

Amendment No. 1
to
Official Statement dated August 2, 2001
relating to
\$20,000,000
City of Riverside, California
Water Revenue Bonds
Issue of 2001

Due to a printing error, Appendix G to the above-referenced Official Statement (the "Official Statement") did not include a complete specimen of the Municipal Bond New Issue Insurance Policy to be issued for the above-referenced Bonds. The Official Statement is hereby amended by substituting therefor the attached Appendix G.

The date of this Amendment No. 1 is August 10, 2001.

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number: 0010001

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in its name to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", with a long horizontal stroke extending to the right.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "G. J. J.", with a long horizontal stroke extending to the right.

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

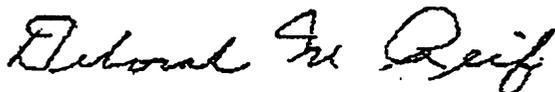
Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:



Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Control Number: 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

\$20,000,000
City of Riverside, California
Water Revenue Bonds
Issue of 2001

Dated: August 1, 2001**Due: October 1, as shown below**

The 2001 Bonds will be issued only as fully registered bonds and when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of the 2001 Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of the 2001 Bonds will not receive physical certificates representing their interest in the 2001 Bonds. See "DESCRIPTION OF THE 2001 BONDS" and "APPENDIX E—BOOK-ENTRY SYSTEM." Interest is payable on April 1, 2002 and semi-annually thereafter on October 1 and April 1 of each year. Principal of, premium, if any, and interest on the 2001 Bonds are to be paid to purchasers by DTC through the DTC Participants (as defined herein).

The 2001 Bonds are subject to redemption prior to maturity as described herein.

In the opinion of Sidley Austin Brown & Wood LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the 2001 Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the 2001 Bonds is not includable in the gross income of the owners of the 2001 Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2001 Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2001 Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel interest on the 2001 Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

The 2001 Bonds are special obligations of the City of Riverside, California (the "City") payable solely from the Net Operating Revenues of the City's Water System and do not constitute a general obligation or indebtedness of the City. The 2001 Bonds will be secured by a pledge of the Net Operating Revenues on a parity with \$66,130,000 in aggregate principal amount of currently outstanding water revenue Bonds and Parity Debt and any additional water revenue Bonds and Parity Debt issued in the future.

The 2001 Bonds are being issued to finance the costs of certain capital improvements and additions to the City's Water System, to fund a debt service reserve account for the 2001 Bonds and to pay the costs of issuance of the 2001 Bonds.

The scheduled payment of principal of and interest on the 2001 Bonds when due will be guaranteed by a municipal bond insurance policy to be issued concurrently with the delivery of the 2001 Bonds by **FGIC Insurance Company**.

FGIC Financial Guaranty Insurance
Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

Maturity Schedule
\$10,070,000 Serial Bonds

Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP (769076)	Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP (769076)
2002	\$345,000	2.60%	100%	QQ6	2012	\$490,000	4.25%	4.33%	RA0
2003	355,000	2.70	100	QR4	2013	510,000	4.375	4.50	RB8
2004	365,000	2.85	100	QS2	2014	535,000	4.50	4.65	RC6
2005	375,000	3.10	100	QT0	2015	555,000	4.625	4.80	RD4
2006	390,000	3.25	100	QU7	2016	585,000	4.75	4.85	RE2
2007	405,000	3.40	3.50	QV5	2017	615,000	4.875	4.95	RF9
2008	415,000	3.625	3.70	QW3	2018	645,000	4.90	4.98	RG7
2009	435,000	3.75	3.90	QX1	2019	675,000	4.90	5.03	RH5
2010	450,000	4.00	4.05	QY9	2020	710,000	5.00	5.07	RJ1
2011	470,000	4.00	4.17	QZ6	2021	745,000	5.00	5.09	RK8

\$4,345,000 5.0% Term Bonds Due October 1, 2026 -- Price 98.169% CUSIP No. 769076 RQ5

\$5,585,000 5.0% Term Bonds Due October 1, 2031 -- Price 97.710% CUSIP No. 769076 RV4

(plus accrued interest from August 1, 2001)

The 2001 Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Sidley Austin Brown & Wood LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., Los Angeles, California. It is expected that the 2001 Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about August 16, 2001.

Salomon Smith Barney

August 2, 2001

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THE CITY OF RIVERSIDE

CITY COUNCIL

Ronald O. Loveridge, *Mayor*

Chuck Beaty, 1st Ward
Ameal Moore, 2nd Ward
Joy Defenbaugh, 3rd Ward
Maureen Kane, 4th Ward

Ed Adkison, 5th Ward
Terri Thompson, 6th Ward
Laura Pearson, 7th Ward

BOARD OF PUBLIC UTILITIES

Conrad Newberry, Jr., *Chairman*

Dwight Tate
Dee L. Gipson-Jimenez
Joe Tavaglione

Peter G. Hubbard
Lalit N. Acharya
Jim Anderson

CITY OFFICIALS

Lawrence E. Paulsen, *Acting City Manager*

Michael J. Beck, *Deputy City Manager*
Robert C. Wales, *Assistant City Manager–Development*
Stan T. Yamamoto, *City Attorney*
Colleen Nicol, *City Clerk*
Paul C. Sundeen, *Finance Director and Treasurer*
William R. Hansen, *Debt Administrator*

Thomas P. Evans, *Public Utilities Director*
David H. Wright, *Utilities Deputy Director/
Marketing and Customer Service*
Dieter P. Wirtzfeld, *Utilities Assistant Director/Water*
Stephen H. Badgett, *Utilities Assistant Director/Electric*
Donna I. Stevener, *Utilities Chief Financial Officer*

BOND COUNSEL

Sidley Austin Brown & Wood LLP
San Francisco, California

FISCAL AGENT

U.S. Bank Trust National Association
Los Angeles, California

No dealer, broker, salesman or other person has been authorized by the City of Riverside or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2001 Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2001 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

IN CONNECTION WITH THE OFFERING OF THE 2001 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements express or implied by such forward-looking statements. Except as specifically set forth herein, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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Official Statement
of the
City of Riverside, California
relating to its
\$20,000,000
Water Revenue Bonds
Issue of 2001

INTRODUCTION

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City") of \$20,000,000 aggregate principal amount of its Water Revenue Bonds, Issue of 2001 (the "2001 Bonds"). The 2001 Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983 (collectively, the "Ordinance"), and Resolution No. 17664 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as heretofore supplemented, and as supplemented by a third supplemental resolution adopted by the City Council on July 24, 2001 (the "Third Supplemental Resolution"). The Master Resolution, as previously supplemented, and as supplemented by the Third Supplemental Resolution, is hereinafter collectively referred to as the "Resolution."

The City has previously issued and has outstanding for the financing of certain costs of its water utility system (the "Water System") Water Revenue Bonds, Issue of 1991 (the "1991 Bonds"), issued pursuant to Resolution No. 17686 adopted by the City Council on February 19, 1991 (the "First Supplemental Resolution"), supplementing the Master Resolution and Water Refunding/Revenue Bonds, Issue of 1998 (the "1998 Bonds"), issued pursuant to Resolution No. 19263 adopted by the City Council on April 28, 1998 (the "Second Supplemental Resolution"), supplementing the Master Resolution. The City Charter, the Ordinance and the Resolution are hereinafter collectively referred to as the "Law."

The 2001 Bonds, together with the \$31,830,000 principal amount of the 1991 Bonds and the \$30,170,000 principal amount of the 1998 Bonds and any future bonds issued under the Master Resolution on a parity therewith (herein collectively referred to as the "Bonds"), will be equally and ratably secured by the pledge of and charge on the Net Operating Revenues of the Water System created by the Resolution. The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses (as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS—Net Operating Revenues").

The City has also previously entered into a Resource Efficiency Program Agreement, dated as of August 3, 1994 (the "1994 Contract"), by and between the City and the Financing Authority for Resource Efficiency of California ("FARECal"), in connection with a resource efficiency program for the Water System. The City is obligated under the 1994 Contract to make debt service payments with respect to bonds issued by FARECal on behalf of the Water System currently outstanding in the principal amount of \$4,130,000. The obligation of the City to make payments under the 1994 Contract is payable from, and secured by a pledge of, the Net Operating Revenues on a parity with the Bonds. In addition to the 1994 Contract, the City reserves the right to issue and incur additional parity obligations (together with the 1994 Contract, "Parity Debt") from time to time, secured by a pledge and charge on the Net Operating Revenues of the Water System on a parity with the pledge and charge securing the Bonds, for

refunding and other purposes, to the extent permitted by the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS—Additional Bonds and Parity Debt."

Purpose of the 2001 Bonds

The 2001 Bonds are being issued to pay the costs of certain capital additions and improvements to the City's Water System as part of its Capital Improvement Program, to fund the 2001 Reserve Account and to pay the costs of issuance of the 2001 Bonds. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Rate Covenant

Pursuant to the Law, the 2001 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues of the Water System and other funds, assets and security described under the Resolution, on a parity with the 1991 Bonds, the 1994 Contract, the 1998 Bonds and any other Bonds or Parity Debt issued in the future.

The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay the operating and maintenance expenses of the Water System, to pay debt service on all Bonds and Parity Debt and to pay all other obligations which are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS—Net Operating Revenues" and "—Rate Covenant." Water 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.

The general fund of the City is not liable for the payment of the 2001 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2001 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2001 Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2001 Bonds, interest thereon and any premium upon redemption.

2001 Reserve Account

Pursuant to the Resolution, the Water Revenue Bonds, Issue of 2001, Reserve Account (the "2001 Reserve Account") will be funded in an amount equal to the 2001 Bond Reserve Requirement (initially, \$1,264,621). The 2001 Reserve Account may be funded with money, Authorized Investments, a line of credit, letter of credit, insurance policy, surety bond or other credit source meeting the requirements of the Resolution, or a combination thereof. The "2001 Bond Reserve Requirement" is defined in the Resolution as an amount equal, as of any date of calculation, to the least of (a) 10% of the initial offering price to the public of the 2001 Bonds as determined under the Internal Revenue Code of 1986, as amended, or (b) the maximum amount of principal and interest payable on all 2001 Bonds then outstanding in the then current and any succeeding fiscal year or (c) 125% of average annual debt service

on the 2001 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS—2001 Reserve Account.”

The Water System

The Water System serves an area of approximately 76.4 square miles, of which approximately 73.5 square miles are within the limits of the City. The City obtains over 99.9% of its potable water from local groundwater basins.

For the fiscal year ended June 30, 2000, the average number of customers of the Water System was 58,538, which represents a population served of 259,700. Total water sales for the fiscal year were 21,907 million gallons, with a maximum day distribution of 101.1 million gallons.

Unless otherwise noted, all statistical and financial information herein relating to the Water System has been provided by the City.

The Capital Improvement Program

The City has prepared a Water System Capital Improvement Program for the fiscal years ending June 30, 2002 through 2006 (the “Capital Improvement Program”). The total cost of the Capital Improvement Program over those five years is estimated to be \$51,000,000, of which approximately \$23,000,000 is expected to be financed with bond proceeds, including all of the net proceeds of the 2001 Bonds and proceeds of future bond issues. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The Capital Improvement Program consists of projects providing additional water supply sources, such as water stock, wells and water supply facilities, and transmission and distribution system expansion, replacements and improvements, including the projects financed with the net proceeds of the 2001 Bonds (collectively, the “Project”). See “THE PROJECT.”

