
Inventory.....	1,202	1,202	1,097	1,097	1,097
Prepaid expenses.....	22,827	20,831	22,199	23,382	22,842
Unamortized purchased power.....	372	496	496	124	218
Total restricted and current assets.....	<u>479,217</u>	<u>468,276</u>	<u>443,641</u>	<u>447,606</u>	<u>433,719</u>
Other non-current assets:					
Advances to other funds of the City.....	5,800	5,850	5,113	4,665	4,227
Net pension asset ⁽¹⁾	11,450	0	0	0	0
Unamortized purchased power.....	3,143	5,047	6,964	8,927	10,913
Regulatory assets ⁽⁴⁾	17,451	10,822	4,395	3,056	1,949
Total other non-current assets.....	<u>37,844</u>	<u>21,719</u>	<u>16,472</u>	<u>16,648</u>	<u>17,089</u>
Deferred outflows of resources:					
Deferred outflows related to pension ⁽¹⁾	0	11,541	26,232	38,247	30,596
Changes in derivative values.....	16,336	18,788	27,713	17,157	10,692
Loss on refunding.....	12,952	11,937	10,790	9,772	8,997
Total deferred outflows of resources.....	<u>29,288</u>	<u>42,266</u>	<u>64,735</u>	<u>65,176</u>	<u>50,285</u>
Total assets and deferred outflows of resources.....	<u>\$1,237,765</u>	<u>\$1,234,670</u>	<u>\$1,279,542</u>	<u>\$1,298,222</u>	<u>1,282,347</u>

(continued on following page)

Net Position, Liabilities and Deferred Inflows of Resources

Net position^{(1) (6)}:

Net investment in capital assets	\$196,771	\$190,271	\$201,651	\$229,432	\$267,230
Restricted for debt service	15,808	18,358	16,289	16,510	16,691
Restricted for regulatory requirements	3,150	7,432	10,802	16,123	16,093
Restricted for public benefit programs	9,732	11,555	13,822	15,094	16,122
Unrestricted ⁽¹⁾⁽⁶⁾	258,514	171,121	203,050	207,042	189,276
Total net position	483,975	398,737	445,614	484,201	505,412
Long-term obligations, less current portion ⁽⁵⁾ ..	593,108	576,081	561,728	557,540	529,294
Total net position and long-term obligations	1,077,083	974,818	1,007,342	1,041,741	1,034,706
Non-current liabilities:					
Compensated absences	830	578	764	808	521
Capital leases payable	1,566	1,213	3,905	3,098	2,274
Advance from other funds of the City -pension obligation ⁽⁵⁾	11,284	10,719	10,084	0	0
Nuclear decommissioning	75,299	67,573	62,767	56,067	55,120
Net other postemployment benefits liability/ payable ⁽⁶⁾	5,749	6,617	7,264	7,905	8,283
Net pension liability ⁽¹⁾	0	71,773	77,907	96,193	108,886
Derivative instruments	22,108	24,298	34,201	22,525	15,228
Total non-current liabilities	116,836	182,771	196,892	186,596	190,312
Current liabilities payable from restricted assets:					
Accounts payable and other accruals	1,869	9,020	0	0	0
Accrued interest payable	5,770	5,623	5,405	5,215	4,846
Nuclear decommissioning	0	5,714	6,126	8,607	5,457
Public benefit programs payable	154	394	1,847	233	235
Current portion of long-term obligations ⁽⁵⁾	14,920	15,825	13,320	15,689	16,463
Total current liabilities payable from restricted assets	22,713	36,576	26,698	29,744	27,001
Current liabilities:					
Accounts payable and other accrual	17,289	14,842	19,041	16,409	17,178
Unearned revenue	0	468	325	51	61
Customer deposits	3,844	4,512	5,040	5,996	6,397
Total current liabilities	21,133	19,822	24,406	22,456	23,636
Deferred inflows of resources:					
Deferred inflows related to pension ⁽¹⁾	0	20,683	24,204	17,685	6,396
Deferred inflows related to other postemployment benefits ⁽⁶⁾	0	0	0	0	296
Total deferred inflows of resources	0	20,683	24,204	17,685	6,692
Total net position, liabilities and deferred inflows of resources ⁽¹⁾	\$1,237,765	\$1,234,670	\$1,279,542	\$1,298,222	\$1,282,347

⁽¹⁾ In fiscal year 2014-15, the City implemented new financial accounting standards which resulted in the recognition of the net pension liability, related deferred outflows and inflows of resources and the elimination of the net pension asset as of July 1, 2014. Fiscal year 2014-15 financial statements have been changed to reflect the new reporting requirements, including the restatement of net position as of July 1, 2014. A restatement of fiscal year 2013-14 financial statements was not made due to the information necessary for the restatement not being readily available.

⁽²⁾ Includes current and non-current restricted assets for historical comparison purposes.

⁽³⁾ See discussion under “– Unrestricted Cash Reserves” above.

⁽⁴⁾ The City elected to record debt issuance costs and replacement power costs as regulatory assets, which allows for deferring these expenses to be reflected in future rates. In fiscal years 2014-15 and 2015-16, \$6.1 million and \$7.2 million of regulatory assets, respectively, related to replacement power were expensed because fiscal years 2014-15 and 2015-16 rate revenues were adequate to cover cost associated with the shutdown of SONGS, therefore not requiring the inclusion of such costs in subsequent rate plans.

⁽⁵⁾ In fiscal year 2017-18, Advances from other funds of the City-pension obligation were reclassified as long-term obligations with a portion reflected as current portion of long-term obligations. Fiscal year 2016-17 financials were reclassified for comparative purposes.

⁽⁶⁾ In fiscal year 2017-18, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which established new accounting and financial reporting requirements for OPEB plans. Fiscal year 2017-18 financial statements reflects a restatement of net position as of July 1, 2017, the elimination of net OPEB payable, the establishment of net OPEB liability and the establishment of deferred inflows related to OPEB. There are no restatements of prior years' financial statements because the actuarial information necessary for the restatements was not readily available.

Electric System Strategic Plan

Strategic Plan. The Board and City Council have had a formal strategic plan in place with respect to the Electric System since 2001, including the adoption of the following mission statement: “The City of Riverside Public Utilities Department is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.”

Through strategic planning process and workshops, long-term goals and objectives have been established by the Board to provide the framework to implement the Riverside Public Utilities Department’s Mission Statement. The current Ten-Year Goals adopted by the Board are (not in priority order):

- Employ state-of-the-art technology to maximize reliability and customer service
- Foster economic development and job growth in the City
- Communicate effectively the accomplishments, challenges and opportunities for the full utilization of electric and water resources
- Develop fully low-cost, sustainable, reliable electric and water resources
- Enhance the effective and efficient operation of all areas of the utility

Three-Year Goals and Strategic Plan Objectives are also established to ensure the achievement of these long-term goals, and these are (not in priority order):

- Contribute to the City’s economic development while preserving Riverside Public Utilities’ financial strength
- Maximize the use of technology to improve utility operations
- Impact positively legislation and regulations at all levels of government
- Develop and implement electric and water resource plans
- Create and implement a workforce development plan

During 2015, management engaged the community, Board and City Council through a series of meetings and workshops to create a Utility 2.0 Strategic Plan that provides the vision, changes and actions required to thrive as a Utility of the future. The Utility 2.0 Strategic Plan was designed to facilitate and advance the strategic goals adopted by the City Council in the Riverside 2.0 Strategic Plan as well as the strategic goals of the Board. Areas of focus for Utility 2.0 include infrastructure improvement, workforce development, utilizing advanced technology and thriving financially which have been developed through a number of roadmaps. In October 2015, conceptual approval was given by the Board and City Council to implement the Utility 2.0 Strategic Plan.

The Thriving Financially Roadmap reviewed the areas of rates, reserves, debt and other related policies to ensure the financial balance of the Department. Rates, cash reserves, debt and other revenue sources were evaluated together with the development of a 10-year pro-forma (financial plan). Several dependent projects were completed during the development of the 10-

year pro-forma and rate plan. These projects include the update and approval of the reserve policy, development and approval of an overall fiscal policy, and development and approval of electric and water cost of service studies.

An overall fiscal policy, including a comprehensive section on cash reserves, was completed and adopted by the City Council in July 2016 and subsequently updated and approved by City Council in July 2018. The electric and water 10-year pro-forma, cost of service and rate design studies were completed and presented to the City Council in September 2017. The Department recommended a redesign of its rates over a five-year period to better align with its cost of serving customers and its revenue requirement. The electric rate restructuring is designed to provide financial stability to support the Electric System's efforts to sustainably improve infrastructure reliability, meet renewable energy and energy efficiency goals, follow legal and regulatory requirements and correct the imbalance of costs versus revenue recovery. Rates have been designed to provide a transition to reflect the nature of underlying costs while encouraging the expansion of customer solar and other distributed generation. As discussed under the heading "– Electric Rates and Charges" above, on May 22, 2018, the City Council approved a five-year electric rate plan, with rate increases effective starting January 1, 2019, 2020, 2021, 2022 and 2023 with annual review of adopted rates by the City Council.

Operating Initiatives and Reserves. The City's retail revenues from fiscal year June 30, 2014 to June 30, 2018 increased 3.7% as a result of increased customer consumption. Retail revenues are generally increasing year over year due to an increase in retail load, an expanded customer base, and an improving economy. Operating and Maintenance Expenses (excluding depreciation and public benefit programs) from fiscal year June 30, 2014 to June 30, 2018 increased 10.7% due to higher power costs, transmission charges and other miscellaneous operating costs. Positive operating results over time have contributed to improving the City's reserve requirements and the overall goal to continue to be fiscally sound. See "– Unrestricted Cash Reserves."

Sustainability Initiatives. Recent efforts for sustainability began in 2001 when the City began using light-emitting diodes in all City traffic signals. Today, the City remains committed to environmental issues and serves as a state leader in sustainability.

The City's first sustainability policy statement was adopted in 2007 and ultimately led to the adoption of three Green Action Plans, the most recent in 2012. In 2009, the City also adopted sustainability policies associated with economic development as part of the "Seizing Our Destiny" citywide vision, incorporating a "Becoming a Green Machine" strategic route with specific initiatives. Additional adopted policies can be found in the City's General Plan 2025 (2007), the Environmentally Preferable Purchasing Policy (2009), the Food and Agriculture Policy Action Plan (2015) and the Riverside Restorative Growthprint (2016).

In 2012, the City hosted the first of three community-wide Green Riverside Leadership Summits. Subsequent summits were held in 2014 and 2016, the former in partnership with the University of California Riverside and the latter as part of the community-led Riverside Green Festival and Summit.

In 2015, the City earned a 3-STAR Community Rating designation from Sustainability Tools for Assessing and Rating ("STAR") Communities, an organization that works to evaluate, improve and certify sustainable communities. The City is now developing a submission package to earn a 4-STAR Community Rating.

The City has received numerous recognitions for its sustainability programs and initiatives. In 2009, the California Department of Conservation named Riverside its first "Emerald City" in recognition for its sustainable green initiatives and commitment to help the state achieve multiple state environmental priorities. The City was honored in 2016 with the Green Community Award from Audubon International, recognizing Riverside for its ongoing sustainability initiatives. In addition, the City received the 2016 Sustainable Communities Award from the Green California Leadership Summit for its ongoing community-wide sustainability projects and programs that create environmental awareness and action throughout the community, including business, government and private citizens. The Green California Leadership Summit again recognized the City in 2018 with its Leadership Award for the City Green Fleet Program.

The City initiated a light-emitting diode (also known as LED) streetlight replacement program in 2016. The program will eventually replace all city-owned streetlights by 2019, resulting in approximately 10 million kWh saved annually along with substantially reduced maintenance costs. The Electric System's grant program continues to provide assistance to local universities by providing funding for important research projects that explore new ways to advance energy technology and water conservation techniques.

Economic Development. In 2017, the Electric System had load growth and new revenue associated with three large economic development projects in the City. These projects included Riverside Community Hospital's \$360 million expansion for a seven story, 250,000 square foot patient tower with 120 new beds. Other projects included Sigma Plastics expansion with the addition of a new stretch film production line and a new customer to the Electric System, Garden Highway Foods with their new fresh fruit and vegetable processing facility. Combined these businesses resulted in over 6 MW of new electric load and new revenue of \$3.1 million annually.

In 2017, the City also received the "Outstanding Award" for Climate Change from the Association of Environmental Professionals for the Riverside Restorative Growthprint ("**RRG**") Plan, a comprehensive plan with two major parts: the Economic Prosperity Action Plan and the Climate Action Plan. The Electric System played a key role in the City's effort to create and adopt RRG, which helps the City identify greenhouse gas ("**GHG**") reduction measures and strategies with the greatest potential to drive local economic development through clean-tech investment and the expansion of local green businesses. Ultimately, this effort spurs entrepreneurship and smart growth while advancing the City's GHG reduction goals.

The Electric System supports the local economy by offering competitive rates combined with attractive economic development electric discount rates to qualified new and expanded load customers. These rate programs have helped create and retain over 3,600 jobs in the City since 2010. The City's Green Business Program recognizes local businesses for pursuing sustainability in their facilities and operations. Businesses are evaluated based on their efforts to reduce pollution and waste and to improve resource use efficiency. Once certified through the program, the businesses are recognized locally and statewide through the California Green Business Network, a network of over 3,600 other businesses in the State of California that have already committed to pursuing greener practices. Currently, the City has certified UTC Aerospace, OSI Industries and the Riverside Convention Center with this designation.

Beyond rate incentives, the Electric System also offers local businesses a comprehensive assortment of water and energy efficiency programs to improve building efficiency and reduce customer electric consumption. These programs include the Small Business Direct Installation Program, which has helped over 6,000 participants save over \$2.0 million in utility costs and conserve over 13 million kWh.

Power Resource Portfolio Management. The City manages long-term fuel and power supply risk, renewable resource procurement and compliance with potential state and federal greenhouse gas legislation in an integrated fashion. The 2018 Integrated Resource Plan (“**IRP**”) defines the City’s risk based, long-term plan for providing stable and predictable rates for customers through the procurement of new energy supply sources at reasonable prices. The City updated its IRP in 2018, and the Board and City Council adopted and approved the plan on November 26, 2018 and December 11, 2018, respectively. The 2018 IRP provides an impact analysis of the City’s acquisition of new power resources, specifically towards meeting the State of California’s aggressive carbon reduction goals, and the effect these resources will have on the Department’s future projected cost of service in the 2018-2037 timeframe. Both resource portfolio and energy market issues are examined in the IRP, including (a) projected capacity and resource adequacy needs, (b) renewable portfolio standard mandates, (c) carbon emission goals and mandates, (d) power resource budgetary objectives and cash-flow risk metrics, (e) cost effectiveness of Energy Efficiency and Demand Side Management programs with respect to both the City and customers, (f) impacts of various emerging technologies on carbon reduction goals and future cost of service metrics, and (g) minimizing localized air pollutants and greenhouse gas emissions in disadvantaged communities within the City.

The IRP provides for a future resource portfolio with a higher reliance on renewable resources, especially geothermal resources, utility-scale solar photovoltaic (“**PV**”) and wind resources, City-owned, lower-carbon emitting natural gas generation and an increased emphasis on energy efficiency and demand-side management programs. The City currently owns 265.5 MW of natural gas fired generation; this generation allows the City to meet its local capacity requirement imposed by the CAISO while minimizing environmental impacts and cost exposures. This natural gas generation is comprised of the 29.5 MW Clearwater power plant, four 49 MW LM-6000 peaking power plants at RERC, and four 10 MW super-peaking power plants at Springs Generating Project. Since late 2012, the City has contracted for a diverse portfolio of renewable resources totaling 231 MW under medium and long term power purchase agreements and power sales agreements. This portfolio of renewable resources consists of 86 MW of geothermal resources (see “– Renewable Resources – Salton Sea”), 45.0 MW of wind resources, 97.4 MW of solar PV resources, and 0.8 MW of biomass resources. This portfolio of renewable resources has resulted in the City’s expectation that it will significantly exceed the Renewable Portfolio Standard (“**RPS**”) mandate of 33% of the retail electricity energy needs by 2020. See “DEVELOPMENTS IN THE ENERGY MARKETS – Senate Bill X1-2 – California Renewable Energy Resource Act.” The City served 36% of its retail energy needs with renewable energy in calendar year 2017 (the most recent calendar year for which such information is available). The City has also received approximately 761,000 MWh of Historic Carryover RPS credits from the California Energy Commission (“**CEC**”); these credits can be used along with the energy from the above mentioned renewable resources to meet its post-2020 RPS mandates at least through 2028. The City is still actively examining potential replacement options for its IPP contract, but anticipates that additional natural gas generation may be used to replace at least some of the retiring IPP capacity. With the reconstituted power resource portfolio, the City is likely to have a slightly higher reliance on natural gas in the future and will manage such increased price and supply risk over a one to five-year horizon with hedging contracts using various energy suppliers who have at least an investment grade credit rating.

DEVELOPMENTS IN THE ENERGY MARKETS

The following factors affecting the Electric System and the electric utility industry should be considered when evaluating the Electric System and considering an investment in the 2019A Bonds. The City cannot predict what impact these risks and other factors will have on the business operations and financial condition of the Electric System, but the effects could be significant. The following is a brief discussion of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. See “THE ELECTRIC SYSTEM” and “APPENDIX B – Audited Financial Statements of the City of Riverside Electric Utility for the Fiscal Year Ended June 30, 2018” for additional information relating to the Electric System.

State Legislation

Set forth below is a brief discussion of certain State legislation affecting the electric industry and the Electric System.

Senate Bill X1-2 – California Renewable Energy Resource Act. Enacted in 2011, Senate Bill X1-2 (“**SBX1-2**”) requires utilities, including publicly-owned utilities (“**POUs**”), to achieve a 33% RPS by 2020, with interim targets of an average of 20% for the period 2011 to 2013, 25% by 2016, and 33% by 2020 and subsequent years. Additionally, SBX1-2 requires POUs to adopt and implement a Renewable Energy Resource Procurement Plan (“**Plan**”). The Plan must require the utility to procure a minimum quantity of electricity products from eligible renewable energy resources.

Oversight of compliance with SBX1-2 by POUs is provided in part by their respective local governing bodies and in part by the CEC. Oversight of compliance by investor-owned utilities (“**IOUs**”) is provided by the CPUC.

The City completed a Plan in 2013 and received approval from City Council to implement the Plan. In late 2018, the Board and City Council approved updates to the City’s Plan that reflected changes from Senate Bill 350 (“**SB 350**”; see “– Senate Bill 350 – Clean Energy and Pollution Reduction Act of 2015”) and CEC’s POU Enforcement Procedures. The Plan outlines a diverse portfolio of specific geothermal, wind, utility-scale solar photovoltaic, distributed solar photovoltaic, and small hydro resources. The City met the 20% target for the period of 2011-13 and has also met its minimum three-year RPS procurement goal for 2014-16. The City has substantially completed the procurement of eligible renewable resources to meet the stated targets through 2020. Renewable resources made up 36% of the retail sales requirements in calendar year 2017 (the most recent calendar year for which such information is available).

Additional bills were signed into law that advanced the renewable standards to even higher levels than required by SBX1-2. See “– Senate Bill 350 – Clean Energy and Pollution Reduction Act of 2015” and “– Senate Bill 100 – The 100 Percent Clean Energy Act of 2018.”

Senate Bill 350 – Clean Energy and Pollution Reduction Act of 2015. SB 350, enacted in 2015, consists of a multitude of requirements to meet the Clean Energy and Pollution Reduction Act of 2015. The primary components that affect the City are (i) the increased mandate of the California RPS to 50% by December 31, 2030, (ii) doubling of energy efficiency savings by January 1, 2030, and (iii) the transformation of the CAISO into a regional organization. In addition, there is a specific IRP mandate embedded in the bill that applies to 16 POUs that have a 3-year average annual demand over 700 GWh, which includes the City. Under SB 350, POUs must have

its governing board adopt an IRP on or before January 1, 2019, and update the plan at least once every five years.

On August 9, 2017, the CEC adopted the POU IRP Submission and Review Guidelines reflecting the requirements of SB 350. The Board and City Council adopted and approved an updated IRP on November 26, 2018, and December 11, 2018, respectively. The updated IRP addresses specific topics such as energy efficiency and demand response resources, transportation electrification, GHG emissions, energy storage resources, enhanced distribution systems and demand-side management, etc. The IRP will be submitted to the CEC for review, and the CEC will check if the statutory requirements have been met.

On September 30, 2017, the Governor signed Senate Bill 338 (“**SB 338**”), which requires that the governing board of local POU consider as part of the IRP process the role of existing renewable generation, grid operational efficiencies, energy storage, energy efficiency, and distributed energy resources in meeting the energy and reliability needs of each utility during the hours of peak demand. On August 1, 2018, the CEC adopted a Second Edition of the POU IRP Submission and Review Guidelines to include the requirements of SB 338. On October 3, 2018, the CEC adopted an amendment to the second edition guidelines to include CARB’s GHG emission reduction planning targets for IRPs. The CEC continues to host various workshops on different components of the SB 350 requirement, and the City has been monitoring its outcome.

Senate Bill 100 – The 100 Percent Clean Energy Act of 2018. Senate Bill 100 (“**SB 100**”), signed into law on September 10, 2018, increases the RPS goals of SBX1-2 and one of the primary components of SB 350 by modifying the RPS percentage targets of certain compliance periods. It does not replace SB 350. The measure maintains the 33% RPS target by December 31, 2020, while the compliance periods following it changed to 44% by December 31, 2024, 52% by December 31, 2027, and 60% by December 31, 2030. SB 100 is also known as The 100 Percent Clean Energy Act of 2018 because the bill creates the policy of planning to meet all of the state’s retail electricity supply with a mix of RPS-eligible and zero-carbon resources by December 31, 2045, for a total of 100 percent clean energy.

The CEC is required to establish appropriate multiyear compliance periods for all subsequent years after 2030 that will require POU to procure not less than 60% of retail sales from renewable resources. It is expected that workshops, rulemakings, and updated regulations will be implemented soon by the CEC to incorporate the SB 100 mandate in its RPS Eligibility Guidebook and RPS Enforcement Procedures for POU. In addition, POU will need to include the increased requirements in their future IRP. The City and the Electric System will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

Assembly Bill 32 – Global Warming Solutions Act of 2006. Assembly Bill 32 (“**AB 32**”), enacted in 2006, requires that utilities in California reduce their GHG emissions to 1990 levels by the year 2020. On September 8, 2016, the Governor of California approved Senate Bill 32 (“**SB 32**”), which requires the state board to ensure that statewide greenhouse gas emissions are reduced to 40% below the 1990 level by 2030.

AB 32 tasked the California Air Resources Board (“**CARB**”) to develop regulations for GHG that became effective January 1, 2012. Emission compliance obligations under the cap-and-trade regulation began on January 1, 2013. The Cap-and-Trade Program (“**Program**”) was implemented in phases with the first phase starting from January 1, 2013 to December 31, 2014. This phase placed an emission cap on electricity generators, importers and large industrial

sources emitting more than 25,000 metric tons of carbon dioxide-equivalent greenhouse gases per year. In 2015, the program expanded to cover emissions from transportation fuels, natural gas, propane, and other fossil fuels. Since the enactment of AB 32, the City has actively participated with major IOUs and other POUs to effect the final rules and regulations with respect to AB 32 implementation.

The Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB will provide a free allocation of GHG allowances to each electric utility to mitigate retail rate impacts. Thereafter, the utilities are likely to be required to purchase allowances through the auction or on the secondary market to offset its associated GHG emissions. Each allowance can be used for compliance purposes in the current year or carried over for use in future year compliance. The City's free allocation of GHG allowances is expected to be sufficient to meet the City's direct GHG compliance obligations.

Any allowance not used for current year compliance or carried over for future use in compliance must be sold into the quarterly allowance auctions administered by CARB. Proceeds from the auctions must be used for the intended purposes specified in AB 32 that include but are not limited to procurement of renewable resources, energy efficiency and conservation programs and measures that provide clear GHG reduction benefits. The City is segregating the proceeds from the sales of allowances in the auctions as a restricted asset.

Assembly Bill 398 – GHG Cap-and-Trade Program Extension. Assembly Bill 398 (“**AB 398**”) was signed on July 25, 2017, and approved extending the GHG cap-and-trade program to December 31, 2030, which was originally implemented under AB 32. This bill was also a companion bill to Assembly Bill 617 (“**AB 617**”; see “– Assembly Bill 617 – Air-Quality Monitoring”). In addition, AB 398 required the CARB to update their scoping plan no later than January 1, 2018 and that all GHG rules and regulations that are adopted are consistent with this plan. On July 27, 2017, the ARB approved the 2016 Cap-and-Trade Amendments, which includes the Electric System's 2021-2030 allowance allocations it will receive each year. The Electric System's allowance allocations are expected to be more than sufficient to cover all of the City's 2021-2030 direct compliance obligations.

Initially, it was unclear under AB 398 whether the Electric System would be required to consign 100% of its allowances to the market and then purchase allowances to fulfill its compliance obligations. POUs receive a sufficient amount of allowances each year to cover their compliance. Since the start of the Cap and Trade program in 2012, POUs have been able to use those received allowances for compliance. However, in 2017, the CARB announced they were reconsidering that provision. In early 2018, after much discussion and collaboration with the CARB, it was agreed upon that the POUs would not be forced to consign all their allocated allowances and the structure would remain the same as it has functioned and currently functions. Other components of the law that require clarification are the banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. CARB will be hosting more workshops and issuing the next iteration of regulation changes in 2019. The Electric System will continue to monitor the outcome and impacts of the upcoming regulations on its service territory and ratepayers.

Assembly Bill 617 – Air Quality Monitoring. AB 617 was signed on July 26, 2017, and was part of a legislative bill package with AB 398, which authorized the extension of the Cap and Trade Program in the State (see “– Assembly Bill 398 – GHG Cap-and-Trade Program Extension”). AB 617 addresses the disproportionate impacts of air pollution in environmental

justice communities. Both the CARB and local air districts are required to take specific actions to reduce air pollution and toxic air contaminants from commercial and industrial sources, including from electricity-generating facilities. The bill required the CARB, by October 1, 2018, to prepare a statewide monitoring plan regarding technologies and reasons for monitoring air quality and, based on that plan, identify the highest priority locations for the deployment of community level air monitoring systems. Local air districts are required to deploy the air monitoring systems in the specified communities by July 1, 2019. Additional locations for the deployment of the systems will be identified annually by the CARB beginning January 1, 2020. CARB is also required to provide grants to community-based organizations for technical assistance and to support community participation in the programs. In turn, this effort would require the local air district of the selected community to adopt a community emissions reduction program.

Additionally, AB 617 requires the CARB to develop uniform reporting standards for criteria air pollutants and toxic air contaminants for specific uses, including electricity-generating facilities. Air districts are to adopt an expedited schedule for implementing best available retrofit control technologies for the uses, while the CARB will identify these technologies.

This bill affects the City and the Electric System by imposing additional reporting requirements and potentially adding or improving air monitoring systems in selected communities located within the City. For the City, the local air district is the Southern California Air Quality Management District (“**SCAQMD**”). The CARB and SCAQMD have held and continue to hold community meetings to implement the required elements of AB 617. Preliminary discussions and proposals have already been conveyed by community members from the City as well as from the University of California’s Riverside campus (“**UC Riverside**”) proposing areas for community air monitoring and planning. The City and Electric System is monitoring the progress of the community meetings and the two proposed areas for any impacts.

Senate Bill 1 – California Solar Initiative. Senate Bill 1 (“**SB 1**”), enacted in 2006, requires municipal utilities to establish a program supporting the stated goal of the legislation to install 3,000 MW of PV resources in California. Municipal utilities are also required to establish eligibility criteria in collaboration with the CEC for funding solar energy systems receiving ratepayer funded incentives and meet reporting requirements regarding the installed capacity, number of installed systems, number of applicants, and awarded incentives. The SB 1 program officially sunset in December 2016 and closed in the Electric System’s service territory in December 2017. As of program close, the Electric System customers have installed approximately 14.17 MW of solar PV capacity in conjunction with the SB 1 program. As of September 30, 2018, the Electric System customers have installed approximately 25.87 MW of solar PV capacity throughout the City, either independently or in conjunction with the SB 1 program.

Senate Bill 1368 – Emission Performance Standard. The state legislature passed Senate Bill 1368 (“**SB 1368**”) in 2006 which mandates that electric utilities are prohibited from making long-term financial commitments (commitments greater than five years in duration) for generating resources with capacity factors greater than 60 percent that exceed a GHG emission factor of 1,100 lbs./MWh. SB 1368 essentially prohibits any long-term investments in generating resources based on coal. Thus, SB 1368 initially disproportionately impacted Southern California POU’s as these utilities had heavily invested in coal technology, but the changing landscape of legislation and regulations that are constantly increasing renewable goals and continually decreasing GHG emissions via bills such as SBX1-2, SB350, SB100, and SB 32 have led to a gradual decrease in the generation of existing coal resources to serve load.

The City has ownership entitlement rights to 136 MW of IPP. IPP has a GHG emission factor of approximately 2,000 lbs./MWh. Therefore, under SB 1368, the City is precluded from renewing the IPP Power Purchase Contract at the end of its term in June 2027. See “THE ELECTRIC SYSTEM – Entitlements – IPP Generating Station.”

Going forward, SB 1368-related issues are expected to have minimal impact to the CAISO markets as the percentage of California load served by coal resources is small; however, to the extent that significant numbers of coal plants throughout the western United States start to retire in the next 5 to 15 years, it is possible that there can be a tightening of supply throughout the western United States electricity market. In turn, this can lead to higher regional costs and potentially reduced system reliability.

Assembly Bill 2514 - Energy Storage. Assembly Bill 2514 (“**AB 2514**”) was signed into law on September 29, 2010. In 2012, Assembly Bill 2227 amended the reporting timeline of the energy storage targets referenced in AB 2514. The law directs the governing boards of POU’s to consider setting targets for energy storage procurement but emphasizes that any such targets must be consistent with technological viability and cost effectiveness. The law’s main directives for POU’s and their respective deadlines are as follows: (a) to open a proceeding by March 1, 2012 to determine appropriate targets, if any, for the utility to procure viable and cost-effective energy storage systems, and (b) to adopt an energy storage system procurement target by October 1, 2014, if determined to be appropriate, to be achieved by the utility by December 31, 2016, and a second target to be achieved by December 31, 2020. POU’s were required to submit compliance reports to the CEC of their first adopted target by January 1, 2017. The second adopted target compliance report is due to the CEC by January 1, 2021.

Energy storage (“**ES**”) has been advocated as an effective means for addressing the growing operational problems of integrating intermittent renewable resources, as well as contributing to other applications on and off the grid. In general, ES is a set of technologies capable of storing previously generated electric energy and releasing that energy at a later time. Currently, the commercially available ES technologies (or soon to be available technologies) consist of pumped hydro generation, compressed air systems, batteries, and thermal ES systems.

On February 17, 2012, as per the statute, the Board opened a proceeding to investigate the various ES technologies available and determine if the City should adopt energy storage procurement targets. The City finished its investigation of energy storage pricing and benefits in September 2014 and adopted a zero megawatts target based on the conclusion that the viable applications of ES technologies and solutions at the time were not cost effective and outweighed the benefits that it might provide to the Electric System. The City must reevaluate its assessment not less than once every three years or by October 1, 2017, and report to the CEC any modifications to its initial target resulting from this reevaluation.

On September 26, 2017, after reevaluating its assessment of the first adopted energy storage procurement target of zero megawatts, the City approved and adopted the second energy storage procurement target of six megawatts to be achieved by end of the year 2020 to the CEC.

On December 12, 2016, the City submitted its first compliance report to the CEC describing the City’s proactive efforts in investigating viable energy storage options in the market and conducting energy storage pilot projects within the City to fulfill its first adopted target.

On March 3, 2015, City Council approved the Ice Bear Pilot program for 5 MW. The program is intended to reduce load during peak hours, improve energy efficiency, and

demonstrate the City's proactive support of the State's energy storage goals. The Pilot program is approaching the end of its fourth year of implementation as of end of 2018. The program is on track to deploy 5MW thermal energy storage by end of 2019. On July 28, 2015, the City Council approved a 20-year power purchase agreement for the City to procure renewable energy from the Antelope DSR Solar Photovoltaic Project that includes a built-in energy storage option for the buyers to exercise during the first 15 years of operation. See "– Renewable Resources – sPower – Summer Solar, Antelope Big Sky Ranch and DSR 1 Solar."

Senate Bill 380 – Moratorium on Natural Gas Storage – Aliso Canyon. On October 23, 2015, a significant gas leak was discovered at the Aliso Canyon natural gas storage facility, which makes up 63% of total storage capacity of Southern California Gas Company ("**SoCalGas**") and serves 17 gas fired power generation units. On May 10, 2016, the Governor of California signed Senate Bill 380 placing a moratorium on Aliso Canyon's natural gas storage usage until rigorous tests were performed and completed by the Division of Oil, Gas, and Geothermal Resources ("**DOGGR**") as to which wells could continue to be in operation. This moratorium caused great concern regarding reliability in the upcoming summer and winter months. An action plan study area was initiated to review the summer and winter assessment that was conducted as a joint effort between the CPUC, CEC, CAISO, and LADWP. Although the area of study does not include nor immediately impact the City, it is highly plausible that the Electric System could still experience curtailed gas deliveries under certain adverse low-flow gas scenarios.

Beginning June 1, 2016, SoCalGas implemented new Operational Flow Order ("**OFO**") tariffs due to limitations surrounding Aliso Canyon storage injections and withdrawals. These tariff changes were put in place to reduce the probability of natural gas curtailments, which would disproportionately impact the City due to the requirements to operate internal natural gas generation to maintain system reliability during the summer. Also, gas curtailments during high peak days could lead to severe service curtailments throughout the City. Therefore, the Electric System immediately increased internal communication across divisions, created internal gas curtailment procedures to address this specific issue, and created revised dispatch procedures when load forecasts exceed 400 MW. These tighter OFO tariff restrictions were scheduled to conclude upon the earlier of the return of Aliso Canyon to at least 450 million cubic feet per day ("**MMcfd**") of injection capacity and 1,395 MMcfd of withdrawal capacity, or March 31, 2017. Aliso Canyon has not been able to meet its injection and withdrawal targets, and therefore, these tighter OFO tariff restrictions will continue to remain in effect. In addition, the Electric System continues to communicate daily with the CAISO and SoCalGas on any changes that could impact the Electric System's service territory.

On July 19, 2017, DOGGR issued a press release on their determination, in concurrence with the CPUC, that Aliso Canyon is safe to resume injections up to 28% of the facility's maximum capacity. On that same day, the CEC issued a different press release with a recommendation urging closure of Aliso Canyon in the long-term. On July 31, 2017, SoCalGas resumed injections. Withdrawals from Aliso Canyon can be made during emergency conditions to avoid electric load shed and/or gas curtailments to customers.

The Electric System fulfilled its system reliability without any issues during multiple heat waves in both 2016 and 2017. Going forward, the Electric System will continue to monitor workshops and new legislation and regulations that impact the status of Aliso Canyon and its effect on the reliability of the Electric System's territory. Senate Bill 380 added Section 715 to the Public Utilities Code, which requires the CPUC to determine the range of Aliso Canyon inventory necessary to ensure safety, reliability, and just and reasonable rates. In the most recent Section 715 Report, the Energy Division of the CPUC recommended that the maximum allowable Aliso

Canyon inventory be increased from 24.6 to 34 billion cubic feet for summer 2018 due to continuing pipeline outages on the SoCalGas system. As of October 19, 2018, the results of the 114 injection well tests are as follows: 62 wells have completed all required tests and of those 60 wells have received final DOGGR approval; 18 wells are currently in the second phase of inspections; 32 wells are in the process of abandonment; and 4 wells have been plugged and abandoned.

Assembly Bill 802 – Building Energy Use Benchmarking and Public Disclosure Program. On October 8, 2015, Assembly Bill 802 was signed into law creating a new statewide building energy use benchmarking and public disclosure program for the State of California. The bill requires California utilities to maintain records of energy usage data for all buildings (i.e., commercial and multifamily buildings over 50,000 square feet gross floor area) for at least the most recent 12 months. Beginning January 1, 2017, utilities are required to deliver or provide aggregated energy usage data for a covered building, as defined, to the owner, owner’s agent or operator upon written request. The Electric System provides consumption data for buildings meeting the legislative requirement upon owners’ written request.

Assembly Bill 1110 - Greenhouse Gas Emissions Intensity Reporting. On September 26, 2016, Assembly Bill 1110 (“**AB 1110**”) was signed into law requiring GHG emissions intensity data and unbundled renewable energy credits to be included as part of the retail suppliers’ power source disclosure reports and power content label (“**PCL**”) to their customers. GHG emissions intensity factors will need to be provided for all the retail electricity products. The inclusion of this new information requirement on the PCL will begin in 2020 for calendar year 2019 data. In addition to still being required to post the PCL on the city website, the bill also reinstated the requirement that the PCL disclosures must be mailed to the customers starting in 2017 for calendar year 2016 data unless customers have opted for electronic notifications. In accordance with this requirement, the City reinstated the inclusion of printed disclosures of the PCL beginning with its September 2017 bills to the customers.

In 2017, the CEC began hosting workshops on the GHG emissions disclosure requirements and initiated the rulemaking process of updating its power source disclosure regulations. A pre-rulemaking phase also began that included an implementation proposal on AB 1110. The legislation required the CEC to adopt guidelines by January 1, 2018, but is still in the pre-rulemaking phase. Once the CEC officially begins the rulemaking process, it must finalize and adopt the updated regulations for it to be effective in 2020. The City continues to monitor the workshops and draft regulations for any impacts to the utility’s reporting and resources in meeting this requirement.

Senate Bill 859 – “Budget Trailer Bill” – Biomass Mandate. In the final two days of the 2015-2016 legislative session, a “budget trailer bill” on how to spend cap-and-trade funds was amended to include a biomass procurement mandate for local POUs serving more than 100,000 customers. These utilities would be required to procure their pro-rata share of the statewide obligation of 125 MW based on the ratio of the utility’s peak demand to the total statewide peak demand from existing in-state bioenergy projects for at least a five-year term. On September 14, 2016, the Governor of California signed Senate Bill 859 into law.

The Electric System is still waiting upon direction from the CEC on the actual MW obligation shares and the target date on when the contracts must be procured. It is expected that these facilities will be counted towards the City’s RPS goals, and preliminary analysis indicates that the City’s MW share should be minimal. On October 13, 2016, the CPUC adopted Resolution E-4805, which established that the POUs would be allocated 29 MW of the 125 MW statewide

mandate. The City determined that its obligated share would be 1.3 MW to meet the mandate, although the pending CEC direction could change this.

In 2017, the affected POU's consisting of the cities of Anaheim and Los Angeles, the City, Imperial Irrigation District, Modesto Irrigation District, Sacramento Municipal Utility District, and Turlock Irrigation District decided it would be beneficial to procure a contract together for economies of scale. This was accomplished by utilizing SCPPA to issue a Request for Proposal on behalf of all the affected POU's, since four of the seven POU's affected are existing SCPPA members.

In January 2018, the Board and City Council approved the City's five-year Power Sales Agreement with SCPPA for 0.8 MW from the ARP – Loyaltan Biomass Project. See “– Renewable Resources – American Renewable Power – Loyaltan.” On April 20, 2018, the facility declared commercial operation. The remaining MW procurement requirement is currently undergoing negotiations with another entity.

Legislation Relating to Wildfires. Senate Bill 1028 (“**SB 1028**”), signed into law by Governor Brown on September 24, 2016, requires each POU, including the City, each IOU and each electric cooperative in the State to construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment. Senate Bill 901 (“**SB 901**”), which was passed at the end of the 2017-18 biennium session of the California State Legislature and signed by the Governor on September 21, 2018, is meant to address the Governor's and legislative leaders' desire to address response, mitigation, and prevention of wildfires. SB 901 requires, among other things, POU's, such as the City, to prepare before January 1, 2020 and annually thereafter, a wildfire mitigation plan. SB 901 requires specified information and elements to be included in the plan. SB 901 further requires a POU to present its wildfire mitigation plan in an appropriately noticed public meeting, to accept comments on the plan from the public, other local and state agencies, and interested parties, and to verify that the plan complies with all applicable rules, regulations, and standards, as appropriate. SB 901 requires the POU to contract with a qualified independent evaluator to review and assess the comprehensiveness of its plan. The report of the independent evaluator is to be made available on the internet website of the POU and to be presented at a public meeting of the POU's governing board. SB 901 also requires utilities that were to secure biomass procurement contracts under SB 859 (discussed above) to “seek” an amendment to the contract for an extension of another five years from the expiration date. Although there is no enforcement mechanism, the City will explore the possibilities, if necessary, of amending the ARP – Loyaltan Biomass Project with SCPPA.

The bill does not address existing legal doctrine relating to utilities' liability for wildfires; however, any future legislation that addresses California's inverse condemnation and “strict liability” issues for utilities in the context of wildfires in particular could be significant for the electric utility industry, including the City.

Future Regulation

The electric industry is subject to continuing legislative and administrative reform. States routinely consider changes to the way in which they regulate the electric industry. Historically, both further deregulation and forms of additional regulation have been proposed for the industry, which has been highly regulated throughout its history. While there is no current proposal to further deregulate the industry, there still are additional regulations or legislative mandates being proposed or considered for the industry such as higher reliance on renewable energy and tighter

regulations for greenhouse gas emission reductions. The City is unable to predict at this time the impact any such proposals will have on the operations and finances of the Electric System or the electric utility industry generally.

Impact of Developments on the City

The effect of the developments in the California energy markets described above on the City cannot be fully ascertained at this time. Also, volatility in energy prices in California may return due to a variety of factors that affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, the adequacy of generation resources to meet peak demands, the availability and cost of renewable energy, the impact of economy-wide greenhouse gas emission legislation and regulations, fuel costs and availability, weather effects on customer demand, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). See “OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY.” This price volatility may contribute to greater volatility in the revenues of the Electric System from the sale (and purchase) of electric energy and, therefore, could materially affect the City’s financial condition. The City undertakes resource planning and risk management activities and manages its resource portfolio to mitigate such price volatility and spot market rate exposure.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Federal Policy on Cybersecurity

On February 13, 2013, then President Obama issued the Executive Order “Improving Critical Infrastructure Security” (the “**Executive Order**”). Among other things, the Executive Order called for improved information sharing and processing of security clearances for owners and operators of critical infrastructure. The Executive Order further required the Secretary of Commerce to direct the National Institute of Standards and Technology (“**NIST**”) to lead the development of a framework (“**Framework**”) to reduce cyber risks to critical infrastructure. NIST released the first version of the voluntary Framework on February 12, 2014. NIST had indicated that it intends for the Framework to be a living document that will continue to be updated and improved as industry provides feedback on implementation. NIST posted the second draft of a proposed update in December 2017 and finalized the second version in April 2018.

The City will continue to monitor this issue in order to help ensure that the Framework continues to recognize the existing cybersecurity efforts in the electric sector, and does not undermine them by creating duplicative or inconsistent processes.

The Cybersecurity Information Sharing Act of 2015 was signed into law on December 18, 2015 as part of the year-end Omnibus Appropriations Act. It creates an industry-supported, voluntary cybersecurity information sharing program that will encourage both public and private sector entities to share cyber-related threat information.

Federal Energy Legislation

Energy Policy Act of 2005. Under the federal Energy Policy Act of 2005 (“**EPAct 2005**”), FERC was given refund authority over POUs if they sell into short-term markets, like the ISO markets, and sell eight million MWhs or more of electric energy on an annual basis. In addition, FERC was given authority over the behavior of market participants. Under FERC’s authority it can

impose penalties on any seller for using a manipulative or deceptive device, including market manipulation, in connection with the purchase or sale of energy or of transmission service. The Commodity Futures Trading Commission also has jurisdiction to enforce certain types of market manipulation or deception claims under the Commodity Exchange Act.