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2001 Bonds to provide certain financial information and operating data relating to the Water System and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” and “APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Summaries and References to Documents

Brief descriptions of the 2001 Bonds, the security and sources of payment therefor, the Water System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2001 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: (909) 826-5557. Financial and statistical information set forth herein, except for the audited balance sheet and related statements included in Appendix B, is unaudited. The source of such information is the City unless otherwise stated. Terms not defined herein shall have the meanings as set forth in the respective documents.

DESCRIPTION OF THE 2001 BONDS

General

The 2001 Bonds will be dated August 1, 2001, and will bear interest from their date at the rates per annum set forth on the cover page of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), payable on April 1, 2002 and semiannually thereafter on October 1 and April 1 of each year to the registered owners thereof as of the close of business on the fifteenth day prior to such interest payment date. The 2001 Bonds will mature on October 1 in the years and in the principal amounts set forth on the cover page of this Official Statement. The 2001 Bonds will be issued as fully registered bonds in denominations of \$5,000 or in any integral multiple of \$5,000. Principal of, premium, if any, and interest on each 2001 Bond is to be paid to purchasers of the 2001 Bonds by The Depository Trust Company, New York, New York (“DTC”) through the DTC Participants (as defined in Appendix E). See “APPENDIX E—BOOK-ENTRY SYSTEM.”

Optional Redemption

The 2001 Bonds maturing on or before October 1, 2011 are not subject to call and redemption prior to maturity. The 2001 Bonds maturing on or after October 1, 2012 are subject to call and redemption, at the option of the City, as a whole or in part on any date, on or after October 1, 2011, at the following redemption prices, with accrued interest to the date of redemption:

Redemption Period (dates inclusive)	Redemption Price (percentage of principal amount)
October 1, 2011 through September 30, 2012	101.0%
October 1, 2012 through September 30, 2013	100.5
October 1, 2013 and thereafter	100.0

Mandatory Redemption

The 2001 Bonds maturing on October 1, 2026 are subject to mandatory redemption on October 1, 2022, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2001 Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Water Revenue Bonds, Bond Service Account (the “Bond Service Account”), plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following tables, without premium:

Term 2001 Bonds Maturing October 1, 2026

Redemption Date (October 1)	Principal Amount
2022	\$785,000
2023	825,000
2024	865,000
2025	910,000
2026 (maturity)	960,000

The 2001 Bonds maturing on October 1, 2031 are subject to mandatory redemption on October 1, 2027, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of

such 2001 Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following tables, without premium:

Term 2001 Bonds Maturing October 1, 2031

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
2027	\$1,010,000
2028	1,060,000
2029	1,115,000
2030	1,170,000
2031 (maturity)	1,230,000

Mandatory Sinking Account Payments for term 2001 Bonds of any maturity shall be reduced to the extent the City has purchased term 2001 Bonds of that maturity and surrendered such term 2001 Bonds to the Fiscal Agent for cancellation. If term 2001 Bonds of any maturity have been redeemed as provided for under the caption "Optional Redemption" above, then the amount of the term 2001 Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such term 2001 Bonds, as nearly as practicable, pro rata. A reduction of Mandatory Sinking Account Payments in any 12-month period ending on an October 1 will reduce the principal amount of term 2001 Bonds redeemed on that October 1.

Selection for Redemption

If less than all of the 2001 Bonds are to be redeemed, the maturity of the 2001 Bonds to be redeemed shall be selected by the City or, if the City does not give notice of its selection, the Fiscal Agent shall select the 2001 Bonds to be redeemed in inverse order of maturity. If less than all of the 2001 Bonds of any maturity are to be redeemed, the Fiscal Agent shall select the particular 2001 Bonds or portions thereof to be redeemed within such maturity at random. The portion of any 2001 Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof with a maturity.

Notice of Redemption

The Fiscal Agent shall give notice of the redemption of 2001 Bonds to (i) the Owners of the 2001 Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first class mail to the Owners of the 2001 Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2001 Bonds.

When notice of redemption has been given as provided in the Resolution, the 2001 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2001 Bonds at the place specified in such notice of redemption, such 2001 Bonds shall be redeemed and paid at said redemption price. If on the redemption date, moneys for the redemption of the 2001 Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2001 Bonds to be redeemed shall cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS

Net Operating Revenues

Pursuant to the Law, the 2001 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 1991 Bonds, the 1994 Contract, the 1998 Bonds and any other Bonds or Parity Debt issued in the future.

The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses. Gross Operating Revenues consist of all the revenues of the Water System from rates, fees and charges for providing water 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 Water System, including contributions in aid of construction. Operating and Maintenance Expenses are the expenses of operating and maintenance of the Water System, including any necessary contribution to the retirement of Water System employees.

The general fund of the City is not liable for the payment of the 2001 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2001 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2001 Bonds and any premium upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2001 Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

The City has created the Water Revenue Fund as an enterprise fund pursuant to the Law, to secure the payment of the Bonds and Parity Debt. The Water Revenue Fund includes several accounts, namely, the Bond Service Account, the Renewal and Replacement Account and the Surplus Account. The Master Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Water Revenue Fund and all of the accounts and subaccounts therein are held and administered by the City Treasurer. The 1991 Reserve Account has been created under the First Supplemental Resolution, the 1998 Reserve Account has been created under the Second Supplemental Resolution and the 2001 Reserve Account has been created under the Third Supplemental Resolution, each of which is held by the Fiscal Agent.

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

Operating and Maintenance Expense. As soon as practicable in each month, the Treasurer will provide for payment of the Operating and Maintenance Expenses for that month from amounts on deposit in the Water Revenue Fund, prior to the payment or provision for payment of the interest on and the principal of the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor.

Bond Service Account. Upon delivery of the 2001 Bonds to the purchasers thereof, the amount specified in the Third Supplemental Resolution as accrued interest will be placed in the Bond Service Account. Thereafter, following the transfers required by the Resolution, there will be set aside and transferred within the Water Revenue Fund to the Bond Service Account for transfer each month to the Interest Account and the Principal Account, as applicable, sufficient amounts to pay debt service on all outstanding Bonds and Parity Debt, by depositing at least one-sixth of the interest becoming due and payable on the next interest payment date and one-twelfth of the principal becoming due and payable on the next principal payment, as more fully described in "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

Reserve Account. Following certain transfers required by the Resolution, the Treasurer will deposit as soon as practicable in each month in any reserve account established under a Supplemental Resolution for a Series of Bonds and in any reserve account established for any Parity Debt, upon the occurrence of any deficiency therein, one-twelfth of the aggregate amount of each unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve account.

Excess Earnings Account. Following certain transfers required by the Resolution, the Treasurer will deposit in any excess earnings or rebate account established pursuant to a Supplemental Resolution for a Series of Bonds such amounts at such times as will be required pursuant to the Supplemental Resolution or other document creating such account.

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

Surplus Account. On the first day of each calendar month, after the transfers to the aforementioned accounts required by the Resolution and all other covenants of the City contained in the Resolution have been duly performed, any moneys remaining in the Water Revenue Fund will be transferred within the Water Revenue Fund to the Surplus Account and may be: (i) invested in any Authorized Investments or (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, 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.

Rate Covenant

The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services, facilities and water of the Water System which, after making allowances for contingencies and errors in the estimates, shall be at least sufficient to pay the following amounts in the

order set forth: (i) Operating and Maintenance Expenses; (ii) the interest on and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable; (iii) all other payments required for compliance with the Resolution; and (iv) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues of the Water System. Charges shall be so fixed that Net Operating Revenues plus any amounts on deposit in the Surplus Account pledged by resolution of the City Council to the payment thereof shall be at least 1.25 times the amounts payable under (ii) above and 1.0 times the amounts payable under (iii) and (iv) above.

2001 Reserve Account

Under the Master Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve account for any Series of Bonds issued thereunder. The Third Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2001 Reserve Account. Pursuant to the Third Supplemental Resolution, the City shall at all times maintain an amount equal to the 2001 Bond Reserve Requirement in the 2001 Reserve Account until the 2001 Bonds are discharged in accordance with the Resolution. The Resolution also requires that there be maintained in the 1991 Reserve Account for the 1991 Bonds, the 1998 Reserve Account for the 1998 Bonds, and in each other debt service reserve account established pursuant to a Supplemental Resolution, the amount, if any, required to be deposited therein.

Moneys in the 2001 Reserve Account will secure only the payment of the 2001 Bonds and may be withdrawn solely (i) to pay principal of and interest on the 2001 Bonds in the event moneys in the Principal Account and the Interest Account are insufficient or (ii) to make the final principal and interest payment on all outstanding 2001 Bonds. Whenever amounts are withdrawn from the 2001 Reserve Account, the amount in said account shall be restored as described above in "Resolution Flow of Funds—*Reserve Account*."

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of, premium, if any, and interest on the 2001 Bonds. In the event that the 1991 Reserve Account, the 1998 Reserve Account or the 2001 Reserve Account contains moneys in excess of the amount required to be maintained therein, all of the excess moneys will be transferred to the Water Revenue Fund.

At the option of the City, amounts required to be held in the 2001 Reserve Account may be substituted, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond or other credit source in a stated amount equal to the amounts so substituted, provided that, among other things, the substitution of such credit facility will not result in a withdrawal or downgrading of any rating of the 2001 Bonds then in effect.

Additional Bonds and Parity Debt

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

Issuance of Additional Bonds and Parity Debt. Except for Parity Debt or Refunding Bonds to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Parity Debt or Refunding Bonds,

no additional Bonds or any Parity Debt shall be created or incurred unless: (i) the City is not in default under the terms of the Resolution; (ii) either (a) the Net Operating Revenues of the Water System, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance or incurrence of such additional Bonds or Parity Debt 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 Water System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items designated under (a), (b) and (c) below, shall have amounted to at least 1.25 times the Maximum Annual Debt Service (as defined in Appendix C) in any fiscal year thereafter on all Bonds and Parity Debt to be outstanding immediately subsequent to the 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 established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Water 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 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 or opinion of a qualified independent engineer employed by the City,

(b) An allowance for earnings arising from any increase in the charges made for the use of the Water 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 or opinion of a qualified independent engineer employed by the City, and

(c) Any amounts on deposit in the Surplus Account pledged by resolution of the City Council to the payment of such Bonds or Parity Debt.

For definitions of "Maximum Annual Debt Service" and other capitalized terms used herein, see "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

Subordinate Debt. Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt.