EPAAct 2005 authorized FERC to issue permits to construct or modify transmission facilities located in a national interest electric transmission corridor if FERC determines that the statutory conditions are met. EPAAct 2005 also required the creation of an electric reliability organization (“**ERO**”) to establish and enforce, under FERC supervision, mandatory reliability standards (“**Reliability Standards**”) to increase system reliability and minimize blackouts. Failure to comply with such Reliability Standards exposes a utility to significant fines and penalties by the ERO.

NERC Reliability Standards. As described above, EPAAct 2005 required FERC to certify an ERO to develop mandatory and enforceable Reliability Standards, subject to FERC review and approval. The Reliability Standards apply to users, owners and operators of the Bulk-Power System, as more specifically set forth in each Reliability Standard. On February 3, 2006, FERC issued Order 672, which certified the North American Electric Reliability Corporation (“**NERC**”) as the ERO. Many Reliability Standards have since been approved by FERC. Such standards pertain not only to the planning, operations, and maintenance of Bulk-Power System facilities, but also to the cyber and physical security of certain critical facilities.

The ERO or the entities to which NERC has delegated enforcement authority through an agreement approved by FERC (“**Regional Entities**”), such as the Western Electricity Coordinating Council (“**WECC**”), may enforce the Reliability Standards, subject to FERC oversight, or FERC may independently enforce them. Potential monetary sanctions include fines of up to \$1 million per violation per day. FERC Order 693 further provided the ERO and Regional Entities with the discretion necessary to assess penalties for such violations, while also having discretion to calculate a penalty without collecting the penalty if circumstances warrant.

Federal Regulation of Transmission Access

EPAAct 2005 authorizes FERC to compel “open access” to the transmission systems of certain utilities that are not generally regulated by FERC, including municipal utilities if the utility sells more than four million MWhs of electricity per year. Under open access, a transmission provider must allow all customers to use the system under standardized rates, terms and conditions of service.

FERC Order No. 888 requires the provision of open access transmission services on a nondiscriminatory basis by all “jurisdictional utilities” (which, by definition, does not include municipal entities like the City) by requiring all such utilities to file Open Access Transmission Tariffs (“**OATTs**”). Order No. 888 also requires “non-jurisdictional utilities” (which, by definition, does include the City) that purchase transmission services from a jurisdictional utility under an open access tariff and that owns or controls transmission facilities to provide open access service to the jurisdictional utility under terms that are comparable to the service that the non-jurisdictional utility provides itself. Section 211A of EPAAct 2005 authorizes, but does not require, FERC to order unregulated transmission utilities to provide transmission services. Specifically, FERC may require an unregulated transmitting utility to provide access to its transmission facilities (1) at rates that are comparable to those that the unregulated transmitting utility charges to itself; and (2) on terms and conditions (not relating to rates) that are comparable to those under which the unregulated transmitting utility provides transmission services to itself that are not unduly discriminatory or preferential.

On February 16, 2007, FERC issued Order 890, which concluded that reform of its pro forma OATT was necessary to reduce the potential for undue discrimination and provide clarity in the obligations of transmission providers and customers. Significantly, in Order 890 FERC stated that it will implement its authority under Section 211A with respect to unregulated transmitting utilities on a case-by-case basis and retain the current reciprocity provisions.

On July 21, 2011, FERC issued Order 1000, which among other things requires public utility (jurisdictional) transmission providers to participate in a regional transmission planning process that produces a regional transmission plan and that incorporates a regional and inter-regional cost allocation methodology. Further, FERC states that it has the authority to allocate costs to beneficiaries of transmission services, even in the absence of a contractual relationship between the owner of the transmission facilities and the beneficiary. Under EAct 2005, FERC may not require municipal utilities to join regional transmission organizations, in which participating utilities allow an independent entity to oversee operation of the utilities' transmission facilities. FERC has stated, however, that FERC expects such utilities to participate in the regional processes for transmission planning and that FERC will pursue associated complaints against such utilities on a case-by-case basis. As described under the heading "THE ELECTRIC SYSTEM – California Independent Systems Operator," the City is a PTO with CAISO.

Other Federal Legislation

Congress has considered and is considering numerous bills addressing domestic energy policies and various environmental matters, including bills relating to energy supplies and development (such as a federal energy efficiency standard and expedited permitting for natural gas drilling projects), cybersecurity, reducing regulatory burdens, climate change and water quality. Many of these bills, if enacted into law, could have a material impact on the Electric System and the electric utility industry generally. In light of the variety of issues affecting the utility sector, federal energy legislation in other areas such as reliability, transmission planning and cost allocation, operation of markets, environmental requirements, and cybersecurity is also possible. However, the City is unable to predict the outcome or potential impacts of any possible legislation on the Electric System at this time.

Environmental Issues

General. Electric utilities are subject to continuing environmental regulation. Federal, State and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that any facilities or projects of the Electric System will remain subject to the laws and regulations currently in effect, will always be in compliance with future laws and regulations or will always be able to obtain all required operating permits. In addition, the election of new administrations, including the President of the United States, could impact substantially the current environmental standards and regulations and other matters described herein. An inability to comply with environmental standards could result in, for example, additional capital expenditures, reduced operating levels or the shutdown of individual units not in compliance. In addition, increased environmental laws and regulations may create certain barriers to new facility development, may require modification of existing facilities and may result in additional costs for affected resources.

Greenhouse Gas Regulations Under the Clean Air Act. The United States Environmental Protection Agency (the “**EPA**”), particularly under the Obama Administration, has taken numerous steps to regulate greenhouse gas emissions under existing law. In 2009, the EPA issued a final “endangerment finding,” in which it declared that the weight of scientific evidence required a finding that six identified greenhouse gases, namely, CO₂, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride, cause global warming, and that global warming endangers the public health and welfare. The final rule for the “endangerment finding” was published in the Federal Register on December 15, 2009. As a result of this finding, the EPA determined that it was authorized to issue regulations limiting CO₂ emissions from, among other things, motor vehicles and stationary sources, such as electric generating facilities, under the federal Clean Air Act. The EPA subsequently issued the “Tailoring Rule,” published in the Federal Register on June 3, 2010, which regulates greenhouse gas emissions from large stationary sources, including electric generating facilities, if the sources emit more than the specified threshold levels of tons per year of CO₂. Under the Tailoring Rule, large sources with the potential to emit in excess of the applicable threshold were to be subject to the major source permitting requirements under the Clean Air Act, including the EPA’s Prevention of Significant Deterioration (“**PSD**”) permit program and its Title V operating permit program. Permits would be required in order to construct, modify and operate facilities exceeding the emissions threshold. Examples of such permitting requirements include, but are not limited to, the application of Best Available Control Technology (known as BACT) for greenhouse gas emissions, and monitoring, reporting, and recordkeeping for greenhouse gases.

Legislation and joint disapproval resolutions were subsequently introduced in the United States Congress seeking to repeal the EPA’s endangerment finding or otherwise prevent the EPA from regulating greenhouse gases as air pollutants. The endangerment finding and the Tailoring Rule were also challenged in court, but were upheld on June 26, 2012 in a decision by the United States Court of Appeals for the District of Columbia Circuit (the “**D.C. Circuit Court**”) in Coalition for Responsible Regulation, Inc., et al. v. EPA. A petition for rehearing was denied on December 20, 2012. In October 2013, several petitions for review relating to these findings were consolidated in the United States Supreme Court (the “**U.S. Supreme Court**”) case Utility Air Regulatory Group v. EPA, dealing with the issue of whether the EPA permissibly determined that its regulation of greenhouse gas emissions from new motor vehicles triggered permitting requirements under the Clean Air Act for stationary sources that emit greenhouse gases. On June 23, 2014, the U.S. Supreme Court issued its decision in the Utility Air Regulatory Group v. EPA case. In the decision, the Court invalidated substantial portions of the Tailoring Rule, which purported to modify the emissions thresholds set forth in the Clean Air Act (governing when PSD and Title V permitting would be triggered) to account for greenhouse gases, while preserving various aspects of the EPA’s ability to regulate greenhouse gas emissions from most new major sources. The decision holds that, for facilities that are otherwise subject to PSD permitting obligations (by virtue of their emissions of conventional pollutants), the EPA may regulate greenhouse gases from those facilities through the PSD BACT standards (without approving the EPA’s current approach to BACT regulation of greenhouse gases, or any other approach that may be adopted).

In December 2010, the EPA announced two settlements with a number of states and environmental groups. Pursuant to one settlement agreement dated December 23, 2010, the EPA on April 13, 2012 proposed establishing New Source Performance Standards limiting CO₂ emissions from fossil-fuel fired electric generating units. In response to a June 25, 2013, Presidential memorandum (the “**Presidential Memorandum**”), the EPA proposed revised, generally more stringent standards on September 20, 2013 and simultaneously rescinded the April 13, 2012 proposal. The EPA stated that the revised standards would apply only to new

facilities, not reconstructed or modified facilities. The Presidential Memorandum required the EPA to propose by June 1, 2014, and to finalize by June 1, 2015, standards, regulations, or guidelines to address carbon pollution from existing and modified or reconstructed power plants.

The proposed rule for new power plants was published in the Federal Register on January 8, 2014 for public comment. At the close of the comment period on May 9, 2014, the EPA had received approximately two million comments on the proposed rule.

As contemplated by the Presidential Memorandum, on June 2, 2014, the EPA concurrently released both its “Clean Power Plan” proposal for existing power plants and its proposed revised standards for modified or reconstructed power plants. The proposed rules for existing, and modified or reconstructed, power plants were published in the Federal Register on June 18, 2014; comments on the proposed rules were accepted until December 1, 2014 and October 16, 2014, respectively.

On August 3, 2015, then President Obama and the EPA announced the final version of the Clean Power Plan for existing power plants. The EPA further released its final new source performance standards for emissions of CO₂ for newly constructed, modified, and reconstructed power plants. As discussed below, however, implementation of the Clean Power Plan is currently stayed and the EPA has issued a notice of proposed rulemaking that proposes to repeal the Clean Power Plan.

The final version of the Clean Power Plan was designed to reduce CO₂ emissions from the power sector by 32% on average nationwide by 2030, from a 2012 baseline. Under the final rule, the EPA would set different interim and final emissions targets for each state based on overall CO₂ emissions and the amount of electricity generated in the state and greater regional cooperation (through WECC for California) was encouraged. Under the final rule, states were to have until September 2016 to design their state implementation plans to reach the emissions target or could request an extension until September 2018 either alone or in cooperation with other states while working on multi-state plans. Under the Clean Power Plan, states could choose between two plan types in order to comply with the program: a source-based “emission standards” plan type, including source-specific requirements ensuring all affected power plants within the state meet their required emissions performance rates or state-specific rate based or mass-based goal, and a “state measures” plan type, including a mixture of measures implemented by the state, such as renewable energy standards and programs to improve residential energy efficiency, that would result in affected power plants meeting the state’s mass-based goal. In both cases, states would have to demonstrate that their plan will meet the CO₂ emission performance rates, the state rate-based goal or the state mass-based goal by 2030. Interim standards were to be phased in from 2022 to 2029 prior to the final standards being reached in 2030. Progress towards meeting the target rates could be measured in one of three ways: (i) a rate-based state emissions goal measured in pounds per MWh; (ii) a mass-based state emissions goal measured in total short tons of CO₂; and (iii) a mass-based state goal with a new source complement measured in total short tons of CO₂. Under the rule, state emission targets could be met in a combination of ways, with emissions targets set based on three “building blocks” identified by the EPA as reflecting a “Best System of Emissions Reduction,” which could include improved efficiency at power plants, switching generation from higher-emitting coal to lower-emitting natural gas, and shifting generation to zero-emitting renewable or nuclear energy. In the event a state failed to develop a satisfactory implementation plan, the EPA could impose a federal implementation plan instead. On August 2, 2016, California became the first state in the country to release to the public a draft of its state implementation plan. A public hearing on the draft state implementation plan was held by CARB on September 22, 2016. Under the draft state implementation plan for California, CARB

used the “state measures” approach, applying the mass-based state emissions limit for the total affected power plants and has proposed to use the state cap-and-trade program as its state measure. CARB has thus far adopted mandatory reporting regulation changes that would account for emissions reporting under the Clean Power Plan. See also “DEVELOPMENTS IN THE ENERGY MARKETS – State Legislation – Assembly Bill 32 – Global Warming Solutions Act of 2006.”

Concurrently with the release of the final Clean Power Plan for existing power plants, on August 3, 2015, the EPA also released standards to limit CO₂ emissions from new, modified and reconstructed power plants. These new final carbon pollution standards would apply to: (i) any newly constructed fossil fuel-fired power plant that commenced construction on or after January 8, 2014; (ii) existing power plants subject to modification, which would include a physical or operational change that increased the source’s maximum achievable hourly rate of emissions, which modification occurred on or after June 18, 2014; and (iii) reconstructed power plants, which would include any unit on which the replacement of components occurred on or after June 18, 2014 and to such an extent that the fixed capital costs of the new components exceeds 50% of the fixed capital costs that would be required to construct a comparable entirely new facility. In the final standards, the EPA established separate standards for two types of fossil fuel-fired sources: (a) stationary combustion turbines, generally firing natural gas, and (b) electric utility steam generating units, generally firing coal. The new standards reflect the degree of emissions limitation achievable through the application of the “Best System of Emissions Reduction,” that the EPA determined had been adequately demonstrated for each type of unit. Under the final standards, new and reconstructed baseload natural gas-fired electricity generating units would be required to meet an emissions limit of 1,000 pounds of CO₂ per MWh. Non-base load units would need to meet a clean fuels input-based standard. New coal-fired facilities would be required to meet an emissions limit of 1,400 pounds of CO₂ per MWh-gross. Coal-fired electricity generating units subject to modifications resulting in an increase of hourly CO₂ emissions of more than 10% relative to the emissions of the most recent five years from that unit would be required to meet a unit-specific emission limit consistent with the unit’s best historical annual CO₂ emissions rate since 2002. Such standard would be in the form of an emissions limit in pounds of CO₂ per MWh on a gross-output basis. Reconstructed coal-fired power plants with a heat input of greater than 2,000 MMBtu/h would be required to meet an emissions limit of 1,800 pounds of CO₂ per MWh-gross. Smaller coal-fired units would be required to meet an emission limit of 2,000 pounds of CO₂ per MWh-gross. These emissions limits were based on the use of the most efficient generating technology at the affected source.

The final Clean Power Plan and the carbon pollution standards for new, modified and reconstructed power plants were to become effective on October 23, 2015; the carbon pollution standards for existing power plants became effective on December 22, 2015. A number of lawsuits were subsequently filed challenging the final rules and seeking to prevent the EPA from moving forward to implement the Clean Power Plan. On October 23, 2015, a group of 24 state attorneys general filed an action in the D.C. Circuit Court seeking a stay of the Clean Power Plan deadlines while its legality was reviewed by the courts. Additional legal and legislative challenges were filed and then consolidated into one case by the D.C. Circuit Court (State of West Virginia, et al. v. EPA). On January 21, 2016, the D.C. Circuit Court denied the request for stay of implementation of the Clean Power Plan and a number of applications for stay were made to the U.S. Supreme Court by parties challenging the Clean Power Plan. On February 9, 2016, the U.S. Supreme Court granted the emergency stay applications filed by opponents of the Clean Power Plan. The orders issued by the Court prevented the EPA from implementing the Clean Power Plan not only until the D.C. Circuit Court issued a judgment on its legality, but also until the U.S. Supreme Court reviewed an expected appeal of that ruling. Oral arguments in the case were

heard on September 27, 2016 by a panel of ten judges serving on the D.C. Circuit Court; however, consideration is currently on hold at the request of the Trump Administration. President Trump issued an Executive Order on March 28, 2017 that directed the EPA to review, revise or repeal the Clean Power Plan and other rules. The Justice Department filed two court motions to hold the litigation in abeyance while EPA took action to rescind or revise the two rules. On October 10, 2017, the EPA issued a notice of proposed rulemaking that proposed to repeal the Clean Power Plan. The notice of proposed rulemaking was published in the Federal Register on October 16, 2017. On December 18, 2017, the EPA Administrator released an advance notice of proposed rulemaking seeking input on the best way, if any, to regulate power plant greenhouse gas emissions, initiating the formal process to explore a potential Clean Power Plan replacement. The advance notice of proposed rulemaking was published in the Federal Register on December 28, 2017. The proposed repeal of the Clean Power Plan has been challenged by a number of attorneys general and certain environmental groups. On August 21, 2018, the EPA released its proposed “Affordable Clean Energy” rule that would replace the 2015 Clean Power Plan. It seeks to establish emission guidelines for states to develop plans to address emissions from existing coal-fired power plants by defining the “best system of emission reduction” as on-site, heat-rate efficiency improvements; providing states with a list of “candidate technologies” that could be used to establish performance standards; updating EPA’s New Source Review permitting program to incentivize efficiency improvements and existing plants; and by aligning Section 111(d) of the Clean Air Act with general implementing rules to provide states more time and additional flexibility to develop state plans. Comments on the proposed rule were due 60 days upon formal publication in the Federal Register, on October 31, 2018.

The City unable to predict at this time the outcome of any ongoing legal challenges to EPA rulemaking with respect to greenhouse gas emissions. Further, given the uncertainty regarding the status of the Clean Power Plan and ongoing review of the recently proposed replacement rule, it is too early to determine the effect that any final rules promulgated by the EPA regulating greenhouse gas emissions from electric generating units will have on the City or the Electric System.

Air Quality – National Ambient Air Quality Standards. The Clean Air Act requires that the EPA establish National Ambient Air Quality Standards (“**NAAQS**”) for certain air pollutants. When a NAAQS has been established, each state must identify areas in its state that do not meet the EPA standard (known as “**non-attainment areas**”) and develop regulatory measures in its state implementation plan to reduce or control the emissions of that air pollutant in order to meet the applicable standard and become an “attainment area.” The EPA periodically reviews the NAAQS for various air pollutants and has in recent years increased, or proposed to increase, the stringency of the NAAQS for certain air pollutants. The EPA revised the NAAQS for particulate matter on December 14, 2012, the NAAQS for sulfur dioxide on June 22, 2010, and the NAAQS for nitrogen dioxide on February 9, 2010, and in each case made the NAAQS more stringent. Based on the revised standards for particulate matter, nitrogen dioxide and sulfur dioxide, some areas may be designated as non-attainment. On December 18, 2014, the EPA issued a final rule making initial area designations for the 2012 NAAQS for fine particulate matter (“**PM2.5**”), designating 14 areas in six states as non-attainment, including areas of California. These PM2.5 designations became effective on April 15, 2015. These developments may result in stringent permitting processes for new sources of emissions and additional state restrictions on existing sources of emissions, such as power plants. On September 2, 2011, then President Obama directed the EPA to withdraw a proposal advanced by the EPA to lower the NAAQS for ozone. As a result of this withdrawal, the EPA resumed the process of issuing non-attainment designations for the ozone NAAQS under the standard set in 2008. On April 30, 2012, the EPA issued ozone non-attainment designations for certain areas in California. Additional non-

attainment areas for ozone have been and may continue to be designated. On May 29, 2013, the EPA proposed a rule to implement the 2008 ozone NAAQS. While implementing the 2008 ozone NAAQS, the EPA continued its review of this standard. In January 2014, the EPA released draft risk and exposure assessment documents and a draft policy assessment document relating to this review. In addition, the U.S. Supreme Court found in its review of *EPA v. EME Homer City Generation, LP* that the EPA has authority to impose a Cross-State Air Pollution Rule (the “**Transport Rule**”) which curbs air pollution emitted in upwind states to facilitate downwind attainment of three NAAQS. On November 26, 2014, the EPA proposed to strengthen the stringency of the NAAQS for ozone by lowering the existing ozone standard of 75 parts per billion (“**ppb**”) to between 65 and 70 ppb, although the EPA also sought public comment on a standard as low as 60 ppb. On October 1, 2015, the EPA issued its final rule, lowering the ozone standard to 70 ppb. The final rule was to become effective on December 28, 2015. Legal challenges to the final rule have been filed by a number of states and industry groups. On March 12, 2018, a federal district judge in Northern California ordered the EPA to complete the strengthened 2015 ozone standard designations later in 2018. EPA’s proposed final rule was submitted to the White House for inter-agency review on July 3, 2018, to implement the strengthened 70 ppb NAAQS on State implementation requirements. In March 2018, the EPA issued final requirements that would apply to state, local and tribal air agencies for implementing the 2015 NAAQS, and in July 2018, the EPA completed the area designations with respect to the 2015 NAAQS. EPA was also under court order to respond to pending litigation by August 15, 2018. Parties to long-pending legal challenges (now a consolidated case) filed a joint motion before the D.C. appellate court on August 22, 2018, agreeing that the case (*Murray Energy Corporation v. EPA*) should be scheduled for oral arguments and jointly proposed a format and time allocation for oral arguments. On August 1, 2018, the EPA notified the court that it did not intend to revisit the 2015 standard. The EPA reported that it has begun the next ozone NAAQS review, which will implement a new process for reviewing NAAQS, and that it intends to complete this ozone NAAQS review by 2020. On November 14, 2018, the Federal Register formally noticed the final requirements for implementing the 2015 NAAQS for ground-level ozone and retains most of the provisions.

Mercury and Air Toxics Standards. On December 16, 2011, the EPA signed a rule establishing new standards to reduce air pollution from coal- and oil-fired power plants under sections 111 (new source performance standards) and 112 (toxics program) of the Clean Air Act. The final rule was published in the Federal Register on February 16, 2012. The EPA updated the Mercury and Air Toxics Standards (“**MATS**”) emission limits on November 30, 2012 and again on March 28, 2013. Under section 111 of the Clean Air Act, the MATS rule revised the standards that new and modified facilities, including coal- and oil-fired power plants, must meet for particulate matter, sulfur dioxide, and nitrogen oxide. Under section 112, the MATS rule set new toxics standards limiting emissions of heavy metals, including mercury, arsenic, chromium, and nickel; and acid gases, including hydrochloric acid and hydrofluoric acid, from existing and new power plants larger than 25 MW that burn coal or oil. Power plants would have up to four years to meet these standards. While many plants already meet some or all of these revised standards, some plants would be required to install new equipment to meet the standards. On November 25, 2014, the U.S. Supreme Court agreed to review the MATS rule following the filing of petitions for writ of certiorari from 23 states and industry groups. On June 29, 2015, the U.S. Supreme Court issued its decision in the case, finding that the EPA interpreted the Clean Air Act improperly because it did not consider the costs of emissions reductions prior to crafting the MATS rules, and remanded the case back to the D.C. Circuit Court. On December 15, 2015, the D.C. Circuit Court determined to leave the MATS rule in place while it is being revised on remand as ordered by the U.S. Supreme Court. The EPA issued a final finding on April 14, 2016. In April 2017 the Trump Administration requested that the D.C. appellate court delay oral arguments that were to be held in May 2017 challenging the MATS rule.

Effluent Limitations Guidelines and Standards. On June 7, 2013, the EPA proposed to set technology-based effluent limitations guidelines and standards for metals and other pollutants in wastewater discharged from steam electric power plants. The proposal would cover wastewater associated with several types of equipment and processes, including flue gas desulfurization, fly ash, bottom ash, flue gas mercury control and gasification of fuels. The EPA considered best management practices for surface impoundments containing coal combustion residuals. The EPA proposed four preferred alternatives for regulating wastewater discharges. The stringency of controls, types of waste streams covered, and the costs varied among the four alternatives. On September 30, 2015, the EPA announced its final Steam Electric Effluent Limitation Guidelines to update the federal limits on toxic metals in discharge wastewater. On June 6, 2017, the Trump Administration announced that it was postponing certain compliance dates in the effluent limitation guidelines and standards for the new, more stringent steam electric point source category under the Clean Water Act until the EPA completes reconsideration of the 2015 rule. According to the most recently-released “Unified Agenda and Deregulatory Actions” reports, the EPA expects to issue a Notice of Proposed Rulemaking in December 2018 to address industry concerns with the more stringent Best Available Technology Economic Achievable effluent limitations and the Pretreatment Standards for Existing Sources in the Obama Administration’s 2015 rule.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above (including those affecting nuclear power plants or potential new energy storage requirements), (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) effects on the integration and reliability of power supply from the increased usage of renewables, (d) changes resulting from a national energy policy, (e) effects of competition from other electric utilities (including increased competition resulting from a movement to allow direct access or from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (f) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (g) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (h) “self-generation” or “distributed generation” (such as microturbines, fuel cells and solar installations) by industrial and commercial customers and others, (i) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (j) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (k) changes from projected future load requirements, (l) increases in costs and uncertain availability of capital, (m) shifts in the availability and relative costs of different fuels (including the cost of natural gas and nuclear fuel), (n) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in the past in California, (o) issues relating to risk management procedures and practices with respect to, among other things, the purchase and sale of natural gas, energy and transmission capacity,

(p) other legislative changes, voter initiatives, referenda and statewide propositions, (q) effects of the changes in the economy, population and demand of customers within a utility's service area, (r) effects of possible manipulation of the electric markets, (s) acts of terrorism or cyber-terrorism, (t) natural disasters or other physical calamities, including, but not limited to, droughts, severe weather, earthquakes, floods and wildfires, and potential liabilities of electric utilities in connection therewith, and (u) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of the Electric System, but the impacts could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2019A Bonds should obtain and review such information.

CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY

The following is a discussion of certain limitations under provisions of the California Constitution that may affect the rates, fees and charges imposed by the City for the services provided by the Electric System.

Proposition 218 and Proposition 26

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution. Article XIII C imposes a majority voter approval requirement on local governments (including the City) with respect to taxes for general purposes, and a two-thirds voter approval requirement with respect to taxes for special purposes. Article XIII D creates additional requirements for the imposition by most local governments of general taxes, special taxes, assessments and "property-related" fees and charges. Article XIII D explicitly exempts fees for the provision of electric service from the provisions of such article.

Article XIII C expressly extends the people's initiative power to the reduction or repeal of local taxes, assessments, and fees and charges imposed prior to its effective date (November 1996). The California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) that, under Article XIII C, local voters by initiative may reduce a public agency's water rates and delivery charges, as those are property-related fees or charges within the meaning of Article XIII D, and noted that the initiative power described in Article XIII C may extend to a broader category of fees and charges than the property-related fees and charges governed by Article XIII D. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that an electric rate ordinance was not subject to the same constitutional restrictions that are applied to the use of the initiative process for tax measures so as to render it an improper subject of the initiative process. Thus, electric service charges (which are expressly exempted from the provisions of Article XIII D) may be subject to the initiative provisions of Article XIII C, thereby subjecting such fees and charges to reduction by the electorate.

The California electorate approved Proposition 26 at the November 2, 2010, election, amending Article XIII C of the California Constitution. Proposition 26 was designed to supplement tax limitations California voters adopted when they approved Proposition 13 in 1978, and Proposition 218 in 1996. Proposition 26 applies by its terms to any levy, charge or exaction imposed, increased or extended by a local government on or after November 3, 2010. Proposition 26 deems any such levy, charge or fee to be a “tax”, requiring voter approval under Article XIII C unless it comes within one of the listed exceptions. Proposition 26 expressly excludes from its definition of a “tax,” among other things, a “charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.”

Proposition 26 is subject to interpretation by California courts. Proposition 26 may be interpreted to limit fees and charges for electric utility services charged by governmental entities such as the City to require stricter standards for the allocation of costs among customer classes and/or to limit or preclude future transfers of electric utility generated funds to a local government’s general fund, if applicable. A number of lawsuits have been reported to have been filed against public agencies in California relating to electric utility fund transfers. In *Citizens for Fair REU Rates v. City of Redding* (filed on January 20, 2015 and modified on February 19, 2015), for example, the California Court of Appeal considered a ratepayer challenge to a “payment in lieu of taxes” (or “**PILOT**”) required by the City of Redding to be made by its electric utility as an annual budgetary transfer amount without voter approval. The city’s PILOT was designed to compensate the general fund for the costs of services that other city departments provide to the electric utility. The amount of the PILOT was equivalent to the ad valorem taxes the electric utility would have had to pay if the electric utility were privately owned. The suits alleged that the PILOT was passed through to the city’s electric utility customers as part of the rates and charges for electric service in excess of the reasonable costs to the city of providing electric service. The Court of Appeal determined that a charge for electric service could be an “imposed charge,” and therefore subject to Proposition 26, if the purchaser has no realistic alternative power source. The Court of Appeal noted that Proposition 26 has no retroactive effect as to local taxes that existed prior to November 3, 2010, but found that since the PILOT was subject to the City Council’s recurring discretion, the PILOT did not escape the purview of Proposition 26. The Court of Appeal concluded that the PILOT constituted a “tax” under Proposition 26 for which the city must secure voter approval unless the city proved that the amount collected was necessary to cover the reasonable costs to the city of providing electric service. The Court of Appeal remanded the case to the Superior Court for further evidentiary proceedings on such matter. On April 29, 2015, the California Supreme Court granted review of the decision of the Court of Appeal. The California Supreme Court rendered its decision on August 27, 2018, reversing the judgment of the Court of Appeal. The California Supreme Court determined that the budgetary transfer from the Redding electric utility to the city’s general fund, calculated by using the PILOT, itself is not the type of exaction that is subject to Article XIII C of the California Constitution. The court reasoned that it is only the Redding electric utility rate, not the PILOT, that is imposed on customers for electric service. The California Supreme Court concluded that because the Redding electric utility paid the PILOT with non-rate revenues, the challenged rate did not exceed the reasonable costs of providing electric service, and therefore did not constitute a tax.

Electric rate challenges under Article XIII C have also been filed against City. See “**THE ELECTRIC SYSTEM – Litigation**” for certain information regarding such litigation.

The City is unable to predict at this time how Propositions 218 and 26 will ultimately be interpreted by the courts in the context of the Electric System’s rates or what the ultimate impact of Propositions 218 or 26 will be.

Future Initiatives

Articles XIIC and XIID and the amendments effected thereto by Proposition 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, including presently, other initiatives have been, and could be, proposed, and if qualified for the ballot, could be adopted affecting the City's revenues or operations. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be predicted by the City.

RISK FACTORS

The purchase of the 2019A Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters. The order in which such matters are presented does not reflect their relative importance.

2019A Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of debt service on the 2019A Bonds, nor is the credit or taxing power of the City pledged for the payment of debt service on the 2019A Bonds. No owner of any 2019A 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 the 2019A Bonds are neither 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 2019A Bonds under the Resolution.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2019A 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.

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance and delivery of the 2019A Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. Remedies may be limited since the Electric 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. Although a separate reserve account is being established for the 2019A Bonds, the City is not funding such account and has no obligation to fund the accounts in the future. The owners of the 2019A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Electric System Expenses and Collections

The City's Electric System, timely payment of debt service on the Bonds and the financial condition of the City's Electric System are dependent, in part, upon the payment by customers of the amounts billed to such customers for the energy they receive. There are multiple factors that might result in increased overall rates charged to such customers and, as a result, potentially have an adverse effect on collections. Many of these factors are not under the influence or control of the City or are factors over which the City has only limited influence or control. These factors include, but are not limited to, the following factors:

Changes in General Economic Conditions. Significant changes in general economic conditions may be caused by, among other things, fluctuating business cycles, uncharacteristic weather patterns (such as droughts) or the occurrence of natural disasters (such as earthquakes or floods). In addition, a slowdown in the State's economy could result from a declining real estate market. Such factors could lead to significant reductions in retail energy sales, resulting in increased retail rates for electric energy to offset reduced revenues.

Energy Market-Driven Increases in Wholesale Power Costs. Wholesale power costs are affected by a number of factors, including, but not limited to, weather, fuel supplies and transmission, transmission systems operations and capacity (including import capability), and generation capacity. Natural gas pipeline transmission interruptions (due to seismic or other environmental events, accidents or intentional acts) could result in higher natural gas prices in California and substantial increases in gas-fired electric generating facility operating costs. Due to the City's ownership interest or participation in joint generation projects, and long-term power contracts, it has minimal reliance on the volatile natural gas and spot market pricing impacts.

Market Manipulation. The CAISO, with the approval from FERC, adopted tariffs, protocols and regulations governing the conduct of energy suppliers and other entities whose activities affect the transmission system. CAISO tariffs, protocols and regulations are intended, among other things, to prevent manipulation of the CAISO's transmission system. The CAISO monitors the activities of transmission system participants, but manipulative behavior could occur, possibly resulting in higher or substantially higher costs. This risk is somewhat mitigated by the City's construction and acquisition of additional generating capacity and the City's risk management activities.

Impact of These Factors. The factors discussed above (and other factors) might result in increased rates while Bonds remain outstanding. If a combination of one or more such factors lead to increased retail rates for electric energy, such increase could lead to increased delinquencies and non-payments by customers. See "THE ELECTRIC SYSTEM – Uncollectible Accounts" for a discussion of uncollectible accounts.

There can be no assurance that the City's expenses for the Electric System will remain at the levels described in this Official Statement. For example, the City's take-or-pay contracts with

IPA and SCPA contain “step-up” provisions obligating the City to pay a share of the obligations of a defaulting participant (see “THE ELECTRIC SYSTEM – Joint Powers Agency Obligations”); any such default would increase the City’s expenses. Also, increases in fuel and energy costs, new environmental regulations or other expenses could reduce the City’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 Electric 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 2019A Bonds.

Casualty Risk

Any natural disaster or other physical calamity, including earthquake, flood or wildfire, may have the effect of reducing Net Operating Revenues through damage to the Electric System and/or adversely affecting the economy of the surrounding area. The Resolution requires the City to maintain insurance or self-insurance, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Electric System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. See “THE ELECTRIC SYSTEM – Insurance” and “– Seismic Issues.”

The City has an ownership interest in two nuclear generating stations: SONGS and PVNGS (each as described above under “THE ELECTRIC SYSTEM – City-Owned Generating Facilities” and “– Entitlements”). In March 2011, an 8.9 magnitude earthquake in Japan triggered a tsunami that damaged a number of nuclear power plants and threatened to release radiation. If an earthquake of a similar magnitude and/or a tsunami were to occur in southern California and SONGS were to be damaged as a result, significant consequences could result, which could adversely impact the costs of operating the Electric System. PVNGS, located in Wintersburg, Arizona (near Phoenix), is in an area of low seismic risk and, because it is not near a body of water, it is not susceptible to damage from tsunamis.

Cybersecurity

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “**Systems Technology**”).

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage.

The City’s IT Department provides support for the Electric System’s electronic system cyber security. This includes audits and recommended improvements to facility hardware and software to keep systems up to date with the latest cyber treat tools.

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*, 130 Cal.App.4th 1361 (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 is to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State, or that the City Council (with voter approval) will not enact amendments to the City's Charter, in a manner that could result in a reduction of the Net Operating Revenues and, therefore, increase the risk of nonpayment of debt service on the 2019A Bonds. See, for example, "CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY."

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," interest with respect to the 2019A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2019A 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 2019A 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.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2019A Bonds or, if a secondary market exists, that any 2019A Bonds can be sold for any particular price. Prices of bond 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.

TAX MATTERS

In the opinion of 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 (“**OID**”) on the 2019A 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. In the further opinion of Bond Counsel, interest (and OID) on the 2019A Bonds is exempt from State personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and OID) on the 2019A 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 comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2019A Bonds to assure that interest (and OID) on the 2019A 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 OID) on the 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A Bonds. The City has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a 2019A Bond (the first price at which a substantial amount of the 2019A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2019A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a beneficial owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a beneficial owner will increase the beneficial owner’s basis in the applicable 2019A Bond. The amount of original issue discount that accrues to the beneficial owner of a 2019A Bond is excluded from the gross income of such beneficial 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 is exempt from State of California personal income tax.

The amount by which a 2019A Bond Owner’s original basis for determining loss on sale or exchange in the applicable 2019A 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 2019A Bond Owner’s basis in the applicable 2019A Bond (and the amount of tax-exempt interest received with respect to the 2019A 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 2019A Bond Owner realizing a taxable gain when a 2019A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019A Bond to the Owner. Purchasers of the 2019A 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 2019A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A 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 2019A Bonds to the extent that it

adversely affects the exclusion from gross income of interest (and OID) on the 2019A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2019A BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2019A BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2019A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2019A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2019A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2019A 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 2019A BONDS.

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. Bond Counsel's engagement with respect to the 2019A Bonds terminates upon their delivery and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Resolution and the Tax Certificate relating to the 2019A 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 for federal income tax purposes with respect to any 2019A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and OID) on the 2019A 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 2019A Bonds and the accrual or receipt of interest (and OID) on the 2019A 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 2019A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019A Bonds.

Should interest (and original issue discount) on the Bonds become includable in gross income for federal income tax purposes, the 2019A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Resolution.

A copy of the proposed form of opinion of Bond Counsel is attached to this Official Statement as APPENDIX E.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2019A 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 2019A Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Norton Rose Fulbright US LLP, Los Angeles, California, is acting as counsel to the Underwriters.

The payment of the fees and expenses of the Underwriters, Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent upon the closing of the sale of the 2019A Bonds.

LITIGATION

No Litigation Relating to 2019A Bonds. At the time of delivery and payment for the 2019A 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 2019A Bonds or the power and authority of the City to issue the 2019A Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2019A Bonds.

Litigation Relating to Electric System. For information about litigation relating to the Electric System, see "THE ELECTRIC SYSTEM – Litigation." The City's management and its City Attorney are of the opinion that no pending actions are likely to have a material adverse effect on the City's ability to perform its obligations under the Resolution and the 2019A Bonds.

FINANCIAL STATEMENTS

The financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2018 (the "**2018 Financial Statements**"), included in APPENDIX B to this Official Statement have been audited by Macias Gini & O'Connell LLP, independent 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 including its report in APPENDIX B. The Auditor's review in connection with the 2018 Financial Statements included in APPENDIX B included events only as of June 30, 2018, and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the 2018 Financial Statements.

RATINGS

S&P Global Ratings has assigned a municipal bond rating of “AA-” to the 2019A Bonds, and Fitch Ratings, Inc. has assigned a municipal bond rating of “AA-” to the 2019A Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2019A Bonds may have an adverse effect on the market price or marketability of the 2019A Bonds.

UNDERWRITING

Goldman Sachs & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Barclays Capital Inc. (collectively, the “**Underwriters**”), have agreed, subject to certain conditions, to purchase the 2019A Bonds from the City at a price of \$332,781,028.34 (which reflects \$338,636.96 in Underwriters’ discount and \$49,794,665.30 in original issue premium) and to make a bona fide public offering of the 2019A Bonds at not in excess of the initial public offering prices. The Underwriters will be obligated to purchase all of the 2019A Bonds if any 2019A Bonds are purchased. The Underwriters may offer and sell the 2019A Bonds to certain dealers and others at prices lower than the respective initial public offering prices listed in this Official Statement, and the public offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

In connection with the termination of a portion of the 2004 Swap Agreement, the City is using a portion of the proceeds of the 2019A Bonds to pay a portion of the Swap Termination

Cost owed to the 2004 Swap Provider (Merrill Lynch Capital Services, Inc.). The 2004 Swap Provider is an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the underwriters of the 2019A Bonds. See “PLAN OF FINANCE – Partial Termination of Swap Agreements” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations – Existing Subordinate Obligations”).

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, Los Angeles, California, as Municipal Advisor (the “**Municipal Advisor**”) in connection with the issuance and delivery of the 2019A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent Municipal Advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Municipal Advisor is contingent upon the issuance and delivery of the 2019A Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2019A Bonds to provide certain financial information and operating data relating to the Electric 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 fiscal year ended June 30, 2018, and to provide notices of the occurrence of certain enumerated events as required by Securities and Exchange Commission Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as amended (the “**Rule**”). The specific nature of the information to be contained in the annual report or the notices of enumerated events is summarized under the caption “APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters in complying with the Rule.

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

In the past, 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 because on certain occasions in the last five years, the City did not timely file (1) notice of rating changes to bond insurers and other credit and/or liquidity providers for City debt obligations, (2) certain financial information or operating data for Fiscal Years 2012-13 and 2014-15 required to be filed with respect to debt obligations of the City or its related government entities, and (3) a notice of successor trustee for a prior City debt obligation.

The City and its related governmental entities have made filings to correct all known instances of non-compliance during the last five years. The City believes that it has established internal processes, including a written continuing disclosure policy that will ensure that it 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 that 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.

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the maturing principal of and interest earned on the Federal Securities purchased with the amounts deposited into the 2008D Escrow Fund, together with cash to be held therein, to pay on the Redemption Date the redemption price and accrued interest on the 2008D Bonds to such date.

See "PLAN OF FINANCE."

MISCELLANEOUS

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Edward Enriquez
Chief Financial Officer/Treasurer

By: /s/ Todd Corbin
Public Utilities General Manager

APPENDIX A

CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION

The 2019A 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 Water System. The information set forth below is included in this Official Statement for background purposes only.

General

The City is the county seat of Riverside County (the “**County**”) and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the County and the County of San Bernardino and comprise the Riverside-San Bernardino Primary Metropolitan Statistical Area (the “**PMSA**”). The PMSA represents an important economic area of the State and of Southern California. It lies to the west and south, respectively, of the strategic San Geronio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

The County and the County of San Bernardino cover 27,400 square miles, a land area larger than the State of Virginia. As of 2018, the County had a population estimated at 2,415,955 and San Bernardino County had a population estimated at 2,174,938. With a population of over 4.4 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“**MSAs**”) in the United States. The County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties’ population.

Municipal Government

The City was incorporated in 1883 and covers 81.5 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being 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 case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council.

Functions of the City government are carried out by approximately 2,500 personnel. The City operates and maintains a sewer, water and electrical system. Other City services include diversified recreation programs, police, fire, airport, parks, a museum and libraries.

Services and Facilities

Public Safety and Welfare. The City provides law enforcement and fire protection services. The Police Department currently employs 350 sworn officers and the Fire Department employs 224 sworn fire fighters operating out of 14 fire stations. Other services provided by the City include emergency medical aid, traffic safety maintenance, and building safety regulation and inspection.

Public Services. The City provides electric, water, sewer, refuse and transportation service to the City residents through municipal enterprises. The City also owns and operates a general aviation airport.

Public Works. Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning and development administration, environmental review, code enforcement and street tree maintenance.

Leisure and Community Services. Among the City’s cultural institutions and activities are a convention center, the Riverside Art Museum, a Riverside Metropolitan Museum, a number of libraries, the Municipal Auditorium, the Fox Performing Arts Center, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community, Riverside Community and Kaiser Permanente.

Population

As of January 1, 2018, the population of the City was estimated to be 325,850, an increase of approximately 0.8% over the estimated population of the City in 2017. The following table presents population data for both the City and County.

POPULATION		
<u>Year</u>	<u>City of Riverside</u>	<u>Riverside County</u>
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2010	302,597	2,179,692
2011	307,207	2,212,874
2012	311,332	2,239,715
2013	316,162	2,266,549
2014	318,511	2,291,093
2015	321,655	2,317,924
2016	324,696	2,347,828
2017	323,190	2,382,640
2018	325,860	2,415,955

Sources: 1950-2010 U.S. Census; 2011-2018 California Department of Finance (Demographic Research Unit).

Effective Buying Income

“**Effective Buying Income**” is defined as personal income less personal tax and nontax payments, a number often referred to as “**disposable**” or “**after-tax**” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2013 through 2017.

CITY OF RIVERSIDE, RIVERSIDE COUNTY, STATE OF CALIFORNIA AND UNITED STATES EFFECTIVE BUYING INCOME (For Calendar Years 2013 Through 2017)

Year	Area	Total Effective Buying Income (000’s Omitted)	Median Household Effective Buying Income
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
2014	City of Riverside	\$5,265,573	\$44,724
	Riverside County	41,199,300	45,576
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Riverside	\$5,877,205	\$47,791
	Riverside County	45,407,058	48,674
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Riverside	\$6,044,091	\$49,179
	Riverside County	47,509,909	50,287
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Riverside	\$6,556,518	\$53,659
	Riverside County	51,784,973	54,014
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735

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 65 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.

Employment

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 4.5 percent in August 2018, down from a revised 4.6 percent in July 2018. This compares with an unadjusted unemployment rate of 4.3 percent for California and 3.9 percent for the nation during the same period. The unemployment rate was 4.7 percent in Riverside County, and 4.2 percent in San Bernardino County.

The following table shows the average annual estimated numbers of wage and salary workers by industry. The table does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

**RIVERSIDE-SAN BERNARDINO PRIMARY MSA
CIVILIAN LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT (ANNUAL AVERAGES)
(For Calendar Years 2013 Through 2017)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Civilian Labor Force ⁽¹⁾	1,893,100	1,921,000	1,956,900	1,984,900	2,022,100
Employment	1,706,800	1,765,300	1,828,200	1,866,600	1,918,600
Unemployment	186,300	155,700	128,600	118,300	103,600
Unemployment Rate	9.8%	8.1%	6.6%	6.0%	5.1%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	14,500	14,400	14,800	14,600	14,400
Mining and Logging	1,200	1,300	1,300	900	900
Construction	70,000	77,600	85,700	92,000	97,000
Manufacturing	87,300	91,300	96,100	98,600	98,700
Wholesale Trade	56,400	58,900	61,600	62,800	63,700
Retail Trade	164,800	169,400	174,300	178,000	182,100
Transportation, Warehousing and Utilities	78,500	86,600	97,400	107,300	120,200
Information	11,500	11,300	11,400	11,500	11,300
Finance and Insurance	26,200	26,600	26,900	26,700	26,200
Real Estate and Rental and Leasing	15,600	16,300	17,000	17,900	18,200
Professional and Business Services	131,900	138,700	147,400	145,000	147,200
Educational and Health Services	187,600	194,800	205,100	214,300	224,800
Leisure and Hospitality	135,900	144,800	151,700	160,200	165,700
Other Services	41,100	43,000	44,000	44,600	45,600
Federal Government	20,300	20,200	20,300	20,400	20,600
State Government	27,800	28,200	28,700	29,700	30,700
Local Government	177,100	180,400	184,400	192,200	198,600
Total All Industries	1,247,700	1,303,800	1,368,100	1,416,700	1,465,900

(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.

The following tables show the largest employers in the City and in the County.

**CITY OF RIVERSIDE – LARGEST EMPLOYERS
As of June 30, 2018**

<u>Employer Name</u>	<u>Number of Employees</u>	<u>% of Total City-wide Employment</u>
County of Riverside	11,865	8.1%
University of California	8,686	6.0
Riverside Unified School District	4,000	2.7
Kaiser	3,484	2.4
City of Riverside	2,504	1.7
California Baptist University	2,285	1.6
Riverside Community Hospital	2,200	1.5
Alvord Unified School District	1,800	1.2
UTC Aerospace Systems	1,200	0.8
Parkview Community Hospital	<u>897</u>	<u>0.6</u>
Total	38,921	26.7%

Source: City of Riverside (as presented in the City's 2018 Comprehensive Annual Financial Report).

**COUNTY OF RIVERSIDE – LARGEST EMPLOYERS
(LISTED ALPHABETICALLY)
As of November, 2018**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Abbott Vascular Inc	Temecula	Physicians & Surgeons Equip & Supls-Whls
Amazon.com Inc	Moreno Valley	Internet & Catalog Shopping
Corrections Dept	Norco	Government Offices-State
Desert Regional Medical Ctr	Palm Springs	Hospitals
Eisenhower Health	Rancho Mirage	Hospitals
Fantasy Springs Resort Casino	Indio	Casinos
Handsome Rewards	Perris	Internet & Catalog Shopping
Hemet Valley Medical Ctr	Hemet	Hospitals
Indio Bingo Palace & Casino	Indio	Resorts
Kleinfelder Construction Svc	Riverside	Engineers-Structural
La Quinta Golf Course	La Quinta	Golf Courses
Parkview Community Hospital	Riverside	Hospitals
Pechanga Resort & Casino	Temecula	Casinos
Renaissance	Indian Wells	Hotels & Motels
Riverside Community Hospital	Riverside	Hospitals
Riverside University Health	Moreno Valley	Hospitals
Robertson's Ready Mix Ltd A Ca	Corona	Concrete-Ready Mixed
Southwest Healthcare System	Murrieta	Hospitals
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products	Perris	E-Commerce
Sun World Intl LLC	Coachella	Fruits & Vegetables-Wholesale
Uhs George Wa University Hosp	Corona	Hospitals
Universal Protection Svc	Palm Desert	Security Control Equip & Systems-Mfrs
US Air Force Dept	March Arb	Military Bases
Wachter Inc	Riverside	Electric Contractors

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2019 1st Edition.

Construction Activity

The following tables provide a summary of residential building permit valuations and nonresidential building permit valuations, and the total number of all building permit valuations in the City and the County during the past five years for which information is available.

CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2013 Through 2017 (Valuation in Thousands of Dollars)

<u>Permit Valuation</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
New Single-family	\$ 50,863	\$ 61,311	\$ 53,858	\$ 48,459	\$ 46,666
New Multi-family	19,861	9,418	41,207	19,428	53,944
Res. Alterations/Additions	<u>8,710</u>	<u>10,291</u>	<u>11,870</u>	<u>12,335</u>	<u>19,471</u>
Total Residential	\$ 79,434	\$ 81,020	\$ 106,935	\$ 80,222	\$120,080
New Commercial/Industrial	\$ 41,505	\$ 14,206	\$ 19,856	\$ 23,804	\$ 97,799
New Other	11,677	2,914	11,334	78,523	14,861
Com. Alterations/Additions	<u>74,249</u>	<u>45,548</u>	<u>51,812</u>	<u>67,779</u>	<u>49,539</u>
Total Nonresidential	\$127,433	\$ 62,668	\$ 83,002	\$170,106	\$162,198
<u>New Dwelling Units</u>					
Single Family	200	144	223	219	172
Multiple Family	<u>219</u>	<u>155</u>	<u>411</u>	<u>254</u>	<u>535</u>
TOTAL	419	299	634	473	707

Source: City of Riverside Community Development Department.

COUNTY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2013 Through 2017 (Valuation in Thousands of Dollars)

<u>Permit Valuation</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
New Single-family	\$1,138,739	\$1,296,553	\$1,313,085	\$1,526,768	\$1,670,542
New Multi-family	138,636	178,117	110,459	106,292	109,309
Res. Alterations/Additions	<u>98,220</u>	<u>147,082</u>	<u>113,200</u>	<u>126,475</u>	<u>123,567</u>
Total Residential	\$1,375,594	\$1,621,751	\$1,536,743	\$1,759,535	\$1,903,418
New Commercial/Industrial	\$405,023	\$358,997	\$392,308	\$642,463	\$965,629
New Other	141,185	128,667	204,555	583,003	104,352
Com. Alterations/Additions	<u>369,503</u>	<u>197,675</u>	<u>314,605</u>	<u>371,217</u>	<u>363,712</u>
Total Nonresidential	\$884,320	\$685,338	\$911,645	\$1,596,682	\$1,433,691
<u>New Dwelling Units</u>					
Single Family	4,716	5,007	5,007	5,662	6,265
Multiple Family	<u>1,427</u>	<u>1,931</u>	<u>1,189</u>	<u>1,039</u>	<u>1,070</u>
TOTAL	6,143	6,938	6,196	6,701	7,335

Source: Construction Industry Research Board, Building Permit Summary.

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.

To support transportation improvements, in November 1988 Riverside County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, Riverside County voters approved extending Measure A until 2039. Measure A is expected to generate \$4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program, and that sales tax was similarly increased by a vote of the electorate in November 2003.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

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2018

FINANCIAL REPORT



R I V E R S I D E P U B L I C U T I L I T I E S

RiversidePublicUtilities.com

WATER | ENERGY | LIFE



OVERVIEW

Riverside Public Utilities generates, transmits and distributes electricity to a 90-square-mile territory that includes the City of Riverside. We also deliver water to a 74.2-square-mile territory covering the majority of the City of Riverside.

The Board of Public Utilities is comprised of nine volunteers who live in all seven wards of the City of Riverside. They are appointed by the City Council to four-year terms without compensation. Board members oversee Riverside Public Utilities' policies, operations, revenues, expenditures, planning, and regulatory compliance. They provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

SERVICE AREA POPULATION

325,801

RECORD PEAK DEMAND

Energy: 640 megawatts

8/31/2017

Water: 118,782,000 million gallons

8/9/2005

TOTAL OPERATING REVENUE

Energy: \$363.8 million

Water: \$66.7 million

CUSTOMERS

Energy: 109,619

Water: 68,640

CREDIT RATING

Energy: AA- Fitch

AA- Standard & Poors

Water: AA+ Fitch

AAA Standard & Poors

Aa2 Moody's

WATER | ENERGY | LIFE



PUBLIC UTILITIES

RiversidePublicUtilities.com

Cover artwork by
Jasmine Zamara, Norte Vista High School



OUR MISSION

The City of Riverside Public Utilities Department is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.

OUR TEN-YEAR VISION

Our customers will recognize Riverside Public Utilities as a unique community asset with a global reputation for innovation, sustainability and an enhanced quality of life.

OUR CORE VALUES

Safety

Honesty and Integrity

Teamwork

Professionalism

Quality Service

Creativity and Innovation

Community Involvement

Environmental Stewardship

Inclusiveness and Mutual Respect

OUR FOCUS AREAS

RELIABILITY & RESILIENCY

Taking care of our infrastructure, so that it remains safe, and efficient.

AFFORDABILITY

Thriving financially while balancing affordable rates for our customers.

SUSTAINABILITY

Ensuring adequate power and water supply in the most environmentally responsible manner.

CUSTOMER EXPERIENCE

Continuing to provide reliable customer-centered service every day.

OPERATIONAL EXCELLENCE

Implementing new technologies that will enhance the customer experience and ensure the tradition of operational excellence.

STRONG WORKFORCE

Developing and supporting a workforce that is safe, prepared and engaged.

OUR THREE-YEAR GOALS

1. Contribute to the City of Riverside's economic development while preserving RPU's financial strength.
2. Maximize the use of technology to improve utility operations.
3. Impact positive legislation and regulations at all levels of government.
4. Develop and implement electric and water resource plans.
5. Create and implement a workforce development plan.

OUR TEN-YEAR GOALS

1. Employ state-of-the-art technology to maximize reliability and customer service.
2. Foster economic development and job growth in the City of Riverside.
3. Communicate effectively the accomplishments, challenges and opportunities for the full utilization of our electric and water resources.
4. Develop fully our low-cost, sustainable, reliable electric and water resources.
5. Enhance the effective and efficient operation of all areas of the utility.

RiversidePublicUtilities.com



CITY COUNCIL

Rusty Bailey
Mayor

■ Mike Gardner
Ward 1

■ Andy Melendrez
Ward 2

■ Mike Soubirous
Ward 3

■ Chuck Conder
Ward 4

■ Chris Mac Arthur
Ward 5

■ Jim Perry
Ward 6

■ Steve Adams
Ward 7

BOARD OF PUBLIC UTILITIES

Jo Lynne Russo-Pereyra (Board Chair)
Citywide / Ward 4

David Crohn
Citywide / Ward 1

■ Jennifer O'Farrell
Ward 1

■ Kevin Foust
Ward 2

■ Elizabeth Sanchez-Monville
Ward 3

■ David Austin (Board Vice-Chair)
Ward 4

■ Andrew Walcker
Ward 5

■ Jeanette Hernandez
Ward 6

■ Gil Ocegueda
Ward 7

EXECUTIVE MANAGEMENT

Al Zelinka
City Manager

Todd Jorgenson
Interim
Utilities General Manager

Laura M. Chavez-Nomura
Assistant General Manager
Finance/Administration

Daniel E. Garcia
Assistant General Manager
Resources

George Hanson
Assistant General Manager
Energy Delivery

Michael Plinski
Interim
Assistant General Manager
Water

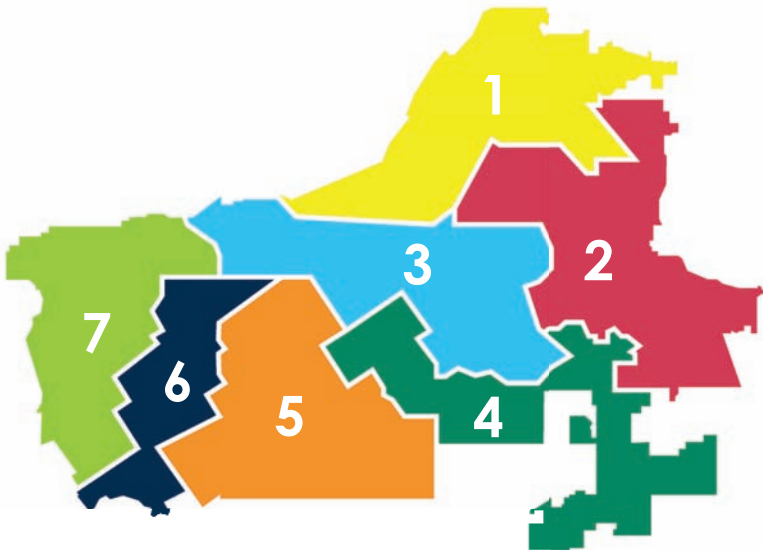


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OUR ELECTRIC

RIVERSIDE PUBLIC UTILITIES





Certified
Public
Accountants

Independent Auditor's Report

To the Honorable City Council and Board of Public Utilities
City of Riverside, California

We have audited the accompanying financial statements of the Electric Utility Enterprise Fund (Electric Utility) of the City of Riverside, California, (the City), as of and for the years ended June 30, 2018 and 2017, and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Utility of the City, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Electric Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements as a whole. The accompanying supplementary Electric Utility information is presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, professional style.

Newport Beach, California
October 31, 2018

ELECTRIC UTILITY: MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2017-18 financial report for the periods ended June 30, 2018 and 2017 for Riverside's Electric Utility (Electric Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 31 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2018, the Electric Utility implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – a replacement of GASB Statements No. 45 as amended, and No. 57, and establishes new accounting and financial reporting requirements for Other Post-Employment Benefits (OPEB) plans. As of July 1, 2017, the Electric Utility restated beginning net position in the amount of \$328 to record adjustments to the OPEB liability. For more information, refer to the OPEB section below, Note 6 of the accompanying financial statements. The Electric Utility did not restate the financial statements for the fiscal years ended June 30, 2017 and 2016 because the necessary actuarial information was not provided for the prior years presented.
- Operating expense reflects a non-cash pension accounting standard adjustment, which will continue to fluctuate based on yearly actuarial information provided by the California Public Employees' Retirement System. The adjustment was \$9,056 and (\$248) in June 30, 2018 and 2017, respectively.
- Retail sales, net of uncollectibles/recovery were \$305,969 and \$308,781 for years ended June 30, 2018 and 2017, respectively. The decrease in sales was primarily due to reduced consumption.
- Utility plant assets as of June 30, 2018 increased by \$12,462 primarily due to the completion of significant capital projects such as substation improvements, neighborhood street light retrofit, and major 4-12 kV conversions, as well as donated easements received for access to electrical systems, offset by current year depreciation.
- Total net position as of June 30, 2018 increased by \$21,211 primarily due to positive operating results, and non-cash capital contributions for donated assets received.
- The Electric Utility used unrestricted reserves, set aside with monies received from settlements and cost recoveries associated with the early closure of the SONGS Units 2 and 3, for a partial bond defeasance of \$11,005. The defeasance reduced debt outstanding and will realize interest savings of \$10,233 over the remaining life of the bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Electric Utility's financial statements. The Electric Utility is a department of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the Electric Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City's "Comprehensive Annual Financial Report."

The Electric Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Electric Utility, including historical sales, operating activities, and other relevant data.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Electric Utility's financial health.

The **Statements of Net Position** present information on all of the Electric Utility's assets, liabilities, deferred inflows and outflows of resources and net position. The Statements of Net Position provide information about the nature and amount of the Electric Utility's resources and obligations at a specific point in time.

The **Statements of Revenues, Expenses and Changes in Net Position** report all of the Electric Utility's revenues and expenses for the periods shown.

The **Statements of Cash Flows** report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 31 to 65 of this report.

ELECTRIC UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 450,808	\$ 464,254	\$ 460,113
Capital assets	781,254	768,792	754,694
Deferred outflows of resources	50,285	65,176	64,735
Total assets and deferred outflows of resources	<u>1,282,347</u>	<u>1,298,222</u>	<u>1,279,542</u>
Long-term debt outstanding	529,294	557,540	571,100
Other liabilities	240,949	238,796	238,624
Deferred inflows of resources	6,692	17,685	24,204
Total liabilities and deferred inflows of resources	<u>776,935</u>	<u>814,021</u>	<u>833,928</u>
Net investment in capital assets	267,230	229,432	201,651
Restricted	48,906	47,727	40,913
Unrestricted	189,276	207,042	203,050
Total net position	<u>\$ 505,412 ⁽¹⁾</u>	<u>\$ 484,201</u>	<u>\$ 445,614</u>

⁽¹⁾ Restated July 1, 2017, see Note 12 of the Financial Statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2018 compared to 2017 The Electric Utility's total assets and deferred outflows of resources were \$1,282,347, reflecting an decrease of \$15,875 (1.2%), primarily due to the following:

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

- Current and other assets, comprised of restricted and unrestricted assets, had a net decrease of \$13,446, primarily due to a decrease in restricted assets of \$12,714, which was primarily due to a decrease of \$13,894 in cash and investments at fiscal agent for payment of decommissioning costs related to San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. This decrease was offset by a slight increase in cash and cash equivalents related to proceeds on the sale of greenhouse gas (GHG) allowances.
- Capital assets increased by \$12,462 primarily due to the receipt of \$13,637 in donated land rights and easements for general access to electrical system assets, as well as additions and improvements to the Electric distribution infrastructure system to improve service and reliability to Electric Utility's customers. This increase was offset by current year depreciation. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- Deferred outflows of resources decreased by \$14,891 primarily due to pension related adjustments which included the changes in assumptions and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary. In addition, there was a decrease in the negative fair market value of interest rate swaps. Additional information can be found in the "Interest Rate Swaps on Revenue Bonds" section of Note 4 Long-term Obligation.

2017 compared to 2016 Total assets and deferred outflows of resources were \$1,298,222, a net increase of \$18,680 (1.5%). Current and other assets had a net increase of \$4,141 primarily due to an increase of \$6,249 in cash and cash equivalents due to positive operating results and settlement recoveries received and an increase of \$1,591 in unamortized purchased power for the prepayment of power supply costs related to the Salton Sea power purchase agreement. This was offset by a decrease of \$4,136 in restricted assets, due to a decrease of \$9,452 in cash and investments at fiscal agent for payment of decommissioning costs related to San Onofre Nuclear Generating Station (SONGS) Units 2 and 3 and an increase of \$5,542 related to the sale of renewable energy credits and regulatory transactions. Capital assets increased by \$14,098 primarily due to the receipt of \$16,011 in donated land rights and easements for general access to electrical system assets, capital projects for additions and improvements to the Electric distribution infrastructure system and technology upgrades used to improve service to the Electric Utility's customers.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2018 compared to 2017 The Electric Utility's total liabilities and deferred inflows of resources were \$776,935, a decrease of \$37,086 (4.6%), due to the following:

- Long-term debt outstanding decreased by \$28,246 primarily due to the principal payments on revenue bonds and the amortization of bond premiums, along with a bond defeasance of \$11,005. Additional debt information can be found in the "Capital Assets and Debt Administration" section.
- Other liabilities increased by \$2,153 primarily due to an increase of \$12,693 in net pension liability and an increase of \$769 in accounts payable and other accruals, offset by a decrease of \$7,297 in the negative fair value of derivative instruments, and a decrease of \$4,097 in nuclear decommissioning liabilities.
- Deferred inflows of resources decreased by \$10,993 primarily due to pension related adjustments which included the changes in assumptions, the differences between expected and actual experience and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2017 compared to 2016 Total liabilities and deferred inflows of resources were \$814,021, a decrease of \$19,907 (2.4%). Long-term debt outstanding decreased by \$13,560 primarily due to the principal payments on revenue bonds and the amortization of bond premiums. Deferred inflows of resources decreased by \$6,519 due to pension related adjustments which included the changes in assumptions, the differences

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

between expected and actual experience and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

NET POSITION

2018 compared to 2017 The Electric Utility's net position, which represents the difference between the Electric Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$505,412, an increase of \$21,211 (4.4%) which is primarily attributed to positive operating results, non-cash capital contributions for donated assets received, and settlement recoveries. The following represents the changes in components of Net Position:

- The largest portion of the Electric Utility's total net position, \$267,230 (52.9%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion increased by \$37,798 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$48,906 (9.7%), an increase of \$1,179, and represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt payments, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion of net position totaled \$189,276 (37.4%) an decrease of \$17,766 from prior year, primarily attributable to the payment on bond defeasance and the use of unrestricted cash and cash equivalent to fund capital projects. Unrestricted net position may be used to meet the Electric Utility's ongoing operational needs and obligations to customers and creditors.

2017 compared to 2016 Total net position, increased by \$38,587 (8.7%), to a total of \$484,201. Net investment in capital assets increased by \$27,781 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Restricted net position increased by \$6,814 and the unrestricted portion increased by \$3,992 primarily due to positive operating results and settlement recoveries received.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

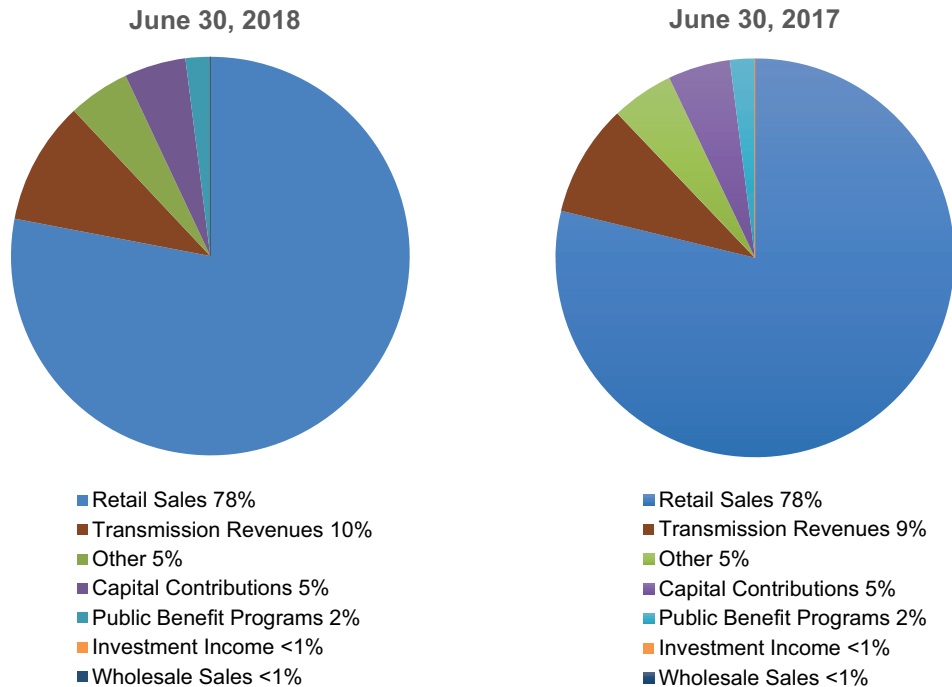
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:			
Retail sales, net	\$ 305,969	\$ 308,781	\$ 304,486
Wholesale sales	2	9	3
Transmission revenues	37,484	35,497	32,924
Investment income	2,567	1,809	5,143
Other revenues	18,922	20,493	26,040
Public Benefit Programs	8,860	8,880	8,929
Capital contributions	20,182	19,684	14,874
Total revenues	<u>393,986</u>	<u>395,153</u>	<u>392,399</u>
Expenses:			
Production and purchased power	136,423	132,349	137,081
Transmission	62,981	59,497	58,145
Distribution	67,436	59,906	49,346
Public Benefit Programs	7,820	7,602	6,657
Depreciation	33,585	32,642	30,953
Interest expenses and fiscal charges	24,129	25,340	24,980
Total expenses	<u>332,374</u>	<u>317,336</u>	<u>307,162</u>
Transfers to the City's general fund	<u>(40,073)</u>	<u>(39,230)</u>	<u>(38,360)</u>
Changes in net position	21,539	38,587	46,877
Net position, July 1, as previously reported	<u>484,201</u>	<u>445,614</u>	<u>398,737</u>
Less: Cumulative effect of change in accounting principle ⁽¹⁾	<u>(328)</u>	<u>-</u>	<u>-</u>
Net position, July 1, as restated	<u>483,873</u>	<u>445,614</u>	<u>398,737</u>
Net position, June 30	<u>\$ 505,412</u>	<u>\$ 484,201</u>	<u>\$ 445,614</u>

⁽¹⁾ For the implementation of postemployment benefits other than pensions, GASB Statement No. 75.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES



2018 compared to 2017 The Electric Utility's total revenues of \$393,986 decreased by \$1,167 (0.3%) with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$305,969, a \$2,812 (0.9%) decrease. Retail sales continue to be the primary revenue source for the Electric Utility. The decrease in sales was primarily due a slight decrease in consumption.
- Transmission revenues of \$37,484 increased by \$1,987 (5.6%), primarily due to an increase in the high voltage utility specific rate per the annual filing with Federal Energy Regulatory Commission.
- Other revenues of \$18,922 decreased by \$1,571 (7.7%), primarily due to a decrease in proceeds from the sale of renewable energy credits and settlement recoveries, offset by an increase of proceeds on the sale of GHG allowances.

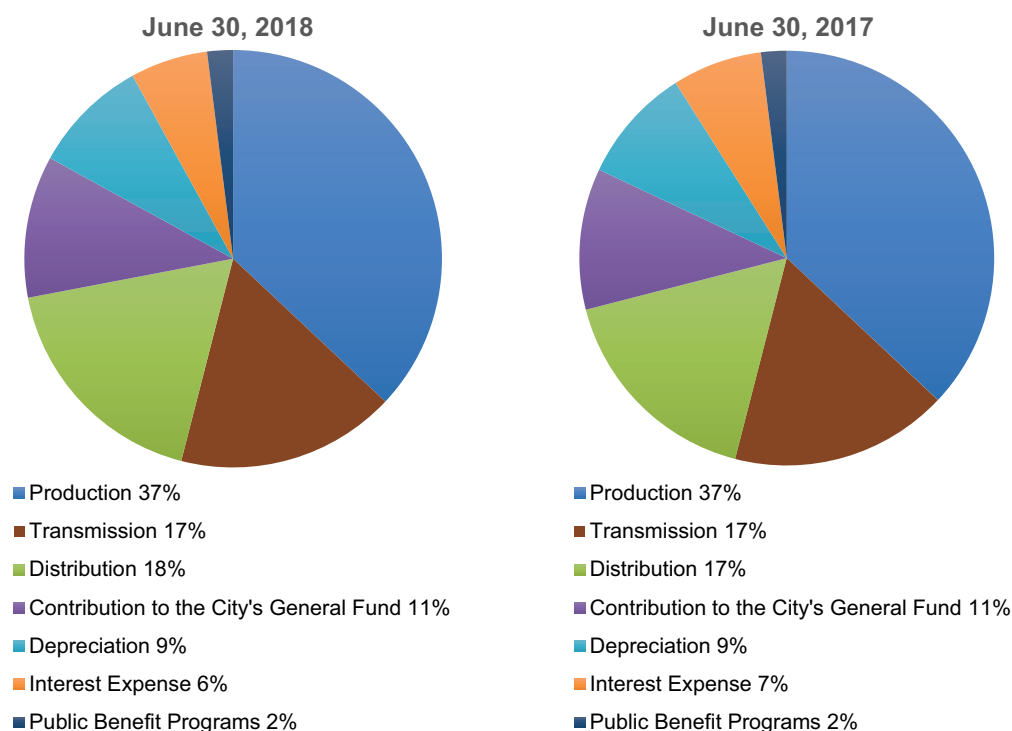
2017 compared to 2016 The Electric Utility's total revenues of \$395,153 increased by \$2,754 (0.7%) with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$308,781, a \$4,295 (1.4%) increase. The increase in sales was primarily due to a slight increase in customer consumption as a result of warmer weather during the summer season.
- Transmission revenues of \$35,497 increased by \$2,573 (7.8%), primarily due to an increase in the high voltage utility specific rate per the annual filing with Federal Energy Regulatory Commission.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

- Other revenues of \$20,493 decreased by \$5,547 (21.3%), primarily due to a decrease of \$10,820 in settlement recoveries as compared to prior year, offset by an increase of \$5,021 in proceeds from the sale of renewable energy credits and regulatory transactions.
- Capital contributions of \$19,684 increased by \$4,810 (32.3%), due to an increase in donated land rights and easements for general access to electrical system assets.

EXPENSES BY SOURCES



2018 compared to 2017 The Electric Utility's total expenses, excluding general fund transfer, were \$332,374, an increase of \$15,038 (4.7%). The increase was primarily due to the following:

- Production and purchased power expenses of \$136,423 increased by \$4,074 (3.1%) primarily due to an increase in power supply costs in the current year and new renewable energy projects coming online.
- Transmission expenses of \$62,981 increased by \$3,484 (5.9%), mainly due to increases in the transmission access charge from the California Independent System Operator (CAISO).
- Distribution expenses of \$67,436 increased by \$7,530 (12.6%), mainly due to non-cash pension expense adjustment of \$9,056 as a result of pension accounting standards, as well as an overall increase in general operating expenses. This is offset by a decrease of a one-time expenditure in the prior year of \$2,593 in pension obligation.
- Depreciation expense of \$33,585 increased by \$943 (2.9%), reflecting the completion of capital projects and their current year depreciation.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

2017 compared to 2016 Total expenses, excluding general fund transfer, were \$317,336, an increase of \$10,174 (3.3%). The increase was primarily due to the following:

- Production and purchased power expenses of \$132,349 decreased by \$4,732 (3.5%) primarily due to the prior year recognition of SONGS replacement power of \$7,160 associated with the shutdown of Units 2 and 3 as an expense, partially offset by an increase in power supply costs in the current year for the increase in customer consumption and new renewable energy projects coming online.
- Transmission expenses of \$59,497 increased by \$1,352 (2.3%), mainly due to increases in the transmission access charge from the California Independent System Operator (CAISO).
- Distribution expenses of \$59,906 increased by \$10,560 (21.4%), mainly due to a prior year non-cash pension expense credit of \$5,036 as a result of pension accounting standards, the City's refinancing of pension obligation bonds resulting in an additional obligation of \$2,593 to the Electric Utility for its share of the bonds, and an increase of general operating expenses.
- Depreciation expense of \$32,642 increased by \$1,689 (5.5%), reflecting the completion of capital projects and their current year depreciation.

TRANSFERS

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Electric Utility transferred \$40,073 and \$39,230 for 2018 and 2017, respectively based on the gross operating revenue provisions in the City's Charter.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Electric Utility's investment in capital assets includes investments in production, transmission, and distribution related facilities, land, intangibles, construction in progress, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Electric Utility's capital assets, net of accumulated depreciation, at June 30:

	<u>2018</u>		<u>2017</u>		<u>2016</u>
Production	\$ 178,597	\$	187,543	\$	196,489
Transmission	26,237		27,068		27,425
Distribution	375,143		363,986		361,948
General	68,674		72,923		74,282
Intangibles	15,366		17,140		17,134
Land	52,111		37,845		21,439
Intangibles, non-amortizable	10,651		10,651		10,651
Construction in progress	54,475		51,636		45,326
Total capital assets	<u>\$ 781,254</u>	\$	<u>768,792</u>	\$	<u>754,694</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

2018 compared to 2017 The Electric Utility's investment in capital assets, net of accumulated depreciation, was \$781,254, an increase of \$12,462 (1.6%). The increase resulted primarily from the following significant capital projects offset by current year depreciation:

- \$22,474 in additions and improvements to the Electric system, such as substations, transformers, underground conduit and conductors, neighborhood streetlights, and distribution line extensions and replacements to serve customers.
- \$13,637 in donated land rights and easements for general access to electrical system assets.
- \$2,197 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV) to reduce system losses, increase capacity for necessary system growth, and improve system reliability.
- \$3,207 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid.

2017 compared to 2016 Investment in capital assets, net of accumulated depreciation, was \$768,792, an increase of \$14,098 (1.9%). The increase resulted from \$19,963 in additions and improvements to the Electric system, \$16,011 in donated land rights and easements for general access to electrical system assets, \$3,277 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV), and \$2,601 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid.

Additional information regarding capital assets can be found in Note 3 of the accompanying financial statements.

DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt as of June 30:

	2018	2017	2016
Revenue bonds	\$ 528,715	\$ 553,515	\$ 566,835
Unamortized premium	6,624	7,402	8,213
Pension obligation bonds	10,418	12,312	10,084
Less: Current portion of revenue and pension obligation bonds	(16,463)	(15,689)	(14,032)
Total	<u>\$ 529,294</u>	<u>\$ 557,540</u>	<u>\$ 571,100</u>

The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.71, 2.95, and 2.87 at June 30, 2018, 2017 and 2016, respectively. This debt is backed by the revenues of the Electric Utility. The prior years' debt service coverage ratio has been restated to exclude the non-cash pension related adjustment for required pension accounting standards. For additional information, see Note 4 of the accompanying financial statements and Key Historical Operating Data section.

2018 compared to 2017 The Electric Utility's long-term debt decreased by \$28,246 (5.1%) to \$529,294 as a result of principal payments and amortization of bond premiums, along with the principal payment for bond defeasance.

2017 compared to 2016 Long-term debt decreased by \$13,560 (2.4%) to \$557,540 primarily due to principal payments and amortization of bond premiums, offset by the increase in the proportionate share of the pension obligation bonds.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Additional information on the Electric Utility's long-term debt can be found in Note 4 of the accompanying financial statements.

CREDIT RATINGS

The Electric Utility maintains a credit rating of "AA-" from both Standard & Poor's (S&P) and Fitch Ratings (Fitch).

In November 2016, S&P affirmed its "AA-" rating on the Electric Utility's revenue bonds. The rating reflects the Electric Utility's strong debt service coverage, strong liquidity position and the Electric Utility's diverse and low-cost resource portfolio, including an emphasis on renewal energy resources.

In June 2017, Fitch also affirmed its "AA-" rating on the Electric Utility's revenue bonds. This rating is a result of the Electric Utility's evolving power resource portfolio which is well positioned to meet California's increasing environmental regulations, stable financial performance and strong liquidity levels.

The Electric Utility has maintained these credit ratings since 2008.

REGULATORY, LEGISLATIVE FACTORS, AND RATES

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Electric Utility.

ASSEMBLY BILL (AB) 32 – GLOBAL WARMING SOLUTIONS ACT OF 2006

AB 32, enacted in 2006, requires that utilities in California reduce their GHG emissions to 1990 levels by the year 2020. On September 8, 2016, the Governor of California expanded on this bill by approving Senate Bill 32 (SB 32), which requires the state board to ensure that statewide greenhouse gas emissions are reduced to 40% below the 1990 level by 2030.

AB 32 tasked the California Air Resources Board (CARB) to develop regulations for GHG which became effective January 1, 2012. Emission compliance obligations under the cap-and-trade regulation began on January 1, 2013. The Cap-and-Trade Program (Program) was implemented in phases with the first phase starting from January 1, 2013 to December 31, 2014. This phase placed an emission cap on electricity generators, importers and large industrial sources emitting more than 25,000 metric tons of carbon dioxide-equivalent greenhouse gases per year. In 2015, the program expanded to cover emissions from transportation fuels, natural gas, propane, and other fossil fuels. Since the enactment of AB 32, the Electric Utility has actively participated with major investor owned utilities and other publicly-owned utilities (POUs) to affect the final rules and regulations with respect to AB 32 implementation.

The Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. CARB will provide a free allocation of GHG allowances to each electric utility to mitigate retail rate impacts. Thereafter, the utilities are likely to be required to purchase allowances through the auction or on the secondary market to offset its associated GHG emissions. Each allowance can be used for compliance purposes in the current year or carried over for use in future year compliance. The Electric Utility's free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's direct GHG compliance obligations.

Any allowance not used for current year compliance or carried over for future use in compliance must be sold into the quarterly allowance auctions administered by CARB. Proceeds from the auctions must be used for the intended purposes as specified in AB 32 which include but are not limited to procurement of renewable resources, energy efficiency and conservation programs and measures that provide clear GHG reduction benefits. The Electric Utility is segregating the proceeds from the sales of allowances in the auctions as a restricted asset.

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

SENATE BILL (SB) 1 – CALIFORNIA SOLAR INITIATIVE

SB 1, enacted in 2006, requires municipal utilities to establish a program supporting the stated goal of the legislation to install 3,000 megawatts (MW) of photovoltaic (PV) resources in California. Municipal utilities are also required to establish eligibility criteria in collaboration with the California Energy Commission (CEC) for funding solar energy systems receiving ratepayer funded incentives and meet reporting requirements regarding the installed capacity, number of installed systems, number of applicants, and awarded incentives. The SB1 program officially sunset in December 2016 and closed in RPU service territory in December 2017. As of program close, Electric Utility customers have installed approximately 14.17 MW of solar PV capacity in conjunction with the SB 1 program. To date, Electric Utility customers have installed approximately 24.42 MW of solar PV capacity throughout the city, either independently or in conjunction with the SB 1 program.

SENATE BILL (SB) 1368 – EMISSION PERFORMANCE STANDARD

The state legislature passed SB 1368 in 2006, which mandates that electric utilities are prohibited from making long term financial commitments (commitments greater than five years in duration) for generating resources with capacity factors greater than 60 percent that exceed a GHG emission factor of 1,100 lbs/megawatt hour (MWh). SB 1368 essentially prohibits any long-term investments in generating resources based on coal. Thus, SB 1368 disproportionately impacts Southern California POU's as these utilities have heavily invested in coal technology.

The City has ownership entitlement rights to 136 MW of the Intermountain Power Plant (IPP). IPP has a GHG emission factor of approximately 2,000 lbs/MWh. Therefore, under SB 1368, the City is precluded from renewing its IPP Power Purchase Contract at the end of its term in June 2027.

Going forward, SB 1368 related issues are expected to have minimal impact to the CAISO markets as the percentage of California load served by coal resources is small. However, to the extent that significant numbers of coal plants throughout the western United States (U.S.) start to retire in the next 5 to 15 years, it is possible that there can be a tightening of supply throughout the western U.S. electricity market. In turn, this can lead to higher regional costs and potentially reduced system reliability.

ASSEMBLY BILL (AB) 2514 - ENERGY STORAGE

AB 2514 "Energy Storage Systems" was signed into law on September 29, 2010. In 2012, AB 2227 amended the reporting timeline of the energy storage targets referenced in AB 2514. The law directs the governing boards of POU's to consider setting targets for energy storage procurement, but emphasizes that any such targets must be consistent with technological viability and cost effectiveness. The law's main directives for POU's and their respective deadlines are as follows: (a) to open a proceeding by March 1, 2012 to determine appropriate targets, if any, for the utility to procure viable and cost-effective energy storage systems, and (b) to adopt an energy storage system procurement target by October 1, 2014, if determined to be appropriate, to be achieved by the utility by December 31, 2016, and a 2nd target to be achieved by December 31, 2020. POU's were required to submit compliance reports to the CEC of their first adopted target by January 1, 2017. The utility's second adopted target compliance report is due to the CEC by January 1, 2021.

Energy storage (ES) has been advocated as an effective means for addressing the growing operational problems of integrating intermittent renewable resources, as well as contributing to other applications on and off the grid. In general, ES is a set of technologies capable of storing previously generated electric energy and releasing that energy at a later time. Currently, the commercially available ES technologies (or soon to be available technologies) consist of pumped hydro generation, compressed air systems, batteries, and thermal ES systems.

On February 17, 2012, as per the statute, the City of Riverside's Board of Public Utilities opened a proceeding to investigate the various energy storage technologies available and determine if the City should

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

adopt energy storage procurement targets. The City finished its investigation of energy storage pricing and benefits in September 2014 and adopted a zero megawatts target based on the conclusion that the viable applications of energy storage technologies and solutions at the time were not cost effective and outweighed the benefits that it might provide to our electrical system. The City must reevaluate its assessment not less than every three years or by October 1, 2017, and report to the CEC any modifications to its initial target resulting from this reevaluation.

On March 3, 2015, City Council approved the Ice Bear Pilot program for 5 MW. The program is intended to reduce load during peak hours, improve energy efficiency, and demonstrate the City's proactive support of the State's energy storage goals. On July 28, 2015, the City Council approved a 20-year power purchase agreement for the City to procure renewable energy from the Antelope DSR Solar Photovoltaic Project that includes a built-in energy storage option for the buyers to exercise during the first fifteen years of operation.

On December 12, 2016, Riverside submitted its first compliance report to the CEC describing Riverside's proactive efforts in investigating viable energy storage options in the market and conducting energy storage pilot projects within the City to fulfill its first adopted target.

On September 26, 2017, after reevaluating its assessment of the first adopted energy storage procurement target of zero megawatts, the City approved and adopted the second energy storage procurement target of six megawatts for submittal to the CEC.

SENATE BILL (SB) 380 – MORATORIUM ON NATURAL GAS STORAGE – ALISO CANYON

On October 23, 2015, a significant gas leak was discovered at the Aliso Canyon natural gas storage facility, which makes up 63% of total storage capacity and serves 17 gas fired power generation units. On May 10, 2016, the Governor of California signed SB 380 placing a moratorium on Aliso Canyon's natural gas storage usage until rigorous tests were performed and completed by the Division of Oil, Gas, and Geothermal Resources (DOGGR) as to which wells could continue to be in operation. This moratorium caused great concern regarding reliability in the upcoming summer and winter months. An action plan study area was initiated to review the summer and winter assessment that was conducted as a joint effort between the California Public Utilities Commission (CPUC), CEC, CAISO, and Los Angeles Department of Water and Power (LADWP). Although the area of study does not include nor immediately impact Riverside, it is highly plausible that the Electric Utility could still experience curtailed gas deliveries under certain adverse low-flow gas scenarios.

Beginning June 1, 2016, Southern California Gas Company (SoCalGas) implemented new Operational Flow Order (OFO) tariffs due to limitations surrounding Aliso Canyon storage injections and withdrawals. These tariff changes were put in place to reduce the probability of natural gas curtailments, which would disproportionately impact Riverside due to the requirements to operate internal natural gas generation to maintain system reliability during the summer. Also, gas curtailments during high peak days could lead to severe service curtailments throughout Riverside. Therefore, the Electric Utility immediately increased internal communication across divisions, created internal gas curtailment procedures to address this specific issue, and created revised dispatch procedures when load forecasts exceed 400 MW. These tighter OFO tariff restrictions were scheduled to conclude upon the earlier of the return of Aliso Canyon to at least 450 million cubic feet per day (MMcfd) of injection capacity and 1,395 MMcfd of withdrawal capacity, or March 31, 2017. Aliso Canyon has not been able to meet its injection and withdrawal targets, therefore, these tighter OFO tariff restrictions will continue to remain in effect. In addition, the Electric Utility continues to communicate daily with the CAISO and SoCalGas on any changes that could impact our service territory.

On July 19, 2017, DOGGR issued a press release on their determination, in concurrence with the CPUC, that Aliso Canyon is safe to resume injections up to 28% of the facility's maximum capacity. On that same day, the CEC issued a different press release with a recommendation urging closure of Aliso Canyon in the

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

long-term. On July 31, 2017, SoCalGas resumed injections. Withdrawals from Aliso Canyon can be made during emergency conditions to avoid electric load shed and/or gas curtailments to customers.