BOND INSURANCE

Concurrently with the issuance of the 2001 Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (“Financial Guaranty”), will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the “Policy”). See “APPENDIX G—SPECIMEN MUNICIPAL BOND INSURANCE POLICY.” The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the 2001 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the 2001 Bonds (the “Issuer”). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the “Fiscal Agent”), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of 2001 Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any 2001 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal and interest shall be vested in Financial Guaranty. The term “nonpayment” in respect of a 2001 Bond includes any payment of principal or interest made to an owner of a 2001 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the 2001 Bonds. The Policy covers failure to pay principal of the 2001 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the 2001 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty’s consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty’s consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the 2001 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the 2001 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the 2001 Bonds. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity’s outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 2001, the total capital and surplus of Financial Guaranty was approximately \$1.132 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

Financial Guaranty has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

ESTIMATED SOURCES AND USES OF FUNDS

The 2001 Bonds are being issued to pay the costs of certain capital improvements and additions to the Water System, to fund the 2001 Reserve Account and to pay the costs of issuance of the 2001 Bonds. The estimated sources and uses of funds in connection with the 2001 Bonds (excluding accrued interest) are as follows:

Sources:

Principal Amount of 2001 Bonds	\$20,000,000
Less: Original Issue Discount	<u>(293,822)</u>
Total Sources	<u>\$19,706,178</u>

Uses:

Deposit to Construction Fund	\$18,153,989
Deposit to 2001 Reserve Account.....	1,264,621
Costs of Issuance ⁽¹⁾	<u>287,568</u>
Total Uses	<u>\$19,706,178</u>

⁽¹⁾ Includes Underwriter's discount, bond insurance premium, legal fees, Fiscal Agent fees, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2001 Bonds.

THE PROJECT

The Project consists of capital improvements and additions to the Water System as described in the current Capital Improvement Program. Such improvements include additions and replacements related to water supply (e.g., wells, treatment facilities and transmission mains) and the distribution system (e.g., reservoirs, pumping stations and pipelines). See "THE WATER SYSTEM—Forecast of Capital Expenditures."

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 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 of Public Utilities (the "Board"), and is supervised by the Public Utilities Director who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. Thomas P. Evans, Public Utilities Director, holds a Bachelor of Science degree in Mechanical Engineering from University of California, Davis and a Masters of Business Administration from Golden Gate University. He has been with the City since 2000, and has over 30 years of experience in the utilities field, including experience in both municipal and investor-owned utilities.

Mr. David H. Wright, Utilities Deputy Director/Marketing and Customer Service, is a Certified Public Accountant. He received his Bachelor of Arts and Master of Business Administration degrees from California State University, Fullerton. He has been with the City since 1988, and has nearly 13 years of experience in municipal government, including five years as Utilities Assistant Director of Finance and Administration and three years as Deputy Director.

Mr. Stephen H. Badgett, Utilities Assistant Director/Electric, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with Riverside Public Utilities since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at Riverside Public Utilities, Mr. Badgett was with Memphis Light Gas and Water for 16 years and has been involved with public power for nearly 27 years.

Mr. Dieter P. Wirtzfeld, Utilities Assistant Director/Water, holds a Bachelor degree and a Master of Science degree in Electrical Engineering and Business Administration, respectively, from the University of Nebraska. He has been with the City since 1986, and has nearly 29 years of experience in the municipal utilities field.

Ms. Donna I. Stevener, Utilities Chief Financial Officer, is a Certified Public Accountant. She received a Bachelor of Science degree in Business and Public Administration from California Baptist College, Riverside. She has been with the City since 1991, and has ten years of experience in municipal government, including six years as Public Utilities Finance/Accounting Manager and three years as Utilities Chief Financial Officer. Prior to her work at the City, Ms. Stevener was a finance professional with a national CPA firm for almost nine years, performing accounting, audit and consulting work for a large variety of clients in numerous industries.

Board of Public Utilities

The Board, created by Article XII, Section 1201 of the City Charter, consists of seven 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 the purchase of equipment, materials or supplies exceeding the sum of \$25,000, 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 Public Utilities Director, 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 present members of the Board and their terms of appointment are:

Conrad Newberry, Jr.—Chairman of the Board, appointed to the Board in 1997, term expires March 1, 2002. Mr. Newberry is a Performance Contracting Engineer.

Dwight Tate—Appointed to the Board in 1994, term expires March 1, 2002. Mr. Tate is a Personal Financial Planner.

Dee L. Gipson-Jimenez—Appointed to the Board in 2001, term expires March 1, 2005. Ms. Gipson-Jimenez is the human resources director for a major hotel.

Joe Tavaglione—Appointed to the Board in 2001, term expires March 1, 2005. Mr. Tavaglione is a local contractor/developer.

Peter G. Hubbard—Appointed to the Board in 1999, term expires March 1, 2003. Mr. Hubbard is a director of the local ambulance company.

Lalit N. Acharya—Appointed to the Board in 1999, term expires March 1, 2003. Mr. Acharya is a professor of communications at a local university.

Jim Anderson—Appointed to the Board in 2000. Term expires March 1, 2004. Mr. Anderson is a retired environmental and administrative law attorney.

The Department's offices are located at Riverside City Hall, 3900 Main Street, Riverside, California 92522.

THE WATER SYSTEM

General

The City has owned, operated and maintained the Water System since 1913. The Water System provides potable water service to almost all residential, commercial and industrial consumers located within the incorporated area of the City. The Water System is the only retail provider of water service to consumers in the City.

The Water System provides service to approximately 58,538 customers within a service area of 76.4 square miles, of which 73.5 square miles are within the City limits. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The population served is approximately 259,700. Presently, portions of the Water System service area are fully developed, while other portions are only sparsely developed or completely undeveloped. The City provides water service primarily to residential customers, although there are a number of commercial and industrial customers as well. The City also provides irrigation water within its service area.

The following table sets forth certain general statistical information relating to the Water System for fiscal years 1995-96 through 1999-2000.

**WATER SYSTEM
GENERAL STATISTICS
Fiscal Years 1995-96 through 1999-2000**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
No. of Service Connections	58,120	58,246	58,215	58,383	58,538
Annual Water Production ⁽¹⁾	23,331	23,896	23,412	24,410	25,647
Production from System Wells	23,238	23,874	23,329	24,321	25,625
Peak Daily Distribution ⁽²⁾	94	93	96	102	101
Average Daily Production ⁽²⁾	63.9	65.5	64.1	66.9	70.3

⁽¹⁾ In millions of gallons.

⁽²⁾ In millions of gallons per day.

History of the Water System

The City commenced domestic water operation in 1913 with the purchase of three mutual water companies which then served the City. Thereafter, the City immediately began an extensive program of improving and extending the acquired systems into one common domestic water system. In 1926, the City constructed Linden Reservoir and eight miles of 42-inch diameter transmission pipeline from the City's major water resources in the San Bernardino water basin to the City's distribution system.

Major expansion of the Water System began in 1960 due to the combination of the following events plus population growth and service expansion in the areas described: (1) demand in the pre-1960 service area; (2) annexation of areas by the City; (3) acquisition of three water companies serving primarily non-irrigation customers; and (4) the acquisition of four private water companies serving primarily irrigation customers.

The principal reason for the City's acquisition of the four water companies serving mainly irrigation customers was to assure that the water supply to their service areas, totaling 24 square miles, would be available for domestic, commercial and industrial purposes when those service areas are converted from agricultural to urban use.

Existing Facilities

Major facilities in the Water System include supply wells, transmission pipelines, distribution pipelines, storage reservoirs, treatment plants, pumping facilities, and pressure reducing facilities. The

City maintains 47 active wells for supplying domestic and irrigation water to its service area. Distribution and transmission pipelines for the Water System range in diameter from 1.5 inch to 72 inches and total over 906 miles. There are 16 storage reservoirs with a total capacity of 100.4 million gallons. Three treatment plants remove contaminants from local groundwater before the water is delivered to the distribution system. Thirty-seven booster-pumping stations deliver water to higher elevation pressure zones. Nineteen reducing stations deliver water from higher to lower pressure zones.

The City maintains two major water system interconnections which provide capacity to receive imported water from the Mills Filtration Plant, which is operated by the Metropolitan Water District of Southern California (“MWD”). The first interconnection is located at Alessandro Boulevard, near the Mills Filtration Plant, and provides capacity of approximately 19 million gallons per day to the Water System’s upper pressure zones. The second interconnection is located along a multi-agency pipeline that traverses through Riverside County from Mills Filtration Plant to the City of Corona. Riverside’s connection is at Van Buren Boulevard and provides additional capacity of approximately 19 million gallons per day to the Water System’s middle pressure zones. Three smaller interconnections provide emergency and back-up water supply to the higher-pressure zones in case of mechanical failure or electric outage at the booster pumping stations. Although the unit cost of imported water is higher than producing local groundwater, the additional supply is intended to meet emergency and peak demand conditions. The availability of additional imported water significantly enhances the reliability of the Water System.

The City also maintains over 6,500 fire hydrants throughout the distribution system. The Water System currently has a Class 2 rating (the second highest of ten classifications) assigned by the Insurance Services Office.

The following table sets forth statistical information relating to the facilities of the Water System for the periods shown.

WATER SYSTEM FACILITIES

	Fiscal Year Ended June 30,				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Utility Plant (less accumulated provision for depreciation) ⁽¹⁾	\$134,619,000	\$144,242,000	\$147,222,000	\$156,066,000	\$159,394,000
Construction in Progress ⁽¹⁾	\$18,678,000	\$10,093,000	\$10,580,000	\$6,747,000	\$10,562,000
Miles of Pipeline	845	850	861	899	906
Number of Domestic Wells	45	45	47	47	47
Number of Active Reservoirs	16	16	16	16	16

⁽¹⁾ Dollars rounded to the nearest thousand.

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 Water System facilities. The City’s Waterman and Gage supply transmission mains both cross the San Jacinto fault before reaching the Linden and Evans storage reservoirs. Although the City has not experienced significant earthquake-related damage to its facilities, the City’s Water System and its water supply could be adversely affected by a major local earthquake.

Studies prepared by the City have identified several important Water System facilities that are susceptible to damage from a major local earthquake. These studies also addressed and identified a number of actions to minimize damage and service interruption. A key component of the City's disaster recovery plan consists of seismically-actuated valves at four storage reservoirs. These valves will automatically close the outflow pipelines, thus reserving water in the reservoirs for domestic use in the days following a major earthquake. The City has also stored pipeline repair materials at strategic locations throughout its service area.

Capital expenditures totaling \$6,200,000 are planned over the next five years to rehabilitate or replace essential facilities that have been identified as susceptible to damage from a major local earthquake. These facilities include the Waterman supply transmission pipeline and the 16 million gallon Evans Reservoir. The DBCP treatment plants described in "Water Quality Settlements" below will provide additional local supply for the Water System that does not rely on a transmission main crossing an active fault. The seismic vulnerability of the Water System is further mitigated by a number of interconnections which allow the City to purchase water from other agencies in the event of a local disaster.

Forecast of Capital Expenditures

The City's five-year Capital Improvement Program for the Water System contemplates capital expenditures in the following years and amounts:

ESTIMATED CAPITAL EXPENDITURES

<u>Fiscal Year Ended June 30,</u>				
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$21,460,000	\$10,133,000	\$7,123,000	\$6,271,000	\$6,179,000

Transmission and distribution system expansion and improvements represent approximately 65% of the total Capital Improvement Program budget. These projects include capital betterments and improvements to the Water System for constructing, reconstructing, replacing, extending and improving works to deliver water throughout the City's service area.