The Electric Utility fulfilled its system reliability without any issues during multiple heat waves in both 2016 and 2017. Going forward, the Electric Utility will continue to monitor workshops and new legislation and regulations that impact the status of Aliso Canyon and its effect on the reliability of our service territory. Senate Bill 380 added Section 715 to the Public Utilities Code, which requires the CPUC to determine the range of Aliso inventory necessary to ensure safety, reliability, and just and reasonable rates. In the most recent 715 Report, the Energy Division recommended that the maximum allowable Aliso inventory be increased from 24.6 to 34 billion cubic feet for summer 2018 due to continuing pipeline outages on the SoCalGas system. As of July 20, 2018, the results of the 114 injection well tests are as follows: 59 wells have completed all required tests and of those 57 wells have received final DOGGR approval; 25 wells are currently in the second phase of inspections; 29 wells are in the process of abandonment; and 3 wells have been plugged and abandoned.

SENATE BILL (SB) 859 — “BUDGET TRAILER BILL” — BIOMASS MANDATE

In the final two days of the 2015-2016 legislative session, a “budget trailer bill” on how to spend cap-and-trade funds was amended to include a biomass procurement mandate for local publically owned utilities serving more than 100,000 customers. These utilities, including IOUs, would be required to procure their pro-rata share of the statewide obligation of 125 MW based on the ratio of the utility’s peak demand to the total statewide peak demand from existing in-state bioenergy projects for at least a five year term. On September 14, 2016, the Governor of California signed SB 859 into law.

The Electric Utility is still waiting upon direction from the CEC on the actual MW obligation shares and the target date on when the contracts must be procured. It is expected that these facilities will be counted towards the Electric Utility’s Renewable Portfolio Standard (RPS) goals and preliminary analysis indicates that the City’s MW share should be minimal. On October 13, 2016, the CPUC adopted Resolution E-4805, which established that the POUs be allocated 29 MW of the 125 MW statewide mandate. The City determined that their obligated share would be 1.3 MW to meet the mandate.

In 2017, the affected POUs consisting of the cities of Anaheim, Los Angeles, and Riverside, Imperial Irrigation District, Modesto Irrigation District, Sacramento Municipal Utility District, and Turlock Irrigation District decided it would be beneficial to procure a contract together for economies of scale. This was accomplished by utilizing SCPPA to issue a Request for Proposal on behalf of all the affected POUs, since four of the seven POUs affected are existing SCPPA members.

In January 2018, the Riverside Board and City Council approved the City’s five-year Power Sales Agreement with SCPPA for 0.8 MW from the ARP-Loyalton biomass project. On April 20, 2018, the facility declared commercial operation. The remaining MW procurement requirement is currently undergoing negotiations with another entity.

SENATE BILL (SB) 350 — CLEAN ENERGY AND POLLUTION REDUCTION ACT OF 2015

SB 350, enacted in 2015, consists of a multitude of requirements to meet the Clean Energy and Pollution Reduction Act of 2015. The primary components that affect the Electric Utility are a) the increased mandate of the California RPS to 50% by December 31, 2030, b) doubling of energy efficiency savings by January 1, 2030, and c) providing for the transformation of the CAISO into a regional organization. In addition, there is a specific Integrated Resource Planning (IRP) mandate embedded in the bill that applies to 16 POUs that have a 3-year average annual demand over 700 GWh, which includes the Electric Utility.

The Electric Utility’s current IRP was completed in 2014 and approved by the Board of Public Utilities and City Council in 2015 and will continue to be approved in this manner going forward. The current IRP

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

addresses most of the required topics to some extent, but will require further study and expansion on certain topics.

By January 1, 2019, the governing board of the Electric Utility expects to adopt an IRP and a process for updating the plan every 5 years. The IRP must address specific topics such as energy efficiency and demand response resources, transportation electrification, GHG emissions, energy storage resources, enhance distribution systems and demand-side management, etc. The IRP must be submitted to the CEC for review, of which the CEC will check if the statutory requirements have been met and will adopt guidelines to govern the submission of the IRP information. On August 9, 2017, the CEC adopted the POU IRP Submission and Review Guidelines.

Shortly thereafter, on September 30, 2017, the Governor signed SB 338, which requires that the governing board of local POU's consider as part of the IRP process the role of existing renewable generation, grid operational efficiencies, energy storage, energy efficiency, and distributed energy resources in meeting the energy and reliability needs of each utility during the hours of peak demand. The CEC continues to host various workshops on different components of the SB 350 requirement and the Electric Utility has been monitoring its outcome.

ASSEMBLY BILL (AB) 1110- GREENHOUSE GAS EMISSIONS INTENSITY REPORTING

On September 26, 2016, AB 1110 was signed into law requiring GHG emissions intensity data and unbundled renewable energy credits (RECs) to be included as part of the retail suppliers' power source disclosure (PSD) report and power content label (PCL) to their customers. GHG emissions intensity factors will need to be provided for all retail electricity products. The inclusion of this new information requirement on the PCL will begin in 2020 for calendar year 2019 data. In addition to still being required to post the PCL on the city website, the bill also reinstated the requirement that the PCL disclosures must be mailed to the customers starting in 2017 for calendar year 2016 data unless customers have opted for electronic notifications. Per this requirement, Riverside reinstated the inclusion of printed disclosures of the PCL with its September bills to the customers.

In 2017, the CEC began hosting workshops on the GHG emissions disclosure requirements and initiated the rulemaking process of updating their PSD regulations. A pre-rulemaking phase also began that included an implementation proposal on AB 1110. The legislation requires the CEC to adopt guidelines by January 1, 2018, but is still in the pre-rulemaking process. In early 2018, the CEC provided an update to their 2017 pre-rulemaking activities and proposed changes to the regulations and reports, but additional workshops are required and have yet to be scheduled. Once the CEC officially begins the rulemaking process, then they must finalize and adopt the updated regulations for it to be effective in 2020. Riverside continues to monitor the workshops and draft regulations for any impacts to the utility's reporting and resources in meeting this requirement.

ASSEMBLY BILL (AB) 398 – GHG CAP-AND-TRADE PROGRAM EXTENSION

AB 398 was signed on July 25, 2017, and approved extending the GHG cap-and-trade program to December 31, 2030, which was originally implemented under AB 32. This bill was also a companion bill to AB 617 as part of a legislative package that will be discussed further below. AB 398 required the CARB to update their scoping plan no later than January 1, 2018 and that all GHG rules and regulations that are adopted are consistent with this plan. On July 27, 2017, the ARB approved the 2016 Cap-and-Trade Amendments, which includes the Electric Utility's 2021-2030 allowance allocations they will receive each year. The Electric Utility's allowance allocations should be more than sufficient to cover all of our 2021-2030 direct compliance obligations.

Initially, it was unclear under AB 398 whether the Electric Utility would be required to consign 100% of their allowances to the market and then purchase allowances to fulfill its compliance obligations. POU's receive a sufficient amount of allowances each year to cover their compliance. Since the start of the Cap and Trade program in 2012, POU's have been able to use those received allowances for compliance. However, in

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

2017, the CARB announced they were reconsidering that provision. In early 2018, after much discussion and collaboration with the CARB in which the POUs demonstrated that they are including the price of GHG emissions in cost of energy, it was agreed that the POUs would not be forced to consign their allocated allowances and the structure would remain the same as it has and currently functions. Other unknown components of the law are the banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. CARB will be hosting more workshops and issuing the next iteration of regulation changes in 2018 and 2019. The Electric Utility will continue to monitor the outcome and impacts of the upcoming regulations on its service territory and ratepayers.

ASSEMBLY BILL (AB) 617 – AIR QUALITY MONITORING

AB 617 was signed on July 26, 2017, and was part of a legislative bill package with AB 398 which authorized the extension of the Cap and Trade Program in the State. AB 617 addresses the disproportionate impacts of air pollution in areas impacted by a combination of economic, health, and environmental burdens. These burdens include combinations of poverty, high unemployment, health conditions such as asthma and heart disease, air and water pollution, and hazardous wastes. Both the CARB and local air districts are required to take specific actions to reduce air pollution and toxic air contaminants from commercial and industrial sources, including from electricity-generating facilities. The bill requires the CARB, by October 1, 2018, to prepare a statewide monitoring plan regarding technologies and reasons for monitoring air quality and, based on that plan, identify the highest priority locations for the deployment of community level air monitoring systems. Local air districts are required to deploy the air monitoring systems in the specified communities by July 1, 2019. Additional locations for the deployment of the systems will be identified annually by the CARB beginning January 1, 2020. CARB is also required to provide grants to community-based organizations for technical assistance and to support community participation in the programs. In turn, this effort would require the local air district of the selected community to adopt a community emissions reduction program.

Additionally, AB 617 requires the CARB to develop uniform reporting standards for criteria air pollutants and toxic air contaminants for specific uses, including electricity-generating facilities. Air districts are to adopt an expedited schedule for implementing best available retrofit control technologies for the uses, while the CARB will identify these technologies.

This bill affects the City and the Electric Utility by imposing additional reporting requirements, particularly on power plants, and potentially adding or improving air monitoring systems in selected communities located within the City of Riverside. For Riverside, the local air district is the Southern California Air Quality Management District (“SCAQMD”). The CARB and SCAQMD have held and continue to hold community meetings to implement the required elements of AB 617. Preliminary discussions and proposals have already been conveyed by community members from the City as well as from the University of California, Riverside proposing areas for community air monitoring and planning. The City and Electric System is monitoring the progress of the community meetings and the two proposed areas for any impacts.

ASSEMBLY BILL (AB) 802 – BUILDING ENERGY USE BENCHMARKING AND PUBLIC DISCLOSURE PROGRAM

On October 8, 2015, AB 802 was signed into law creating a new statewide building energy use benchmarking and public disclosure program for the State of California. The bill requires California utilities to maintain records of energy usage data for all buildings (i.e., commercial and multifamily buildings over 50,000 square feet gross floor area) for at least the most recent 12 months. Beginning January 1, 2017, utilities are required to deliver or provide aggregated energy usage data for a covered building, as defined, to the owner, owner’s agent or operator upon written request. The Electric Utility must provide consumption data for buildings meeting the legislative requirement upon owners’ written request. The CEC adopted

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

regulations on October 11, 2017 and approved the regulation action to be effective on March 1, 2018. Building owners are required to report annually with the first report due by June 1, 2018.

SENATE BILL (SB) 100 – THE 100 PERCENT CLEAN ENERGY ACT OF 2018

SB 100, signed into law on September 10, 2018, increases the RPS goals of SBX1-2 and one of the primary components of SB 350 by modifying the RPS percentage targets of certain compliance periods. It does not replace SB 350. The measure maintains the 33% RPS target by December 31, 2020, while the compliance periods following it changed to 44% by December 31, 2024, 52% by December 31, 2027, and 60% by December 31, 2030. SB 100 is also known as The 100 Percent Clean Energy Act of 2018 because the bill creates the policy of planning to meet all of the state's retail electricity supply with a mix of RPS-eligible and zero-carbon resources by December 31, 2045, for a total of 100 percent clean energy.

The CEC is required to establish appropriate multiyear compliance periods for all subsequent years after 2030 that will require POUs to procure not less than 60% of retail sales from renewable resources. It is expected that workshops, rulemakings, and updated regulations will be implemented soon by the CEC to incorporate the SB 100 mandate in the RPS Guidebook and RPS Enforcement Procedures for POUs. In addition, POUs will need to include the increased requirements in their future IRP. Riverside will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

FIVE-YEAR ELECTRIC RATE PLAN

On May 22, 2018, the City Council approved a five-year Electric Rate Plan, with rate increases that will become effective on January 1, 2019, 2020, 2021, 2022 and 2023 with annual reviews of the adopted rates by City Council. The system average rate increase effective January 1, 2019 is 2.95%, followed by system average rate increases of 3.0% in years two through five. The Electric Rate Plan includes the introduction of electric rate components over a five-year period to better align with its cost of serving customers and its revenue requirement. The Electric Rate Plan is designed to provide financial stability and correct the imbalance of costs versus revenue recovery by increasing fixed cost recovery through monthly service charges and a new network access charge to reflect the nature of underlying costs. Pursuant to City Council direction, the first annual review of rates will be conducted in December of 2019.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

The City of Riverside has a long history of valuing sustainability and ensuring economic development. Recent efforts for sustainability began in 2001 when the City began using light-emitting diodes in all City traffic signals. Today, the City remains committed to environmental issues and serves as a state leader in sustainability.

The City's first sustainability policy statement was adopted in 2007 and ultimately led to the adoption of three Green Action Plans, the most recent in 2012. In 2009, the City also adopted sustainability policies associated with economic development as part of the "Seizing Our Destiny" citywide vision, incorporating a "Becoming a Green Machine" strategic route with specific initiatives. Additional adopted policies can be found in the City's General Plan 2025 (2007), the Environmentally Preferable Purchasing Policy (2009), the Food and Agriculture Policy Action Plan (2015) and the Riverside Restorative Growthprint (2016).

In 2012, the City hosted the first of three community-wide Green Riverside Leadership Summits. Subsequent summits were held in 2014 and 2016, the former in partnership with the University of California Riverside and the latter as part of the community-led Riverside Green Festival and Summit.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES (CONTINUED)

In 2015, the City earned a 3-STAR Community Rating designation from Sustainability Tools for Assessing and Rating (STAR) Communities, an organization that works to evaluate, improve and certify sustainable communities. The City is now developing a submission package to earn a 4-STAR Community Rating.

The City has received numerous recognitions for its sustainability programs and initiatives. In 2009, the California Department of Conservation named Riverside its first "Emerald City" in recognition for its sustainable green initiatives and commitment to help the state achieve multiple state environmental priorities. The City was honored in 2016 with the Green Community Award from Audubon International, recognizing Riverside for its ongoing sustainability initiatives. In addition, the City received the 2016 Sustainable Communities Award from the Green California Leadership Summit for its ongoing community-wide sustainability projects and programs that create environmental awareness and action throughout the community, including business, government and private citizens. The Green California Leadership Summit again recognized the City in 2018 with its Leadership Award for the City Green Fleet Program.

In 2017, the Electric Utility enjoyed additional load growth and new revenue associated with three large economic development projects in the City. These projects include Riverside Community Hospital's \$360 million expansion for a seven story, 250,000 square foot patient tower with 120 new beds. Other projects include Sigma Plastics expansion with the addition of a new stretch film production line and a new customer to the Electric Utility, Garden Highway Foods with their new fresh fruit and vegetable processing facility. Combined these businesses resulted in over 6 MW of new electric load and new revenue of \$3.1 million annually.

In 2017, the City received the "Outstanding Award" for Climate Change from the Association of Environmental Professional (AEP) for the Riverside Restorative Growthprint (RRG) Plan, a comprehensive plan adopted in 2016 with two major parts: an Economic Prosperity Action Plan and a Climate Action Plan. The Electric Utility played a key role in the City's effort to create and adopt RRG, which helps the City identify GHG reduction measures and strategies with the greatest potential to drive local economic development through clean-tech investment and the expansion of local green businesses. Ultimately, this effort spurs entrepreneurship and smart growth while advancing the City's GHG reduction goals.

The Electric Utility supports the local economy by offering some of the lowest commercial electric rates in Southern California combined with attractive economic development electric discount rates to qualified new and expanded load customers. These rate programs have helped create and retain over 3,600 jobs in the City since 2010. The City's Green Business Program recognizes local businesses for pursuing sustainability in their facilities and operations. Businesses are evaluated based on their efforts to reduce pollution and waste and to improve resource use efficiency. Once certified through the program, the businesses are recognized locally and statewide through the California Green Business Network, a network of over 3,600 other businesses in the State of California that have already committed to pursuing greener practices. Currently, the City has certified UTC Aerospace, OSI Industries and the Riverside Convention Center with this designation.

Beyond rate incentives, the Electric Utility also offers local businesses a comprehensive assortment of water and energy efficiency programs to improve building efficiency and reduce customer electric consumption. These programs include, the Small Business Direct Installation Program, which has helped over 6,000 participants save over \$2.0 million in utility costs and conserve over 13 million kilowatt hours (kWh).

The City initiated an ambitious LED streetlight replacement program in 2016. The program will eventually replace all city-owned streetlights by 2019, resulting in approximately 10 million kWh saved annually along with substantially reduced maintenance costs. The Electric Utility's grant program continues to provide assistance to local universities by providing funding for important research projects that explore new ways to advance energy technology and water conservation techniques.

These economic development, and sustainability projects and programs put the Electric Utility on the cutting edge of job creation and resource efficiency, making the City a better place to live and do business.

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES (CONTINUED)

For more information on these economic development and green initiatives, go to GreenRiverside.com.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.RiversidePublicUtilities.com.

ELECTRIC UTILITY: FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

	June 30, 2018	June 30, 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Note 3)	\$ 781,254	\$ 768,792
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	\$ 69,047	82,941
Other non-current assets:		
Advances to other funds of the City	4,227	4,665
Unamortized purchased power (Note 10)	10,913	8,927
Regulatory assets	1,949	3,056
Total other non-current assets	17,089	16,648
Total non-current assets	867,390	868,381
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	257,155	255,496
Accounts receivable, less allowance for doubtful accounts 2018 \$629; 2017 \$509	32,799	35,432
Advances to other funds of the City	305	183
Accrued interest receivable	1,016	891
Inventory	1,097	1,097
Prepaid expenses	22,842	23,382
Unamortized purchased power (Note 10)	218	124
Total unrestricted current assets	315,432	316,605
Restricted assets:		
Cash and cash equivalents (Note 2)	32,784	32,633
Public Benefit Programs - cash and cash equivalents (Note 2)	15,575	14,500
Public Benefit Programs receivable	881	927
Total restricted current assets	49,240	48,060
Total current assets	364,672	364,665
Total assets	1,232,062	1,233,046
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 5)	30,596	38,247
Changes in derivative values	10,692	17,157
Loss on refunding	8,997	9,772
Total deferred outflows of resources	50,285	65,176
Total assets and deferred outflows of resources	\$ 1,282,347	\$ 1,298,222

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

	June 30, 2018	June 30, 2017
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	(in thousands)	
NET POSITION:		
Net investment in capital assets	\$ 267,230	\$ 229,432
Restricted for:		
Regulatory requirements (Note 7)	16,093	16,123
Debt service (Note 7)	16,691	16,510
Public Benefit Programs	16,122	15,094
Unrestricted	189,276	207,042
Total net position	<u>505,412</u>	<u>484,201</u>
 LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	 <u>529,294</u>	 <u>557,540</u>
 OTHER NON-CURRENT LIABILITIES:		
Compensated absences (Note 4)	521	808
Net pension liability (Note 5)	108,886	96,193
Nuclear decommissioning liability (Note 9)	55,120	56,067
Net other postemployment benefits liability (Note 6)	8,283	7,905
Derivative instruments (Note 4)	15,228	22,525
Capital leases payable (Note 4)	2,274	3,098
Total non-current liabilities	<u>190,312</u>	<u>186,596</u>
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	4,846	5,215
Public Benefit Programs payable	235	233
Nuclear decommissioning liability (Note 9)	5,457	8,607
Current portion of long-term obligations (Note 4)	16,463	15,689
Total current liabilities payable from restricted assets	<u>27,001</u>	<u>29,744</u>
 CURRENT LIABILITIES:		
Accounts payable and other accruals	17,178	16,409
Customer deposits	6,397	5,996
Unearned revenue	61	51
Total current liabilities	<u>23,636</u>	<u>22,456</u>
Total liabilities	<u>770,243</u>	<u>796,336</u>
 DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 5)	6,396	17,685
Deferred inflows related to other postemployment benefits (Note 6)	296	-
Total deferred inflows of resources	<u>6,692</u>	<u>17,685</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 1,282,347</u>	<u>\$ 1,298,222</u>

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30,	
	2018	2017
	(in thousands)	
OPERATING REVENUES:		
Residential sales	\$ 115,630	\$ 117,662
Commercial sales	71,128	71,456
Industrial sales	115,106	115,432
Other sales	4,792	4,782
Wholesale sales	2	9
Transmission revenue	37,484	35,497
Other operating revenue	11,514	12,899
Public Benefit Programs	8,860	8,880
Total operating revenues before uncollectibles	364,516	366,617
Estimated uncollectibles, net of bad debt recovery	(687)	(551)
Total operating revenues, net of uncollectibles	363,829	366,066
OPERATING EXPENSES:		
Production and purchased power	136,423	132,349
Transmission	62,981	59,497
Distribution	67,436	59,906
Public Benefit Programs	7,820	7,602
Depreciation	33,585	32,642
Total operating expenses	308,245	291,996
Operating income	55,584	74,070
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,567	1,809
Interest expense and fiscal charges	(24,129)	(25,340)
Gain on sale of assets	579	420
Other	6,829	7,174
Total non-operating revenues (expenses)	(14,154)	(15,937)
Income before capital contributions and transfers out	41,430	58,133
Capital contributions	20,182	19,684
Transfers out - contributions to the City's general fund	(40,073)	(39,230)
Total capital contributions and transfers out	(19,891)	(19,546)
Increase in net position	21,539	38,587
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	484,201	445,614
LESS: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(328)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	483,873	445,614
NET POSITION, END OF YEAR	\$ 505,412	\$ 484,201

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

For the Fiscal Years
Ended June 30,
2018 2017
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 366,925	\$ 366,039
Cash paid to suppliers and employees	(270,419)	(267,768)
Other receipts	6,829	7,174
Net cash provided by operating activities	<u>103,335</u>	<u>105,445</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(40,073)	(39,230)
Payment on pension obligation bonds	(1,894)	(712)
Cash received on advances to other funds of the City	316	683
Net cash used by non-capital financing activities	<u>(41,651)</u>	<u>(39,259)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(27,460)	(27,999)
Proceeds from the sale of utility plant	671	426
Payment on bond defeasance	(11,005)	-
Principal paid on long-term obligations	(14,602)	(14,109)
Interest paid on long-term obligations	(25,894)	(26,274)
Capital contributions	3,154	2,285
Net cash used by capital and related financing activities	<u>(75,136)</u>	<u>(65,671)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	13,895	9,452
Income from investments	2,442	1,568
Net cash provided by investing activities	<u>16,337</u>	<u>11,020</u>
Net increase in cash and cash equivalents	2,885	11,535
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$47,133 and \$41,847 at June 30, 2017 and June 30, 2016, respectively, reported in restricted accounts)		
	<u>302,629</u>	<u>291,094</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$48,360 and \$47,133 at June 30, 2018 and June 30, 2017, respectively, reported in restricted accounts)		
	<u>\$ 305,514</u>	<u>\$ 302,629</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 55,584	\$ 74,070
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	33,585	32,642
Increase (decrease) in allowance for uncollectible accounts	120	(241)
Decrease (increase) in accounts receivable	2,575	(742)
Decrease (increase) in prepaid expenses	540	(1,183)
Increase in unamortized purchased power	(2,080)	(1,591)
Increase (decrease) in accounts payable and other accruals	752	(2,650)
(Decrease) increase in compensated absences	(287)	44
Increase (decrease) in Public Benefit Programs payable	2	(1,614)
Increase (decrease) in unearned revenue	10	(274)
Increase in customer deposits	401	956
Decrease in decommissioning liability	(4,097)	(4,219)
Increase in advance from other funds of the City - pension obligations	-	2,680
Changes in net pension liability and related deferred outflows and inflows of resources	9,055	(248)
Changes in other postemployment benefits liability and related deferred inflows of resources	346	641
Other receipts	6,829	7,174
Net cash provided by operating activities	<u>\$ 103,335</u>	<u>\$ 105,445</u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	17,012	17,317
(Decrease) increase in fair value of investments	(79)	902

See accompanying notes to the financial statements

FINANCIAL STATEMENTS: ELECTRIC



ELECTRIC UTILITY: NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission, and distribution of electric power for sale in the City. The accompanying financial statements present only the financial position and the results of operations of the Electric Utility, which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Electric Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

The Electric Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Electric Utility are also substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC.

The Electric Utility distinguishes 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Electric Utility are charges to customers for electric sales and services. Operating expenses for the Electric Utility include the cost of electric 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.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2017, the accompanying financial statements reflect the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The primary objective of this statement is to improve accounting and financial reporting by state and local governments in regards to postemployment benefits other than pensions (OPEB). These improvements provide users of financial statements decision-useful information, support assessments of accountability and interperiod equity, and create additional transparency. GASB 75 accomplishes this by requiring recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, along with new note disclosures and required supplementary information. For further details, refer to Note 6.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Electric Utility customers are billed monthly. Unbilled electric service charges, including Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$15,270 at June 30, 2018, and \$16,868 at June 30, 2017.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An allowance for doubtful accounts is maintained for the Electric Utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

ELECTRIC UTILITY PLANT AND DEPRECIATION

The Electric Utility 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. Electric Utility plant assets are valued at historical 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. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. 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 fiscal years ended June 30, 2018 and 2017, the Electric Utility capitalized net interest costs of \$1,667 and \$1,429, respectively. Total interest expense incurred by the Electric Utility was \$25,120 and \$25,553, respectively.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Production plant.....	10-40 years
Transmission and distribution plant.....	20-50 years
General plant and equipment.....	5-50 years
Intangibles.....	5-10 years

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets in the Statements of Net Position because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning and regulatory requirements relating to greenhouse gas allowances are also classified as restricted assets because their use is legally restricted to a specific purpose. Generally, the Electric Utility will first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

In January 1998, the Electric Utility began collecting a surcharge for Public Benefit Programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

CASH AND INVESTMENTS

In accordance with the Electric Utility policy, the Electric Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings. The Electric Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Electric Utility values its cash and investments in accordance with provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation includes a hierarchy of inputs with three distinct levels. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Electric Utility does not value any of its investments using level 1 and level 3 inputs.

City-wide information concerning cash and investments as of June 30, 2018, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Electric Utility and are used to fund construction of capital assets. A portion is pledged as collateral for payment of principal and interest on outstanding bonds and certain funds are set aside to decommission the Electric Utility's proportionate share of Units 2 and 3 at San Onofre Generating Stations (SONGS).

UNRESTRICTED DESIGNATED CASH RESERVES

The Riverside Public Utilities Cash Reserve Policy establishes several designated cash reserves in the Electric Utility for strategic purposes. Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board of Public Utilities and City Council. Designated reserves may be held for capital or operating purposes.

Unrestricted designated cash reserve balances as of June 30, 2018 and 2017 were as follows: Additional Decommissioning Liability Reserve \$8,245 and \$6,590, Customers Deposits \$4,562 and \$4,385, Capital Repair and Replacement Reserve \$4,865 and \$3,119, Electric Reliability Reserve \$62,800 and \$54,242, and Mission Square Improvement Reserve \$1,244 and \$734. In addition, a Dark Fiber designated reserve was approved by City Council on July 11, 2017 to account for fiber lease activities. As of June 30, 2018, the balance in the Dark Fiber Reserve was \$2,303. In June 2017, the Board of Public Utilities and City Council approved the establishment of a bond defeasance designated cash reserve account and authorized the transfer of settlements and cost recoveries in the amount of \$11,244 to the designated reserve for bond defeasance. As of June 30, 2018, bond defeasance reserve has been fully utilized to partially defease existing revenue bonds. The combined total for these reserves was \$84,019 and \$ 80,314 at June 30, 2018 and 2017, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Electric Utility and the City. The balances as of June 30, 2018 and 2017 are \$4,532 and \$4,848, respectively.

DERIVATIVES

The Electric Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Electric Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferred inflows and outflows of resources on the Statements of Net Position. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

investments are to be reported in the non-operating revenues section of the Statements of Revenues, Expenses and Changes in Net Position.

The Electric Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Electric Utility's interest rate swaps.

Various transactions permitted in the Electric 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 (CRR). GASB 53 allows an exception for the Statements of Net Position deferral hedges that meet the normal purchases and normal sales exception. The Electric Utility has determined that all of its contracts including CRRs fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

BOND PREMIUMS AND GAINS/LOSSES ON REFUNDING

Bond premiums and gains/losses on refunding (including gains/losses related to interest rate swap transactions) are deferred and amortized over the term of the new bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums. Gains/losses on refunding are reported as deferred inflows or outflows of resources.

NUCLEAR DECOMMISSIONING LIABILITY

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 decommissioning cost estimate as of March 2018, the Electric Utility has fully funded the SONGS nuclear decommissioning liability. The Electric Utility has set aside \$57,154 and \$70,324 in cash investments with the trustee and \$8,245 and \$6,590 in an unrestricted designated decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of June 30, 2018 and 2017, respectively, and these amounts are reflected as restricted assets and unrestricted cash and cash equivalents, respectively, on the Statements of Net Position. 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 continued to set aside \$1,581 per year in an unrestricted designated cash reserve for unexpected costs not contemplated in the current estimates. See Note 9 for further discussion on SONGS nuclear decommissioning liability.

CAPITAL LEASES

The Electric Utility has entered into sixteen capital lease agreements as a lessee for financing sixteen compressed natural gas heavy duty service trucks. All leases have seven year terms of monthly payments with interest rates ranging from 2.0 percent to 2.5 percent. The total gross value of all existing leases is \$5,715 with depreciation over the seven year terms of the leases using the straight-line method.

As of June 30, 2018 and 2017, the total liability was \$3,098 and \$3,905, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases is \$881 in fiscal year ended June 30, 2019, \$868 in fiscal year ended June 30, 2020, \$559 annually in fiscal years ended June 30, 2021 and 2022, and \$367 in fiscal year ended June 30, 2023. Total outstanding lease payments are \$3,234, with \$3,098 representing the present value of the net minimum lease payments and \$135 representing interest.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Electric Utility's portion of these deposits as of June 30, 2018 and 2017 was \$6,397 and \$5,996, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2018 and 2017. The Electric Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$5,068 at June 30, 2018 and \$4,985 at June 30, 2017.

Employees receive 10 to 25 vacation days per 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.

Employees primarily 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.

INSURANCE PROGRAMS

The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Electric Utility Plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2018, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2018 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility including the Public Benefit Programs, were \$627 and \$620 for the years ended June 30, 2018 and 2017, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City 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. Benefit provisions and all other requirements are established by state statute and City ordinance.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

payable in accordance with the benefit terms. Investments are reported at fair value. Further details of employee retirement plan can be found in Note 5.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB liability is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the Electric Utility has implemented GASB 75, which is explained in details under New Accounting Pronouncements and in Note 6.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position 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. Deferred outflows of resources consist of changes in derivative values, loss on refunding and deferred outflows related to pension which include pension contributions subsequent to measurement date, difference between actual and actuarial determined contribution, changes in assumptions and net differences between projected and actual earnings on pension plan investments.

Conversely, 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. Deferred inflows of resources consist of deferred inflows related to pension which include changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS

In accordance with regulatory accounting criteria set forth in GASB Codification (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 Electric Utility is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets relating to debt issuance costs have been recognized in the Statements of Net Position.

NET POSITION

The Electric Utility's net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources, which is classified into the following three components:

Net investment in capital assets – this component consists of capital assets (net of accumulated depreciation) reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, excluding unspent bond proceeds.

Restricted – this component represents restricted assets less liabilities and deferred inflows related to those assets. Restricted assets are recorded when there are limitations imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – this component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2018 and 2017, \$40,073 and \$39,230, respectively was transferred representing 11.5 percent.

CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

BUDGET AND BUDGETARY ACCOUNTING

The Electric Utility presents, and the City Council adopts, a biennial budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June biennially via resolution.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform with the current year's presentation. Such reclassifications have no effect on the net position or the changes in net position.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2018 and 2017, consist of the following (in thousands):

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 305,514	\$ 302,629
Cash and investments at fiscal agent	69,047	82,941
Total cash and investments	<u>\$ 374,561</u>	<u>\$ 385,570</u>

The amounts above are reflected in the accompanying financial statements as:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Unrestricted cash and cash equivalents	\$ 257,155	\$ 255,496
Restricted cash and cash equivalents	48,359	47,133
Restricted cash and investments at fiscal agent	69,047	82,941
Total cash and investments	<u>\$ 374,561</u>	<u>\$ 385,570</u>

The investment types in the tables below related to the Electric Utility's investments in the City Treasurer's investment pool represent the Electric Utility's prorated share of the investment types in the investment pool and do not represent ownership interests in the individual investments.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

The Electric Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Electric Utility has the following recurring fair value measurements as of June 30, 2018 and 2017:

Investment Type	June 30, 2018 Fair Value	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Held by fiscal agent					
Money market funds	\$ 2,745	\$ -	\$ 2,745	\$ -	\$ -
US Treasury notes/bonds	46,314	-	46,314	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	-	9,227	-	-
City Treasurer's investment pool ¹					
Money market funds	72,037	-	72,037	-	-
Federal agency securities	3,847	-	3,847	-	-
US Treasury notes/bonds	145,973	-	145,973	-	-
Corp medium term notes	17,371	-	17,371	-	-
State investment pool	62,702	-	-	-	62,702
Neg certificate of deposit	3,584	-	3,584	-	-
Total	\$ 374,561	\$ -	\$ 301,098	\$ -	\$ 73,463

Investment Type	June 30, 2017 Fair Value	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Held by fiscal agent					
Money market funds	\$ 54,697	\$ -	\$ 54,697	\$ -	\$ -
Federal agency securities	13,485	-	13,485	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	3,998	-	3,998	-	-
City Treasurer's investment pool ¹					
Money market funds	46,303	-	46,303	-	-
Federal agency securities	5,440	-	5,440	-	-
US Treasury notes/bonds	166,652	-	166,652	-	-
Corp medium term notes	9,270	-	9,270	-	-
State investment pool	68,967	-	-	-	68,967
Neg certificate of deposit	5,997	-	5,997	-	-
Total	\$ 385,570	\$ -	\$ 305,842	\$ -	\$ 79,728

¹ Additional information on investment types, fair value measurement, interest rate risk and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2018 and 2017, are as follows:

Investment Type	June 30, 2018 Fair Value	Remaining Maturity (In Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 2,745	\$ 2,745	\$ -	\$ -	\$ -
US Treasury notes/bonds	46,314	10,962	8,890	26,462	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	2,880	3,379	2,968	-
City Treasurer's investment pool ¹					
Money market funds	72,037	72,037	-	-	-
Federal agency securities	3,847	-	-	3,847	-
US Treasury notes/bonds	145,973	19,723	68,207	58,043	-
Corp medium term notes	17,371	4,114	7,207	6,050	-
State investment pool	62,702	62,702	-	-	-
Negotiable certificate of deposit	3,584	2,162	477	945	-
Total	\$ 374,561	\$ 177,325	\$ 88,160	\$ 98,315	\$ 10,761

Investment Type	June 30, 2017 Fair Value	Remaining Maturity (In Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 54,697	\$ 54,697	\$ -	\$ -	\$ -
Federal agency securities	13,485	13,485	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	3,998	3,998	-	-	-
City Treasurer's investment pool ¹					
Money market funds	46,303	46,303	-	-	-
Federal agency securities	5,440	5,440	-	-	-
US Treasury notes/bonds	166,652	24,612	53,225	88,815	-
Corp medium term notes	9,270	4,690	4,580	-	-
State investment pool	68,967	68,967	-	-	-
Negotiable certificate of deposit	5,997	1,995	2,401	1,601	-
Total	\$ 385,570	\$ 224,187	\$ 60,206	\$ 90,416	\$ 10,761

¹ Additional information on investment types, fair value measurement, interest rate risk and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2018 and 2017 for each investment type:

Investment Type	Rating as of Year End				
	June 30, 2018 Fair Value	AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	\$ 2,745	\$ 1,506	\$ -	\$ 1,239	\$ -
US Treasury notes/bonds	46,314	46,314	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	2,880	2,968	3,379	-
City Treasurer's investment pool ¹					
Money market funds	72,037	-	69,557	2,480	-
Federal agency securities	3,847	3,847	-	-	-
US Treasury notes/bonds	145,973	145,973	-	-	-
Corp medium term notes	17,371	-	17,371	-	-
State investment pool	62,702	-	-	-	62,702
Neg certificate of deposit	3,584	-	-	-	3,584
Total	\$ 374,561	\$ 200,520	\$ 89,896	\$ 7,098	\$ 77,047

Investment Type	Rating as of Year End				
	June 30, 2017 Fair Value	AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	\$ 54,697	\$ 52,815	\$ -	\$ 1,882	\$ -
Federal agency securities	13,485	13,485	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	3,998	-	-	3,998	-
City Treasurer's investment pool ¹					
Money market funds	46,303	-	43,569	2,734	-
Federal agency securities	5,440	5,440	-	-	-
US Treasury notes/bonds	166,652	166,652	-	-	-
Corp medium term notes	9,270	1,895	6,408	967	-
State investment pool	68,967	-	-	-	68,967
Neg certificate of deposit	5,997	-	-	-	5,997
Total	\$ 385,570	\$ 240,287	\$ 49,977	\$ 9,581	\$ 85,725

¹ Additional information on investment types, fair value measurement, interest rate risk and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2018 and 2017 (in thousands):

	Balance			Balance			Balance
	As of		Retirements/	As of		Retirements/	As of
	6/30/2016	Additions	Transfers	6/30/2017	Additions	Transfers	6/30/2018
Production	\$ 267,312	\$ -	\$ -	\$ 267,312	\$ -	\$ -	\$ 267,312
Transmission	44,415	553	-	44,968	83	(44)	45,007
Distribution	584,010	18,026	(730)	601,306	27,721	(1,136)	627,891
General	106,746	3,463	(310)	109,899	709	(216)	110,392
Intangibles	18,961	1,990	-	20,951	521	-	21,472
Depreciable utility plant	1,021,444	24,032	(1,040)	1,044,436	29,034	(1,396)	1,072,074
Less accumulated depreciation:							
Production	(70,823)	(8,946)	-	(79,769)	(8,946)	-	(88,715)
Transmission	(16,990)	(910)	-	(17,900)	(914)	44	(18,770)
Distribution	(222,062)	(15,986)	727	(237,321)	(16,471)	1,044	(252,748)
General	(32,464)	(4,816)	305	(36,975)	(4,959)	216	(41,718)
Intangibles	(1,827)	(1,984)	-	(3,811)	(2,295)	-	(6,106)
Accumulated depreciation	(344,166)	(32,642)	1,032	(375,776)	(33,585)	1,304	(408,057)
Net depreciable utility plant	677,278	(8,610)	(8)	668,660	(4,551)	(92)	664,017
Land	21,439	16,406	-	37,845	14,266	-	52,111
Intangibles, non-amortizable	10,651	-	-	10,651	-	-	10,651
Construction in progress	45,326	29,155	(22,845)	51,636	28,834	(25,995)	54,475
Nondepreciable utility plant	77,416	45,561	(22,845)	100,132	43,100	(25,995)	117,237
Total utility plant	\$ 754,694	\$ 36,951	\$ (22,853)	\$ 768,792	\$ 38,549	\$ (26,087)	\$ 781,254

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2018 and 2017 (in thousands):

	Balance			Balance			Balance As of 6/30/2018	Due Within One Year
	As of 6/30/2016	Additions	Reductions	As of 6/30/2017	Additions	Reductions		
Revenue bonds	\$575,048		\$ (14,131)	\$560,917		\$ (25,578)	\$ 535,339	\$14,445
Pension obligation bonds	10,084	2,940	(712)	12,312		(1,894)	10,418	2,018
Compensated absences	4,887	4,259	(4,161)	4,985	4,556	(4,473)	5,068	4,547
Nuclear decommissioning liability	68,893		(4,220)	64,673	529	(4,625)	60,577	5,457
Capital leases	4,694		(789)	3,905		(807)	3,098	824
Total long-term obligations	\$663,606	\$ 7,199	\$ (24,013)	\$646,792	\$ 5,085	\$ (37,377)	\$ 614,500	\$27,291

Long-term debt consists of the following (in thousands):

PENSION OBLIGATION BONDS PAYABLE

	June 30, 2018	June 30, 2017
\$30,000 2005 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$630 to \$3,860 through June 2020, interest from 3.9 to 4.8 percent. The Electric Utility's proportional share of the outstanding debt is 29.6 percent.	1,933	2,964
\$31,960 2017 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$2,910 to \$3,580 through June 2027, interest from 1.3 to 3.1 percent. The Electric Utility's proportional share of the outstanding debt is 29.6 percent.	8,485	9,348
Total pension obligation bonds payable	10,418	12,312

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

REVENUE BONDS PAYABLE

	June 30, 2018	June 30, 2017
\$141,840 2008 Electric Refunding/Revenue Bonds:		
A - \$84,515 2008 Series A Bonds - variable rate bonds due in annual principal installments from \$4,575 to \$7,835 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2018 was 3.0 percent). Partially refunded \$13,975 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds	70,540	70,540
C - \$57,325 2008 Series C Bonds - variable rate bonds due in annual principal installments from \$700 to \$5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2018 was 3.1 percent). Partially refunded \$11,775 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds	41,975	41,975
\$209,740 2008 Electric Revenue Series D Bonds: fixed rate bonds due in annual principal installments from \$3,560 to \$22,925 through October 1, 2038, interest from 3.6 to 5.0 percent. Partially defeased \$11,005 on May 8, 2018.	195,275	209,740
\$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in final principal installment of \$1,275 on October 1, 2018, interest of 4.0 percent.	1,275	2,490
\$140,380 2010 Electric Revenue Bonds:		
A - \$133,290 2010 Electric Revenue Series A Bonds: fixed rate, federally taxable Build America Bonds due in annual principal installments from \$2,300 to \$33,725, from October 1, 2020 through October 1, 2040, interest from 3.9 to 4.9 percent	133,290	133,290
B - \$7,090 2010 Electric Revenue Series B Bonds: fixed rate bonds due in annual principal installments from \$2,210 to \$2,440 through October 1, 2019, interest from 4.0 to 5.0 percent	4,650	6,995
\$56,450 2011 Electric Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from \$725 to \$5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2018 was 3.1 percent). Partially refunded \$11,825 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds	41,925	41,925
\$79,080 2013 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from \$795 to \$2,625 through October 1, 2043, interest from 3.5 to 5.3 percent	39,785	46,560
Total electric revenue bonds payable	528,715	553,515
Total electric revenue and pension obligation bonds payable	539,133	565,827
Unamortized bond premium	6,624	7,402
Total electric revenue and pension obligation bonds payable, including bond premium	545,757	573,229
Less current portion of revenue and pension obligation bonds payable	(16,463)	(15,689)
Total long-term electric revenue and pension obligation bonds payable	<u>\$ 529,294</u>	<u>\$ 557,540</u>

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Revenue and pension obligation bonds annual debt service requirements to maturity as of June 30, 2018 are as follows (in thousands):

	2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	2039-2043	2044-2048	Total
Principal	\$ 16,463	\$ 16,673	\$ 16,442	\$ 17,011	\$ 17,623	\$ 94,804	\$ 116,230	\$ 134,915	\$ 106,347	\$ 2,625	\$ 539,133
Interest	\$ 23,628	\$ 22,992	\$ 22,376	\$ 21,771	\$ 21,135	\$ 93,441	\$ 70,830	\$ 43,040	\$ 9,449	\$ 66	\$ 328,728
Total	\$ 40,091	\$ 39,665	\$ 38,818	\$ 38,782	\$ 38,758	\$ 188,245	\$ 187,060	\$ 177,955	\$ 115,796	\$ 2,691	\$ 867,861

For fiscal year ended June 30, 2018, the City restructured the presentation of the long term pension obligation bonds from advances from other funds to long term obligations. The Electric Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Electric Utility's proportional share of the outstanding principal amount of the bonds was \$10,418 and \$12,312 as of June 30, 2018 and 2017, respectively. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bond issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2018.

In May 2018, the Electric Utility defeased \$11,005 of the total outstanding \$206,280 of Electric Revenue Bonds, Issue 2008D with monies received from settlements and cost recoveries associated with the early closure of the SONGS Units 2 and 3. The partial defeasance related to bond proceeds that funded part of the Steam Generator Replacement Project and other SONGS capital costs. The partial bond defeasance reduced debt and realized interest savings of \$10,233 over the remaining 20-year life of the bonds. As of June 30, 2018, the outstanding debt related to the 2008D Bond Issuance was \$195,275.

The Electric Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of electric revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Electric Utility capital improvement projects. For June 30, 2018 and 2017, debt service payments as a percentage of the pledged gross revenue, 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 the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses) (1)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2018	Electric revenues	\$ 110,331	\$ 40,720	2.71
June 30, 2017	Electric revenues	\$ 116,958	\$ 39,585	2.95

¹ Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of \$9,056 and (\$248) as expenses for June 30, 2018 and 2017 respectively.

LETTERS OF CREDIT

The Electric Utility's 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the Electric Utility and the purchaser of the bonds. The Electric Utility 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:

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Debt Issue	LOC Provider	LOC	Annual
		Expiration Date	Commitment Fee
2008 Electric Refunding/Revenue Bonds Series A	Barclays Bank, PLC	2021	0.325%
2008 Electric Refunding/Revenue Bonds Series C	Barclays Bank, PLC	2021	0.325%

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 with principal to be paid quarterly not to exceed a 5-year period. The Electric Utility would be required to pay annual interest equal to the highest of 8 percent, the Prime Rate plus 2.5 percent, the Federal Funds Rate plus 2.5 percent and 150 percent of the yield on the 30-year U.S. Treasury Bond. No amounts have ever been drawn against the two LOCs due to a failed remarketing.

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

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three 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. 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 loss 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 Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2018 is as follows:

	Notional Amount	Fair Value as of 6/30/2018	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	\$ 68,525	\$ (4,777)	\$ 2,888
2008 Electric Refunding/Revenue Bonds Series C	\$ 41,975	\$ (5,234)	\$ 2,207
2011 Electric Refunding/Revenue Bonds Series A	\$ 41,925	\$ (5,217)	\$ 2,202

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Electric Utility entered into interest rate swap agreements in connection with its \$141,840 2008 Electric Refunding/Revenue Bonds (Series A and C) and \$56,450 2011 (Series A).

Terms: Per the existing swap agreements, the Electric Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. 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 \$4,575 to \$7,835 (2008 Series A), \$700 to \$5,200 (2008 Series C) and \$725 to \$5,175 (2011 Series A) until the debt is completely retired in fiscal years 2030 (2008 Series A) and 2036 (2008 Series C and 2011 Series A).

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

The bonds and the related swap agreements for the Electric Refunding/Revenue 2008 (Series A) Bonds mature on October 1, 2029 and the 2008 (Series C) and 2011 (Series A) Bonds mature on October 1, 2035. As of June 30, 2018, rates were as follows:

Interest rate swap:	Terms	2008 Electric	2008 Electric	2011 Electric
		Refunding/Revenue Series A Bonds	Refunding/Revenue Series C Bonds	Refunding/Revenue Series A Bonds
		Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.47498%)	(0.47558%)	(0.44435%)
Net interest rate swap payments		2.63602%	2.72842%	2.75665%
Variable-rate bond coupon payments		0.39419%	0.39465%	0.36625%
Synthetic interest on bonds		3.03021%	3.12307%	3.12290%

Fair value: As of June 30, 2018, in connection with all swap agreements, the transactions had a total negative fair value of (\$15,228). Because the coupons on the Electric Utility'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 swaps, 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: As of June 30, 2018, the Electric Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co. and Bank of America Corp., were rated A- and BBB+ respectively by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps 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, 2018, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: As noted above, the swaps expose the Electric Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. 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 Electric Utility if either counterparty's credit quality falls below "BBB-" as issued by S&P. The Electric Utility 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 Electric Utility 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, 2018, 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 table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal Year Ending June 30,	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2019	\$ 6,375	\$ 625	\$ 4,373	\$ 11,373
2020	8,300	592	4,150	13,042
2021	8,600	558	3,904	13,062
2022	8,950	521	3,649	13,120
2023	9,200	483	3,388	13,071
2024-2028	37,875	1,952	13,799	53,626
2029-2033	45,115	1,078	7,776	53,969
2034-2038	30,025	164	1,185	31,374
Total	\$ 154,440	\$ 5,973	\$ 42,224	\$ 202,637

NOTE 5. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

The City contributes to 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. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. 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. The Electric Utility participates in the City's Miscellaneous (non-safety) Plan (the Plan).

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. 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. Under the Plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier –
 - The retirement formula is 2.7 percent at age 55 for employees hired before October 19, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units), the employees were required to pay 2 percent of the employee contribution of their pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.
 - The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employee is required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees will be required to

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

pay an additional portion of their pensionable income. This portion is a two year increase of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.

- The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.
- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent 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.

BENEFITS PROVIDED

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

EMPLOYEES COVERED

As of measurement date June 30, 2017 and 2016, the following employees, City-wide, were covered by the benefit terms of the Plan:

	Measurement Date	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Inactive employees or beneficiaries		
currently receiving benefits	2,114	2,040
Inactive employees entitled to but		
not yet receiving benefits	1,325	1,317
Active employees	1,599	1,536

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CONTRIBUTIONS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. For fiscal year June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous - Current Year</u>	<u>Miscellaneous - Prior Year</u>
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.15%	7.65%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase	(1)	(1)
Investment rate of return ⁽²⁾	7.50%	7.50%
Mortality	(3)	(3)

⁽¹⁾ Depending on age, service and type of employment.

⁽²⁾ Net of pension plan investment expenses, including inflation.

⁽³⁾ The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.15 percent and 7.65 percent for measurement date as of June 30, 2017 and 2016, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used to measure total pension liability are adequate and the use of the municipal bond rate calculation is not

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

necessary. The long term expected discount rates are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

June 30, 2017 Measurement Date			
Asset Class	Current Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

⁽¹⁾ An expected inflation of 2.50% used for this period.

⁽²⁾ An expected inflation of 3.00% used for this period.

June 30, 2016 Measurement Date			
Asset Class	Current Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

⁽¹⁾ An expected inflation of 2.50% used for this period.

⁽²⁾ An expected inflation of 3.00% used for this period.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY

The changes in the Electric Utility's proportionate share of the net pension liability as of June 30, 2018 (measurement date June 30, 2017) and 2017 (measurement date June 30, 2016) for the Plan are as follows:

June 30, 2018	Net Pension Liability	Proportion of the Plan
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 108,886	32.04%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	96,193	31.08%
Change - Increase / (Decrease)	12,693	0.96%
June 30, 2017	Net Pension Liability	Proportion of the Plan
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	96,193	31.08%
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	77,907	31.96%
Change - Increase / (Decrease)	18,286	(0.88%)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Electric Utility's proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.15 percent and 7.65 percent for measurement date as of June 30, 2017 and 2016, respectively, as well as what the Electric Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Measurement Date					
	June 30, 2017			June 30, 2016		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
The Electric Utility's proportionate share of the Plan's net pension liability	\$ 170,418	\$ 108,886	\$ 58,484	\$ 149,304	\$ 96,193	\$ 52,510

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSION

For the fiscal years ended June 30, 2018 and 2017, the Electric Utility recognized pension expense of \$18,169 and \$9,199, respectively. At June 30, 2018 and 2017, the Electric Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 9,073	\$ -	\$ 9,447	\$ -
Difference between actual and actuarial determined contribution	-	-	3,321	-
Changes in assumptions	17,082	-	-	(3,135)
Differences between expected and actual experience	-	(6,396)	-	(3,805)
Net differences between projected and actual earnings on plan investments	4,441	-	25,479	(10,745)
Total	\$ 30,596	\$ (6,396)	\$ 38,247	\$ (17,685)

\$9,073 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2019	3,210
2020	9,625
2021	4,651
2022	(2,359)
Total	\$ 15,127

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

BENEFITS PROVIDED

Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. 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 benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

As of measurement date June 30, 2017, the following employees, City-wide, were covered by the benefit terms:

	Measurement Date
	June 30, 2017
Inactive plan members or beneficiaries	
currently receiving benefits	304
Inactive plan members entitled to but	
not yet receiving benefits	-
Active plan members	<u>2,121</u>
Total	<u>2,425</u>

ACTUARIAL ASSUMPTIONS

The total OPEB liability was determined by actuarial valuation as of June 30, 2017 using the following actuarial assumptions:

	Current Year
Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Funding Policy	Pay-as-you-go for implicit rate subsidy
Actuarial Assumptions:	
Discount rate ⁽¹⁾	3.40%
Inflation rate	2.75%
Salary inflation	3.00%
Salary increases ⁽²⁾	--
Mortality	CalPERS 2014 Experience Study

⁽¹⁾ The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

⁽²⁾ The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The following presents the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability, calculating using the healthcare trend rate of 6.00%/HMO and 6.50%/PPO, as well as what the Electric Utility's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

	June 30, 2017 - Measurement Date		
	Current healthcare		
	1% Decrease	cost trend rates	1% Increase
The Electric Utility's proportionate share of the City's total OPEB liability	\$ 7,445	\$ 8,283	\$ 9,262

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATES

The following presents the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability, calculating using the discount rate of 3.40%, as well as what the Electric Utility's total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (2.40%) or 1-percentage-point higher (4.40%) than the current rate:

	June 30, 2017 - Measurement Date		
	Current		
	1% Decrease (2.40%)	Discount Rate (3.40%)	1% Increase (4.40%)
The Electric Utility's proportionate share of the City's total OPEB liability	\$ 8,981	\$ 8,283	\$ 7,648

CHANGE IN TOTAL OPEB LIABILITY

For fiscal year ended June 30, 2018, the Electric Utility's, including Public Benefits, recognized total OPEB expense of \$697. The following table shows the change in the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability for the year ended June 30, 2018 (measurement date June 30, 2017):

June 30, 2018	Total OPEB Liability	Proportion to the City
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 8,283	22.52%
Proportion - Beginning balance at July 1, 2017	8,233	22.53%
Change - Increase / (Decrease)	50	(0.01%)

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2018, the Electric Utility, including Public Benefits, reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Changes of assumptions	\$ 296
Total	\$ 296

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2019	\$ (42)
2020	(42)
2021	(42)
2022	(42)
2023	(42)
Thereafter	(86)
Total	\$ 296

NOTE 7. RESTRICTED NET POSITION

The California Code of Regulations establishes a restriction on the use of proceeds obtained from the sale of greenhouse gas allowances at auctions held pursuant to California's Cap-and-Trade Program. The proceeds are to be used exclusively for the benefit of retail ratepayers of each electrical distribution utility, and may not be used for the benefit of entities or persons other than such ratepayers. Accordingly, a reserve for regulatory requirements has been established by restricting assets and reserving a portion of net position. See Note 10 for additional information regarding the Cap-and-Trade Program.

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Electric Utility's electric revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110 percent of the monthly accrued interest to be included in the reserve. Active electric revenue bonds requiring reserves are issues 2008A & C. Certain revenue/refunding bond issues are covered by a Surety Bond (2008D) and certain issues have no debt service reserve requirements (2009A, 2010A & B, 2011A and 2013A).

NOTE 8. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City 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 an additional member of SCPPA. 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 from each of the members. During fiscal years ended June 30, 2018 and 2017, the Electric Utility paid approximately \$26,631 and \$28,806, respectively, to SCPPA under various take-or-pay and renewable contracts that are described in greater detail in Note 10. These payments are reflected as a component of production and purchased power and transmission expenses in the financial statements.

POWER AGENCY OF CALIFORNIA

On July 1, 1990, the City joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consist of one representative from each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

NOTE 9. JOINTLY-OWNED UTILITY PROJECT – SONGS

The City has a 1.79 percent undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County. Both Units 2 and 3 of SONGS were permanently retired in June 2013. 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 (see Note 1 for nuclear decommissioning liability).

The other owners are SCE, with a 78.21 percent interest (including the 3.16 percent interest it acquired from the City of Anaheim in 2006), and San Diego Gas & Electric Company (SDG&E), with a 20.00 percent interest.

SONGS was operated and maintained by SCE, under an agreement with the City and SDG&E, which expires upon termination of the easement for the plant in 2024. In 2005, the California Public Utilities Commission (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. The Electric Utility's share of the cost to replace the steam generators was approximately \$13.4 million. 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 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,

NOTE 9. JOINTLY-OWNED UTILITY PROJECT – SONGS (CONTINUED)

testing and analysis of their steam generators. On June 7, 2013, SCE unilaterally announced its plan to retire Units 2 and 3 permanently.

Nuclear Decommissioning. As a result of SCE's decision to permanently retire SONGS Units 2 and 3, the decommissioning phase of the plant began in June 2013. The process of decommissioning the nuclear power plant is expected to take many years and is governed by NRC regulations. According to the SCE's decommissioning cost estimate document as of March 2018, total decommissioning costs for Units 2 and 3 are estimated at \$4.7 billion of which the Electric Utility's share is \$84 million.

Nuclear Decommissioning Funding and Liability. As of June 30, 2018, the Electric Utility has set aside \$57,154 in cash investments with the trustee and \$8,245 in an unrestricted designated decommissioning reserve for the Electric Utility's estimated share of the decommissioning costs. Increases to the funds held for decommissioning liability are from investment earnings. The investment earnings are included in investment income in the Electric Utility's financial statements. An equivalent amount is reflected as decommissioning expense which is considered part of production and purchased power. Decreases to the funds held for decommissioning liability are from actual funds drawn from the trust for decommissioning costs invoiced by SCE.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. The Electric Utility began drawing decommissioning trust funds to pay for decommissioning costs in the fiscal year ended June 30, 2017. As of June 30, 2018, the Electric Utility has paid to date \$23,512 in decommissioning obligations, which have been reimbursed by the trust funds.

As of June 30, 2018 and 2017, decommissioning liability balance was \$60,577 and \$64,673, respectively, with a portion reflected as current liabilities payable from restricted assets. Due to adequate funding in the liability, the Electric Utility no longer provides additional funding to the trustee. However, since the decommissioning cost estimate is subject to a number of uncertainties including the cost of disposal of nuclear waste, site remediation costs, as well as a number of other assumptions and estimates, the Electric Utility will continue to set aside funds in the unrestricted designated decommissioning reserve of \$1,581 per year, as approved by the Board of Public Utilities and City Council.

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 \$138,000 and excludes consequential damages, defined to include "the cost of replacement power." The limitations are subject to certain exceptions.

According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and an arbitration hearing for such dispute was set for March and April of 2016. The SCE/MHI arbitration hearings concluded on April 29, 2016. On March 13, 2017, the arbitration tribunal awarded the owners of SONGS \$125,000 for the defective steam generators supplied by MHI. In addition, the tribunal ordered SONGS owners to pay MHI \$58,000 in legal costs but rejected MHI's counterclaims. The Electric Utility was awarded an amount of \$1,078, which was reported as other non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2017.

NOTE 10. COMMITMENTS

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,

NOTE 10. COMMITMENTS (CONTINUED)

known as Intermountain Power Project (IPP), 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 and other fixed costs. Such payments are considered a cost of production.

On September 29, 2006, Senate Bill 1368 (SB 1368) was enacted into law. The bill requires electric service providers to limit financial investments in power plants to those that adhere to greenhouse gas performance standards as determined by the Public Utilities Commission. Pursuant to this legislation, the Electric Utility is prohibited from renewing its participation in IPP if it remains a coal fueled generating resource. On June 16, 2015, the City Council approved the Intermountain Power Project renewal agreements, including the Second Amendatory Power Sales Contract and the Renewal Power Sales Contract, and authorized participation in the IPP renewal subscription process. The Second Amendatory Power Sales Contract became effective March 16, 2016. The generation component of IPP under the Renewal Power Sales Contract (Repower Project) is envisioned to be a natural gas fueled combined cycle plant with total capacity of 1,200 MW. The Renewal Power Sales Contract contemplates a term of fifty years, through June 2077 for the Repower Project. The Electric Utility is authorized to participate in the subscription process for up to 5 percent of the Repower Project or approximately 60 MW. On January 5, 2017, the Electric Utility executed the Renewal Power Sales Contract and all other necessary documents for the first two rounds of the subscription process. The Electric Utility accepted an offer of 4.167 percent entitlement or 50 MW generation capacity in the IPP Repower Project based on the 1,200 MW designed capacity, which is within the maximum participation level approved by the City Council. The Electric Utility's corresponding Southern Transmission System allocation is 5.278 percent or approximately 127 MW. The IPP Repower Project renewal subscription process was completed after two rounds on January 17, 2017 and all entitlements in the project were fully subscribed. The Electric Utility's reduced power would allow it to diversify its energy portfolio in the future. Further, under the Renewal Power Sales Contract, the Electric Utility has the right to exit from the Repower Project by no later than November 1, 2019, if it is determined that the Repower Project is not cost beneficial to its customers.

The Electric Utility is a member of SCPPA, a joint powers agency (see Note 8). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in take-or-pay projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.40%	12.3 MW	2017	2030
Southern Transmission System	10.20%	244.0 MW	2027	2027
Mead-Phoenix Transmission	4.00%	18.0 MW	2020	2030
Mead-Adelanto Transmission	13.50%	118.0 MW	2020	2030

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.

NOTE 10. COMMITMENTS (CONTINUED)

The outstanding debts associated with the take-or-pay obligations have fixed interest rates which range from 1.43 percent to 5.75 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.

Debt Service Payment (in thousands) Year Ending June 30,	IPA	SCPPA			TOTAL
	Intermountain Power Project	Southern Transmission System	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2019	\$ 17,345	\$ 7,893	\$ 257	\$ 2,881	\$ 28,376
2020	17,232	6,913	254	2,859	27,258
2021	15,829	7,926	189	2,136	26,080
2022	10,834	9,448	-	-	20,282
2023	8,059	7,258	-	-	15,317
2024-2028	840	20,175	-	-	21,015
Total	\$ 70,139	\$ 59,613	\$ 700	\$ 7,876	\$ 138,328

In addition to debt service, the Electric Utility'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, 2018 and 2017, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
	2018	\$ 20,755	\$ 3,653	\$ 3,529	\$ 14	\$ 58	\$ 302
2017	\$ 23,000	\$ 3,285	\$ 2,712	\$ 58	\$ 64	\$ 254	\$ 29,373

These costs are included in production and purchased power or transmission expense on the Statements of Revenues, Expenses and Changes in Net Position.

The Electric Utility has become a Participating Transmission Owner with the California Independent System Operator (CAISO) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return, users of the California's high voltage transmission grid are charged for, and the Electric Utility receives reimbursement for, transmission revenue requirements, including the costs associated with these three transmission projects.

HOOVER UPGRATING PROJECT

The Electric Utility's entitlement in the Hoover project through SCPPA terminated on September 30, 2017. While through SCPPA in March 2014, the Electric Utility prepaid its share of outstanding debt incurred by the Bureau of Reclamation in connection with the acquisition and construction of the Hoover Power Project Visitors Center and Air Slots. The payment of principal and interest on the debt was a component of the cost of power and energy payable by Hoover contractors, which included SCPPA participants that received power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt had interest at rates that were substantially higher than current market interest rates, the Electric Utility elected to prepay the debt in order to realize savings on power costs in the future. The Electric Utility's share of the prepaid debt was recorded on the Statements of Net Position as unamortized

NOTE 10. COMMITMENTS (CONTINUED)

purchased power to be amortized over the remaining term of the project through 2017. As of June 30, 2017, unamortized purchased power was \$124. This balance was fully amortized as of June 30, 2018.

On August 23, 2016, the City Council approved a 50-year Electric Service Contract (ESC) and an Amended and Restated Implementation Agreement (IA) with the Western Area Power Administration (Western), Bureau of Reclamation for 30 MW of hydroelectric power. The contract with Western is effective as of October 1, 2017. The ESC extends the Electric Utility's 30 MW entitlement in the Hoover project an additional 50 years. The IA is a supplemental agreement to the ESC that establishes administrative, budgetary and project oversight by creating project committees and process for decision making plant operations.

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available (\$450 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective April 7, 2018, the Act limits liability from third-party claims to approximately \$13.1 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to \$127.3 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to \$19.0 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Electric Utility would be responsible for a maximum assessment of \$5.8 million, limited to payments of \$0.9 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was passed by the State Legislative and signed by the Governor. SBX1-2 revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33 percent by December 31, 2020 in three stages: average of 20 percent of retail sales during 2011-2013; 25 percent of retail sales by December 31, 2016; and 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Electric Utility's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility met the 20 percent mandates from 2011-2013 and the 25 percent mandate by December 31, 2016. The additional future mandates are expected to be met with resource procurement actions as outlined in the Electric Utility's RPS Procurement Plan. For calendar year 2017, renewable resources provided 36 percent of retail sales requirements.

On September 11, 2015, California legislature passed Senate Bill 350 (SB 350) increasing the RPS mandate beyond December 31, 2020 above 33 percent to 50 percent by December 31, 2030. SB 350 was signed into law by the Governor on October 7, 2015. The Electric Utility expects to be able to substantially meet the increased RPS mandates imposed by SB 350 with the portfolio of renewable resources outlined below.

On September 10, 2018, the 100 Percent Clean Energy Act of 2018 (Senate Bill 100) was signed into law by the California Governor. This bill further increases the RPS goals of SBX1-2 and SB 350 by maintaining the 33 percent RPS target by December 31, 2020, while modifying the RPS percentages to be 44 percent by December 31, 2024, 52 percent by December 31, 2027, 60 percent by December 31, 2030, with an end goal of 100 percent of total retail sales of electricity in California generated from eligible renewable energy resources and zero-carbon resources by December 31, 2045. It is expected that the California Energy

NOTE 10. COMMITMENTS (CONTINUED)

Commission will have further guidance and enforcement procedures for publicly owned utilities. The Electric Utility will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new 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 (PPA) and power sales agreements (PSA) with various entities described below in general on a "take-and-pay" basis. The contracts in the following tables were executed as part of compliance with RPS mandates.

Long-term renewable PPAs and PSAs in operation (dollars in thousands):

Supplier	Type	Maximum Contract ¹	Contract Expiration	Estimated Annual Cost For 2019
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	\$ 29,165
Wintec Energy, Ltd.	Wind	1.3 MW	12/30/2018	124
WKN Wagner	Wind	6.0 MW	12/22/2032	1,318
SunEdison - AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,623
Dominion - Columbia II	Photovoltaic	11.1 MW	12/22/2034	2,314
GlidePath Power Solutions - GPS Cabazon Wind LLC	Wind	39.0 MW	1/1/2025	4,299
Capital Dynamics - Kingbird Solar B, LLC	Photovoltaic	14.0 MW	12/31/2036	2,867
FTP Solar				
sPower - Summer Solar	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/19/2036	3,826
Capital Dynamics - Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040	1,341
American Renewable Power-Loyalton	Biomass	0.8 MW	4/19/2023	615
CalEnergy - Salton Sea Portfolio Phase 1	Geothermal	20.0 MW	12/31/2039	12,187
	Total	210.5 MW		\$ 66,175

¹ All contracts are contingent on energy delivered from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the Electric Utility.

Long-term renewable PPAs with expected delivery:

Supplier	Type	Maximum Contract ¹	Expected Delivery	Energy Delivery No Later	Contract Term In Years
CalEnergy - Salton Sea Portfolio Phase 2	Geothermal	20.0 MW	1/1/2019	1/1/2019	21
CalEnergy - Salton Sea Portfolio Phase 3	Geothermal	46.0 MW	6/1/2020	6/1/2020	20
	Total	66.0 MW			

¹ All contracts are contingent on energy delivered from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy delivered on a monthly basis from these facilities except for any economic curtailments directed by the Electric Utility.

On May 20, 2003, the Electric Utility and Salton Sea Power LLC (Salton Sea) entered into a ten-year PPA for 20 MW of geothermal energy. On August 23, 2005, the City Council approved an amendment to the PPA which increases the amount of renewable energy available to the Electric Utility from 20 MW to 46 MW effective June 1, 2009 through May 31, 2020.

On May 14, 2013, the City Council approved a new 25-year PPA with CalEnergy, the parent of Salton Sea, for additional renewable geothermal power. The PPA provides power from a portfolio of ten geothermal generating units, instead of a single generating unit, with an increasing amount of delivery that started with

NOTE 10. COMMITMENTS (CONTINUED)

20 MW in 2016 increasing to 40 MW in 2019 and 86 MW in 2020. The initial price under the agreement was \$72.85 per megawatt-hour (MWh) in calendar year 2016 which will escalate at 1.5 percent annually for the remaining term of the agreement. Similar to other renewable PPAs, the Electric Utility is only obligated for purchases of energy delivered to the City.

Concurrently, the pricing under the Salton Sea PPA has been amended to conform to pricing in the new PPA with CalEnergy through the remaining term of the Salton Sea PPA. The pricing under the Salton Sea PPA increased by approximately \$7.57 per MWh, commencing July 1, 2013 to \$69.66 per MWh, with an escalation of 1.5 percent annually thereafter, reflecting the exchange of benefits for a substantial lower pricing under the new PPA. The cost increase under the Salton Sea PPA is approximately \$2,500 per year for the agreement's remaining term. As of June 30, 2018 and 2017, the Electric Utility's prepayment of future contractual obligations was \$11,131 and \$8,927, respectively. This prepayment is recorded on the Statements of Net Position as unamortized purchased power, to be amortized over the term of the CalEnergy PPA. The CalEnergy PPA commenced in February 2016. As of June 30, 2018 and 2017, the Electric Utility has recorded \$141 and \$118, respectively, in amortization related to the unamortized purchased power.

On January 28, 2003, the Electric Utility entered into a 15-year renewable PPA with Wintec Energy, Ltd (Wintec) to purchase all of the energy output generated by Wintec's wind powered electric generating units with capacity up to 5 MW. Due to unforeseen circumstances, Wintec was only able to generate capacity totaling 1.3 MW. On November 15, 2005, the City Council approved an amendment to the original agreement, reducing the capacity to 1.3 MW. The amended contract with Wintec will terminate in December 2018.

On October 16, 2012, the Electric Utility entered into a 25-year PPA with AP North Lake, LLC (AP North) for 20 MW of solar photovoltaic energy generated by a new facility located in the City of Hemet, California. The AP North Lake Project became fully operational in August 2015. The project is expected to generate 55,000 MWh of renewable energy per year at a levelized cost of \$95 per MWh for the term of the PPA.

On December 20, 2012, the Electric Utility entered into a 20-year PPA with WKN Wagner, LLC (WKN) for up to 6 MW of renewable wind energy and renewable energy credits from the WKN Wagner wind project in Palm Springs, California. WKN is expected to generate 21,000 MWh of renewable energy annually at a levelized cost of \$73 per MWh.

On January 17, 2013, the Electric Utility entered into two 25-year PSAs with SCPPA for a combined total of 20 MW of solar photovoltaic energy generated by two facilities to be built in the City of Lancaster by Silverado Power, which later changed its name to sPower after a series of ownership changes. The two projects are referred to as Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The Electric Utility has a 50 percent share of the output from each project through SCPPA, which has two 20 MW PPAs with sPower. Summer Solar became commercially operational on July 25, 2016, and Antelope Big Sky Ranch became commercially operational on August 19, 2016. The Electric Utility's share from the two projects is 55,000 MWh of renewable energy per year. The price under the agreements is \$71.25 per MWh over the term of the agreements.

On September 19, 2013, the Electric Utility entered into a 20-year PSA with SCPPA for 14 MW of solar photovoltaic energy generated by a facility to be built by First Solar in Kern County, California. The project is referred to as the Kingbird B Solar Photovoltaic Project, with a nameplate capacity of 20 MW. The Electric Utility has a 70 percent share of the output from the project through SCPPA, which has a 20 MW PPA with Kingbird Solar B, LLC, which was acquired by Capital Dynamics in 2018. The project became commercially operational on April 30, 2016. The Electric Utility's share from the project is approximately 35,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$68.75 per MWh over the term of the agreement.

On September 19, 2013, the Electric Utility entered into a 20-year PSAs with SCPPA for an 11.1 MW of solar photovoltaic energy generated by a facility to be built by Recurrent Energy in Kern County, California. The project referred to as Columbia Two Solar Photovoltaic Projects, with a nameplate capacity of 15 MW.

NOTE 10. COMMITMENTS (CONTINUED)

On March 14, 2014 a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia Two project from Recurrent Energy to Dominion Resources. The Columbia Two Project completed construction and achieved commercial operation in December 2014. The Electric Utility has a 74.3 percent share (11.1 MW) of the output from the Columbia Two Project through SCPPA, which has a 15 MW PPA with Dominion Resources. The Electric Utility's share of Columbia Two is approximately 33,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$69.98 per MWh over the term of the agreement.

On December 6, 2013, the Electric Utility and FPL Energy Cabazon Wind, LLC (Cabazon Wind) entered into a 10-year PPA for 39 MW of renewable wind energy from the Cabazon Wind Energy Center near Cabazon, California. Cabazon Wind is an existing renewable resource that has been in commercial operation since 1999. SCE purchased the output of the facility through December 2014. At the expiration of SCE's contract, Cabazon Wind entered into new interconnection and generation agreements with CAISO and SCE. The developer completed the implementation of the transition to the Electric Utility as of January 1, 2015. Delivery under the PPA commenced on January 1, 2015. The project is expected to generate 71,200 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$59.30 per MWh over the term of the agreement. In 2018, after it was acquired by GlidePath Power Solutions, FPL Energy Cabazon Wind, LLC changed its name to GPS Cabazon Wind, LLC.

On March 11, 2014, the Electric Utility and Solar Star California XXXI, LLC (Solar Star) entered into a 25-year PPA for 7.3 MW of solar photovoltaic energy generated by a facility to be built on the City-owned Tequesquite Landfill. The project was fully commissioned and operational on September 30, 2015 and is expected to generate approximately 15,000 MWh of renewable energy per year. The all-in price for energy, capacity and environmental attributes is \$81.30 per MWh, escalating at 1.5 percent annually. In 2018, Capital Dynamics became the new parent company of Solar Star after acquiring it from SunPower.

On July 16, 2015, the Electric Utility entered into a 20-year PSA with SCPPA for 25 MW of solar photovoltaic energy generated by sPower's Antelope DSR Solar PV Project in the City of Lancaster, California. The Electric Utility has a 50 percent share of the output from the project through SCPPA, which has a 50 MW PPA with sPower. The project became commercially operational on December 20, 2016. The Electric Utility's share of Antelope DSR Solar is expected to generate approximately 71,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$53.75 per MWh over the term of the agreement.

On November 16, 2017, the Electric Utility entered into a 5-year PSA with SCPPA for 0.8 MW of biomass energy generated by American Renewable Power (ARP) - Loyalton Biomass Project. The Electric Utility has a 4.48% share of the output of the project through SCPPA, along with Imperial Irrigation District, Modesto Irrigation District, Sacramento Municipal Utility District, and Turlock Irrigation District, has an 18 MW PPA with ARP-Loyalton. The project became commercially operational on April 20, 2018. The Electric Utility's share of ARP Loyalton is expected to generate 6,358 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$97.50 per MWh over the term of the agreement.

CAP-AND-TRADE PROGRAM

Assembly Bill (AB) 32, enacted in 2006, mandated that the California Air Resources Board (CARB) develop regulations for the reduction of greenhouse gas (GHG) emissions to the 1990 levels by the year 2020. In January 2013, emission compliance obligations developed by CARB began under the Cap-and-Trade Program (Program). This Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. To ease the transition and mitigate the rate impacts to retail customers, CARB will allocate certain amounts of GHG allowances at no cost to electrical distribution utilities. The Electric Utility's free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's direct GHG compliance obligations.

NOTE 10. COMMITMENTS (CONTINUED)

At times, the Electric Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. In fiscal years ended June 30, 2018 and 2017, the Electric Utility received \$8,131 and \$6,881, respectively, in proceeds related to the sale of the GHG allowances which are included on the Statements of Revenues, Expenses and Changes in Net Position as other operating revenue. The Electric Utility has established a restricted Regulatory Requirement reserve to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. The available funds are to be utilized for qualifying projects, consistent with the goals of AB 32 to benefit the retail ratepayers. The balance in the Regulatory Requirement reserve was \$16,093 and \$16,123 as of June 30, 2018 and 2017, respectively.

The Electric Utility also purchases GHG allowances which can be used in future periods for GHG compliance regulations. The balance of purchased GHG allowances was \$1,097 and \$1,097 as of June 30, 2018 and 2017, respectively, and is recorded as inventory in the Statements of Net Position.

CONSTRUCTION COMMITMENTS

As of June 30, 2018, the Electric Utility had major commitments (encumbrances) of approximately \$16,322 with respect to unfinished capital projects, of which \$1,385 is expected to be funded by restricted cash reserves and \$14,937 to be funded by unrestricted cash reserves.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2018, the Electric Utility has net commitments for fiscal year 2019 and thereafter, of approximately \$5,897, with a market value of \$7,506.

NOTE 11. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric Utility 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 Electric Utility. Contractual and litigation matters of the Electric Utility relating to SONGS are contained in Note 7.

OLQUIN LAWSUIT

On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric Utility from the CAISO to the Electric revenue transfer to the City's general fund was a violation of Proposition 26. Plaintiff sought a court order compelling the City to return to the Electric Utility approximately \$115 million, which represents all Electric revenue transfer paid to the City's general fund since May 1, 2013, as well as a permanent injunction prohibiting future Electric revenue transfers.

In April of 2017, the trial court entered judgment in favor of the City, on the grounds that (1) Olquin had failed to allege a rate increase, because the contested transfer did not require the Electric Utility to raise its rates; and (2) even if such a rate increase could be alleged, Olquin's lawsuit was untimely under the statute of limitations in Public Utilities Code Section 10004.5. Mr. Olquin subsequently passed away and Alysia Webb substituted in as plaintiff. In May of 2017, Olquin/Webb filed an appeal to that judgment. On May 4, 2018, the appellate court ruled in favor of the City in a published decision, *Alysia Webb v. City of Riverside*

NOTE 11. LITIGATION (CONTINUED)

(2018) 23 Cal.App.5th 244. No appeal has been filed to that decision, and the time within which to file the appeal has expired.

NOTE 12. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of (\$328) was made to decrease the Electric Utility's, including Public Benefits, net position. The OPEB payable of \$7,905 in 2017 was eliminated due to the implementation of GASB 75. The payable was the cumulative difference between annual OPEB costs and the Electric's contribution. The adjustment was made to reflect the prior period costs related to other post-employment benefits. The restatement of beginning net position is as follows:

Net position at July 1, 2017, as previously stated	\$ 484,201
Other post-employment benefits adjustment	<u>(328)</u>
Net position at July 1, 2017, as restated	\$ 483,873

ELECTRIC UTILITY: KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2017/18	2016/17 ⁴	2015/16	2014/15	2013/14
POWER SUPPLY MEGAWATT-HOURS (MWH)					
Nuclear					
Palo Verde	102,900	102,400	103,300	103,900	99,900
Coal					
Intermountain Power	627,100	619,500	560,000	744,200	802,100
Hoover (Hydro)	29,000	28,400	30,900	30,900	33,200
Gas					
Springs	700	500	500	950	1,300
RERC	89,600	84,300	51,600	39,500	64,400
Clearwater	24,200	25,900	15,500	16,100	20,600
Renewable Resources	798,200	678,000	585,800	397,000	423,800
Market Purchases	633,500	770,500	1,084,700	1,029,350	899,200
Exchanges In	0	0	28,600	87,000	93,300
Exchanges Out	0	0	(133,500)	(131,800)	(158,300)
Total	2,305,200	2,309,500	2,327,400	2,317,100	2,279,500
System peak megawatt (MW)	640.3	581.7	598.6	604.4	577.92
ELECTRIC USE					
Number of meters as of year end					
Residential ¹	97,531	97,372	96,934	96,664	96,820
Commercial	11,181	11,016	10,898	10,757	10,558
Industrial	854	833	891	888	898
Other ²	53	53	53	79	82
Total	109,619	109,274	108,776	108,388	108,358
Millions of kilowatt-hours (kWh) sales					
Residential	727	730	726	711	700
Commercial	447	448	438	428	421
Industrial	999	996	982	995	997
Other	22	23	23	31	30
Subtotal	2,195	2,197	2,169	2,165	2,148
Wholesale ³	0	1	0	2	4
Total	2,195	2,198	2,169	2,167	2,152

¹Decrease in meters, as adjusted in fiscal year 14/15, was most likely due to timing of billing customers. A new billing system was implemented in the fiscal year.

²Decrease in Other meters in fiscal year 15/16 was a result of customers transitioning to Commercial and Industrial classes.

³For fiscal year 15/16 and 17/18, wholesale kWh was less than 1 million kWh.

⁴Adjustment of Power Supply megawatt-hours in fiscal year 16/17.

ELECTRIC FACTS

Average annual kWh per residential customer	7,455	7,519	7,528	7,334	7,239
Average price (cents/kWh) per residential customer	\$15.91	\$16.12	\$16.12	\$16.05	\$16.00
Debt service coverage ratio (DSC) ^{5,6}	2.71	2.95	2.87	2.32	2.16
Operating income as a percent of operating revenues	15.3%	20.2%	20.2%	18.0%	19.5%
Employees ⁷	489	472	465	465	463

⁵Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

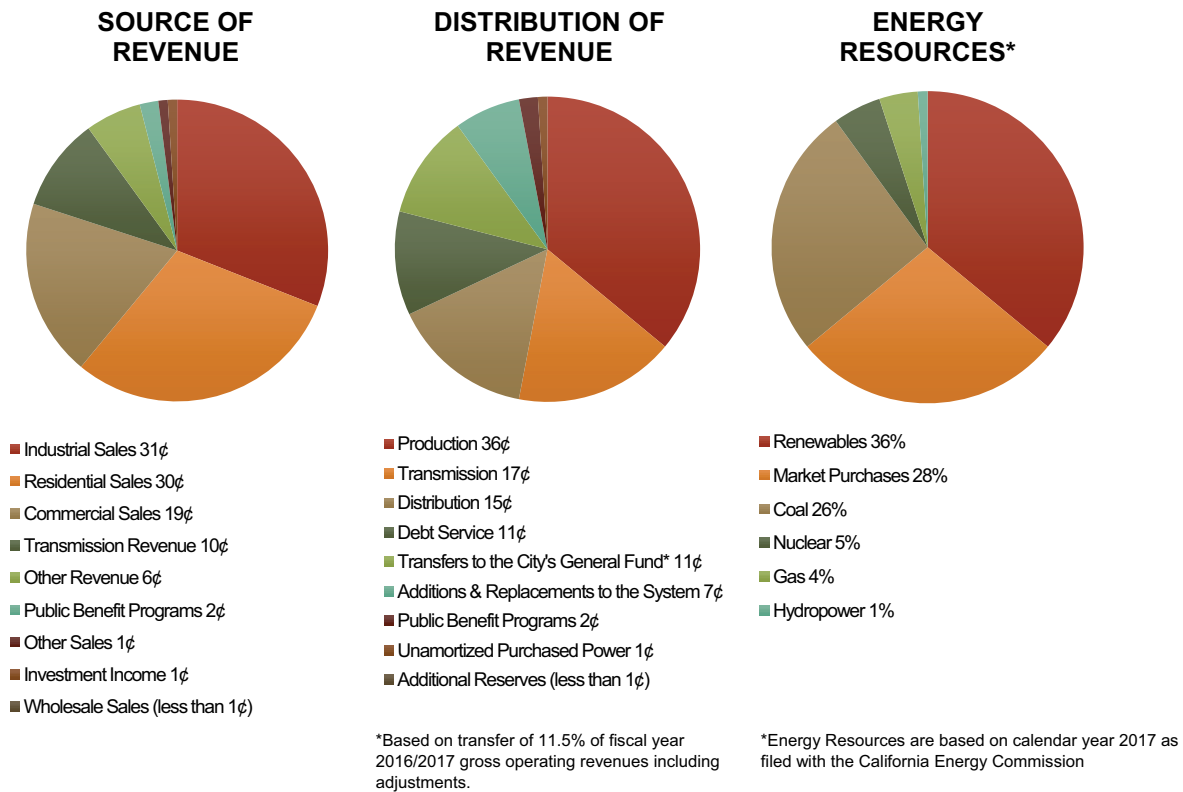
⁶Does not include GASB 68 - Accounting and Financial Reporting for Pension non-cash adjustments of \$9,056, (\$248), (\$5,036), and (\$2,594) for fiscal years 17/18 through FY 14/15, respectively.

⁷Approved positions.

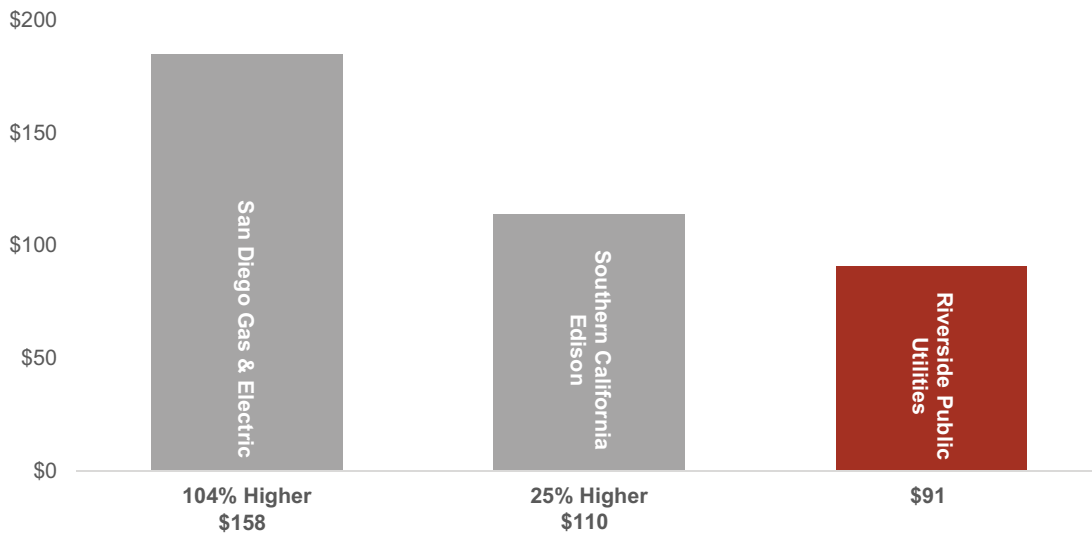
HISTORICAL OPERATING DATA: ELECTRIC



2017/2018 ELECTRIC REVENUE AND RESOURCES

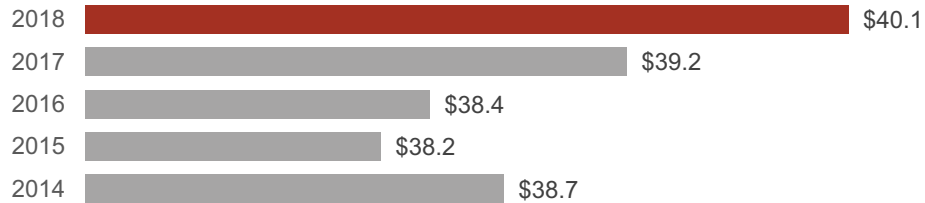


ELECTRIC RATE COMPARISON - 592 KWH PER MONTH (AS OF JUNE 30, 2018)

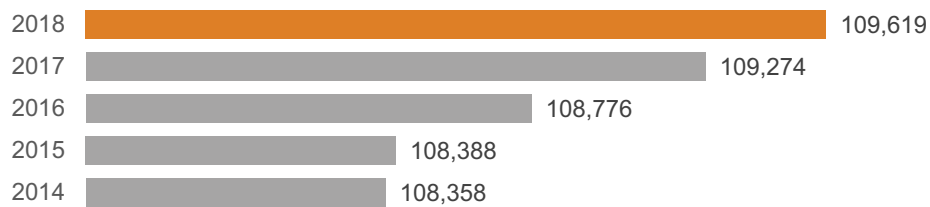


ELECTRIC KEY OPERATING INDICATORS

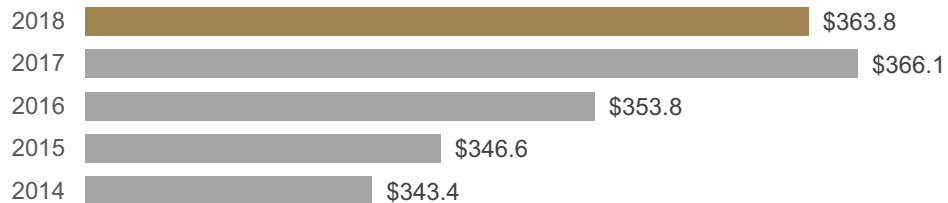
General Fund Transfer (In Millions)



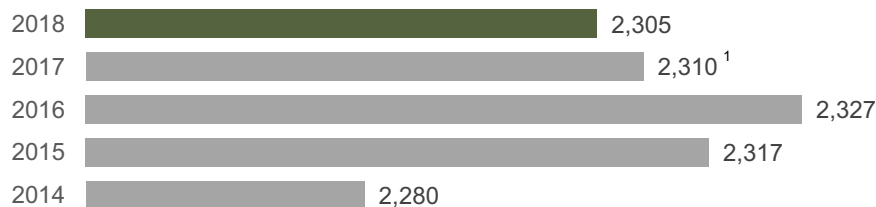
Number of Meters At Year End



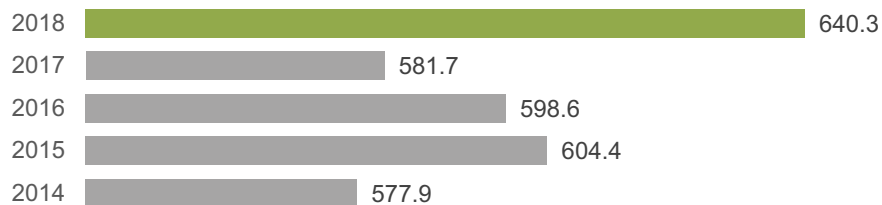
Total Operating Revenue (In Millions)



Production (In Million Kilowatt-Hours)



Peak Day Demand (In Megawatts)



¹ Adjustment of Power Supply megawatt-hours in fiscal year 16/17.