The remainder of the Capital Improvement Program consists of water supply improvements. These include water stock, wells, treatment plants and water supply facilities, and represent approximately 35% of the total Capital Improvement Program budget.

Capital improvements to the Water System that are non-recurring projects, such as reservoirs, pumping stations and mains, are expected to be primarily funded from bond issuances, with the remainder through connection fees, reimbursements by others and current year revenues. Conversely, the majority of recurring new capital facilities to meet growth, such as meters and fire hydrants, are financed through connection fees. The Board and City Council have approved an enhanced infrastructure replacement program which provides for replacement of approximately seven miles of distribution mains per year, to be financed by Water System revenues.

The cost of certain capital projects, identified in the following table, will be reimbursed through the litigation settlements described in "Water Quality Settlements" below.

WATER QUALITY SETTLEMENT AMOUNTS

<u>Project</u>	<u>Budget</u>	<u>Reimbursement</u>	<u>Litigant</u>
Palmyrita Treatment Plant	\$4,200,000	\$2,940,000	DBCP Defendants
Riverside South Pipelines	\$1,600,000	\$1,120,000	DBCP Defendants
North Orange Pipelines	\$13,000,000	Actual Cost	Lockheed Martin Corp.
Water System SCADA	\$3,345,000	\$849,500	Lockheed Martin Corp.
Well Addition	\$700,000	\$500,000	U.S. Air Force

Water Quality Settlements

As identified above, the City has reached agreement with several parties relative to groundwater basin contamination. The scope of the various agreements is summarized below.

U.S. Air Force Settlement. In August 1995, the United States Air Force issued the Norton Air Force Base Water Supply Contingency Policy, which sets forth the Air Force's strategy to mitigate adverse effects to municipal water production in the event of a migration of the chemical Trichlorethylene ("TCE") from Norton Air Force Base to municipal wells. The plan was drafted in response to groundwater investigations performed by the Air Force, which showed that a plume of TCE was moving to the southwest from Norton Air Force Base. The Policy included the City's wells, and provided that if TCE contaminants exceeded established levels at the City's wells, the Air Force would take appropriate corrective action, including but not limited to wellhead treatment or reimbursement to the City for any purchase of replacement water. Certain City wells have been identified to have TCE in levels above the established levels. In response, the Air Force built a treatment plant for the City and provided funds to replace one of the wells. The Air Force is continuing to monitor the TCE levels in the City's wells.

Lockheed Martin Corporation Settlement. On November 10, 1998, the City entered into an agreement with the Lockheed Martin Corporation to address contamination of certain City wells by TCE. This contamination was caused by the Crafton-Redlands plume, a plume of TCE which is situated in the groundwater in the Bunker Hill Basin of San Bernardino County, California. Pursuant to the agreement, Lockheed Martin agreed to design and construct certain new components for the City's water system to address the contamination problem. Specifically, Lockheed Martin is required to design, purchase, construct and install water treatment systems in the Gage well field to maintain water quality. The Gage well field consists of approximately 15 groundwater extraction wells and associated equipment owned by the City in the Bunker Hill Basin. Lockheed Martin is also required to fund the design and construction of pipelines to transport water from supply wells in the North Orange area to the Linden-Evans reservoir and to provide return flows to the North Orange area, as well as other costs associated with these projects.

DBCP Settlement. In May 2001, the City settled a lawsuit it had brought against certain manufacturers and distributors of dibromochloropropane ("DBCP"). DBCP, a pesticide that the Environmental Protection Agency banned in the mid-1970s, was detected in certain City-owned potable water wells. The forty-year settlement agreement with the Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, The Best Fertilizer Company and Occidental Petroleum Corporation (the "DBCP Defendants") provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating granular activated carbon treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and State limits for DBCP.

Water Supply

The City obtains over 99.9% of its potable water from water rights in wells in the San Bernardino (or Bunker Hill) and Riverside/Colton groundwater basins. The remainder is imported water obtained from MWD through Western Municipal Water District of Riverside County (“WMWD”), a member agency of MWD and the wholesale distributor for the Riverside area. In the fiscal year ended June 30, 2000, the Water System pumped or purchased a total 25,647 million gallons of water. Approximately 25,625 million gallons were pumped from local groundwater basins and approximately 22 million gallons were purchased from WMWD.

The following table sets forth, in millions of gallons, the total water pumped from local groundwater wells and purchases of imported water from WMWD during the five fiscal years shown.

**WATER PRODUCTION
(In Million of Gallons)**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Local Groundwater	23,238	23,874	23,329	24,321	25,625
Purchases from WMWD	<u>93</u>	<u>22</u>	<u>83</u>	<u>89</u>	<u>22</u>
Total Water Production	<u>23,331</u>	<u>23,896</u>	<u>23,412</u>	<u>24,410</u>	<u>25,647</u>

The largest source of water for the City is the Bunker Hill Basin located approximately eight miles northeast of the City. Water is collected from a total of 39 wells in the Bunker Hill Basin and conveyed to the City through two separate transmission pipelines, the Gage 60-inch Pipeline and the 42-inch San Bernardino Transmission Main.

The second source of groundwater for the City is the Riverside/Colton Basin, consisting of the Riverside North, Riverside South and Colton Basins. Within the Riverside South Basin, four wells located in the North Orange Well Field supply water directly into the distribution system. One well in the Riverside South Basin pumps into the 42-inch pipeline, and three wells in the Riverside North Basin pump into the 60-inch pipeline.

The third source of water is imported water treated and delivered from the Mills Filtration Plant by WMWD. This water is used by the City only during peak summer months because of its higher cost.

Water Supply Conditions

The City believes that its current and anticipated future water needs are adequately met by its existing water rights and by the availability of supplemental imported water from WMWD. As a result of a court decision in 1969 (the “1969 Judgment”), the City’s rights to extract water from the Bunker Hill Basin are fixed at 49,542 acre-feet per year. An acre-foot of water is the amount of water required to cover one acre to a depth of one foot (one acre-foot equals 325,900 gallons). The administration of the 1969 Judgment and the “safe yield” determination are assigned to two “Watermasters” (as defined in the 1969 Judgment). The long term supply of this basin appears secure. Even with the extraction of the “safe yield,” water levels in the basin have been rising and the Watermasters have proclaimed “additional extraction” as being available on a regular basis.

Rights to water in the Riverside North, Riverside South and Colton Basins are not adjudicated. However, base period (1959-63) extractions for use in Riverside County from these basins were

determined at a total amount of about 54,000 acre-feet per year. The City has the entitlement to a major portion of this base period extraction, and can increase its production beyond the base period extraction provided that the basins are replenished. These basins are considered another reliable long term source of water to meet the City's needs, and actions have been taken to increase production of domestic water from the Riverside North and Riverside South Basins.

California's rainy season usually begins in November and continues through March with December, January and February providing the most rainfall. During winter months, reservoirs and underground aquifers are replenished by rainfall. Snow accumulated in the mountains provides an additional water source when spring and summer temperatures melt the snowpack, producing runoff into streams and reservoirs, and also replenishing underground aquifers. The recently constructed Seven Oaks Dam will allow additional groundwater recharge by gradual release of the storm water captured behind the Dam.

The City's water business is seasonal in nature and weather conditions can have a pronounced effect on customer usage and thus operating revenues and net income. Customer demand is generally less during the normally cooler and rainy winter months, increasing in the spring when warmer weather gradually returns to California and the rains end. Temperatures are warm during the generally dry summer months, resulting in increased demand. Water usage declines during the fall as temperatures decrease and the rainy season approaches.

During the years of less than normal rainfall, customer demand can increase as outdoor water usage continues. When rainfall is below average for consecutive years, drought conditions can result and certain customers may be required to reduce consumption to preserve existing water reserves.

The City is actively developing and securing additional water supplies to meet projected increased demands. Current plans include the acquisition of additional water rights in local groundwater basins, the construction of approximately three new supply wells and construction of the necessary collection and transmission pipelines to deliver the additional supply to the distribution system. Completion of planned water treatment plants will permit the City to reactivate wells and increase water production in the Riverside/Colton Basin.

Although California faces long-term water supply challenges, the City believes it is well positioned to satisfy its water supply requirements. The City is working to meet future challenges by continuing to educate customers on responsible water use practices, obtaining new water resources, participating in supply projects such as the Seven Oaks Dam and reviewing options to use recycled water.

Water Quality

The City maintains procedures to produce potable water from City-owned wells in accordance with accepted water utility practice. City water is sampled at the wells and at numerous locations throughout the distribution system and tested by private, state certified laboratories in accordance with all state and federal guidelines. The concentration of any natural or man-made contaminants is reported in a formal Water Quality Report sent annually to all of the City's customers. The results are also recorded and sent to county and State health agencies. City water has consistently surpassed State and federal public health standards for water quality.

In recent years, federal and State water quality regulations have become increasingly stringent. The City continues to monitor water quality and upgrade its treatment capabilities to maintain compliance with all applicable regulations. These activities include:

- Installation of chlorinators at all well sources;
- Maintaining a State approved compliance monitoring program required by Phase II and V of the federal Safe Drinking Water Act;
- Monitoring of defined contamination plumes;
- Negotiations with identified responsible parties to clean up pollution to non-detectable levels;
- Preparation of contingency plans for unknown or changing conditions; and
- Treatment of contaminated supplies.

Some City wells are contaminated by the plumes of TCE and/or DBCP. To provide safe drinking water, several wellhead treatment facilities have been constructed. As described in "Water Quality Settlements" above, Norton Air Force Base has constructed a TCE treatment facility for one of the City's wells. Lockheed Martin has constructed two regional TCE treatment facilities, each treating three wells, and another facility is planned to be constructed when and if needed. In addition, two DBCP treatment facilities are under construction and scheduled for completion in August 2001 and December 2002, respectively.

Environmental Matters

In operating the Water System, the City is subject to environmental regulation by various governmental authorities. Compliance with federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had any material effect on the City's capital expenditures, earnings or competitive position. The City is unaware of any pending environmental matters which will have a material effect on the operations or financial condition of the Water System.

Customers

The following table sets forth the average number of customers of the Water System during the five fiscal years shown.

AVERAGE NUMBER OF CUSTOMERS

	<u>Fiscal Year Ended June 30,</u>				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Residential	53,351	53,432	53,387	53,774	53,879
Commercial/Industrial	4,138	4,054	4,164	4,104	4,355
Other	<u>631</u>	<u>760</u>	<u>664</u>	<u>505</u>	<u>304</u>
Total - All Classes	<u>58,120</u>	<u>58,246</u>	<u>58,215</u>	<u>58,383</u>	<u>58,538</u>

The following table sets forth the total water sold, average daily production, maximum day distribution and average daily sales per capita during the five fiscal years shown. Total water sold increased from 21,241 million gallons in the fiscal year ended June 30, 1996 to 21,907 million gallons in the fiscal year ended June 30, 2000. During the fiscal year ended June 30, 2000, the Water System produced an average of 70.3 million gallons of water per day with a maximum day distribution of 101.1 million gallons.