ELECTRIC FACTS AND SYSTEM DATA

Established.....	1895
Service Area Population.....	325,801
City Service Area Size (square miles).....	81.5

System Data

Transmission Lines (circuit miles).....	99.2
Distribution Lines (circuit miles).....	1,345
Number of Substations	14
2017-18 Peak Day (megawatts)	640
Highest Single Hourly Use:	
08/31/2017, 3pm, 89.9 degrees	
Historical Peak (megawatts).....	640
Highest Single Hourly Use:	
08/31/2017, 3pm, 89.9 degrees	

Bond Ratings

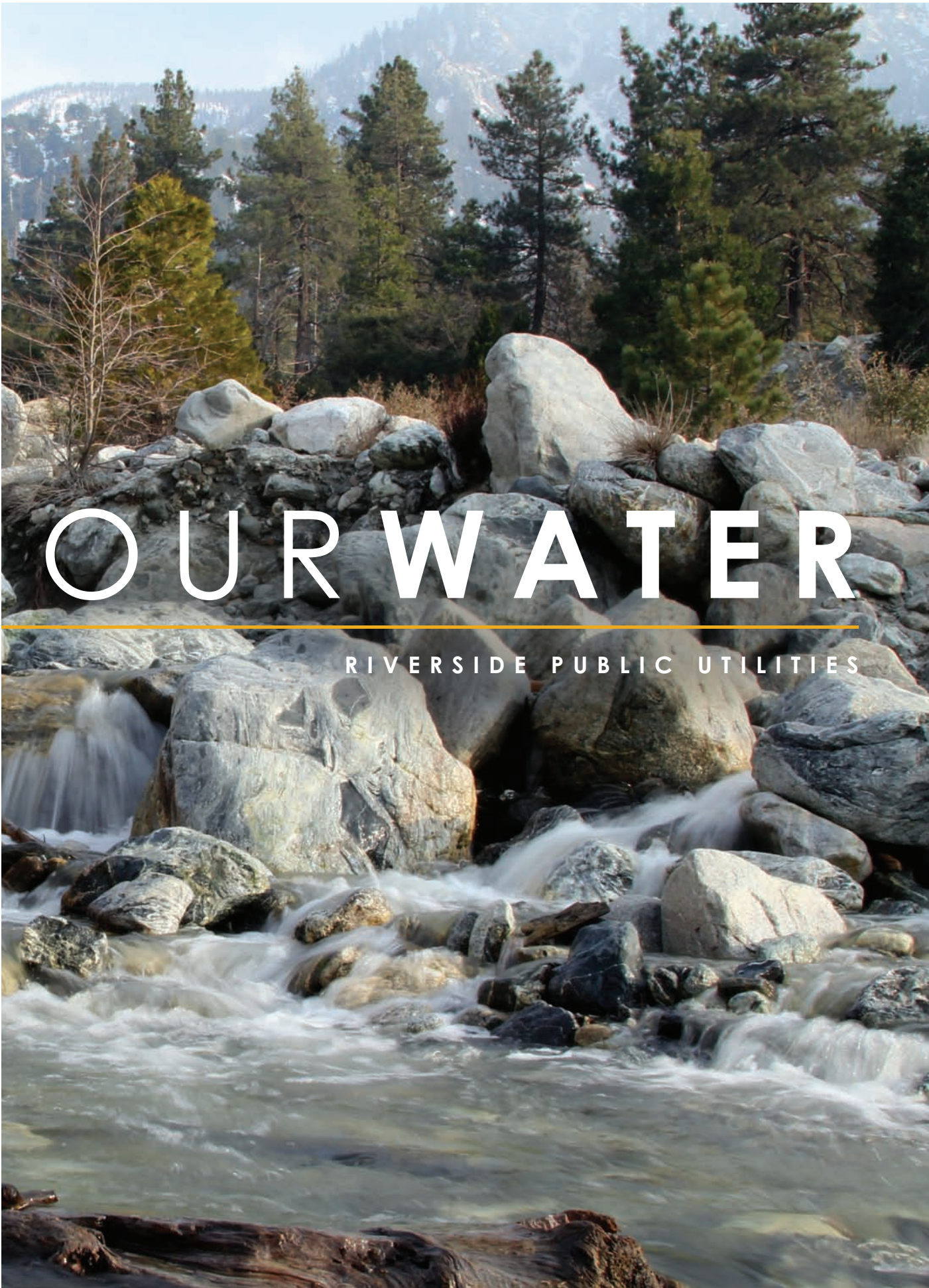
Fitch Ratings.....	AA-
Standard & Poor's	AA-



HISTORICAL OPERATING DATA: ELECTRIC







OUR WATER

RIVERSIDE PUBLIC UTILITIES



Certified
Public
Accountants

Independent Auditor's Report

To the Honorable City Council and Board of Public Utilities
City of Riverside, California

We have audited the accompanying financial statements of the Water Utility Enterprise Fund (Water Utility) of the City of Riverside, California, (the City), as of and for the years ended June 2018 and 2017, and the related notes to the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility of the City, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

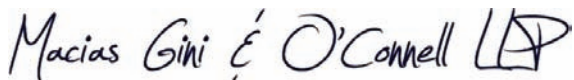
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements as a whole. The accompanying supplementary Water Utility information is presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, professional style.

Newport Beach, California
October 31, 2018

WATER UTILITY: MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2017-18 financial report for the period ended June 30, 2018 and 2017 for Riverside's Water Utility (Water Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 89 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2018, the Water Utility implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* – a replacement of GASB Statements No. 45 as amended, and No. 57, and establishes new accounting and financial reporting requirements for Other Post-Employment Benefits (OPEB) plans. As of July 1, 2017, the Water Utility restated beginning net position in the amount of \$125 to record adjustments to the OPEB liability. For more information, refer to the OPEB section below, Note 6 of the accompanying financial statements. The Water Utility did not restate the financial statements for the fiscal years ended June 30, 2017 and 2016 because the necessary actuarial information was not provided for the prior years presented.
- Operating expense reflects a non-cash pension accounting standard adjustment, which will continue to fluctuate based on yearly actuarial information provided by the California Public Employees' Retirement System. The adjustment was \$3,149 and (\$85) in June 30, 2018 and 2017, respectively.
- Retail sales, net of uncollectibles/recovery, were \$58,216 and \$54,596 for the fiscal years ended June 30, 2018 and 2017, respectively. The increase in sales was primarily due to continued increase in consumption as a result of the lifting of water conservation mandates.
- Utility plant assets as of June 30, 2018 increased by \$18,492 due to continued investment in water infrastructure system to provide safe, reliable water to Water Utility's customers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Water Utility's financial statements. The Water Utility is a department of the City, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City's "Comprehensive Annual Financial Report."

The Water Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader with additional information about the Water Utility, including historical sales, operating activities and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Water Utility's financial health.

The **Statements of Net Position** present information on all of the Water Utility's assets, liabilities, deferred inflows and outflows of resources and net position. The Statements of Net Position provide information about the nature and amount of the Water Utility's resources and obligations at a specific point in time.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The **Statements of Revenues, Expenses and Changes in Net Position** report all of the Water Utility's revenues and expenses for the periods shown.

The **Statements of Cash Flows** report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing. They also report other cash uses such as payments for bond principal and capital additions and improvements.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The Notes to the Financial Statements can be found on pages 89 to 114 of this report.

WATER UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 67,740	\$ 84,801	\$ 92,456
Capital assets	486,465	467,973	463,149
Deferred outflows of resources	23,338	24,097	24,023
Total assets and deferred outflows of resources	<u>577,543</u>	<u>576,871</u>	<u>579,628</u>
Long-term debt outstanding	182,814	189,492	195,562
Other liabilities	86,181	75,340	70,075
Deferred inflows of resources	3,470	6,621	8,779
Total liabilities and deferred inflows of resources	<u>272,465</u>	<u>271,453</u>	<u>274,416</u>
Net investment in capital assets	291,562	271,087	260,468
Restricted	8,167	8,079	8,175
Unrestricted	5,349	26,252	36,569
Total net position	<u>\$ 305,078⁽¹⁾</u>	<u>\$ 305,418</u>	<u>\$ 305,212</u>

⁽¹⁾ Restated July 1, 2017, see Note 10 of the financial statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2018 compared to 2017 The Water Utility's total assets and deferred outflows of resources were \$577,543, reflecting an increase of \$672 (0.1%) primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, decreased by \$17,061. This change reflects a decrease of \$16,039 in unrestricted cash and cash equivalent for the use of reserves to fund on-going capital projects and a decrease of \$1,220 in accounts receivable.
- Capital assets increased by \$18,492 primarily due to an increase of \$9,996 in construction in progress and an increase of \$8,496 for completed transmission and distribution system assets, net of current year depreciation. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- Deferred outflows of resources decreased by \$759 primarily due to a decrease of \$2,661 in deferred outflows of related to pension for contributions made in the current year subsequent to the measurement date of the net pension liability and the difference between project and actual earnings on pension plan investments, a decrease of \$2,012 in deferred changes in derivative values, and an amortization of loss on refunding of \$511. These decreases are offset by an increase in deferred outflows related to note payable of \$4,425.

2017 compared to 2016 Total assets and deferred outflows of resources were \$576,871, reflecting a decrease of \$2,757 (0.5%) over prior year. Current and other assets decreased by \$7,655 due to the decrease of \$10,038 in unrestricted cash and cash equivalent for the use of reserves to fund on-going capital projects offset by an increase of \$2,421 in restricted cash and cash equivalent for the financing proceeds received for the lease purchase of heavy equipment vehicles. Capital assets increased by \$4,824

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

primarily due to an increase of \$7,318 in construction in progress offset by a decreased of \$2,494 for current year depreciation, net of completed transmission and distribution system assets.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2018 compared to 2017 The Water Utility's total liabilities and deferred inflows of resources were \$272,465, an increase of \$1,012 (0.4%) primarily due to the following:

- Long-term debt outstanding decreased by \$6,678 primarily due to principal payments on revenue and pension obligation bonds.
- Other liabilities increased by \$10,841 primarily due to an increase \$7,760 in note payable, an increase of \$4,415 in net pension liability, and an increase of \$1,121 in accounts payable and other accruals. These increases were partially offset by a decrease of \$2,600 in the negative fair value of derivative instruments. Additional information on note payable can be found in Note 4 of the accompanying financial statements.
- Deferred inflows of resources decreased by \$3,151 primarily due to a decrease in deferred inflows related pension, which included the changes in assumptions, the differences between expected and actual experience, and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2017 compared to 2016 Total liabilities and deferred inflows of resources were \$271,453, reflecting a decrease of \$2,963 (1.1%). The decrease was primarily due to a decrease of \$6,070 in long-term debt outstanding primarily due to principal payments on revenue and pension obligation bonds. There was an increase in other liabilities of \$5,265 primarily due to an increase of \$6,208 in the net pension liability, an increase of \$2,095 in capital lease payable, and an increase of \$738 in accounts payable and other accruals. These increases were offset by a decrease of \$4,205 in the negative fair value of derivative instruments. Deferred inflows of resources decreased by \$2,158 due to a decrease in deferred inflows related to pension.

NET POSITION

2018 compared to 2017 The Water Utility's total net position, which represents the difference between the Water Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$305,078, a decrease of \$340 (0.1%).

- The largest portion of the Water Utility's total net position, which is its investment in capital assets of \$291,562 (95.6%), had an increase of \$20,475 from prior year. Investment in capital assets reflects the Water Utility's investment in treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$8,167 (2.7%), reflecting a slight increase from prior year. Restricted net position is subject to external restrictions on its use and is reserved for items such as debt repayment and funds collected for Water Conservation Programs.
- The unrestricted portion of net position totaled \$5,349 (1.7%), a decrease of \$20,903 (79.6%) from prior year, primarily attributable to the use of unrestricted cash and cash equivalent to fund capital projects. Unrestricted net position may be used to meet the Water Utility's ongoing operational needs and obligations to customers and creditors.

2017 compared to 2016 Total net position increased by \$206 (0.1%) to \$305,418. The increase was primarily due to the increase of \$10,619 in net investment in capital assets. This was offset by a decrease of \$10,317 in the unrestricted portion of net position mainly resulting from the use of unrestricted cash and cash equivalent to fund capital projects.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

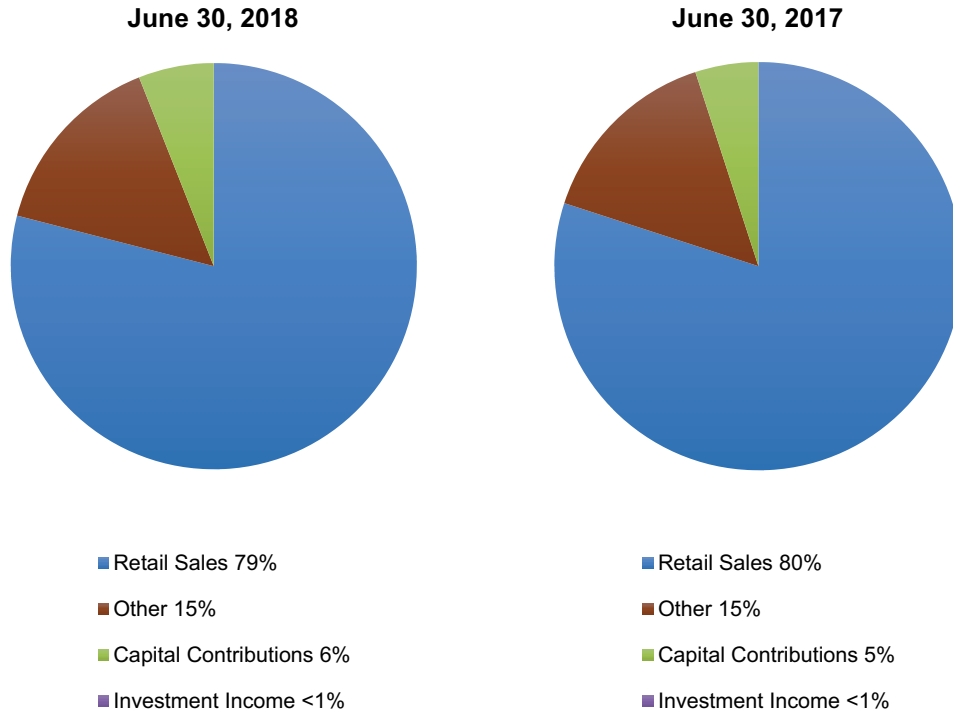
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2018	2017	2016
Revenues:			
Retail sales, net	\$ 58,216	\$ 54,596	\$ 50,195
Other revenues	11,463	9,930	8,861
Investment income	250	17	1,075
Capital contributions	4,181	3,525	3,133
Total revenues	74,110	68,068	63,264
Expenses:			
Operations and maintenance	38,976	34,070	31,115
Purchased energy	5,827	5,136	4,664
Depreciation	14,914	14,320	13,510
Interest expenses and fiscal charges	8,435	8,663	8,352
Total expenses	68,152	62,189	57,641
Transfers:			
Transfers in from the City's general fund	-	-	3,333
Transfers to the City's general fund	(6,173)	(5,673)	(6,430)
Total transfers	(6,173)	(5,673)	(3,097)
Changes in net position	(215)	206	2,526
Net position, July 1, as previously reported	305,418	305,212	302,686
Less: Cumulative effect of change in accounting principle ⁽¹⁾	(125)	-	-
Net position, July 1, as restated	305,293	305,212	302,686
Net position, June 30	\$ 305,078	\$ 305,418	\$ 305,212

⁽¹⁾ For the implementation of postemployment benefits other than pensions, GASB No. 75.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES



2018 compared to 2017 The Water Utility's total revenues of \$74,110 increased by \$6,042 (8.9%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$58,216, an increase of \$3,620 (6.6%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility. The increase was due to a 9.7% increase in consumption representing continuing increases in retail sales as result of the lifting water conservation mandates.
- Other revenues of \$11,463 increased by \$1,533 (15.4%) due to an increase of water conveyance revenue from new contracts and liquidated damages from construction delays on certain water well projects.
- Capital contribution of \$4,181 increased by \$656 (18.6%) primarily from non-cash contribution for donated assets received.

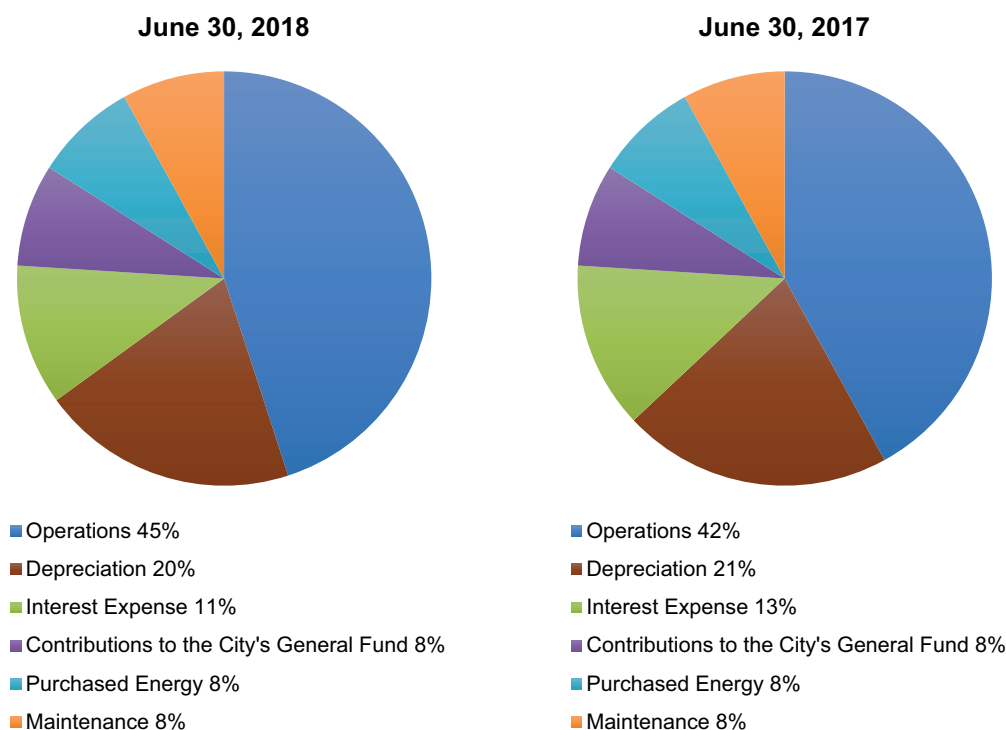
2017 compared to 2016 Total revenues of \$68,068, excluding transfers in, increased by \$4,804 (7.6%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$54,596, an increase of \$4,401 (8.8%) from prior fiscal year. The increase was primarily due to an 8.4% increase in retail consumption as a result of the lifting of water conservation mandates.
- Other revenues of \$9,930 increased by \$1,069 (12.1%) primarily due to an increase water conveyance revenue due to new contracts and an increase in wholesale water sales.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

- Investment income of \$17 decreased by \$1,058 (98.4%) due to a decrease in the market value of investments and lower cash balances from the use of reserves to fund capital projects.

EXPENSES BY SOURCES



2018 compared to 2017 The Water Utility's total expenses, excluding general fund transfer, were \$68,152, an increase of \$5,963 (9.6%). The increase was mainly due to non-cash pension expense adjustment of \$3,149 as a result of pension accounting standards, an increase in production costs resulting from higher consumption and an increase in general operations and maintenance costs.

2017 compared to 2016 Total expenses, excluding general fund transfer, were \$62,189, an increase of \$4,584 (7.9%). The increase was mainly due to a prior year non-cash pension expense credit of \$1,806 as a result of pension accounting standards, an increase in production costs resulting from higher consumption and an increase in general operations and maintenance costs.

TRANSFERS

Pursuant to the City's Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Water Utility transferred \$6,173 and \$5,673 for 2018 and 2017, respectively to the City's general fund. This represents a \$500 increase from prior fiscal year due to an increase in retail sales as a result of an increase in consumption.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Water Utility's investment in capital assets includes investments in source of supply, pumping, treatment, transmission and distribution facilities, land, intangibles, and construction in progress, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Water Utility's capital assets, net of accumulated depreciation, as of June 30:

	2018	2017	2016
Source of supply	\$ 46,565	\$ 45,671	\$ 46,355
Pumping	19,690	19,814	20,197
Treatment	30,683	30,679	31,746
Transmission and distribution	328,656	320,660	323,027
General	2,664	3,145	1,852
Land	20,840	20,484	20,484
Intangible	13,398	13,547	12,833
Construction in progress	23,969	13,973	6,655
Total capital assets	<u>\$ 486,465</u>	<u>\$ 467,973</u>	<u>\$ 463,149</u>

2018 compared to 2017 The Water Utility's investment in capital assets, net of accumulated depreciation, is \$486,465 an increase of \$18,492 (4.0%). The increase resulted mainly from the following significant capital projects, offset by current year depreciation:

- \$10,813 for continued pipeline replacement programs.
- \$7,049 for recycled water facilities and site conversions.
- \$3,742 for system expansion and improvements, transmission mains replacement, and meter replacements.
- \$3,685 for facilities rehabilitation including pump stations, booster stations, and wells.

2017 compared to 2016 Investment in capital assets, net of accumulated depreciation, increased by \$4,824 (1.0%) to \$467,973. Major capital projects included \$6,804 for system expansion and improvements, meter replacements, and facilities rehabilitation and \$10,041 for continued pipeline replacement programs.

Additional information regarding capital assets can be found in Note 3 of the accompanying financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt as of June 30:

	2018	2017	2016
Revenue bonds	\$ 182,885	\$ 188,300	\$ 193,480
Unamortized bond premium	1,749	2,064	2,442
Pension obligation bonds	3,756	4,439	4,338
Contracts payable	937	937	938
Less: Current portion of revenue and pension obligation bonds	(6,513)	(6,248)	(5,636)
Total	\$ 182,814	\$ 189,492	\$ 195,562

The Water Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.14, 2.04, and 1.80 at June 30, 2018, 2017, and 2016, respectively. The debt is backed by the revenues of the Water Utility. The prior years' debt service coverage ratio has been restated to exclude the non-cash pension related adjustment for required pension accounting standards. For additional information, see Note 4 of the accompanying financial statements and the Key Historical Operating Data section.

The Water Utility's long-term debt decreased by \$6,678 (3.5%) and \$6,070 (3.1%) for 2018 and 2017, respectively primarily due to principal payments.

Additional information on the Water Utility's long-term debt can be found in Note 4 of the accompanying financial statements.

CREDIT RATINGS

The Water Utility maintains credit ratings of "AAA", "AA+" and "Aa2" from Standard & Poor's (S&P), Fitch Ratings (Fitch) and Moody's, respectively.

In January 2017, S&P assigned its "AAA" long-term rating on the 2011A Variable Rate Water Refunding Revenue Bonds and affirmed the "AAA" long-term rating on the existing Water revenue bonds.

In March 2017, Fitch affirmed its "AA+" long-term rating on the Water Utility's outstanding revenue bonds.

In July 2018, Moody's affirmed its "Aa2" long-term rating on the Water Utility's outstanding revenue bonds.

These affirmations and ratings reflect the Water Utility's strong financial performance, advantageous water supply, investments in infrastructure and rate competitiveness, among many other factors. The Water Utility has maintained these credit ratings since 2011.

REGULATORY, LEGISLATIVE FACTORS, AND RATES

Utilities are faced with ongoing regulatory and legislative mandates enacted at the federal and state level that will have significant impact on the operations of the Water Utility.

The State of California has experienced unprecedented drought conditions in recent years resulting in severe impacts to California's water supplies and its ability to meet all of the demands for water in the State. The Water Utility is very fortunate as a water provider in California in that the Water Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Water Utility currently has sufficient water supplies to meet customer needs even during severe drought

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

conditions; however, the aquifers the Water Utility draws from are experiencing historic low levels. The Water Utility has responded by continuing to offer a wide variety of water conservation programs for its customers in an effort to conserve its water resources.

The Water Utility continues to offer customers a wide variety of water conservation programs that help reduce their water usage and utility costs, and help the City meet State mandates and be more sustainable. These programs provide rebates for residents and businesses to help them save money by conserving water. In an effort to streamline and automate the rebate process, the City formed a partnership with Metropolitan Water District of Southern California to administer and process rebates for high-efficiency toilets, clothes washers, irrigation controllers and many other water-saving devices.

To further provide comprehensive resources and guidance as to how to implement water efficiency practices at residents and businesses, the Water Utility, in partnership with the City created the Street Park Turf Conversion and Demonstration Garden at the Janet Goeske Center. The Demonstration Garden allows residents and businesses to interact with water conservation materials and techniques that conserve water, elevate customer awareness, increase incentive program participation, provide educational opportunities and demonstrate water conservation best practices.

In addition, the Water Utility creates marketing campaigns to promote efficient water use and management for residents and businesses. These campaigns provide resources to explore water rebates, information on water quality, water efficiency tips and resources to assist individuals to create a water-efficient property.

The Water Utility's water conservation and efficiency programs have assisted the residents and business to save 42,000,000 gallons of water for the period of July 2017 and June 2018.

The Water Utility's long range water supply planning includes significant contributions of both conservation and recycled water. The behavioral changes instituted through conservation and water use efficiency should have some permanent impact. Changes in landscape patterns and uses will have permanent and on-going impacts to water use. Continuing conservation measures could negatively impact the Water Utility revenues and has been addressed in the recent cost of service analysis conducted by the Water Utility.

WATER CONSERVATION

On November 10, 2009, the Governor signed SBX7-7, which requires the State of California to achieve a (i) 10% reduction in urban per capita water use by December 31, 2015, and (ii) 20% reduction in urban per capita water use by December 31, 2020. Additionally, in May 31, 2018, the Governor signed long-term water-use efficiency bills AB 1668 and SB 606 into law to provide standards for indoor residential water use of 55 gallons per capita per day (GPCD) until 2025, 52.5 GPCD from 2025 to 2030, and 50 GPCD beginning in 2030.

The City established its urban water use targets for 2015 and 2020, respectively, in accordance with the above law and bills. The 2015 and 2020 urban water use targets for the Water System's service area were recalculated in the 2015 Urban Water Management Plan to reflect the use of DWR Population Tool. They are 239 GPCD and 213 GPCD, respectively. The City intends to meet the conservation requirements of SBX7-7, AB 1668, and SB 606 through increased use of recycled water and implementation of additional conservation measures.

WATER STANDARDS

The development of new and increasingly stringent drinking water regulations by the California Environmental Protection Agency (CalEPA) and the U.S. Environmental Protection Agency (USEPA) are significantly impacting water supply costs throughout the state and the nation. New chemical and biological contaminants are being discovered through more sophisticated research techniques and improved analytical methods. In addition, public health and environmental agencies are now evaluating how anthropogenic factors are impacting our water supplies. Pesticides, pharmaceuticals, and personal care

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

products are being evaluated at trace levels, which can be orders of magnitude lower than what was achievable 20 years ago. As a result, water treatment costs are increasing as federal and state legislators and regulators try to balance public health risk with affordable water supply costs.

In 2011, the United States Environmental Protection Agency (“USEPA”) announced plans to establish a federal drinking water standard for perchlorate. The timetable for completion of a federal Maximum Contaminant Level (“MCL”) for perchlorate is unknown. Presently USEPA is requesting peer review of its draft Biologically Based Dose-Response Model to develop a perchlorate MCL goal. Once a MCL goal is established the USEPA will begin the process of developing an MCL. The State of California MCL for perchlorate is 6 parts per billion (“ppb”). The MCL may be considered for possible revision as a result of the California Environmental Protection Agency’s 2015 reduction in the perchlorate Public Health Goal from 6 ppb to 1 ppb. In addition, the California State Division of Drinking Water is currently evaluating lowering the perchlorate detection limit for reporting purposes from 4 ppb to as low as 0.5 ppb. A reduction in the perchlorate standard will impact the Water Utility’s water supply costs.

In December 2016, the USEPA completed its third review of existing National Primary Drinking Water Regulations (NPDWR) (i.e., the Six-Year Review 3). The USEPA determined that 68 of the 76 NPDWR remain appropriate (i.e., do not need to be revised) and that eight NPDWRs are candidates for regulatory revision. These eight NPDWRs are included in the Stage 1 and the Stage 2 Disinfectants and Disinfection Byproducts Rules, the Surface Water Treatment Rule, the Interim Enhanced Surface Water Treatment Rule and the Long Term 1 Enhanced Surface Water Treatment Rule. The eight NPDWRs are chlorite, Cryptosporidium, Giardia lamblia, haloacetic acids (HAA5), heterotrophic bacteria, Legionella, total trihalomethanes (TTHM) and viruses. Any revision resulting in the lower of these standards may impact the Water Utility’s water supply costs.

On December 14, 2017, the State Water Resources Control Board adopted an MCL for 1,2,3-Trichloropropane (“1,2,3-TCP”) of 0.000005 mg/L or 5 parts per trillion (ppt). Initial sampling began January 1, 2018, and will be completed by December 31, 2018. To date six of the City’s potable wells show detection of 1,2,3-TCP and exceed the MCL. These wells extract water from the same aquifers that are contaminated by other known anthropogenic chemicals and are currently being treated by existing GAC treatment facilities.

The Water Utility will continue to monitor the progress of the proposed standard changes and will advocate for standards that protect human health and are based on the best available science.

CLEAN WATER ACT

On March 25, 2014, USEPA and the Army Corps released a draft proposed rule revising the definition of “Waters of the United States.” The proposed rule significantly expanded the scope of Federal jurisdiction in determining the waters of United States. In particular, the rule added jurisdiction over water conveyance systems, groundwater recharge, and recycled water systems. The proposed rule defined tributaries too broadly that it included canals and aqueducts. The inclusion of canals and aqueducts would make the transfer of water much more difficult and would increase permitting costs. The draft rule was made final on August 28, 2015. However on October 9, 2015, the United States Court of Appeals issued a Stay causing the USEPA and the Army Corps to resume using the prior regulations defining the term “Waters of the United States.” On February 28, 2017, the President of the United States issued an Executive Order directing the EPA and Department of the Army to review and rescind or revise the 2015 Rule.

The 2015 revised rule would have impacted a water agencies’ water recycling and recharge operations. In California, water recycling facilities, groundwater replenishment basins, and aquifer storage facilities are located adjacent to “Waters of the United States.” The change of the term “adjacent wetlands” to “adjacent waters” means that these facilities would have been required to obtain multiple Clean Water Act permits and potentially trigger reviews under other federal environmental laws. Water recycling is an important strategy to help mitigate the impacts of a prolonged drought, reduce reliance on the Delta and Colorado

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

River and help meet the co-equal goals of a thriving economy and healthy environment. The 2015 rule would have made these projects and others more difficult to complete and manage. The Water Utility will remain engaged and will continue to advocate at the federal level for sound environmental policy.

FIVE-YEAR WATER RATE PLAN

On May 22, 2018, the City Council approved a new five-year Water Rate Plan, with rate increases that become effective on July 1, 2018, 2019, 2020, 2021 and 2022 with annual reviews of the adopted rates by City Council. The system average rate increase effective July 1, 2018 is 4.50%, followed by system average rate increases of 5.75% in years two through four, and followed by system average rate increase of 6.50% in the final year of the rate plan. The Water Rate Plan includes a redesign of water rates over a five-year period to better align with its cost of serving customers and its revenue requirement. The water rate restructuring is designed to provide financial stability and correct the imbalance of costs versus revenue recovery by increasing fixed cost recovery through monthly service charges to reflect the nature of underlying costs. Pursuant to City Council direction, the first annual review of rates will be conducted in December of 2019.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3750 University Avenue, 3rd floor, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.RiversidePublicUtilities.com.

WATER UTILITY: FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

	June 30, 2018	June 30, 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	(in thousands)	
UTILITY PLANT:		
Utility plant, net of accumulated depreciation (Note 3)	\$ 486,465	\$ 467,973
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	47,464	63,503
Accounts receivable, less allowance for doubtful accounts 2018 \$194; 2017 \$136	8,841	10,061
Accrued interest receivable	191	231
Advances to other funds of the City	131	78
Prepaid expenses	238	164
Total unrestricted current assets	56,865	74,037
Restricted assets:		
Cash and cash equivalents (Note 2)	8,451	8,370
Water Conservation Programs -cash and cash equivalents (Note 2)	2,315	2,283
Water Conservation Programs receivable	109	111
Total restricted current assets	10,875	10,764
Total current assets	67,740	84,801
Total assets	554,205	552,774
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 5)	10,881	13,542
Deferred outflows related to note payable	4,425	-
Changes in derivative values	1,869	3,881
Loss on refunding	6,163	6,674
Total deferred outflows of resources	23,338	24,097
Total assets and deferred outflows of resources	\$ 577,543	\$ 576,871

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

	June 30, 2018	June 30, 2017
NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES	(in thousands)	
NET POSITION:		
Net investment in capital assets	\$ 291,562	\$ 271,087
Restricted for:		
Debt service (Note 7)	6,186	6,068
Water Conservation Programs	1,981	2,011
Unrestricted	5,349	26,252
Total net position	<u>305,078</u>	<u>305,418</u>
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (Note 4)	<u>182,814</u>	<u>189,492</u>
OTHER NON-CURRENT LIABILITIES:		
Net other postemployment benefits liability (Note 6)	3,410	3,266
Net pension liability (Note 5)	38,880	34,465
Compensated absences (Note 4)	344	288
Derivative instrument (Note 4)	5,593	8,193
Capital lease payable (Note 4)	1,884	2,095
Note payable (Note 4)	20,322	12,927
Total other non-current liabilities	<u>70,433</u>	<u>61,234</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,542	1,619
Water Conservation Programs payable	78	50
Current portion of long-term obligations (Note 4)	6,363	6,098
Total current liabilities payable from restricted assets	<u>7,983</u>	<u>7,767</u>
CURRENT LIABILITIES:		
Accounts payable and other accruals	5,536	4,415
Current portion of long-term obligations (Note 4)	150	150
Unearned revenue	64	185
Customer deposits	813	752
Note payable (Note 4)	1,202	837
Total current liabilities	<u>7,765</u>	<u>6,339</u>
Total liabilities	<u>268,995</u>	<u>264,832</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 5)	2,585	6,510
Deferred inflows related to other postemployment benefits (Note 6)	112	-
Regulatory charges	773	111
Total deferred inflows of resources	<u>3,470</u>	<u>6,621</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 577,543</u>	<u>\$ 576,871</u>

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Year Ended June 30	
	2018	2017
	(in thousands)	
OPERATING REVENUES:		
Residential sales	\$ 37,148	\$ 34,994
Commercial sales	19,317	17,869
Other sales	1,880	1,764
Water conveyance revenue	5,082	4,385
Water Conservation Programs	886	1,120
Other operating revenue	2,515	2,526
Total operating revenues before uncollectibles	<u>66,828</u>	<u>62,658</u>
Estimated uncollectibles, net of bad debt recovery	(129)	(31)
Total operating revenues, net of uncollectibles	<u>66,699</u>	<u>62,627</u>
OPERATING EXPENSES:		
Operations	32,286	27,298
Maintenance	5,775	5,437
Purchased energy	5,827	5,136
Water Conservation Programs	915	1,335
Depreciation	14,914	14,320
Total operating expenses	<u>59,717</u>	<u>53,526</u>
Operating income	<u>6,982</u>	<u>9,101</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment income	250	17
Interest expense and fiscal charges	(8,435)	(8,663)
Gain on sale of assets	177	61
Other	2,803	1,838
Total non-operating revenues (expenses)	<u>(5,205)</u>	<u>(6,747)</u>
Income before capital contributions and transfers	<u>1,777</u>	<u>2,354</u>
Capital contributions	4,181	3,525
Transfers out - contributions to the City's general fund	(6,173)	(5,673)
Total capital contributions and transfers	<u>(1,992)</u>	<u>(2,148)</u>
(Decrease)/Increase in net position	<u>(215)</u>	<u>206</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	<u>305,418</u>	<u>305,212</u>
LESS: CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(125)	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>305,293</u>	<u>305,212</u>
NET POSITION, END OF YEAR	<u>\$ 305,078</u>	<u>\$ 305,418</u>

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Year Ended Ended June 30,	
	2018	2017
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 67,434	\$ 62,443
Cash paid to suppliers and employees	(40,520)	(38,177)
Other receipts	1,566	794
Net cash provided by operating activities	<u>28,480</u>	<u>25,060</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(6,173)	(5,673)
Payment on pension obligation bonds	(683)	(306)
Cash (paid) received on advances to other funds of the City	(53)	101
Net cash used for non-capital financing activities	<u>(6,909)</u>	<u>(5,878)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(27,824)	(18,634)
Proceeds from the sale of utility plant	177	92
Principal paid on long-term obligations	(5,626)	(5,180)
Interest paid on long-term obligations	(8,320)	(8,522)
Proceeds from capital lease payable	-	2,305
Capital contributions	3,806	2,913
Net cash used for capital and related financing activities	<u>(37,787)</u>	<u>(27,026)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Income (Loss) from investments	290	(32)
Net cash provided (used) by investing activities	<u>290</u>	<u>(32)</u>
Net decrease in cash and cash equivalents	(15,926)	(7,876)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$10,653 and \$8,491 at June 30, 2017 and June 30, 2016, respectively, reported in restricted accounts)	<u>74,156</u>	<u>82,032</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$10,766 and \$10,653 at June 30, 2018 and June 30, 2017 respectively, reported in restricted accounts)	<u>\$ 58,230</u>	<u>\$ 74,156</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,982	\$ 9,101
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	14,914	14,320
Increase (decrease) in allowance for uncollectible accounts	58	(34)
Decrease (increase) in accounts receivable	607	(549)
(Increase) decrease in prepaid expenses	(74)	4
Increase in accounts payable and other accruals	1,121	529
Increase in compensated absences	56	93
(Decrease) increase in unearned revenue	(121)	185
Increase (decrease) in Water Conservation Programs payable	28	(37)
Increase in customer deposits	61	213
Increase in advance from other funds of the City - pension obligation	-	295
Changes in net pension liability and related deferred outflows and inflows of resources	3,151	(88)
Changes in other postemployment benefits liability and related deferred inflows of resources	131	234
Other receipts	1,566	794
Net cash provided by operating activities	<u>\$ 28,480</u>	<u>\$ 25,060</u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	932	212
Payment on note payable including interest, offset by rent credit	1,237	1,044
Well relocation with note payable	4,100	0

See accompanying notes to the financial statements

WATER UTILITY: NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City of Riverside (the City) Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City, except for certain areas served by another water utility. The accompanying financial statements present only the financial position and the results of operations of the Water Utility, which is an enterprise fund of the City, and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Water Utility on a separate fund basis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Water Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission.

The Water Utility distinguishes 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 an enterprise fund's principal ongoing operations. The principal operating revenues of the Water Utility are charges to customers for water sales and services. Operating expenses for the Water Utility include the cost of water 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.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2017, the accompanying financial statements reflect the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The primary objective of this statement is to improve accounting and financial reporting by state and local governments in regards to postemployment benefits other than pensions (OPEB). These improvements provide users of financial statements decision-useful information, support assessments of accountability and interperiod equity, and create additional transparency. GASB 75 accomplishes this by requiring recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, along with new note disclosures and required supplementary information. For further details, refer to Note 6.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Water Utility customers are billed monthly. Unbilled water service charges, including the Water Conservation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$3,227 at June 30, 2018, and \$3,329 at June 30, 2017.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

WATER UTILITY PLANT AND DEPRECIATION

The Water Utility 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. Utility plant assets are valued at historical costs 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. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. 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 fiscal years ended June 30, 2018 and 2017, the Water Utility capitalized net interest costs of \$550 and \$330, respectively. Total interest expense incurred by the Water Utility was \$8,496 and \$8,366, respectively.

Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Supply, pumping and treatment plant.....	20-50 years
Transmission and distribution plant.....	25-50 years
General plant and equipment.....	5-50 years
Intangibles.....	5-15 years

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Statements of Net Position because their use is limited by applicable bond covenants. Proceeds from lease purchase financing yet to be used for the acquisition of capital equipment are also classified as restricted assets because their use is legally restricted for a specific purposes. Generally, the Water Utility will first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

In June 2004, the Water Utility began collecting a surcharge for Water Conservation Programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5 percent, 1.0 percent and 1.5 percent surcharge effective June 1, 2004, 2005 and 2006, respectively, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. On April 22, 2014, the City Council approved continuation of the 1.5 percent surcharge effective for the next ten years. The programs and services offered include conservation, education, and water use efficiency programs; and research, development and demonstration programs to advance science and technology with respect to water conservation. The activity associated with the surcharge is reflected in the accompanying financial

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

statements on the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

CASH AND INVESTMENTS

In accordance with the Water Utility policy, the Water Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings. The Water Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The Water Utility values its cash and investments in accordance with provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation includes a hierarchy of inputs with three distinct levels. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Water Utility does not value any of its investments using level 1 and level 3 inputs.

City-wide information concerning cash and investments as of June 30, 2018, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents, if any, are considered restricted by the Water Utility and are used to fund construction of capital assets.

UNRESTRICTED DESIGNATED CASH RESERVES

The Riverside Public Utilities Cash Reserve Policy establishes several designated cash reserves in the Water Utility for strategic purposes. Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board of Public Utilities and City Council. Designated reserves may be held for capital or operating purposes.