**WATER SALES AND DISTRIBUTION
(In Millions of Gallons)**

	<u>Fiscal Year Ended June 30,</u>				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Total Water Sales	21,241	21,436	18,645	20,031	21,907
Average Daily Production	63.9	65.5	64.1	66.9	70.3
Maximum Day Distribution	93.7	93.4	96.0	101.9	101.1
Average Daily Sales per Capita (Gallons)	1,001	1,008	877	940	1,025

Water Rates and Charges

The City is obligated by the Law (including the Resolution) to establish rates and collect charges in an amount sufficient to meet all Water System operation and maintenance expenses and debt service on the Water System's indebtedness, with specified requirements as to priority and coverage. The City funds Water System operations and maintenance entirely from water service charges. Water rates are established by the Board and are subject to approval by the City Council. Such rates are examined each year and adjusted as needed to meet budgetary requirements. Water rates are not subject to regulation by the CPUC or by any other State agency.

At present, the Water System has eight rate schedules in effect. The City provides no free water service. The current water rates were established by the Board, approved by the City Council and became effective on February 28, 2001, which included a 2.4% across-the-board rate increase.

For customers of the Water System, water rates are composed of a monthly service charge component, designed to cover a portion of the fixed costs of the Water System, and a monthly quantity charge designed to cover a portion of the variable costs.

The monthly service charge for commercial customers is calculated on the basis of meter size, as well as whether the customer is located inside or outside of City limits. Such charges for service within the City range from \$4.27 for meters of five-eighths of an inch to \$397.53 for twelve-inch meters. The quantity rate is \$0.87 per 100 cubic feet of water in the summer and \$0.67 per 100 cubic feet of water in the winter.

The calculation basis of the monthly service charge for residential customers is the same as for commercial customers as discussed above. Such charges for service within the City range from \$4.18 for meters of five-eighths of an inch to \$22.27 for two-inch meters. The quantity rate is summarized in the following table.

QUANTITY WATER RATES FOR RESIDENTIAL CUSTOMERS

<u>Quantity</u> ⁽¹⁾	<u>Summer Rate</u> ⁽²⁾	<u>Winter Rate</u> ⁽²⁾
First 15 ccf	\$0.53	\$0.53
Next 45 ccf	1.01	0.91
Over 60 ccf	1.15	1.04

⁽¹⁾ ccf = 100 cubic feet per month.

⁽²⁾ Per 100 cubic feet. Summer months are June, July, August and September; all other months are deemed winter months for rate purposes.

There is a surcharge for customers outside of the City limits. At the present time, the surcharge rates are in effect for approximately 3,109 customers outside the City. The total surcharge was \$535,177 for fiscal year 1999-2000.

Residential and commercial customers are billed monthly. Bills are due and payable on presentation, and become delinquent after 19 days. After a bill is delinquent, the City may disconnect the water service by following certain procedures. Before service is reinstated, the customer must bring the entire bill current, pay a deposit equal to the estimated water bill for two months of service and compensate the City for the cost of cutting off and reinstating the service.

Water System base rates have been increased eight times since February 1, 1983. The following table sets forth the percentage increase in rates for the indicated customer classes.

PERCENTAGE INCREASE IN WATER RATES

<u>Effective Dates</u>	<u>Overall System</u>	<u>Residential</u>	<u>Commercial/ Industrial</u>	<u>Irrigation</u>
February 1, 1983	10.5%	10.5%	10.5%	10.5%
November 6, 1990	5.72	5.72	5.72	5.72
April 1, 1992	6.0	6.0	6.0	6.0
June 25, 1993	5.84	6.0	6.0	0.0
January 25, 1995	2.0	2.0	2.0	2.0
April 25, 1996	11.5	11.5	11.5	11.5
August 25, 1997	8.5	8.5	8.5	8.5
February 28, 2001	2.4	2.4	2.4	2.4
March 1, 2002	*	*	*	*
March 1, 2003	*	*	*	*

* On February 13, 2001, the City Council approved increases in quantity water rates of 1% (the "1% Increase") plus the percentage increase in the labor component of the Handy-Whitman Index published by Whitman, Requardt and Associates during the immediately preceding calendar year as compared to the prior calendar year; provided that the 1% Increase shall not be imposed if Water System reserves have increased by \$1,000,000 or more during the immediately preceding fiscal year. These increases will take effect on March 1 of 2002 and 2003, subject in each case to the City Council's future approval of the actual rate calculated as described above.

Employee Relations

As of June 30, 2000, 117 City employees were assigned specifically to the Water System. Certain functions supporting Water System operations, including meter reading, customer billing and collections, are performed by the staff of the Public Utilities Department. Substantially all of the non-

management City personnel assigned to the Water System are represented by the International Brotherhood of Electrical Works (“IBEW”). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2003. The Water System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future. See also “APPENDIX A—CITY OF RIVERSIDE ECONOMIC AND FINANCIAL INFORMATION—Employee Relations.”

Retirement benefits to City employees, including those assigned to the Water System, are provided through the City’s participation in the Public Employees Retirement System (PERS) of California. See Note 1 to “APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND JUNE 30, 1999” for further discussion.

Insurance

The Water System’s insurance needs are handled by the Risk Management Division of the City’s Finance Department. Liability and workers’ compensation coverage levels are based on annual actuarial studies and reviews by the City’s Risk Manager and an outside insurance consultant. The City, including the Water System, is self-insured for up to \$750,000 for all insurance needs including casualty and liability and up to \$500,000 for workers’ compensation. The City has joined with a group of other municipalities under the California Municipality Excess Liability Program to participate in an insurance policy that provides excess coverage up to \$20 million for casualty and liability. The City also has an insurance policy that provides excess coverage up to the statutory limits for workers’ compensation. The City maintains property insurance on most City real property holdings up to an aggregate of \$136,000,000, subject to a \$25,000 deductible, and on personal property contents up to an aggregate of \$154,000,000. All property valued at over \$50,000 is insured at full replacement value based on periodic appraisals and annual CPI adjustment.

Water System Litigation

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

FINANCIAL RESULTS OF THE WATER 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 Water 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. Inventories are valued at historical cost including interest during construction or at estimated historical cost if actual cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

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

Summary of Operations

The following table shows the Net Operating Revenues of the Water System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution, and has been prepared by the City based on audited financial statements for the Water System for fiscal years 1995-96 through 1999-2000.

HISTORICAL SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE (Dollars in Thousands)

	Fiscal Year Ended June 30,					Nine Months Ended March 31, (unaudited)	
	1996	1997	1998	1999	2000	2000	2001
Operating Revenues:							
Water Sales							
Residential	\$14,188	\$15,280	\$14,226	\$15,598	\$17,428	\$12,930	\$12,564
Commercial	6,297	6,938	6,941	7,365	8,056	6,130	6,164
Other Sales	548	624	932	715	928	698	584
Wholesale Sales	-	-	-	1,011	993	753	548
Other Operating Revenues	<u>344</u>	<u>651</u>	<u>946</u>	<u>1,382</u>	<u>406</u>	<u>311</u>	<u>442</u>
Total Water Revenues	<u>21,377</u>	<u>23,493</u>	<u>23,045</u>	<u>26,071</u>	<u>27,811</u>	<u>20,822</u>	<u>20,302</u>
Interest Income	1,343	1,122	1,134	1,415	1,626	1,062	1,491
Contributions in Aid	1,240	1,020	1,061	1,930	2,851	2,089	1,492
Non-Operating Revenues	<u>981</u>	<u>1,009</u>	<u>885</u>	<u>1,323</u>	<u>1,039</u>	<u>698</u>	<u>834</u>
Total Revenues	\$24,941	\$26,644	\$26,125	\$30,739	\$33,327	\$24,671	\$24,119
Operating Expenses:							
Field Operations	3,998	3,923	4,109	4,427	4,451	3,208	3,526
Production and Operations	6,629	6,936	6,603	6,760	7,339	5,549	6,212
Engineering	<u>4,522</u>	<u>4,154</u>	<u>4,113</u>	<u>4,472</u>	<u>4,607</u>	<u>3,518</u>	<u>3,760</u>
Total Expenses ⁽¹⁾	\$15,149	\$15,013	\$14,825	\$15,659	\$16,397	\$12,275	\$13,498
Net Operating Revenues							
Available for Debt Service and Depreciation	<u>\$9,792</u>	<u>\$11,631</u>	<u>\$11,300</u>	<u>\$15,080</u>	<u>\$16,930</u>	<u>\$12,396</u>	<u>\$10,621</u>
Debt Service Requirements on Outstanding 1998 Bonds, 1991 Bonds and 1994 Contract	\$4,612	\$4,614	\$4,907	\$5,447	\$5,346	\$4,010 ⁽²⁾	\$4,038 ⁽²⁾
Debt Service Coverage	2.12x	2.52x	2.30x	2.77x	3.17x	3.09x	2.63x

⁽¹⁾ Does not include contributions to City's General Fund of \$2,101,000, \$2,408,000, \$2,649,000, \$2,600,000 and \$2,943,000 for the fiscal years 1995-96 through 1999-2000, respectively.

⁽²⁾ Amounts for nine months ended March 31, 2000 and 2001 are prorated.

Audited Balance Sheet and Related Statements

The following table presents summaries of financial data relating to the Water System for fiscal years 1995-96 through 1999-2000. This data is extracted from the City's Water Utility Audited Balance Sheets and Related Statements for such fiscal years.

The City's Water Utility Audited Balance Sheets and Related Statements are audited by KPMG LLP, independent accountants (the "Auditor"), in accordance with generally accepted auditing standards, and contain opinions that the financial statements present fairly the financial position of the Water System. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited balance sheets and related statements. Copies of these reports are available on request from the Department.