Unrestricted designated cash reserve balances as of June 30, 2018 and 2017 were as follows: Property Reserve \$5,000 and \$17,281, Recycled Water Reserve \$2,915 and \$9,359, Customer Deposits \$621 and \$553, and Capital Repair and Replacement Reserve \$2,249 and \$1,484, respectively. The combined total for these reserves was \$10,785 and \$28,677 at June 30, 2018 and 2017, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Water Utility and the City. The balances as of June 30, 2018 and 2017 are \$131 and \$78, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVES

The Water Utility accounts for derivative instruments using GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Water Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferred inflows and outflows of resources on the Statements of Net Position. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the non-operating revenues section of the Statements of Revenue, Expenses and Changes in Net Position.

The Water Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. See Note 4 Long-Term Obligations for further discussion related to the Water Utility's interest rate swaps.

BOND PREMIUM/DISCOUNTS AND GAINS/LOSSES ON REFUNDING

Bond premium/discounts and gains/losses on refunding (including gains/losses related to interest rate swap transactions) are deferred and amortized over the term of the new bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Gains/losses on refunding are reported as deferred inflows or outflows of resources.

CAPITAL LEASES

In fiscal year ended June 30, 2017, the Water Utility participated in the City's lease purchase financing program for the acquisition of water system heavy vehicles and equipment. The heavy vehicles and equipment lease financing is for a ten-year term of annual payments with an interest rate of 2.36 percent. Gross proceeds of \$2,305 were received for the financing. A trailer was purchased for \$36 as of fiscal year ended June 30, 2018. It is anticipated that the remaining vehicles and equipment will be purchased in fiscal year ending June 30, 2019.

As of June 30, 2018, the total liability was \$2,095, with the current portion included in accounts payable and other accruals. The annual lease payments for the life of the lease are \$260 annually through fiscal year ending June 30, 2027. Total outstanding lease payments are \$2,338, with \$2,095 representing principal and \$243 representing interest.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Water Utility's portion of these deposits as of June 30, 2018 and 2017 was \$813 and \$752, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2018 and 2017. The Water Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$1,851 at June 30, 2018, and \$1,682 at June 30, 2017.

Employees receive 10 to 25 vacation days per 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees primarily 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.

INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including the Utility Plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2017, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2017 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were \$288 and \$284 for the years ended June 30, 2018 and 2017, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City 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. Benefit provisions and all other requirements are established by state statute and City ordinance.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further details of employee retirement plan can be found in Note 5.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB liability is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the Water Utility has implemented GASB 75, which is explained in detail under New Accounting Pronouncements and in Note 6.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position 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. Deferred outflows of resources consist of changes in derivative values, loss on refunding, note payable and deferred outflows related to pension which include pension contributions subsequent to the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

measurement date, difference between actual and actuarial determined contribution, changes in assumptions and net differences between projected and actual earnings on pension plan investments.

Conversely, 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. Deferred inflows of resources consist of regulatory charges and deferred inflows related to pension which include changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

In accordance with regulatory accounting criteria set forth in GASB Codification (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 Water Utility is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets and/or deferred regulatory charges related to debt issuance costs have been recognized in the Statements of Net Position.

NET POSITION

The Water Utility's net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources, which is classified into the following three components:

Net investment in capital assets – this component consists of capital assets (net of accumulated depreciation) reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, excluding unspent bond proceeds.

Restricted – this component represents restricted assets less liabilities and deferred inflows related to those assets. Restricted assets are recorded when there are limitations imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted – this component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2018 and 2017, \$6,173 and \$5,673, respectively was transferred representing 11.5 percent.

CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Water Utility presents, and the City Council adopts, a biennial budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June biennially via resolution.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform with the current year's presentation. Such reclassifications have no effect on the net position or the changes in net position.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2018 and 2017, consist of the following (in thousands):

	June 30, 2018	June 30, 2017
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 58,230	\$ 74,156
Total cash and investments	<u>\$ 58,230</u>	<u>\$ 74,156</u>

The amounts above are reflected in the accompanying financial statements as:

	June 30, 2018	June 30, 2017
Unrestricted cash and cash equivalents	\$ 47,464	\$ 63,503
Restricted cash and cash equivalents	10,766	10,653
Total cash and investments	<u>\$ 58,230</u>	<u>\$ 74,156</u>

The investment types in the tables below related to the Water Utility's investments in the City Treasurer's investment pool represent the Water Utility's prorated share of the investment types in the investment pool and do not represent ownership interests in the individual investments.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

The Water Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Water Utility has the following recurring fair value measurements as of June 30, 2018 and 2017:

Investment Type	June 30, 2018 Fair Value	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
City Treasurer's investment pool ¹					
Money market funds	\$ 13,730	\$ -	\$ 13,730	\$ -	-
Federal agency securities	733	-	733	-	-
US Treasury notes/bonds	27,822	-	27,822	-	-
Corp medium term notes	3,311	-	3,311	-	-
State investment pool	11,951	-	-	-	11,951
Negotiable certificate of deposit	683	-	683	-	-
Total	\$ 58,230	\$ -	\$ 46,279	\$ -	\$ 11,951

Investment Type	June 30, 2017 Fair Value	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
City Treasurer's investment pool ¹					
Money market funds	\$ 11,347	\$ -	\$ 11,347	\$ -	-
Federal agency securities	1,333	-	1,333	-	-
US Treasury notes/bonds	40,837	-	40,837	-	-
Corp medium term notes	2,271	-	2,271	-	-
State investment pool	16,898	-	-	-	16,898
Negotiable certificate of deposit	1,470	-	1,470	-	-
Total	\$ 74,156	\$ -	\$ 57,258	\$ -	\$ 16,898

¹ Additional information on investment types, fair value measurement, interest rate risk and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2018 and 2017, are as follows:

Investment Type	June 30, 2018 Fair Value	Remaining Maturity (In Months)		
		12 Months or less	13 to 24 Months	25 to 60 Months
City Treasurer's investment pool ¹				
Money market funds	\$ 13,730	\$ 13,730	\$ -	\$ -
Federal agency securities	733	-	-	733
US Treasury notes/bonds	27,822	3,759	13,000	11,063
Corp medium term notes	3,311	784	1,374	1,153
State investment pool	11,951	11,951	-	-
Negotiable certificate of deposit	683	412	91	180
Total	\$ 58,230	\$ 30,636	\$ 14,465	\$ 13,129

Investment Type	June 30, 2017 Fair Value	Remaining Maturity (In Months)		
		12 Months or less	13 to 24 Months	25 to 60 Months
City Treasurer's investment pool ¹				
Money market funds	\$ 11,347	\$ 11,347	\$ -	\$ -
Federal agency securities	1,333	1,333	-	-
US Treasury notes/bonds	40,837	6,031	13,043	21,763
Corp medium term notes	2,271	1,149	1,122	-
State investment pool	16,898	16,898	-	-
Negotiable certificate of deposit	1,470	490	588	392
Total	\$ 74,156	\$ 37,248	\$ 14,753	\$ 22,155

¹ Additional information on investment types, fair value measurement, interest rate risk and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2018 and 2017 for each investment type:

Investment Type	Rating as of Year End				
	June 30, 2018				
	Fair Value	AAA	AA	A	Unrated
City Treasurer's investment pool ¹					
Money market funds	\$ 13,730	\$ -	\$ 13,257	\$ 473	\$ -
Federal agency securities	733	733	-	-	-
US Treasury notes/bonds	27,822	27,822	-	-	-
Corp medium term notes	3,311	-	3,311	-	-
State investment pool	11,951	-	-	-	11,951
Negotiable certificate of deposit	683	-	-	-	683
Total	\$ 58,230	\$ 28,555	\$ 16,568	\$ 473	\$ 12,634

Investment Type	Rating as of Year End				
	June 30, 2017				
	Fair Value	AAA	AA	A	Unrated
City Treasurer's investment pool ¹					
Money market funds	11,347	-	10,677	670	-
Federal agency securities	1,333	1,333	-	-	-
US Treasury notes/bonds	40,837	40,837	-	-	-
Corp medium term notes	2,271	464	1,570	237	-
State investment pool	16,898	-	-	-	16,898
Negotiable certificate of deposit	1,470	-	-	-	1,470
Total	\$ 74,156	\$ 42,634	\$ 12,247	\$ 907	\$ 18,368

¹ Additional information on investment types, fair value measurement, interest rate risk and credit risk may be found in the notes to the City's financial statements in the City's CAFR.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2018 and 2017 (in thousands):

	Balance			Balance			Balance		
	As of		Retirements/	As of		Retirements/	As of		
	6/30/2016	Additions	Transfers	6/30/2017	Additions	Transfers	6/30/2018		
Source of supply	\$ 62,283	777	-	\$ 63,060	\$ 2,380	\$ -	\$ 65,440		
Pumping	31,745	302	-	32,047	557	-	32,604		
Treatment	43,820	119	-	43,939	1,205	(644)	44,500		
Transmission and distribution	475,072	7,787	(406)	482,453	18,357	(302)	500,508		
General	14,277	1,697	(29)	15,945	61	(88)	15,918		
Intangible	2,354	1,174	-	3,528	494	-	4,022		
Depreciable utility plant	629,551	11,856	(435)	640,972	23,054	(1,034)	662,992		
Less accumulated depreciation									
Source of supply	(15,928)	(1,461)	-	(17,389)	(1,486)	-	(18,875)		
Pumping	(11,548)	(685)	-	(12,233)	(681)	-	(12,914)		
Treatment	(12,074)	(1,186)	-	(13,260)	(1,201)	644	(13,817)		
Transmission and distribution	(152,045)	(10,124)	376	(161,793)	(10,361)	302	(171,852)		
General	(12,425)	(404)	29	(12,800)	(542)	88	(13,254)		
Intangible	(362)	(460)	-	(822)	(643)	-	(1,465)		
Accumulated depreciation	(204,382)	(14,320)	405	(218,297)	(14,914)	1,034	(232,177)		
Net depreciable utility plant	425,169	(2,464)	(30)	422,675	8,140	-	430,815		
Land	20,484	-	-	20,484	356	-	20,840		
Intangible, non-amortizable	10,841	-	-	10,841	-	-	10,841		
Construction in progress	6,655	18,773	(11,455)	13,973	32,135	(22,139)	23,969		
Nondepreciable utility plant	37,980	18,773	(11,455)	45,298	32,491	(22,139)	55,650		
Total utility plant	\$ 463,149	\$ 16,309	\$ (11,485)	\$ 467,973	\$ 40,631	\$ (22,139)	\$ 486,465		

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2018 and 2017 (in thousands):

	Balance			Balance			Balance		Due
	As of		As of	As of		As of		Within	
	6/30/2016	Additions	Reductions	6/30/2017	Additions	Reductions	6/30/2018	One Year	
Revenue bonds	\$ 195,922	\$ -	\$ (5,558)	\$ 190,364	\$ -	\$ (5,730)	\$ 184,634	\$ 5,635	
Pension obligation bonds	4,338	407	(306)	4,439	-	(683)	3,756	728	
Water stock acquisition rights	938	-	(1)	937	-	-	937	150	
Compensated absences	1,598	1,408	(1,324)	1,682	1,538	(1,369)	1,851	1,507	
Note payable	14,566	-	(802)	13,764	8,600	(840)	21,524	1,202	
Capital leases	-	2,305	-	2,305	-	(210)	2,095	211	
Total long-term obligations	\$ 217,362	\$ 4,120	\$ (7,991)	\$ 213,491	\$ 10,138	\$ (8,832)	\$ 214,797	\$ 9,433	

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Long-term debt consists of the following (in thousands):

CONTRACTS PAYABLE

June 30, 2018 June 30, 2017

Water Stock Acquisitions: Payable to various water companies	\$ 937	\$ 937
Total contracts payable	<u>937</u>	<u>937</u>

PENSION OBLIGATION BONDS PAYABLE

\$30,000 2005 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$630 to \$3,860 through June 2020, interest from 3.9 to 4.8 percent. The Water Utility's proportional share of the outstanding debt is 10.7 percent.	697	1,069
\$31,960 2017 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$2,910 to \$3,580 through June 2027, interest from 1.3 to 3.1 percent. The Water utility's proportional share of the outstanding debt is 10.7 percent.	3,059	3,370
Total pension obligation bonds payable	<u>3,756</u>	<u>4,439</u>

REVENUE BONDS PAYABLE

\$58,235 2008 Water Revenue Series B Bonds: fixed rate bonds due in annual principal installments from \$1,210 to \$7,505 through October 1, 2038, interest from 4.0 to 5.0 percent	55,415	56,625
\$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from \$2,270 to \$2,625 through October 1, 2020, interest from 4.0 to 5.0 percent	7,255	9,760
\$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual principal installments from \$2,475 to \$4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 to 4.1 percent	67,790	67,790
\$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from \$1,475 to \$3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2018 was 3.1 percent)	52,425	54,125
Total water revenue bonds payable	<u>182,885</u>	<u>188,300</u>
Total water revenue bonds, pension obligation bonds and contracts payable	<u>187,578</u>	<u>193,676</u>
Unamortized bond premium	1,749	2,064
Total water revenue bonds, pension obligation bonds and contracts payable, including bond premium	<u>189,327</u>	<u>195,740</u>
Less current portion	(6,513)	(6,248)
Total long-term water revenue bonds, pension obligation bonds and contracts payable	<u>\$ 182,814</u>	<u>\$ 189,492</u>

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Revenue and pension obligation bonds annual debt service requirements, including contracts payable, to maturity, as of June 30, 2018, are as follows (in thousands):

	2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	2039-2043	TOTAL
Principal	\$ 6,513	\$ 6,620	\$ 6,557	\$ 6,803	\$ 7,027	\$ 38,238	\$ 44,420	\$ 54,120	\$ 17,280	\$ 187,578
Interest	7,556	7,299	7,048	6,808	6,566	28,307	20,007	10,002	595	94,188
Total	\$ 14,069	\$ 13,919	\$ 13,605	\$ 13,611	\$ 13,593	\$ 66,545	\$ 64,427	\$ 64,122	\$ 17,875	\$ 281,766

For fiscal year ended June 30, 2018, the City restructured the presentation of the long term pension obligation bonds from advances from other funds to long term obligations. The Water Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Water Utility's proportional share of the outstanding principal amount of the bonds was \$3,756 and \$4,439 as of June 30, 2018 and 2017, respectively. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bond issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2018.

The Water Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of water revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Water Utility capital improvement projects. For June 30, 2018 and 2017, debt service payments as a percentage of the pledged gross revenue, 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 the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses) (1)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2018	Water revenues	\$ 30,287	\$ 14,147	2.14
June 30, 2017	Water revenues	\$ 27,733	\$ 13,610	2.04

¹ Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of \$3,119 and (\$85) as expenses for June 30, 2018 and 2017 respectively.

INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that 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 the swap is included as part of the deferred loss on refunding associated with the new bonds. The swap was 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 Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2018 is as follows:

	Notional Amount	Fair Value as of 6/30/2018	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	\$ 52,425	\$ (5,593)	\$ 2,600

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Water Utility entered into an interest rate swap agreement in connection with its \$59,000 2011 Water Refunding/Revenue Series A Bonds.

Terms: Per the existing swap agreement, the Water Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate (“LIBOR”) one-month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by \$1,475 to \$3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2018, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.41887%)
Net interest rate swap payments		2.78113%
Variable-rate bond coupon payments		0.32721%
Synthetic interest on bonds		3.10834%

Fair value: As of June 30, 2018, in connection with the swap agreement, the transactions had a total negative fair value of (\$5,593). Because the coupons on the Water Utility’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: As of June 30, 2018, the Water Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A- by Standard & Poor’s (S&P). To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty’s rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2018, there is no requirement for collateral posting for the outstanding swap.

Basis risk: As noted above, the swap exposes the Water Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. 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 Water Utility if the counterparty’s credit quality falls below “BBB-” as issued by S&P. The Water Utility 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 Water Utility 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, 2018, 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 as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal Year Ending June 30,	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2019	\$ 1,475	\$ 177	\$ 1,507	\$ 3,159
2020	2,375	170	1,444	3,989
2021	2,475	161	1,372	4,008
2022	2,525	153	1,298	3,976
2023	2,600	144	1,222	3,966
2024-2028	14,525	573	4,871	19,969
2029-2033	14,975	315	2,680	17,970
2034-2038	11,475	50	429	11,954
Total	\$ 52,425	\$ 1,743	\$ 14,823	\$ 68,991

NOTE PAYABLE

Note payable consists of several agreements with Hillwood Enterprises, L.P. and related entities (collectively Hillwood) for their development of logistic centers located in the City of San Bernardino. As a part of these agreements, the Water Utility leases land to Hillwood and also purchased land from Hillwood with a subsequent lease-back to the entity. In addition, the agreements require Hillwood to relocate wells located on the properties as well as terminate an existing lease. In consideration of the cost of the land purchase, well relocations and lease termination, the Water Utility will make payments to Hillwood in the form of a credit with Hillwood's rental payments to the Water Utility for the first 15 years of the leases. These agreements resulted in a total liability to the Water Utility of \$21,524, as of June 30, 2018.

Estimated annual rent credits, which are adjusted annually based on Consumer Price Index (CPI), to be applied to the land purchase and well relocation agreements commencing in 2014 with an effective interest rate of 3.38 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2019	\$ 683	\$ 431	\$ 1,114
2020	747	407	1,154
2021	815	380	1,195
2022	887	352	1,239
2023	963	320	1,283
2024-2028	6,104	1,038	7,142
2029-2033	2,854	94	2,948
Total	\$ 13,053	\$ 3,022	\$ 16,075

Estimated annual rent credits, which are adjusted annually based on CPI, to be applied to the well relocation agreement commencing in 2017 with an effective interest rate of 3.15 percent, are as follows (in thousands):

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal Year	Principal	Interest	Total
2019	\$ 219	\$ 125	\$ 344
2020	226	117	343
2021	233	110	343
2022	241	103	344
2023	248	95	343
2024-2028	1,366	351	1,717
2029-2033	1,513	118	1,631
Total	\$ 4,046	\$ 1,019	\$ 5,065

Annual rent credits to be applied for the lease termination agreement commencing in 2017, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2019	\$ 300	\$ -	\$ 300
2020	300	-	300
2021	300	-	300
2022	300	-	300
2023	300	-	300
2024-2028	1,500	-	1,500
2029-2033	1,425	-	1,425
Total	\$ 4,425	\$ -	\$ 4,425

NOTE 5. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

The City contributes to 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. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by CalPERS. 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. The Water Utility, including Water Conservation Programs, participates in the City's Miscellaneous (non-safety) Plan (the Plan).

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. 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. Under the Plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier –
 - The retirement formula is 2.7 percent at age 55 for employees hired before October 19, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units), the employees were required to pay 2 percent of the employee contribution of their

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.

- The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employee is required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a two year increase of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income
- The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.
- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent 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.

BENEFITS PROVIDED

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

EMPLOYEES COVERED

As of measurement date June 30, 2017 and 2016, the following employees, City-wide, were covered by the benefit terms of the Plan:

	Measurement Date	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Inactive employees or beneficiaries		
currently receiving benefits	2,114	2,040
Inactive employees entitled to but		
not yet receiving benefits	1,325	1,317
Active employees	1,599	1,536

CONTRIBUTIONS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. For fiscal year June 30, 2017, the net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous - Current Year</u>	<u>Miscellaneous - Prior Year</u>
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.15%	7.65%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.00%
Projected salary increase	(1)	(1)
Investment rate of return ⁽²⁾	7.50%	7.50%
Mortality	(3)	(3)

⁽¹⁾ Depending on age, service and type of employment.

⁽²⁾ Net of pension plan investment expenses, including inflation.

⁽³⁾ The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.15 percent and 7.65 percent for measurement date as of June 30, 2017 and 2016, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used to measure total pension liability are adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rates are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	June 30, 2017 Measurement Date		
	Current Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

⁽¹⁾ An expected inflation of 2.50% used for this period.

⁽²⁾ An expected inflation of 3.00% used for this period.

Asset Class	June 30, 2016 Measurement Date		
	Current Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11 + ⁽²⁾
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

⁽¹⁾ An expected inflation of 2.50% used for this period.

⁽²⁾ An expected inflation of 3.00% used for this period.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY

The changes in the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability as of June 30, 2018 (measurement date June 30, 2017) and 2017 (measurement date June 30, 2016) for the Plan are as follows:

<u>June 30, 2018</u>	<u>Net Pension Liability</u>	<u>Proportion of the Plan</u>
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 38,880	11.44%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	34,465	11.14%
Change - Increase / (Decrease)	4,415	0.30%
<u>June 30, 2017</u>		
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	34,465	11.14%
Proportion - Reporting date June 30, 2016 (measurement date June 30, 2015)	28,257	11.59%
Change - Increase / (Decrease)	6,208	(0.45%)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability of the Plan, calculated using the discount rate 7.15 percent and 7.65 percent for measurement date as of June 30, 2017 and 2016, respectively, as well as what the Water Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2017			June 30, 2016		
	Discount Rate	Current	Discount Rate	Discount Rate	Current	Discount Rate
	-1%	Discount Rate	+1%	-1%	Discount Rate	+1%
	(6.15%)	(7.15%)	(8.15%)	(6.65%)	(7.65%)	(8.65%)
The Water Utility's proportionate share of the Plan's net pension liability	\$ 60,851	\$ 38,880	\$ 20,883	\$ 53,495	\$ 34,465	\$ 18,814

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 5. EMPLOYEE RETIREMENT PLAN (CONTINUED)

PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSION

For the fiscal years ended June 30, 2018 and 2017, the Water Utility, including Water Conservation Programs, recognized pension expense of \$6,319 and \$3,200, respectively. At June 30, 2018 and 2017, the Water Utility, including Water Conservation Programs, reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,227	\$ -	\$ 3,286	\$ -
Difference between actual and actuarial determined contribution	-	-	1,075	-
Changes in assumptions	6,075	-	-	(1,212)
Differences between expected and actual experience	-	(2,585)	-	(1,418)
Net differences between projected and actual earnings on plan investments	1,579	-	9,181	(3,880)
Total	<u>\$ 10,881</u>	<u>\$ (2,585)</u>	<u>\$ 13,542</u>	<u>\$ (6,510)</u>

\$3,227 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2019	\$ 1,076
2020	3,225
2021	1,559
2022	(791)
Total	<u>\$ 5,069</u>

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

BENEFITS PROVIDED

Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. 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 benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

As of measurement date June 30, 2017, the following employees, City-wide, were covered by the benefit terms:

	Measurement Date June 30, 2017
Inactive plan members or beneficiaries	
currently receiving benefits	304
Inactive plan members entitled to but	
not yet receiving benefits	-
Active plan members	<u>2,121</u>
Total	2,425

ACTUARIAL ASSUMPTIONS

The total OPEB liability was determined by actuarial valuation as of June 30, 2017 using the following actuarial assumptions:

	Current Year
Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Funding Policy	Pay-as-you-go for implicit rate subsidy
Actuarial Assumptions:	
Discount rate ⁽¹⁾	3.40%
Inflation rate	2.75%
Salary inflation	3.00%
Salary increases ⁽²⁾	--
Mortality	CalPERS 2014 Experience Study

⁽¹⁾ The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

⁽²⁾ The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used.

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability, calculating using the healthcare trend rate of 6.00%/HMO and 6.50%/PPO, as well as what the Water Utility's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

	June 30, 2017 - Measurement Date		
	Current healthcare		
	1% Decrease	cost trend rates	1% Increase
The Water Utility's proportionate share of the City's total OPEB liability	\$ 3,065	\$ 3,410	\$ 3,813

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATES

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability, calculating using the discount rate of 3.40%, as well as what the Water Utility's total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (2.40%) or 1-percentage-point higher (4.40%) than the current rate:

	June 30, 2017 - Measurement Date		
	Current		
	1% Decrease (2.40%)	Discount Rate (3.40%)	1% Increase (4.40%)
The Water Utility's proportionate share of the City's total OPEB liability	\$ 3,697	\$ 3,410	\$ 3,148

CHANGE IN TOTAL OPEB LIABILITY

For fiscal year ended June 30, 2018, the Water Utility's, including Water Conservation Programs, recognized total OPEB expense of \$265. The following table shows the change in the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability for the year ended June 30, 2018 (measurement date June 30, 2017):

June 30, 2018	Total OPEB Liability	Proportion to the City
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 3,410	9.30%
Proportion - Beginning balance at July 1, 2017	3,391	9.30%
Change - Increase / (Decrease)	19	0.00%

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2018, the Water Utility, including Water Conservation Programs, reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 112
Total	\$ 112

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2019	\$ (16)
2020	(16)
2021	(16)
2022	(16)
2023	(16)
Thereafter	(32)
Total	<u>\$ (112)</u>

NOTE 7. RESTRICTED NET POSITION

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Water Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110 percent of the monthly accrued interest to be included in the reserve. Certain revenue/refunding bond issues are covered by a Surety Bond (2008B) and certain issues have no debt service reserve requirements (2009A & B and 2011A).

NOTE 8. CONSTRUCTION COMMITMENTS

As of June 30, 2018, the Water Utility had major commitments (encumbrances) of approximately \$1,614 with respect to unfinished capital projects which is expected to be funded by unrestricted cash reserves.

NOTE 9. LITIGATION

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Water Utility are incidental to the ordinary course of operations of the Water Utility 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 operations of the Water Utility.

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.

NOTE 10. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of (\$125) was made to decrease the Water Utility's, including Water Conservation Programs, net position. The OPEB payable of \$3,266 in 2017 was eliminated due to the implementation of GASB 75. The payable was the cumulative difference between annual OPEB costs and the Water's contribution. The adjustment was made to reflect the prior period costs related to other post-employment benefits. The restatement of beginning net position is as follows:

Net position at July 1, 2017, as previously stated	\$	305,418
Other post-employment benefits adjustment		(125)
Net position at July 1, 2017, as restated	\$	<u>305,293</u>

WATER UTILITY: KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2017/18	2016/17	2015/16	2014/15	2013/14
WATER SUPPLY (ACRE FEET)					
Potable water production ¹	69,778	64,407	58,903	59,974	70,195
Percentage pumped ²	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons) ³	83,000,000	81,000,000	75,000,000	74,000,000	90,000,000
WATER USE					
Number of meters as of year end					
Residential	59,601	59,453	59,137	58,922	58,958
Commercial/Industrial	5,705	5,640	5,619	5,594	5,527
Other	334	335	338	355	344
Total	<u>65,640</u>	<u>65,428</u>	<u>65,094</u>	<u>64,871</u>	<u>64,829</u>
CCF* sales					
Residential	15,564,143	14,219,498	13,125,476	15,424,999	17,432,384
Commercial/Industrial	9,573,518	8,683,382	8,011,884	9,511,177	10,292,548
Other	900,596	844,041	764,125	895,876	960,694
Subtotal	<u>26,038,257</u>	<u>23,746,921</u>	<u>21,901,485</u>	<u>25,832,052</u>	<u>28,685,626</u>
Wholesale	<u>1,476,117</u>	<u>1,593,808</u>	<u>627,978</u>	<u>175,438</u>	<u>201,678</u>
Total	<u>27,514,374</u>	<u>25,340,729</u>	<u>22,529,463</u>	<u>26,007,490</u>	<u>28,887,304</u>

* (CCF equals 100 cubic feet)

WATER FACTS

Average annual CCF per residential customer	261	240	223	262	296
Average price (\$/CCF) per residential customer	\$2.39	\$2.46	\$2.44	\$2.35	\$2.33
Debt service coverage ratio (DSC) ^{4,5}	2.14	2.04	1.80	2.15	2.56
Employees ⁶	159	174	181	181	182

¹ Water pumping figures have been adjusted to include retail and wholesale potable water production.

² No purchased water.

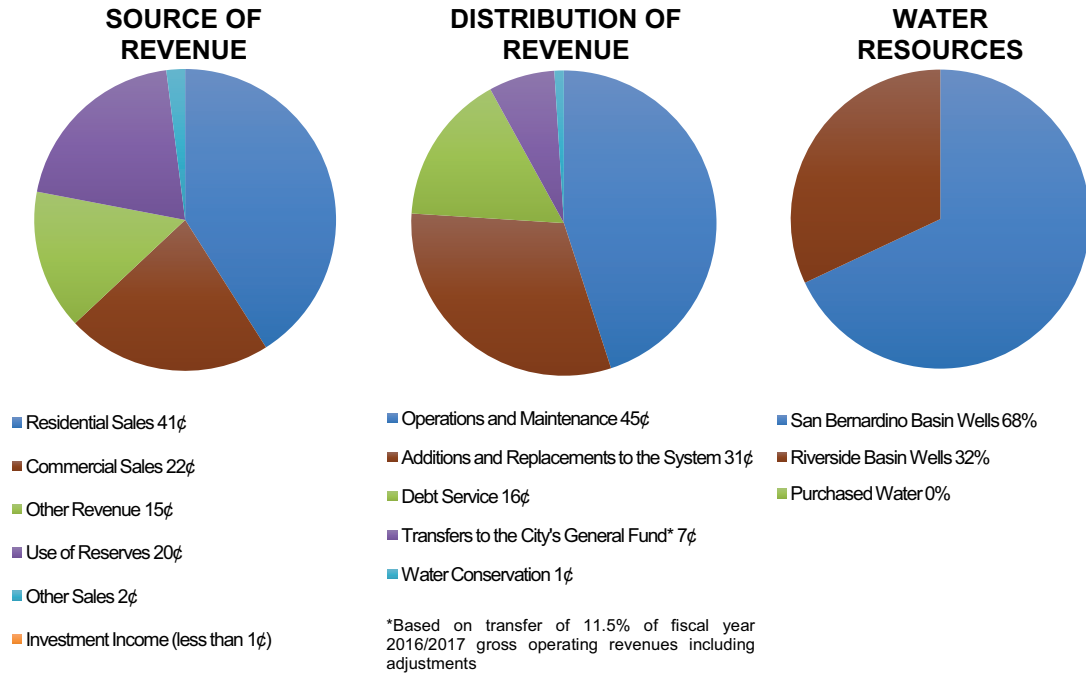
³ System peak day has been adjusted to reflect production for retail customers.

⁴ Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

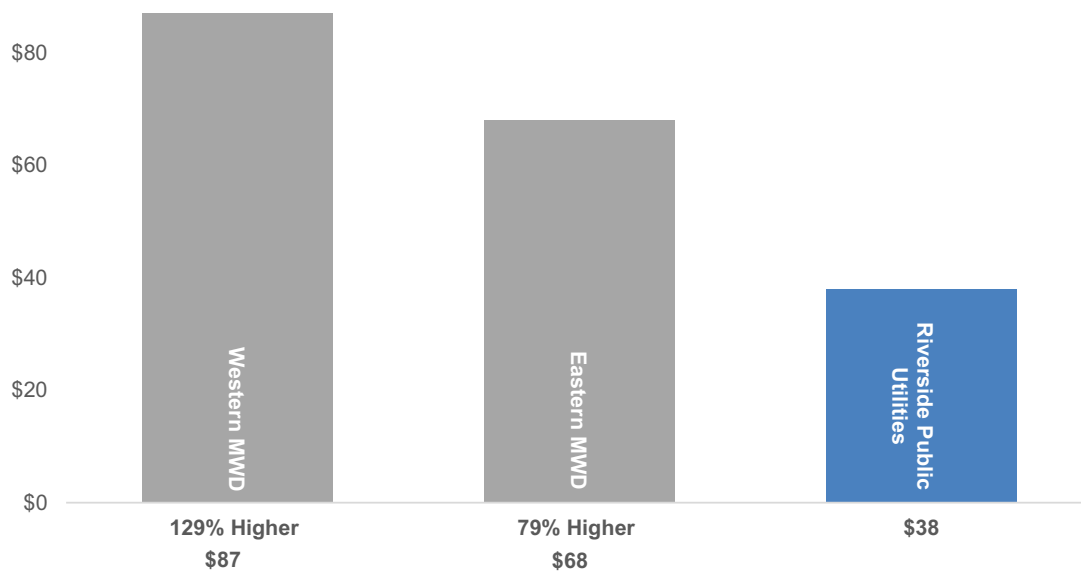
⁵ Does not include GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of \$3,149, (\$85), (\$1,806), and (\$941) for fiscal years 17/18 through FY 14/15, respectively.

⁶ Approved positions.

2017/2018 WATER REVENUE AND RESOURCES

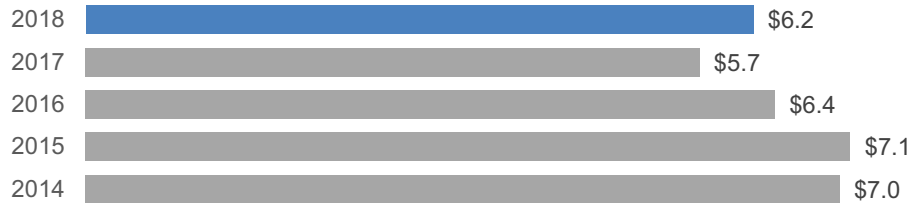


RESIDENTIAL WATER RATE COMPARISON 19 CCF PER MONTH (AS OF JUNE 30, 2018)

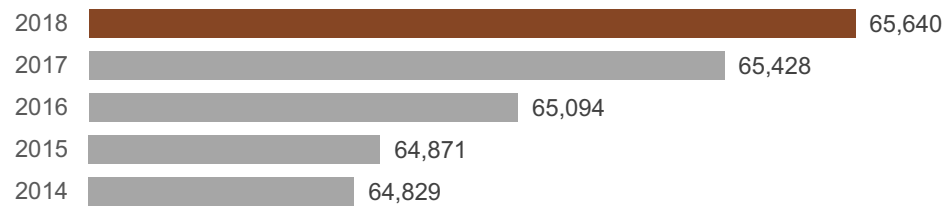


WATER KEY OPERATING INDICATORS

General Fund Transfer (In Millions)



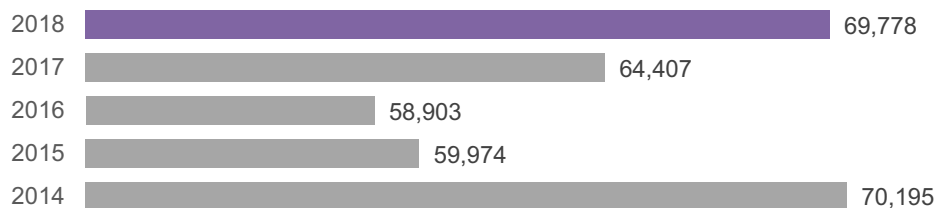
Number of Meters At Year End



Total Operating Revenue (In Millions)



Potable Water Production (In Acre Feet)



Peak Day Demand (In Millions of Gallons)



WATER FACTS AND SYSTEM DATA

Established..... 1913

Service Area Population..... 325,801

Service Area Size (square miles)..... 74.20

System Data

Smallest Pipeline 2.0"

Largest Pipeline 72.0"

Miles of Pipeline 1,005

Number of Domestic Wells 56

Number of Active Reservoirs 16

Total Reservoir Capacity (gallons)..... 108,500,000

Number of Treatment Plants..... 6

Number of Treatment Vessels 84

Miles of Canal..... 14

Number of Fire Hydrants 8,173

Daily Average Production (gallons) 67,500,000

2017-2018 Peak Day (gallons) 83,000,000

07/9/17, 103 Degrees

Historical Peak (gallons)..... 118,782,000

08/9/05, 99 Degrees

Bond Ratings

Fitch Ratings..... AA+

Moody's Aa2

Standard and Poor's AAA

RIVERSIDE PUBLIC UTILITIES

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Riverside, CA 92501
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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; CONTENT OF CERTIFICATES AND OPINIONS

Definitions

Unless the context otherwise requires, the terms defined in the Resolution will, for all purposes of the Resolution and of any Supplemental Resolution and of any certificate, opinion or other document mentioned therein, have the meanings specified below, to be equally applicable to both the singular and plural forms of any of the terms defined below. Unless otherwise defined in the Resolution, all terms used therein will have the meanings assigned to such terms in the Law.

“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 will be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, will 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 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 includes any Designated Investments.

“Bond” or “Bonds” means the City of Riverside Electric Revenue Bonds authorized by, and at any time Outstanding pursuant to, 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, and (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).

“Bond Register” means the Bond Register as defined in the Resolution.

“Bond Service Account” means the Electric Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Electric Revenue Fund.

“BMA” means the Bond Market Association and its successors and assigns.

“BMA Index” means the BMA Municipal Bond Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then “BMA Index” means such other reasonably comparable index selected by the City.

“Business Day” means, except as otherwise provided in a Supplemental Resolution with respect to a Series of Bonds, 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.

“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 will be read and construed as a single instrument. If and to the extent required by the Resolution, each such instrument will 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.

“Closing Certificate of the City” means a Certificate of the Treasurer of the City (or the Treasurer’s designee) delivered at the time of the initial issuance of the 2019 Bonds, substantially in the form attached to the Eighteenth Supplemental Resolution, that among other things, provides certain terms of the 2019 Bonds to be issued pursuant to the Resolution, all as authorized pursuant to the terms of the Resolution.

“Code” means the Internal Revenue Code of 1986, as amended.

“Construction Costs” means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Electric System and any facilities related thereto.

“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 a 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 a Series of Bonds and/or the purchase price of such Series or portion of a 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.

“Designated Investments” means, with respect to the 2019 Bonds and subject to such further or other parameters as may be specified in the Closing Certificate of the City, 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 FSLIC, or any broker dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the overcollateralization 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 53601;

(d) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California;

(e) 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; and

(f) 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.

“DTC” means The Depository Trust Company, New York, New York and its successors and assigns.

“Eighteenth Supplemental Resolution” means the resolution of the City Council approving the 2019 Bonds, and any amendments, modifications or supplements thereto.

“Electric Revenue Fund” means the revenue fund pertaining to the Electric System into which all Gross Operating Revenues are deposited.

“Electric System” means the electric public utility system of the City and includes all works and rights owned, controlled or operated by the City, within or without the City, for supplying the City and its inhabitants with electric energy, including all facilities related thereto and all additions, extensions and improvements thereof.

“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 will 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.

“Federal Securities” means direct obligations of, or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are held in safekeeping by a custodian on behalf of the owners of such receipts.

“Final Compounded Amount” means the Accreted Value of any Capital Appreciation Bond on its maturity date.

“Fiscal Agent” means U.S. Bank National Association, the fiscal agent appointed pursuant to the Eighteenth Supplemental Resolution, and any successor appointed in accordance with the Resolution.

“Fiscal Year” means the year period beginning on July 1st and ending on the next following June 30th.

“Fitch” means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such

corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Fitch," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, will refer to any other nationally recognized rating agency selected by the City and not objected to by the Fiscal Agent.

"Gross Operating Revenues" means (i) all revenues from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction, and (ii) all Subordinate Swap Receipts.

"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" means Financial Information, Incorporated's "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250-77 Center Drive, Charlotte, North Carolina 28217, Attention: Called Bond Department; Kenny Standard & Poor's, 55 Water Street, New York, New York 10041; or, 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 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 it may be amended from time to time, 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" means, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purpose of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments will be excluded from such calculation and Assumed Debt Service will 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 will 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 will be assumed to be equal to the greater of (i) the then current interest rate on the Parity Debt or Bonds and (ii) the BMA Index;

(d) principal and interest payments on Bonds and Parity Debt will 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) if the Bonds or Parity Debt are Paired Obligations, the interest rate on such Bonds or Parity Debt will be the collective fixed interest rate to be paid by the City with respect to Paired Obligations;

(f) in determining the principal amount due in each Fiscal Year, payment will (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 Bonds and Parity Debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date; and

(g) interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force will be based on the net economic effect on the City expected to be produced by the terms of such Bonds and such Subordinate Swap, including but not limited to the effects that (i) such Bonds would, but for such Subordinate Swap, be treated as Variable Rate Indebtedness instead will be treated as Bonds bearing interest at a fixed interest rate, and (ii) such Bonds would, but for such Subordinate Swap, be treated as Bonds bearing interest at a fixed interest rate instead will be treated as Variable Rate Indebtedness; and accordingly, the amount of interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force will be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds plus the Subordinate Swap Payments minus the Subordinate Swap Receipts, and for the purpose of calculating as nearly as practicable the Subordinate Swap Payments and the Subordinate Swap Receipts under such Bonds, the following assumptions will be made:

(1) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a net variable interest rate with respect to such Bonds and Subordinate Swap by the City, the interest rate on such Bonds for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Subordinate Swap is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Bonds, minus (ii) the fixed rate paid by the Subordinate Swap Provider to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Subordinate Swap Provider with respect to such Subordinate Swap (but only during the period that such interest rate cap is in effect) and (B) the applicable variable interest rate calculated in accordance with paragraph (b) or (c) above, as applicable; and

(2) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a fixed interest rate with respect to such Bonds and Subordinate Swap by the City, the interest on such Bonds will be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap.

Notwithstanding any other paragraph of the definition of Maximum Annual Debt Service, except as set forth in subsection (g) above, no amounts payable under any Subordinate Swap (including Termination Payments) will be included in the calculation of Maximum Annual Debt Service.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Moody’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, will refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

“Municipal Obligations” means municipal obligations, rated in the highest Rating Category by each of the Rating Agencies, meeting the following conditions:

(a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Operating Revenues” means Gross Operating Revenues, less Operating and Maintenance Expenses, plus, for purposes of determining compliance with certain provisions of the Resolution, the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

“Nominee” means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant hereto.

“Operating and Maintenance Expenses” means those expenses of operating and maintenance of the Electric System and includes any necessary contribution to retirement of Electric System employees.

“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 will 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 have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

“Owner” or “Bondholder” or “Bondowner,” whenever used in the Resolution with respect to a Bond, means the Person in whose name such Bond is registered.

“Paired Obligations” means any one or more Series (or portion thereof) of Bonds or Parity Debt, designated as Paired Obligations in the Supplemental Resolution or other document authorizing the issuance or incurrence thereof, that are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts, and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of the City for the term of such Bonds or Parity Debt.

“Parity Debt” means (1) any indebtedness or other obligation of the City, designated by the City on the date of issuance or incurrence as “Parity Debt,” 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 with the Bonds and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

“Participant” means those broker-dealers, banks and other financial institutions for which the Securities Depository holds certificates as securities depository.

“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.

“Rating Agencies” means either or both of Fitch and Standard & Poor’s, 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.

“Record Date” means the close of business on the fifteenth (15th) day of each month preceding an interest payment date.

“Redemption Account” means the account by that name established pursuant to the Resolution in the Electric 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, 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 Electric Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Electric Revenue Fund.

“Representation Letter” means a representation letter from the City to the Securities Depository as described in the Resolution.

“Resolution” means Resolution No. 17662 as originally adopted by the City Council on January 8, 1991, as amended, modified or supplemented from time to time by any Supplemental Resolution.

“Securities Depository” means DTC, or, in accordance with then-current guidelines of the U.S. Securities and Exchange Commission, such other securities depository as the City may designate in a Certificate of the City delivered to the 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.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Standard & Poor’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, will refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

“State” means the State of California.

“Subordinate Bonds” means any indebtedness or other obligation of the City (other than Subordinate Swaps and Subordinate Swap Policy Agreements), designated by the City on the date of issuance or incurrence as “Subordinate Bonds,” in each case having an equal lien and charge upon the Net Operating Revenues with the Subordinate Swaps and the Subordinate

Swap Policy Agreements and therefore payable on a parity with the Subordinate Swaps and the Subordinate Swap Policy Agreements (whether or not any Subordinate Swaps or Subordinate Swap Policy Agreements have been executed and delivered).

“Subordinate Obligations” means the Subordinate Swaps, the Subordinate Swap Policy Agreements and the Subordinate Bonds.

“Subordinate Payments” means all amounts required to be paid when due by the City under the Subordinate Obligations.

“Subordinate Providers” means the Subordinate Swap Providers, the Subordinate Swap Policy Providers and the owners of the Subordinate Bonds.