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WATER FUND BALANCE SHEET
(In Thousands)

	<u>Fiscal Year Ended June 30,</u>				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
ASSETS					
Utility plant:					
Source of supply.....	\$ 23,263	\$ 23,833	\$ 25,549	\$ 25,616	\$ 25,729
Pumping and treatment.....	8,100	8,570	8,990	10,409	10,410
Transmission and distribution.....	149,154	161,247	166,079	176,477	184,083
General and Intangible.....	<u>10,549</u>	<u>10,736</u>	<u>10,762</u>	<u>12,382</u>	<u>12,823</u>
	191,066	204,386	211,380	224,884	233,045
Less accumulated depreciation.....	<u>(56,447)</u>	<u>(60,144)</u>	<u>(64,158)</u>	<u>(68,818)</u>	<u>(73,651)</u>
	134,619	144,242	147,222	156,066	159,394
Construction in progress.....	<u>18,678</u>	<u>10,093</u>	<u>10,580</u>	<u>6,747</u>	<u>10,562</u>
Total utility plant.....	<u>153,297</u>	<u>154,335</u>	<u>157,802</u>	<u>162,813</u>	<u>169,956</u>
Restricted assets.....	<u>10,500</u>	<u>8,226</u>	<u>15,886</u>	<u>11,998</u>	<u>8,220</u>
Current assets:					
Cash and investments.....	10,584	13,121	14,531	18,700	24,126
Accounts receivable, net.....	3,395	3,262	3,425	3,992	4,062
Accrued interest receivable.....	163	178	144	249	371
Advance to general fund.....	<u>106</u>	<u>111</u>	<u>56</u>	<u>46</u>	<u>46</u>
Total current assets.....	<u>14,248</u>	<u>16,672</u>	<u>18,156</u>	<u>22,987</u>	<u>28,605</u>
Unamortized costs.....	<u>769</u>	<u>704</u>	<u>1,461</u>	<u>1,417</u>	<u>1,345</u>
Total assets.....	<u>\$178,814</u>	<u>\$179,937</u>	<u>\$193,305</u>	<u>\$199,215</u>	<u>\$208,126</u>
LIABILITIES AND FUND EQUITY					
Equity:					
Retained earnings					
Reserved.....	\$ 6,914	\$ 6,983	\$ 6,258	\$ 6,243	\$ 6,351
Unreserved.....	<u>14,938</u>	<u>15,497</u>	<u>15,825</u>	<u>17,771</u>	<u>20,004</u>
Total retained earnings.....	21,852	22,480	22,083	24,014	26,355
Contributed Capital.....	<u>99,603</u>	<u>101,013</u>	<u>104,345</u>	<u>109,887</u>	<u>118,289</u>
Total equity.....	121,455	123,493	126,428	133,901	144,644
Long-term obligations, less current portion.....	<u>52,150</u>	<u>50,773</u>	<u>60,784</u>	<u>59,028</u>	<u>57,137</u>
Total capitalization.....	<u>173,605</u>	<u>174,266</u>	<u>187,212</u>	<u>192,929</u>	<u>201,781</u>
Current liabilities payable from restricted assets:					
Accrued interest payable.....	626	597	624	634	595
Current portion of long-term obligations.....	<u>2,015</u>	<u>2,265</u>	<u>2,780</u>	<u>2,755</u>	<u>2,955</u>
Total current liabilities payable from restricted assets.....	<u>2,641</u>	<u>2,862</u>	<u>3,404</u>	<u>3,389</u>	<u>3,550</u>
Current liabilities:					
Accounts payable.....	276	609	411	804	523
Other liabilities.....	<u>2,292</u>	<u>2,200</u>	<u>2,278</u>	<u>2,093</u>	<u>2,272</u>
Total current liabilities.....	<u>2,568</u>	<u>2,809</u>	<u>2,689</u>	<u>2,897</u>	<u>2,795</u>
Total capitalization and liabilities.....	<u>\$178,814</u>	<u>\$179,937</u>	<u>\$193,305</u>	<u>\$199,215</u>	<u>\$208,126</u>

Investment Policy

Unexpended revenues from the operation of the Water System are invested under the direction of the City's Treasurer, who is charged to pursue the primary objective of safety, and, thereafter, the objectives of liquidity and yield. The City's investment portfolio is managed to provide the necessary

liquidity to fund daily operations. Cash flow is continually reviewed, and the City manages 100% of its own funds.

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

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

Transfers to the City's General Fund

Contributions to the City's General Fund of surplus funds of the Water System (after payment of operating and maintenance expenses and debt service on the Bonds and Parity Debt) are limited by the City Charter, amendment of which requires voter approval. Such transfers are limited to twelve equal monthly installments during each fiscal year, comprising 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. The transfer to the City's General Fund for the fiscal year ending June 30, 2001 was \$3,023,000. The City's current policy is to transfer 11.5% of Gross Operating Revenues, less surcharges.

Debt Service Requirements

The following table indicates the scheduled debt service on the 2001 Bonds, the 1998 Bonds, the 1991 Bonds and the 1994 Contract.

Debt Service Requirements

Fiscal Year Ended June 30,	Parity Debt Principal ⁽¹⁾	Parity Debt Current Interest	2001 Bonds Principal	2001 Bonds Interest ⁽²⁾⁽³⁾	Total Debt Service ⁽³⁾
2002	\$ 3,215,000	\$ 2,168,828		\$ 613,176	\$ 5,997,004
2003	3,500,000	1,884,395	\$ 345,000	915,279	6,644,674
2004	3,655,000	1,726,170	355,000	906,001	6,642,171
2005 ⁽⁴⁾	3,680,000	1,706,330	365,000	896,008	6,647,338
2006 ⁽⁴⁾	3,700,000	1,685,150	375,000	884,994	6,645,144
2007 ⁽⁴⁾	3,725,000	1,662,418	390,000	872,844	6,650,262
2008 ⁽⁴⁾	3,750,000	1,638,090	405,000	859,621	6,652,711
2009 ⁽⁴⁾	3,775,000	1,612,088	415,000	845,214	6,647,302
2010 ⁽⁴⁾	3,810,000	1,584,143	435,000	829,536	6,658,679
2011	3,835,000	1,554,218	450,000	812,380	6,651,598
2012	3,940,000	1,432,581	470,000	793,980	6,636,561
2013	4,155,000	1,214,219	490,000	774,168	6,633,387
2014	4,380,000	991,525	510,000	752,599	6,634,124
2015	4,605,000	764,750	535,000	729,405	6,634,155
2016	4,845,000	526,150	555,000	704,533	6,630,683
2017	840,000	393,300	585,000	677,805	2,496,105
2018	470,000	324,250	615,000	648,921	2,058,171
2019	495,000	300,125	645,000	618,128	2,058,253
2020	520,000	274,750	675,000	585,788	2,055,538
2021	545,000	248,125	710,000	551,500	2,054,625
2022	575,000	220,125	745,000	515,125	2,055,250
2023	605,000	190,625	785,000	476,875	2,057,500
2024	635,000	159,625	825,000	436,625	2,056,250
2025	665,000	127,125	865,000	394,375	2,051,500
2026	700,000	93,000	910,000	350,000	2,053,000
2027	735,000	57,125	960,000	303,250	2,055,375
2028	<u>775,000</u>	<u>19,375</u>	1,010,000	254,000	2,058,375
2029			1,060,000	202,250	1,262,250
2030			1,115,000	147,875	1,262,875
2031			1,170,000	90,750	1,260,750
2032			<u>1,230,000</u>	<u>30,750</u>	<u>1,260,750</u>
Total	<u>\$66,130,000</u>	<u>\$24,558,605</u>	<u>\$20,000,000</u>	<u>\$18,473,753</u>	<u>\$129,162,358</u>

⁽¹⁾ Total of principal and accreted interest for the Capital Appreciation Bonds equals the Final Compounded Amount included in principal.

⁽²⁾ Net of accrued interest.

⁽³⁾ Total does not add due to rounding.

⁽⁴⁾ 1991 Bonds maturing during these years are Capital Appreciation Bonds, shown as fully accreted at maturity.

RISK FACTORS

The purchase of the 2001 Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2001 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of any 2001 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2001 Bonds, any premium thereon upon redemption prior to maturity or their interest. No owner of any 2001 Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2001 Bonds and any premium upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2001 Bonds, interest thereon and any premium upon redemption.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2001 Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the 2001 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Water System serves an essential public purpose.

Water System Expenses And Collections

There can be no assurance that the City's expenses for the Water System will remain at the levels described in this Official Statement. Changes in technology, energy 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 Water 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 2001 Bonds.

Rate Regulation

The authority of the City to impose and collect rates and charges for water sold and delivered is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State of California limits or restricts such rates and charges. It is possible that future

legislative changes could subject the rates or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements.

Casualty Risk

Any natural disaster or other physical calamity, including earthquake, may have the effect of reducing Net Operating Revenues through damage to the Water 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 Water System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. See “THE WATER SYSTEM—Seismic Issues” and “—Insurance.”

Proposition 218

On November 5, 1996, the voters of the State-approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for its Water System.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines “fee” or “charge” to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIID is that before a property-related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

The City believes that because such charges are payable only if a property owner or tenant receives service from the City, the City’s water charges are not charged “as an incident of the ownership or tenancy of real property” and are consequently not “fees” or “charges” subject to Article XIID. See “THE WATER SYSTEM—Water Rates and Charges.”

In Opinion No. 97-302, dated July 14, 1997, the California Attorney General concluded that Article XIID is inapplicable to water rate structures based on usage, which is the principal basis for the City’s water rates. The opinion makes a distinction between a water rate structure based upon the amount of water used, which is not subject to Article XIID, and fees or assessments that are levied against a parcel of land on a per-parcel or per-acre basis, which are subject to Article XIID. The

Attorney General concluded that fees for water that are based upon metered amounts used are not imposed as an incident of property ownership and do not have a direct relationship to property ownership and, consequently, such fees would not be governed by Article XIID. The Attorney General's conclusions regarding property-related fees under Proposition 218 is consistent with a recent decision of the California Court of Appeal, Howard Jarvis Taxpayers Association v. City of Los Angeles, 85 Cal.App.4th 79 (2000). In that case, the Court of Appeal held that fees for water that are based upon metered amounts used are charges for a commodity and not related to property ownership and, consequently, Article XIID does not apply to such fees. The City has not modified its rate-setting process as a result of Proposition 218.

Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by future initiative, seek to repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "Assessment," "fee" and "charge" are not defined in Article XIIC and it is unclear whether the definitions of such terms contained in Article XIID (which are generally property-related as described above) are so limited under Article XIIC. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's water service fees and charges, which are the source of Net Operating Revenues pledged to the payment of debt service on the 2001 Bonds.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Future Initiatives

Articles XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting Net Operating Revenues or the City's ability to increase its water rates.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the 2001 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2001 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 2001 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.

TAX MATTERS

In the opinion of Sidley Austin Brown & Wood LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Resolution and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the 2001 Bonds and the timely payment of certain investment earnings to the United States, interest on the 2001 Bonds is not includable in the gross income of the owners of the 2001 Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2001 Bonds to be included in gross income retroactively to the date of issuance of the 2001 Bonds.

In the further opinion of Bond Counsel, interest on the 2001 Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2001 Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2001 Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Resolution may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the exclusion of interest on the 2001 Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Sidley Austin Brown & Wood LLP.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the 2001 Bonds will not have an adverse effect on the tax-exempt status of the 2001 Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the 2001 Bonds.

The difference between the principal amount of a 2001 Bond with a yield greater than its interest rate (as set forth on the cover of this Official Statement) (each a "Discount 2001 Bond") and its initial public offering price is original issue discount. Original issue discount on a Discount 2001 Bond accrues over the term of such Discount 2001 Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount 2001 Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount 2001 Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount 2001 Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount 2001 Bond will increase the owner's adjusted basis in such Discount 2001 Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount 2001 Bond upon the redemption, sale or other disposition of such Discount 2001 Bond. The effect of the accrual of original issue discount on the federal income tax consequences

of a redemption, sale or other disposition of a Discount 2001 Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount 2001 Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount 2001 Bonds, other federal income tax consequences of owning and disposing of the Discount 2001 Bonds and any state and local tax consequences of owning and disposing of the Discount 2001 Bonds.

In the further opinion of Bond Counsel, interest on the 2001 Bonds is exempt from personal income taxes imposed by the State of California.