“Subordinate Swap” means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Subordinate Swap Provider to the extent authorized under the Law in connection with, or incidental to, the issuance of any Bonds (without regard to when issued), that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device; provided, however, that the written agreement with respect to each Subordinate Swap will provide that payments by the City thereunder will be secured by the subordinate lien on Net Operating Revenues created under the Resolution with respect to Subordinate Swaps (and other Subordinate Obligations).

“Subordinate Swap Payments” means (i) the amounts periodically required to be paid when due by the City to all Subordinate Swap Providers under all Subordinate Swaps and (ii) Termination Payments.

“Subordinate Swap Policy” means any insurance policy or similar agreement insuring payment of the City’s obligations under a particular Subordinate Swap.

“Subordinate Swap Policy Agreement” means any agreement between the City and a Subordinate Swap Policy Provider obligating the City to reimburse such Subordinate Swap Policy Provider for amounts paid under the related Subordinate Swap Policy.

“Subordinate Swap Policy Provider” means, with respect to any Subordinate Swap Policy, the issuer or provider of a Subordinate Swap Policy.

“Subordinate Swap Provider” means, with respect to each Subordinate Swap, the entity (other than the City and, if applicable, the Fiscal Agent) that is a party thereto, and its permitted successors and assigns, whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to “A2” and “A” from at least two nationally recognized credit rating agencies, or whose payment obligations under the Subordinate Swap are enhanced by a credit support provider or other similar entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to “A2” and “A” from at least two nationally recognized credit rating agencies and whose credit enhancement of the Subordinate Swap Provider’s obligations under the Subordinate Swap are pursuant to a guaranty or other form of credit enhancement (including, but not limited to, contingent swap counterparty arrangements,

transfer/novation arrangements or option arrangements acceptable to the Treasurer or any duly authorized designee of the Treasurer designated by the Treasurer in writing to act on behalf of such officer for such purpose (such acceptance to be evidenced by the execution and delivery of any such Subordinate Swap)).

“Subordinate Swap Receipts” means the amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps.

“Supplemental Resolution” means any resolution duly executed and delivered, supplementing, modifying or amending the Resolution in accordance with the Resolution.

“Surplus Account” means the Electric Revenue Bonds, Surplus Account established pursuant to the Resolution in the Electric Revenue Fund.

“Tax Certificate” means the tax certificate concerning certain matters pertaining to the use and investment of proceeds of the 2019 Bonds, executed and delivered by the City on the date of delivery of the 2019 Bonds, as the same may be supplemented or amended, including any and all exhibits attached thereto.

“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.

“Termination Payments” means any payments due and payable by the City to a Subordinate Swap Provider in connection with the termination of a Subordinate Swap.

“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.

“Variable Rate Indebtedness” means any indebtedness or obligation, other than Paired Obligations, the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

“1998 Bonds” means the City of Riverside Electric Refunding/Revenue Bonds, Issue of 1998.

“2001 Bonds” means the City of Riverside Electric Revenue Bonds, Issue of 2001.

“2003 Bonds” means the City of Riverside Electric Refunding Revenue Bonds, Issue of 2003.

“2004A Bonds” means the City of Riverside Electric Revenue Bonds, Issue of 2004A.

“2008A Bonds” means the City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A.

“2008B Bonds” means the City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B.

“2008C Bonds” means the City of Riverside Variable Rate Refunding Electric Revenues Bonds, Issue of 2008C.

“2008D Bonds” means the City of Riverside Electric Revenue Bonds, Issue of 2008D.

“2019 Bonds” means City of Riverside Refunding Electric Revenue Bonds, Issue of 2019.

“2019 Bond Reserve Requirement” has the meaning provided in the Closing Certificate of the City.

“2019 Construction Fund” means the Refunding Electric Revenue Bonds, Issue of 2019, Construction Fund established pursuant to the Resolution.

“2019 Costs of Issuance Fund” means the Refunding Electric Revenue Bonds, Issue of 2019, Costs of Issuance Fund established pursuant to the Resolution.

“2019 Rebate Account” means the Refunding Electric Revenue Bonds, Issue of 2019, Rebate Account established pursuant to the Resolution.

“2019 Reserve Account” means the Refunding Electric Revenue Bonds, Issue of 2019, Reserve Account established pursuant to the Resolution.

Content of Certificates and Opinions

Every certificate or opinion provided for in the Resolution with respect to compliance with any provision of the Resolution will include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions in the Resolution relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement (a) that, in the opinion of such Person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter or (b) that he or she had made or caused to be made his or her examination or investigation with respect to the subject matter in accordance with specified professional standards; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer or employee of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer or employee of the City, unless such counsel, accountant or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such Person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer or employee of the City, or the same counsel or accountant or independent consultant, as the case may be, need not certify to all of the matters required to be

certified under any provision of the Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

THE BONDS

Execution of Bonds

Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series will be executed in the name and on behalf of the City with the facsimile or manual signature of the Mayor and the Treasurer, under seal attested by the facsimile or manual signature of the City Clerk. Such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the Bonds. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series will be delivered to the Fiscal Agent for that Series for authentication by it. In case any of the Persons who signed or attested any of the Bonds ceases to hold their respective offices or positions before the Bonds so signed or attested have been authenticated or delivered by the Fiscal Agent or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the City as though those who signed and attested the same had continued to be such officers or employees, and also any Bond may be signed and attested on behalf of the City by such Persons as at the actual date of execution of such Bond are the proper officers or employees although at the nominal date of such Bond any such Person are not such officer or employee.

Except as provided in the Supplemental Resolution providing for the issuance thereof, only such of the Bonds as bear thereon a certificate of authentication substantially in the form recited in the Supplemental Resolution creating such Series, manually executed by the Fiscal Agent for such Series, will be valid or obligatory for any purpose or entitled to the benefits of the Resolution, and such certificate of authentication when manually executed by such Fiscal Agent will be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered under the Resolution and are entitled to the benefits of the Resolution.

Transfer of Bonds

Any 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 Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond.

Whenever any Bond or Bonds of a Series are surrendered for transfer, the City will execute and the Fiscal Agent for that Series will authenticate and deliver a new Bond or Bonds, of the same Series, tenor and maturity and for a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to register a transfer of any Bonds within 15 days before the date of selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. A Fiscal Agent may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

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 Bond so selected for redemption. The Fiscal Agent will 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 will at all times be open to inspection during normal business hours by the City; and, upon presentation for such purpose, the Fiscal Agent will, 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, will be of such denomination as may be determined by the City, will 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 will 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 will 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 will 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 becomes mutilated, the City at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will 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 will be cancelled by it and destroyed. If any Bond is 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 is given, the City at the expense of the Owner, will execute, and the Fiscal Agent will 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 has matured or has 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 provisions of the Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will 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 will be entitled to the benefits of the Resolution with all other Bonds secured by the Resolution. Neither the City nor any Fiscal Agent will 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 will be treated as one and the same.

Place of Payment

The principal of the 2019 Bonds will be payable in lawful money of the United States of America upon presentation and surrender of such 2019 Bonds at the corporate trust office of the Fiscal Agent in St. Paul, Minnesota. Interest on the 2019 Bonds will be paid 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 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 2019 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. Payments of defaulted interest will be paid by check to the Owners as of a special record date to be fixed by the Fiscal Agent, notice of which special record date will be given to the Owners by the Fiscal Agent not less than ten (10) days prior thereto.

Book-Entry System

General. The 2019 Bonds initially will be issued in the form of a separate single fully registered 2019 Bond (which may be typewritten) for each of the maturities of a Series the 2019 Bonds. The City will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2019 Bonds of a Series in an authorized denomination corresponding to that total principal amount of the 2019 Bonds of such Series designated to mature on such date. Upon initial issuance, the ownership of each such 2019 Bond will be registered in the Bond Register in the name of the Nominee, as nominee of the Securities Depository, and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as provided in the Resolution.

With respect to book-entry 2019 Bonds, the City and the Fiscal Agent will have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry 2019 Bonds. Without limiting the immediately preceding sentence, the City and the Fiscal Agent will have no responsibility or obligation with respect to: (i) the accuracy of the records of the Securities Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry 2019 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register, of any notice with respect to book-entry 2019 Bonds, including any notice of redemption; (iii) the

selection by the Securities Depository and its Participants of the beneficial interests in book-entry 2019 Bonds to be redeemed in the event that the City redeems the 2019 Bonds in part; or (iv) the payment by the Securities Depository or any Participant or any other person of any amount of principal of, premium, if any, or interest on book-entry 2019 Bonds. The City and the Fiscal Agent may treat and consider the person in whose name each book-entry 2019 Bond is registered in the Bond Register as the absolute Owner of such book-entry 2019 Bond for the purpose of payment of principal of, premium and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Fiscal Agent will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, as shown in the Bond Register, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register, will receive a Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the Bonds. Upon delivery by the Securities Depository to the City and the Fiscal Agent of written notice to the effect that the Securities Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in the Eighteenth Supplemental Resolution will refer to such nominee of the Securities Depository.

Delivery of Representation Letter. In order to qualify the book-entry 2019 Bonds for the Securities Depository's book-entry system, the City will execute and deliver to the Securities Depository a Representation Letter. The execution and delivery of a Representation Letter will not in any way impose upon the City or the Fiscal Agent any obligation whatsoever with respect to persons having interests in such book-entry 2019 Bonds other than the Owners, as shown on the Bond Register. In addition to the execution and delivery of a Representation Letter, the City and the Fiscal Agent, if necessary, will take such other actions, not inconsistent with the Eighteenth Supplemental Resolution, as are reasonably necessary to qualify book-entry 2019 Bonds for the Depository's book-entry program.

Selection of Securities Depository. In the event that: (i) the Securities Depository determines not to continue to act as securities depository for book-entry 2019 Bonds; or (ii) the City determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the 2019 Bonds or the City, then the City will discontinue the book-entry system with the Securities Depository. If the City determines to replace the Securities Depository with another qualified securities depository, the City will prepare or direct the preparation of a new single, separate, fully registered 2019 Bond for each of the maturity dates of such book-entry 2019 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in paragraph (e) below. If the City fails to identify another qualified securities depository to replace the Securities Depository, then the Bonds will no longer be restricted to being registered in such Bond Register in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such Bonds designates, in accordance with the provisions of the Resolution.

Payments To Securities Depository. Notwithstanding any other provision of the Resolution to the contrary, so long as all Outstanding 2019 Bonds are held in book-entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2019 Bonds and all notices with respect to such 2019 Bonds will be made and given, respectively to the Nominee, as provided in the Representation Letter or as

otherwise instructed by the Securities Depository and agreed to by the Fiscal Agent notwithstanding any inconsistent provisions in the Resolution.

Transfer of 2019 Bonds to Substitute Depository.

(i) The 2019 Bonds will be initially issued as provided in the Resolution. Registered ownership of such 2019 Bonds, or any portions thereof, may not later be transferred except:

(A) to any successor of the Securities Depository or its Nominee, or of any substitute depository designated pursuant to paragraph (B) below (a "Substitute Depository"); provided that any successor of the Securities Depository or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of the Securities Depository or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that the Securities Depository (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository will be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of the Securities Depository or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that the Securities Depository or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clauses (A) or (B) of paragraph (i) described above, upon receipt of all Outstanding 2019 Bonds by the Fiscal Agent, together with a written request of the City to the Fiscal Agent designating the Substitute Depository, a single new 2019 Bond, which the City will prepare or cause to be prepared, will be issued for each maturity of 2019 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the City. In the case of any transfer pursuant to clause (c) of paragraph (i) described above, upon receipt of all Outstanding 2019 Bonds by the Fiscal Agent, together with a written request of the City to the Fiscal Agent, new 2019 Bonds, which the City will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such written request of the City, subject to certain limitations in the Resolution, provided that the Fiscal Agent will not be required to deliver such new 2019 Bonds within a period of less than sixty (60) days from the date of receipt of such written request from the City.

(iii) In the case of a partial redemption or an advance refunding of any 2019 Bonds evidencing a portion of the principal maturing in a particular year, the Securities Depository or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2019 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Fiscal Agent, all in accordance with the Representation Letter. The Fiscal Agent will not be liable for such Securities Depository's failure to make such notations or errors in making such notations and the records of the Fiscal Agent as to the outstanding principal amount of such 2019 Bonds will be controlling.

(iv) The City and the Fiscal Agent will be entitled to treat the person in whose name any 2019 Bond is registered as the Owner thereof for all purposes of the Eighteenth Supplemental Resolution and any applicable laws, notwithstanding any notice to the contrary received by the City or the Fiscal Agent; and the City and the Fiscal Agent will not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2019 Bonds. Neither the City nor the Fiscal Agent will have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including the Securities Depository or its successor (or Substitute Depository or its successor), except to the Owner of any 2019 Bonds, and the Fiscal Agent may rely conclusively on its records as to the identity of the Owners of the 2019 Bonds.

(v) Transfers Outside Book-Entry System. In the event that: (i) the Securities Depository determines not to continue to act as securities depository for the 2019 Bonds; or (ii) the City determines that the Securities Depository will no longer so act and delivers a written certificate to the Fiscal Agent to that effect, then the City will discontinue the book-entry system with the Securities Depository. Thereafter, any Bond may, in accordance with its terms, be transferred or exchanged in accordance with the Resolution.

(vi) Payments and Notices to the Nominee. Notwithstanding any other provision of the Resolution to the contrary, so long as any 2019 Bond is registered in the name of the Nominee, all payments with respect to principal of and interest on such 2019 Bond and all notices with respect to such 2019 Bond will be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Securities Depository.

(vii) Initial Depository and Nominee. The initial Securities Depository under the Eighteenth Supplemental Resolution is DTC. The initial Nominee is Cede & Co., as Nominee of DTC.

REVENUES

Pledge of Net Operating Revenues for Bonds and for Subordinate Obligations

The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and will be a charge upon and will be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City by the Resolution has pledged, placed a charge upon and assigned all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt 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 constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt. There are by the Resolution 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.

The Subordinate Obligations are special limited obligations of the City and are secured by a pledge of and will be a charge upon and will be payable solely from and secured by a lien

upon the Net Operating Revenues; provided, however, that such pledge and lien will be junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt. The City by the Resolution pledges, places a charge upon and assigns the Net Operating Revenues to secure the payment of Subordinate Obligations 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 (including that the pledge and lien on the Net Operating Revenues are junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt), and the Net Operating Revenues constitute a trust fund for the security and payment of the Subordinate Obligations (on a basis junior and subordinate to the pledge and lien created for the benefit of the Owners of the Bonds' and the owners of the Parity Debt). There are by the Resolution pledged to secure the payment of the Subordinate Obligations in accordance with their respective terms amounts (excluding 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 will be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, to the following: the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund payments of the Bonds and Parity Debt and any reserve fund with respect thereto; the payment of amounts due under the Subordinate Obligations; and the excess earnings or rebate requirements with respect to the Bonds. All remaining Gross Operating Revenues, after making the foregoing allocations, will be surplus and may be used for any lawful purpose. The pledges of Net Operating Revenues made in the Resolution will be irrevocable until there are no longer Bonds Outstanding and all amounts due under the Subordinate Obligations have been paid.

Establishment of Funds and Accounts

(A) The Resolution has created, and the Treasurer will maintain in accordance with the terms of the Resolution, within the Electric Revenue Fund, the following accounts and sub-accounts:

(1) Electric Revenue Bonds, Bond Service Account (sometimes called "Bond Service Account"), in which there are established the following sub-accounts:

(a) Electric Revenue Bonds, Principal Account (sometimes called the "Principal Account"); and

(b) Electric Revenue Bonds, Interest Account (sometimes called the "Interest Account");

(2) Electric Revenue Bonds, Renewal and Replacement Account (sometimes called the "Renewal and Replacement Account"); and

(3) Electric Revenue Bonds, Surplus Account (sometimes called the "Surplus Account").

(B) All funds, accounts and sub-accounts established or continued under the Resolution or by any Supplemental Resolution will be held by the Treasurer or, if applicable, a Fiscal Agent, and will 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 and all Subordinate Obligations have been paid in full in accordance with their respective terms.

Establishment and Application of 2019 Construction Fund

The moneys in the 2019 Construction Fund will be used and withdrawn by the Fiscal Agent, at the direction of the Treasurer, to pay the Construction Costs of any facility or facilities that are necessary or convenient for the generation, transmission or distribution of electricity; or incidental to, or in connection with, the operation of the Electric System; or to pay or reimburse the City for interest on all or a portion of the 2019 Bonds during the construction period (or a portion of the construction period) for the improvements to the Electric System funded by the 2019 Bonds. Moneys on deposit in the 2019 Construction Fund will be invested in Authorized Investments. Following the calculation of any "rebate amount" pursuant to the Resolution in each year, the Fiscal Agent will, from interest, profit or other income derived from the investment of moneys held in the 2019 Construction Fund: (i) transfer to the 2019 Rebate Account such amounts as may be necessary to satisfy certain requirements of the Resolution; and (ii) transfer to an account of the Fiscal Agent the amount, if any, determined by the City to be deposited in the Interest Account and applied to the payment of interest on the 2019 Bonds (or the applicable portion thereof).

Disbursements will be made from the 2019 Construction Fund only upon receipt by the Fiscal Agent of a duly executed Requisition of the City (upon which the Fiscal Agent may conclusively rely), which Requisition will state: (i) the item number of such payment; (ii) the name and address of the Person to whom each such payment is due, which may be the City in the case of reimbursement for costs theretofore paid by the City; (iii) the respective amounts to be paid; and (iv) the purpose by general classification for which each obligation to be paid was incurred.

Establishment and Application of 2019 Rebate Account

(A) Establishment. Pursuant to the Resolution, to the extent that one or more Series of 2019 Bonds are issued on a tax-exempt basis, the Fiscal Agent will establish when required, maintain and hold in trust a separate account designated as the 2019 Rebate Account and to the extent that multiple Series of 2019 Bonds are issued on a tax-exempt basis, such subaccounts therein as directed by the City. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the applicable Series of 2019 Bonds will not be adversely affected, the City will cause to be deposited in the 2019 Rebate Account such amounts as are required to be deposited therein pursuant to the Resolution and the Tax Certificate. All money at any time deposited in the 2019 Rebate Account will be held by the Fiscal Agent in trust for payment to the United States Treasury. All amounts on deposit in the 2019 Rebate Account for the 2019 Bonds will be governed by the Resolution and the Tax Certificate for the 2019 Bonds, unless and to the extent that the City delivers to the Fiscal Agent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2019 Bonds will not be adversely affected, if such requirements are not satisfied. Notwithstanding anything to the contrary in the Resolution or in the Tax Certificate, the Fiscal Agent: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the City; (ii) will have no liability

or responsibility to enforce compliance by the City with the terms of the Tax Certificate; (iii) may rely conclusively on the City's calculations and determinations and certifications relating to rebate matters; and (iv) will have no responsibility to independently make any calculations or determinations or to review the City's calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The City will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the written Request of the City, an amount will be deposited to the 2019 Rebate Account by the Fiscal Agent from any Net Operating Revenues legally available for such purpose (as specified by the City in the aforesaid written Request), if and to the extent required so that the balance in the 2019 Rebate Account equals the amount of Rebatable Arbitrage so calculated in accordance with clause (i) of this paragraph (A). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the 2019 Rebate Account exceeds the amount required to be on deposit therein, upon written Request of the City, the Fiscal Agent will withdraw the excess from the 2019 Rebate Account and then credit the excess to the Bond Service Account.

(iii) Payment to the Treasury. The Fiscal Agent will pay, as directed by Request of the City, to the United States Treasury, out of amounts in the 2019 Rebate Account:

(a) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(b) Not later than 60 days after the payment of all of the 2019 Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the 2019 Rebate Account, the amount in the 2019 Rebate Account is not sufficient to make such payment when such payment is due, the City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this paragraph (A) will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal

Revenue Service Form 8038-T (prepared by the City), or will be made in such other manner as provided under the Code.

(B) Disposition of Unexpended Funds. Any funds remaining in the 2019 Rebate Account after redemption and payment of the 2019 Bonds and the payments described in paragraph (A) above being made may be withdrawn by the City and utilized in any manner by the City.

(C) Survival of Defeasance. Notwithstanding anything in the Resolution to the contrary, the obligation to comply with the rebate requirements of the Resolution will survive the defeasance or payment in full of the 2019 Bonds.

Establishment, Funding and Application of Redemption Account

The Treasurer will establish, maintain and hold in trust a special account within the Electric Revenue Fund designated as the "Redemption Account." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds will, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account will 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 will, 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 will be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of 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 will 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 will be transferred to the Electric 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 will be credited to the fund or account from which such accrued interest was paid.

Unless otherwise provided in a Supplemental Resolution with respect to any 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 account or accounts for investment purposes only, provided that all accounts or sub-accounts held by the Treasurer or any Fiscal Agent under the Resolution will 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 is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent will 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 will specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and will 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 OF THE CITY

Covenants

The City makes the following covenants with the Owners and the Subordinate Providers (to be performed by the City or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners and the Subordinate Providers; provided, however, that said covenants do not require or obligate the City to use any of its funds other than the Electric Revenue Fund. Said covenants will be in effect subject to certain provisions of the Resolution, so long as any of the Bonds issued under the Resolution are Outstanding and unpaid, so long as any of the Subordinate Obligations are unpaid or so long as provision for the full payment and discharge of the Bonds at maturity or upon redemption thereof prior to maturity through the setting apart in the Bond Service Account or in the Redemption Account or in a special trust fund to insure the payment or redemption thereof (as the case may be) of money sufficient for that purpose has not been made.

Punctual Payment

The City has covenanted in the Resolution 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 dates, 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 the 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.

The City has covenanted in the Resolution that it will duly and punctually pay or cause to be paid all amounts when due under the Subordinate Obligations, on the dates, at the place or places and in the manner mentioned therein in accordance with the Resolution, and that the payments into the Bond Service Account will be made, all in strict conformity with the terms of the Subordinate Obligations 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 that time of such payment and performance is of the essence of the City's contract with the Subordinate Providers.

Discharge Claims

The City has covenanted in the Resolution that in order to fully preserve and protect the priority and security of the Bonds and the subordinate priority and security of the Subordinate Obligations, the City will pay from the Electric Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Electric System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds or the lien of the Subordinate Obligations and impair the security of the Bonds or the Subordinate Obligations. The City will also pay from the Electric Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Electric 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 Electric System in Efficient and Economical Manner

The City has covenanted and agreed in the Resolution to operate the Electric System in an efficient and economical manner and to operate, maintain and preserve the Electric System in good repair and working order.

Against Sale; Eminent Domain

The City has covenanted in the Resolution that the Electric System will 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 Electric 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 of any amounts due with respect to the Subordinate Obligations, 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 will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor will any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City has further covenanted in the Resolution that it will not enter into any agreement which impairs the operation of the Electric 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 and to pay all amounts due under the Subordinate Obligations or which otherwise would impair the rights of the Owners or the Subordinate Providers with respect to the Net Operating Revenues or the operation of the Electric System. If any substantial part of the Electric System is sold, the payment therefor will, 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 Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

The City has covenanted in the Resolution that any amounts received as awards as a result of the taking of all or any part of the Electric 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, will either be used for the acquisition and/or construction of improvements and extensions of the Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution.

Insurance

The City has covenanted in the Resolution that it will 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 Electric 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 Electric System is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Electric System will be used for repairing or rebuilding the damaged or destroyed Electric System, and to the extent not so applied, will be applied to the retirement of any Outstanding Bonds.

The City will 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 will keep proper books of records and accounts of the Electric System separate from all other records and accounts in which complete and correct entries will be made of all transactions relating to the Electric System. Said books will 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 will cause the books and accounts of the Electric System to be audited annually 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 electricity or other service from the Electric 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. No building or other real property of the Electric System will be furnished free to any such public agency or any private Person or corporation. The City will maintain and enforce valid regulations for the payment of bills for electric service. Such regulations will at all times during such period provide that the City will, to the extent permitted by law, discontinue electric service to any user whose electric bill has not been paid within the time fixed by said regulations.

Tax Covenants Related to the 2019 Bonds

Notwithstanding any other provision of the Resolution, to the extent that one or more Series of 2019 Bonds are issued on a tax-exempt basis, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the applicable Series of 2019 Bonds will not be adversely affected for federal income tax purposes, the City covenants to comply with all applicable requirements of the Code that are necessary to preserve such exclusion from gross income with respect to such Series of 2019 Bonds and specifically covenants, without limiting the generality of the foregoing, as follows:

Private Activity. The City will take no action or refrain from taking any action, and the City will make no use of the proceeds of such Series of 2019 Bonds or of any other moneys or property, which would cause such Series of 2019 Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

Arbitrage. The City will make no use of the proceeds of such Series of 2019 Bonds or of any other amounts or property, regardless of the source, and the City will not take any action or refrain from taking any action, which will cause such Series of 2019 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

Federal Guarantee. The City will make no use of the proceeds of such Series of 2019 Bonds, and the City will not take or omit to take any action, that would cause such Series of 2019 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code which is necessary to preserve the exclusion of interest on such Series of 2019 Bonds pursuant to Section 103(a) of the Code;

Hedge Bonds. The City will make no use of the proceeds of such Series of 2019 Bonds or any other amounts or property, regardless of the source, and the City will not take any action or refrain from taking any action, that would cause such Series of 2019 Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on such Series of 2019 Bonds for federal income tax purposes; and

Miscellaneous. The City will not take any action or refrain from taking any action which is inconsistent with its expectations stated in the Tax Certificate executed by the City in connection with the issuance of such Series of 2019 Bonds and will comply with the covenants and requirements that are stated therein and incorporated by reference in the Resolution.

No Effect on Taxable Bonds. The tax covenants that are set forth in the Resolution will not be applicable to, and nothing that is contained in the Resolution will be deemed to prevent the City from issuing 2019 Bonds of a Series or revenue bonds or executing and delivering contracts that are payable on a parity with the 2019 Bonds, the interest with respect to which has been determined to be subject to federal income taxation.

Elections. The City by the Resolution directs and authorizes the Treasurer (or any duly authorized designee thereof) to make elections permitted or required pursuant to the provisions of the Code or the Treasury Regulations, as the Treasurer or such designee (after consultation

with Bond Counsel) deems necessary or appropriate in connection with the 2019 Bonds, in the Tax Certificate relating to the tax-exempt Series of 2019 Bonds, or similar or other appropriate certificate, form or document.

Tax Certificate. The City covenants that in connection with the delivery of the tax-exempt Series of 2019 Bonds it will execute and deliver the Tax Certificate, in such form and substance as is provided and accepted by Bond Counsel. All representations, warranties and covenants made by the City in the Tax Certificate, as the same may be amended or supplemented in accordance with its terms, are incorporated into and made a part of the Resolution as though the same had been fully set forth therein.

Notwithstanding any other provisions of the Resolution (including the Eighteenth Supplemental Resolution) to the contrary, upon the City's failure to observe, or refusal to comply with, any of the tax covenants described above, no Person other than the Owners of the tax-exempt Series of 2019 Bonds will be entitled to exercise any right or remedy provided to the Owners under the Resolution on the basis of the City's failure to observe, or refusal to comply with, such covenant.

Continuing Disclosure

The City has covenanted and agreed in the Resolution that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be delivered by the City in connection with the issuance of the 2019 Bonds. Notwithstanding any other provision of the Resolution, failure of the City to comply with the Continuing Disclosure Certificate will not be considered an Event of Default under the Resolution.

THE FISCAL AGENT

Appointment; Duties of Fiscal Agent

(A) The Treasurer (or the Treasurer's designee) is authorized, empowered and directed by the Resolution to appoint a Fiscal Agent with respect to the 2019 Bonds. The Fiscal Agent will signify its acceptance of the duties and obligations under the Resolution by executing and delivering to the City a written acceptance in which the Fiscal Agent agrees to perform said duties and obligations as set forth in the Resolution.

The City has agreed in the Resolution, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any liabilities it may incur in the exercise and performance of its powers and duties under the Resolution which are not due to its negligence or willful misconduct.

The City has acknowledged in the Resolution that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the City with periodic transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Resolution; provided that the Fiscal Agent is not obligated to provide an accounting for any fund or account that: (a) has a balance of \$0.00; and (b) has not had any activity since the last reporting date.

The obligation of the City described above will survive resignation or removal of the Fiscal Agent under the Eighteenth Supplemental Resolution and payment of the 2019 Bonds and discharge of the Eighteenth Supplemental Resolution.

(B) The City may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent ceases to be eligible in accordance with paragraph (E) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property is appointed, or any public officer takes 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 appoints a successor Fiscal Agent by an instrument in writing.

(C) Each Fiscal Agent may at any time resign by giving 90 days prior written notice of such resignation to the City by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent and by giving prior written notice of such resignation by mail to the Subordinate Providers. Upon receiving such notice of resignation, the City will 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 will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent has been appointed and has 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, will 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, will become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Resolution. Upon request of the successor Fiscal Agent, the City and the predecessor Fiscal Agent will 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 will 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 will 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 will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will 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 ceases to be eligible in accordance with the provisions of paragraph (E) above, such Fiscal Agent will 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 will be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

Retention and Dissemination of Available Information

The Fiscal Agent for the 2019 Bonds will retain in its possession all reports, certificates and other documents received by it with respect to the 2019 Bonds, all of which will be subject at all reasonable times during regular business hours with reasonable prior notice to inspection by the City, the Securities Depository with respect to the 2019 Bonds and any other Person that the City reasonably determines to be a beneficial owner of 2019 Bonds held by such Securities Depository, and the agents and representatives of any thereof. Upon receipt by the Fiscal Agent of a written request of any Person described in the immediately preceding sentence, the Fiscal Agent will provide to such Person a copy of any such report, certificate or other document, provided that such Person shall bear the direct cost of reproduction and delivery thereof. The Fiscal Agent will, at the cost of and at the written instruction of the City, disseminate all material written information received by the Fiscal Agent pursuant to the Resolution, to one or more officially recognized central information facilities or repositories with respect to information regarding obligations similar to the 2019 Bonds specified to the Fiscal Agent by the City.

Liability of Fiscal Agent

(A) The recitals of facts in the Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of the City, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Resolution. A Fiscal Agent and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it is proven that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Resolution and perform the duties required of it under the Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

(C) No provision of the Resolution requires a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

(D) A Fiscal Agent is not required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Resolution and to file with such Fiscal Agent when due, such reports and certifications as the City is required to file with each Fiscal Agent under the Resolution.

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent imposes a duty to exercise such power, right or remedy.

(F) A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent determines to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

(G) Whether or not therein expressly so provided, every provision of the Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions described above.

Right of Fiscal Agent to Rely on Documents

A Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to the City, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith unless it is proven that a Fiscal Agent was negligent in ascertaining the pertinent facts.

Whenever in the administration of the duties imposed upon it by the Resolution a Fiscal Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof

be specifically prescribed in the Resolution) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate will be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of the Resolution in reliance upon such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the City or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Resolution.

MODIFICATION OR AMENDMENT OF THE RESOLUTION

Amendments Permitted

(A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds, the Subordinate Providers 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 and, if the modification or amendment affects certain specified provisions of the Resolution in a material adverse manner to one or more Subordinate Providers, then with the written consent of the affected Subordinate Swap Providers and Subordinate Swap Policy Providers and the affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners; 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 will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Resolution.

(2) No such modification or amendment may (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 for the benefit of the Owners of the Bonds, or deprive the Owners of the Bonds of such 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, (c) extend or reduce the amount payable by the City under any Subordinate Obligation without the consent of the affected Subordinate Swap Provider, affected Subordinate Swap Policy Provider or affected owner of a Subordinate Bond, (d) permit the creation of any lien on the Net Operating Revenues prior to or on a parity with the subordinate lien created by the Resolution for the benefit of the Subordinate Providers, or deprive the Subordinate Providers of such lien created by the Resolution on such Net Operating Revenues (in each case, except as expressly provided in the Resolution), without the consent of the affected Subordinate Swap Providers, affected Subordinate Swap Policy Providers and affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners, or (e) modify any rights or duties of the Fiscal Agent without its consent.

It is not necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent approves the substance thereof. Promptly after the adoption by the City Council of any Supplemental Resolution pursuant to the Resolution, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment will 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, will 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 reserved in the Resolution to or conferred upon the City, in each case which will 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 will 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 of the Resolution 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 will 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 materially and adversely affects 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.

Effect of Supplemental Resolution

From and after the time any Supplemental Resolution becomes effective pursuant to the Resolution, the Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the City, each Fiscal Agent, all Owners of Bonds Outstanding and all Subordinate Providers will thereafter be determined, exercised and enforced under the Resolution subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Resolution for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Resolution may, and if a Fiscal Agent so determines will, bear a notation by endorsement or otherwise in form approved by the City Council and such Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his or her Bond for such purpose at the Corporate Trust Office of such Fiscal Agent or at such additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation will be made on such Bond. If a Supplemental Resolution so provides, new Bonds so modified as to conform, in the opinion of the Treasurer and the Fiscal Agent for such Series, to any modification or amendment contained in such Supplemental Resolution, will be prepared and executed by the City and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then outstanding will be exchanged at the Corporate Trust Office of such Fiscal Agent, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

Amendment of Particular Bonds

The foregoing provisions will not prevent any Bondholder from accepting any amendment as to the particular Bands held by him or, her, provided that due notation thereof is made on such Bonds.

DEFEASANCE

Discharge of Resolution

Except as may be provided in any Supplemental Resolution creating a Series of Bonds, 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 Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Treasurer, the Fiscal Agent for such Series, 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 all Bonds Outstanding of the Series; or

(c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If the City pays all Series for which any Bonds are Outstanding and also pays or causes to be paid all other sums payable to any provider of a Credit Facility under the Resolution by the City and all sums payable to all Subordinate Providers 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 Bonds have not 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 will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer will cause an accounting for such period or periods as the City may request to be prepared and filed with the City and will 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 (as provided in the Resolution) 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 will have been given as provided in the Resolution or provision satisfactory to such Fiscal Agent will have been made for the giving of such notice, then all liability of the City in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to certain 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, will 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 accounts and sub-accounts established pursuant to the Resolution and will 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 has been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice, the amount to be deposited

or held will be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities or Municipal Obligations, 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 will have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series will have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series will 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, will, 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 will 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, will 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 will 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 will belong to the City and will be deposited monthly by the Treasurer into the Bond Service Account.

DEFAULTS AND REMEDIES

Events of Default

Each of the following events is an Event of Default under the Resolution:

(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 (other than covenants, conditions or agreements for the exclusive benefit of one or more of the Subordinate Providers) or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation then Outstanding, 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 Electric 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 hereafter 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 Electric System or any substantial part of the City's property, or to the taking possession by any such official of the Electric 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 Electric System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City of its affairs; or

(g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of paragraphs (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 will not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Resolution includes 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 will, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the City, and the City will 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 has occurred and is continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders 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 adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders’ Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders’ Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders’ Committee. The Bondholders’ Committee is declared by the Resolution to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders’ 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 will be elected by or their election will be approved by or concurred in, and such committee will 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, will be filed with the City Clerk.

Acceleration

Upon the occurrence and continuation of an Event of Default described in paragraphs (e), (f) or (g) under the caption “—Events of Default”, 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, 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 will forthwith become due and payable. Upon any such declaration the City will 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 in 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 consequences. No such rescission or annulment will 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 90 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation will 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 Electric 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 will 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 is cumulative and 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 will impair any such right or power or 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 will extend to or affect any subsequent default or Event of Default or impair any rights or remedies consequent thereon.

Unconditional Right to Receive Principal, Accreted Value, Premium and Interest

Nothing in the Resolution will, 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 in the Resolution and in the Bonds expressed.

MISCELLANEOUS

Liability of City Limited to Net Operating Revenues

Notwithstanding anything in the Resolution or in the Bonds, the City is not 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 in the Resolution mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds, the payment of amounts due under the Subordinate Obligations, 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, or the payment of any Subordinate Obligations, 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, or the payment of any Subordinate Obligations. The Owner of any Bond or any Subordinate Provider may 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. Amounts payable under the Subordinate Obligations 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 (as provided in the Resolution).

Successor Is Deemed Included in All References to Predecessor

Whenever in the Resolution either the City, the Treasurer or any Fiscal Agent is named or referred to, such reference will include the successors or assigns thereof, and all the covenants and agreements in the Resolution contained by or on behalf of the City or any Fiscal Agent will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to City, Fiscal Agents, Bondholders and Subordinate Providers

Nothing in the Resolution or in the Bonds or the Subordinate Obligations expressed or implied is intended or may be construed to give to any Person other than the City, each Fiscal Agent, the Owners of the Bonds and the Subordinate Providers, as applicable, any legal or equitable right, remedy or claim under or in respect of the Resolution or any covenant, condition or provision therein or contained in the Resolution, as applicable; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the City, each Fiscal Agent, the Owners of the Bonds and the Subordinate Providers, as applicable.

Waiver of Notice

Whenever in the Resolution the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Destruction or Delivery of Cancelled Bonds

Whenever in the Resolution provision is made for the cancellation by a Fiscal Agent and the delivery to the Treasurer of any Bonds, such Fiscal Agent may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Treasurer, if the Treasurer so requires), and deliver a certificate of such destruction to the Treasurer.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Resolution or in the Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Resolution, and the Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Resolution. The City Council has declared that it would have adopted the Resolution and each and every other section, paragraph, sentence, clause or phrase of the Resolution and authorized the issuance of the Bonds and the execution and delivery or issuance of the Subordinate Obligations pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Resolution may be held illegal, invalid or unenforceable.

Evidence of Rights of Bondholders

Any request, consent or other instrument required or permitted by the Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, will be sufficient for any purpose of the Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of the City if made in the manner provided in the Resolution.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Fiscal Agent for such Series. The Fiscal Agent of a Series may establish a record date as of which to measure consent of the Bondholders of such Series in order to determine whether the requisite consents are received.

Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any request, consent, or other instrument or writing of the Owner of any Bond of such Series will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or the City in accordance therewith or reliance thereon.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Resolution, Bonds which are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this section if the pledgee establishes to the satisfaction of the Fiscal Agent for such Series the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent taken upon the advice of counsel will be full protection to such Fiscal Agent.

Money Held for Particular Bonds

The money held by the Treasurer or a Fiscal Agent for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on the City's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to certain provisions of the Resolution.

Accounts and Sub-Accounts

Any accounts required by the Resolution to be established and maintained by the Treasurer or a Fiscal Agent may be established and maintained in the accounting records of the Treasurer or a Fiscal Agent, either as an account or a sub-account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a sub-account; but all such records with respect to all such accounts will at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

Proceedings Constitute Contract

The provisions of the Resolution constitute a contract between the City and the Bondholders of such Bonds, and the provisions of the Resolution and thereof will be enforceable by any Bondholder for the equal benefit and protection of all Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction. The provisions of the Resolution also constitute a contract between the City and each Subordinate Provider, and the provisions of the Resolution will be enforceable

by any such Provider by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction; provided, however, that no such action by such a Provider may in any manner adversely affect the benefits, securities or protections granted to Owner of Bonds or owners of Parity Debt under the Resolution.

No remedy conferred by the Resolution upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any subsequent default or breach of duty or contract or impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default will impair any such right or power or be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy will be brought or taken and the Bondholder will prevail, said Bondholder will be entitled to receive from the Electric Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, the City and the Bondholder will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds of any Series, the Resolution will be irrevocable, but will be subject to modification to the extent and in the manner provided in the Resolution, but to no greater extent and in no other manner.

Future Contracts

Nothing contained in the Resolution will be deemed to restrict or prohibit the City from making contracts or creating bonded or other indebtedness payable from the general fund of the City, as the case may be, or from taxes or any source other than the Gross Operating Revenues, and from and after the sale of the Bonds of any Series, the general fund of the City will not include the Gross Operating Revenues and no contract or other obligation payable from the general fund of the City will be payable from the Gross Operating Revenues, except as provided in the Resolution.

Waiver of Personal Liability

No City Council member, officer, agent or employee of the City or any Fiscal Agent will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or for the payment of amounts due under the Subordinate Obligations or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Resolution will relieve any such City Council member, officer, agent or employee of the City or any Fiscal Agent from the performance of any official duty provided by law or by the Resolution.

Governing Law

The Resolution will be construed and governed in accordance with the laws of the State of California.

Business Day

Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day will become due or be made on the next succeeding Business Day and no interest will accrue for such period.

Amendments to the Resolution

The Resolution has been amended to add Subsection (h) to the definition of “Maximum Annual Debt Service” as follows:

“(h) if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.”

In addition, the following paragraph was added to the end of the provision described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS—Rate Covenant” in the Official Statement as follows:

“For purposes of calculating the interest due under (b) above, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.”

The above amendments will not take effect while any of the the 1998 Bonds, 2001 Bonds, 2003 Bonds, 2004A Bonds, 2008A Bonds, 2008B Bonds, 2008C Bonds or 2008D Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps).

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) dated February 26, 2019 is executed and delivered by the City of Riverside (the “Issuer”) in connection with the issuance and delivery of \$283,325,000 City of Riverside Refunding Electric Revenue Bonds, Issue of 2019A (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 17662 of the Issuer, adopted by the City Council on January 8, 1991, as amended and supplemented, including as supplemented by Resolution No. 23409, adopted by the City Council on January 22, 2019 (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 Underwriters 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 Chief Financial Officer 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 February 6, 2019.

“Participating Underwriter” shall mean each of Goldman Sachs & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Barclays Capital Inc., as an 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, 2018, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate; provided, however, that the report required for the fiscal year ending June 30, 2018, shall be satisfied by providing the Official Statement to the MSRB. 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). If the Issuer does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report due date, the Issuer shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(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. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer's Electric 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 Electric 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 Electric 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 Electric System, the Annual Report shall also include the following:

- (1) Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.
- (2) Updated information comparable to the information in Table 3 entitled "Annual Electricity Supply" as it appears in the Official Statement.
- (3) Updated information comparable to the information in Table 4 entitled "Total Energy Generated and Purchased and Peak Demand" as it appears in the Official Statement.
- (4) Updated information comparable to the information in Table 6 entitled "Number of Meters" as it appears in the Official Statement.
- (5) Updated information comparable to the information in Table 7 entitled "Energy Sold" as it appears in the Official Statement.
- (6) Updated information comparable to the information in Table 9 entitled "Average Billing Price" as it appears in the Official Statement.

- (7) Updated information comparable to the information in Table 11 entitled “Outstanding Debt of Joint Powers Agencies” as it appears in the Official Statement.
- (8) Updated information comparable to the information in Table 12 entitled “Summary of Operations and Debt Service Coverage” 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 of 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 Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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
3900 Main Street
Riverside, California 92501

CITY OF RIVERSIDE

By: _____
Chief Financial Officer/Treasurer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Riverside

Name of Issue: Refunding Electric Revenue Bonds, Issue of 2019A

Date of Issuance: February 26, 2019

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated February 26, 2019. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the 2019A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

February 26, 2019

City of Riverside
Riverside, California

Re: \$283,325,000 City of Riverside Refunding Electric Revenue Bonds, Issue of 2019A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the "City") of the \$283,325,000 aggregate principal amount of the City's Refunding Electric Revenue Bonds, Issue of 2019 (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. 17662 adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. 23409 adopted by the City Council on January 22, 2019 (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 Resolution creates a valid pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Resolution to secure the payment of the principal of and interest on the Bonds. 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. Other Parity Debt of the City has been and may from time to time hereafter be issued under the Resolution which is 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 (and original issue discount) 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.
6. Interest (and original issue discount) 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 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 (and original issue discount) 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 (and original issue discount) 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 (and original issue discount) 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 has 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 matters 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 following description of the Depository Trust Company, New York, New York (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the bonds described in this Official Statement (the “Bonds”), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. DTC will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC is rated “AA+” by Standard & Poor’s. 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.

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting

rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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