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

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2001 Bonds are subject to the unqualified approving opinion of Sidley Austin Brown & Wood LLP, Bond Counsel. Said opinion in substantially the form attached as Appendix F will be delivered at the time of delivery of the 2001 Bonds. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., Los Angeles, California. The payment of fees and expenses of Bond Counsel is contingent upon the closing of the sale of the 2001 Bonds.

LITIGATION

At the time of delivery and payment for the 2001 Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, questioning (i) the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2001 Bonds or the power and authority of the City to issue the 2001 Bonds, or (ii) the authority of the City to fix, charge and collect rates for the sale of and charges for the services and facilities of its Water System as provided in the Resolution.

FINANCIAL STATEMENTS

The balance sheets of the City of Riverside Water Utility as of June 30, 2000 and 1999 and the related statements of operations and retained earnings and cash flows for the years then ended included in Appendix B to this Official Statement have been audited by KPMG 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 the inclusion in Appendix B of its report on such financial statements. The Auditor's review in connection with the audited financial statements included in Appendix B included events only as of November 3, 2000 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Fitch, Inc. and Standard & Poor's Ratings Services have assigned ratings of "AAA" and "AAA," respectively, to the 2001 Bonds, with the understanding that upon issuance of the 2001 Bonds the Policy will be issued by Financial Guaranty. See "BOND INSURANCE." Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies at the following addresses: Fitch, Inc., One State Street Plaza, New York, New York 10004; Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance such ratings

APPENDIX A

CITY OF RIVERSIDE ECONOMIC AND FINANCIAL INFORMATION

The 2001 Bonds will not be secured by any pledge of ad valorem taxes or General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Water System. The description of the financial and economic position of the City of Riverside set forth below and on the following pages is included in the Official Statement for information 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 Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"). The MSA represents an important economic area of the State and of Southern California. It lies to the west and south respectively of the strategic San Gorgonio 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.

Riverside and San Bernardino Counties cover 27,400 square miles, a land area larger than the State of Virginia. With a population of over 3.2 million, it ranks as one of the largest MSAs in the United States. Riverside County alone is larger than the State of New Jersey. The MSA, 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 79.6 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 2,100 full and part-time personnel. The City operates and maintains a sewer system. Water is supplied by the City system. Electricity is provided by the City-owned electric utility system. Other City services include diversified recreation programs, parks, a museum and libraries.

Employee Relations

City employees are covered by memoranda of understanding with four primary employee organizations: Service Employees International Union/Public Employees Association of Riverside County, Police Officers' Association and Fire Fighters' Association and the International Brotherhood of Electrical Workers.

Population

As of January 1, 2000 the population of the City was approximately 255,165, an increase of approximately 14.7% percent over the census population of the City in 1990. 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	255,165	1,545,387

Source: 1950-2000 U.S. Census.

Personal Income

The following table is based on effective buying income, as reported in the annual publication "Survey of Buying Power," published by Sales and Marketing Management. Effective buying income is defined as personal income less personal taxes and non-tax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance. The following items are not included in the definition of effective buying income: (1) employer contributions to private pension funds, supplemental unemployment insurance funds and privately administered workers' compensation programs; (2) imputed personal income, which includes the imputed value of services provided by depository institutions and income earned by life insurance carriers and private noninsured pension funds on the principal amounts contributed by policy holders and pension beneficiaries; and (3) imputed rental income of owner-occupied nonfamily dwellings.

Between 1995 and 1999 the City's median household effective buying power increased 4%, while at the same time, the County's increased 13%, the State increased 14% and there was growth of 15% for the United States. The table below summarizes the total effective buying income and the median household effective buying income for the City, the County, the State and the United States over the five-year period from 1995 through 1999.

PERSONAL INCOME
For Calendar Years 1995 Through 1999

<u>Year and Area</u>	<u>Total Effective Buying Income (\$ in thousands)</u>	<u>Median Household Effective Buying Income</u>
1995		
City of Riverside	\$ 3,042,181	\$32,295
Riverside County.....	17,823,798	30,951
California	477,640,503	34,533
United States	3,964,285,118	32,238
1996		
City of Riverside	3,036,507	32,777
Riverside County.....	18,120,962	31,337
California	492,516,991	35,216
United States	4,161,512,384	33,482
1997		
City of Riverside	3,381,231	34,280
Riverside County.....	19,477,361	32,690
California	524,439,600	36,483
United States	4,399,998,035	34,618
1998		
City of Riverside	3,583,867	34,835
Riverside County.....	20,543,675	33,089
California	551,999,317	37,091
United States	4,621,491,738	35,377
1999		
City of Riverside	3,590,924	33,843
Riverside County.....	22,453,426	35,145
California	590,376,663	39,492
United States	4,877,786,658	37,233

Source: Sales and Marketing Management, Survey of Buying Power.

A comparison of effective buying income groupings per household for 1999 is shown in the following table:

INCOME GROUPINGS FOR 1999

<u>Percent of Households by EBI Group</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>	<u>United States</u>
\$20,000-34,999.....	24.2%	22.8%	20.6%	22.0%
35,000-49,999.....	19.7	18.5	17.4	18.0
50,000 and over.....	28.7	31.7	38.8	36.4

Source: Sales and Marketing Management, Survey of Buying Power.

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 56 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Average daily attendance for the two public school districts is given below.

**COUNTY OF RIVERSIDE PUBLIC SCHOOL ENROLLMENT
Fiscal Years 1997 through 2001**

<u>Grades</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
K-8	200,838	205,572	211,973	219,433	228,348
9-12	<u>76,483</u>	<u>79,944</u>	<u>83,256</u>	<u>87,622</u>	<u>91,562</u>
Total	<u>277,321</u>	<u>285,516</u>	<u>295,229</u>	<u>307,055</u>	<u>319,910</u>

Source: State Department of Education.

Locally, higher education is available at four institutions: Riverside City College, which had an enrollment of approximately 19,736 in the Fall of 2000; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 11,272 in the Fall of 2000; California Baptist University, which had an enrollment of 2,094 in the Fall of 2000; and La Sierra University at Riverside, which had an enrollment of approximately 1,263 in the Fall of 2000. Also located in the City are the California School for the Deaf, which had an enrollment of 447 during the Fall of 2000, and the Sherman Institute, a federally-run school for Indians, which had an enrollment of 373 during the Fall of 2000.

Employment

Annual employment information is unavailable separately for the City. The City is part of the MSA. The MSA's civilian labor force increased to an annual average of 1,522,900 in 2000 from the 1,313,200 average in 1996. The following table summarizes the labor force employment and unemployment figures over the five years indicated for the MSA, the State and the United States.

LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Calendar Years 1996 through 2000

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
1996				
MSA.....	1,313,200	1,212,500	100,700	7.7%
California	15,596,100	14,469,900	1,126,200	7.2
United States	133,943,000	126,708,000	7,236,000	5.4
1997				
MSA.....	1,352,300	1,259,200	93,100	6.9
California	15,947,300	14,942,500	1,004,700	6.3
United States	135,475,000	128,317,000	7,158,000	5.3
1998				
MSA.....	1,388,700	1,303,800	84,900	6.1
California	16,336,500	15,367,500	969,000	5.9
United States	137,068,000	130,692,000	6,376,000	4.7
1999				
MSA.....	1,450,600	1,376,500	74,100	5.1
California	16,596,500	15,731,700	864,800	5.2
United States	139,004,000	133,021,000	5,983,000	4.3
2000				
MSA.....	1,522,900	1,445,300	77,600	5.1
California	17,090,800	16,245,600	845,200	4.9
United States	140,645,000	134,976,000	5,669,000	4.0

Source: California Employment Development Department.

The following table presents the distribution of persons in various wage and salary employment categories in the MSA as of May 2000 and May 2001.

**MONTHLY EMPLOYMENT COMPARISON RIVERSIDE MSA
(In Thousands)**

<u>Industry</u>	<u>May 2000</u>	<u>May 2001</u>
Agriculture, Forestry, Fisheries	27.0	26.0
Mining	1.0	1.0
Construction	77.3	81.0
Manufacturing – Durables	84.2	86.6
Manufacturing – Nondurables	39.8	40.7
Transportation and Public Utilities	50.6	51.3
Trade: Wholesale	48.1	51.2
Trade: Retail	197.0	201.1
Finance, Insurance, Real Estate	31.8	32.0
Services	264.1	278.3
Government	<u>197.9</u>	<u>197.5</u>
Total	<u>1,018.8</u>	<u>1,046.7</u>

Source: California Employment Development Department.

Housing

The 2000 federal census reported 86,469 housing units in the City, an increase of approximately 10% since 1990. In 2000, approximately 67% of the City's total housing stock consisted of single family units, and approximately 57% of all housing units were owner-occupied. The following table summarizes the changes in the City's housing stock since 1970.

**CITY OF RIVERSIDE
Change in Housing Stock**

<u>Type</u>	<u>April 1970</u>	<u>April 1980</u>	<u>January 1990</u>	<u>January 2000</u>
Single family	36,277	45,770	52,523	57,889
2-4 units	3,624	4,822	5,165	5,287
5 or more units	5,395	11,788	18,985	21,166
Mobile homes	<u>632</u>	<u>1,348</u>	<u>1,894</u>	<u>2,127</u>
Total units	<u>45,928</u>	<u>63,728</u>	<u>78,567</u>	<u>86,469</u>

Source: California State Department of Finance.

Construction Activity

The total valuation of building permits issued in the City equaled \$310,304,149 in fiscal year 2000, an increase of approximately 15% from fiscal year 1999. The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the City during the past five years.

**CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY
For Calendar Years 1996 Through 2000**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Valuation (\$ in millions)					
Residential	\$ 70.6	\$ 91.6	\$145.2	\$209.8	\$272.3
Nonresidential.....	<u>54.7</u>	<u>43.0</u>	<u>46.0</u>	<u>59.7</u>	<u>38.0</u>
Total.....	<u>\$125.3</u>	<u>\$134.6</u>	<u>\$191.2</u>	<u>\$269.5</u>	<u>\$310.3</u>
 New Dwelling Units					
Single Family.....	244	421	630	825	1,017
Multiple Family	<u>208</u>	<u>405</u>	<u>336</u>	<u>846</u>	<u>895</u>
Total.....	<u>452</u>	<u>826</u>	<u>966</u>	<u>1,671</u>	<u>1,912</u>

Source: City of Riverside Planning Department.

Retail Sales

The following table indicates growth of taxable transactions for the period 1995 through 1999 in the City by type of business:

**CITY OF RIVERSIDE TAXABLE TRANSACTIONS
For Calendar Years 1995 Through 1999
(\$ in millions)**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Apparel stores.....	\$ 70.3	\$ 68.0	\$ 67.8	\$ 68.9	\$ 78.6
General merchandise stores.....	343.8	353.4	392.0	411.8	438.1
Food stores.....	109.6	118.9	124.8	121.4	126.0
Eating and drinking places.....	174.8	176.2	183.6	196.7	209.0
Home furnishings and appliances.....	89.7	81.4	66.5	65.7	74.8
Building materials and farm implements.....	149.2	161.2	201.8	253.9	275.4
Service stations	127.2	141.2	139.7	129.2	151.4
Automobile dealers and suppliers	389.9	422.7	428.4	505.4	580.8
Miscellaneous	<u>256.4</u>	<u>275.8</u>	<u>269.8</u>	<u>285.6</u>	<u>314.0</u>
Total retail outlets	\$1,710.9	\$1,798.8	\$1,874.4	\$2,038.6	\$2,248.1
All other outlets.....	<u>429.7</u>	<u>461.2</u>	<u>497.5</u>	<u>563.4</u>	<u>661.4</u>
Total all outlets	<u>\$2,140.6</u>	<u>\$2,260.0</u>	<u>\$2,371.9</u>	<u>\$2,602.0</u>	<u>\$2,909.5</u>

Source: California State Board of Equalization.

Community Facilities

Among the City's cultural institutions and activities are a convention center, a municipal art center, a museum, a library, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente, with respective bed capacities of 193, 369 and 215, totaling 777.

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 Southern California Rapid Transit District and 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. This sales tax will run for 20 years. In 1990, voters of San Bernardino County approved a similar program.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEARS ENDED
JUNE 30, 2000 AND JUNE 30, 1999**

CITY OF RIVERSIDE WATER UTILITY

ASSETS

JUNE 30 JUNE 30
2000 1999

(in thousands)

UTILITY PLANT:

Source of supply	\$ 25,729	\$ 25,616
Pumping	8,614	8,613
Treatment	1,796	1,796
Transmission and distribution	184,083	176,477
General	7,114	6,785
Intangible	5,709	5,597
	233,045	224,884
Less accumulated depreciation and amortization	(73,651)	(68,818)
	159,394	156,066
Construction in progress	10,562	6,747
Total utility plant	169,956	162,813

RESTRICTED ASSETS:

Cash and cash equivalents	5,129	9,467
Investments	3,091	2,531
Total restricted assets	8,220	11,998

CURRENT ASSETS:

Cash and cash equivalents	24,126	18,700
Accounts receivable, less allowance for doubtful accounts		
2000 \$85; 1999 \$102	4,062	3,992
Accrued interest receivable	371	249
Advances to the City's general fund	46	46
Total current assets	28,605	22,987

OTHER ASSETS:

Unamortized bond issuance costs	717	764
Unamortized bond refunding costs	628	653
Total other assets	1,345	1,417
Total assets	\$208,126	\$199,215

See accompanying notes to the financial statements.

CITY OF RIVERSIDE WATER UTILITY

	JUNE 30 2000	JUNE 30 1999
CAPITALIZATION AND LIABILITIES		
<i>(in thousands)</i>		
EQUITY:		
Retained earnings:		
Reserved for debt service	\$ 6,351	\$ 6,243
Unreserved	20,004	17,771
Total retained earnings	26,355	24,014
Contributed capital	118,289	109,887
Total equity	144,644	133,901
 LONG-TERM OBLIGATIONS, LESS CURRENT PORTION	 57,137	 59,028
Total capitalization	201,781	192,929
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	595	634
Current portion of long-term obligations	2,955	2,755
Total current liabilities payable from restricted assets	3,550	3,389
 CURRENT LIABILITIES:		
Accounts payable	523	804
Accrued liabilities	1,726	1,609
Current portion of long-term obligations	173	159
Customer deposits	373	325
Total current liabilities	2,795	2,897
 COMMITMENTS AND CONTINGENCIES		
Total capitalization and liabilities	\$ 208,126	\$ 199,215

See accompanying notes to the financial statements.

CITY OF RIVERSIDE WATER UTILITY

**FOR THE FISCAL YEARS
ENDED JUNE 30
2000 1999**
(in thousands)

OPERATING REVENUES:		
Residential sales	\$17,428	\$15,598
Commercial sales	8,056	7,365
Other sales	928	715
Wholesale sales	993	1,011
Other operating revenue	406	1,382
Total operating revenues	27,811	26,071
OPERATING EXPENSES:		
Operations	9,901	9,892
Maintenance	2,524	2,281
Purchased energy	3,237	2,787
Purchased water	735	699
Depreciation and amortization	4,974	4,813
Total operating expenses	21,371	20,472
Operating income	6,440	5,599
NON-OPERATING REVENUES (EXPENSES):		
Interest income	1,626	1,415
Interest expense	(3,828)	(3,823)
Gain on retirement of utility plant	7	17
Other	1,039	1,323
Total non-operating expenses	(1,156)	(1,068)
Income before operating transfer	5,284	4,531
OPERATING TRANSFER OUT:		
Contribution to the City's general fund	(2,943)	(2,600)
Net income	2,341	1,931
RETAINED EARNINGS, BEGINNING OF YEAR	24,014	22,083
RETAINED EARNINGS, END OF YEAR	\$26,355	\$24,014

See accompanying notes to the financial statements.



CITY OF RIVERSIDE WATER UTILITY

**FOR THE FISCAL YEARS
ENDED JUNE 30
2000 1999**
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 27,789	\$ 25,504
Cash paid to suppliers and employees	(16,561)	(15,441)
Other non-operating revenue	1,039	1,323
Net cash provided by operating activities	12,267	11,386
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Contribution to the City's general fund	(2,943)	(2,600)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of utility plant	(6,605)	(6,245)
Proceeds from the sale of utility plant	46	50
Principal paid on long-term obligations	(2,767)	(2,811)
Interest paid on long-term obligations	(2,705)	(2,749)
Contributed capital	2,851	1,930
Net cash used by capital and related financing activities	(9,180)	(9,825)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in advances to the City's general fund	0	10
(Purchase) maturities of investment securities	(560)	50
Income from investments	1,504	1,310
Net cash provided by investing activities	944	1,370
Net increase in cash and cash equivalents	1,088	331
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR¹	28,167	27,836
CASH AND CASH EQUIVALENTS, END OF YEAR¹	\$ 29,255	\$ 28,167
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 6,440	\$ 5,599
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other non-operating revenue	1,039	1,323
Depreciation and amortization expense	4,974	4,813
Provision for uncollectible accounts receivable	(17)	11
Increase in accounts receivable	(53)	(578)
Increase (decrease) in accounts payable	(281)	393
Increase (decrease) in accrued liabilities	117	(175)
Increase in customer deposits	48	0
Net cash provided by operating activities	\$ 12,267	\$ 11,386
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Contributions in aid of construction	\$ 5,551	\$ 3,612

¹ Cash and cash equivalents also include cash and cash equivalents in restricted assets.

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City.

■ Basis of Accounting The accounting records of the Water Utility are in accordance with generally accepted accounting principles as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission, except for the method of accounting for contributed capital described below. The Water Utility is not subject to the regulations of the California Public Utilities Commission. The Water Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November, 1989.

■ Revenue Recognition The Water Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$1,641,000 at June 30, 2000, and \$1,444,000 at June 30, 1999.

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.

■ Utility Plant and Depreciation Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant assets are valued at estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

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..... 30-50 years
- General plant and equipment..... 5-50 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 balance sheet because their use is limited by applicable bond covenants.

■ Cash and Investments The City follows the practice of pooling cash and investments of all funds except for funds

required to be held by outside fiscal agents under the provisions of bond indentures. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Cash and investments held by fiscal agents are credited directly to the related accounts.

The City values its cash and investment in accordance with provisions of Governmental Accounting Standards Board (GASB) Statement No. 31: Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Water Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

■ Inventories The City maintains a separate Central Stores inventory. The Water Utility expenses items as they are drawn out of Central Stores. As such, the Water Utility does not include inventories in its financial statements.

■ Bond Discounts, Capital Appreciation and Issuance Costs Bond discounts, capital appreciation and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts and capital appreciation are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds do not pay annual interest and mature at a predetermined par value.

■ Contributed Capital Amounts received from customers and others for constructing utility plant are combined with retained earnings to represent equity. Accordingly, contributed capital is shown in the accompanying balance sheet as an equity account and is not offset against utility plant. Depreciation of contributed assets is reflected as an operating expense.

During the two years, contributed capital increased by the following amounts (in thousands):

	2000	1999
Balance, July 1	\$109,887	\$104,345
Impact fees	2,851	1,930
Contributed plant	5,551	3,612
Balance, June 30	\$118,289	\$109,887



CITY OF RIVERSIDE WATER UTILITY NOTES TO THE FINANCIAL STATEMENTS

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2000 and 1999, was \$373,000 and \$325,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2000 and 1999. The Water Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$1,575,000 at June 30, 2000, and \$1,507,000 at June 30, 1999, and is included in current liabilities in the accompanying balance sheets.

Employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years vacation 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 only, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity.

■ **Self-Insurance Program** The Water Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2000, is dependent upon future developments, management believes that amounts paid are sufficient to cover such losses.

■ **Employee Retirement Plan** The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the state of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 7 percent. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis

recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2000, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2000.

■ **Contribution to the City's General Fund**

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 1999-00 and 1998-99, the Water Utility transferred 11.5 percent of gross operating revenues, or \$2,943,000 and \$2,600,000, respectively.

■ **Budgets and Budgetary Accounting**

The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget at its last meeting in June via an adopting resolution.

CITY OF RIVERSIDE WATER UTILITY NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2000 and 1999, consist of the following (in thousands):

	June 30, 2000	June 30, 1999
	Fair Value	
Pooled investments with City Treasurer	\$27,676	\$22,089
Cash and investments at fiscal agent	4,670	8,609
	<u>\$32,346</u>	<u>\$30,698</u>

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

	June 30, 2000	June 30, 1999
Cash and cash equivalents	\$24,126	\$18,700
Restricted assets:		
Cash and cash equivalents	5,129	9,467
Investments	3,091	2,531
	<u>8,220</u>	<u>11,998</u>
	<u>\$32,346</u>	<u>\$30,698</u>

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

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Small Business Administration loans
- Passbook savings account demand deposits
- Negotiable certificates of deposit
- Repurchase agreements
- Banker's acceptances
- Mutual funds
- Commercial paper of "prime" quality
- Medium-term corporate notes

■ **Credit Risk, Carrying Amount and Market Value of Deposits and Investments** Cash and non-negotiable certificates of deposit are classified in three categories of custodial credit risk as follows: Category 1—insured or collateralized with securities held by the City or its agent in the City's name; Category 2—collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3—uncollateralized.

Investments are also classified in three categories of custodial credit risk as follows: Category 1—insured or registered, or securities held by the City or its agent in the City's name; Category 2—uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's

name; Category 3—uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the City's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The Water Utility's share of the City's investments at June 30, 2000, represents approximately 8 percent or \$32,113,000 of the City's total cash and investments of \$392,986,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2000. Cash and investments at fiscal agent are insured or registered, or held in the name of the Water Utility or its agent, or are not subject to risk categorization.



CITY OF RIVERSIDE WATER UTILITY NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (in thousands):

■ Contracts Payable/Capital Lease

Water Stock Acquisitions: Payable on demand to various water companies

Water Utility's Share of Equipment Purchased Through Capital Lease: \$79,468 capital lease due in monthly installments of \$2,230 through December 31, 2002, interest at 8.5 percent

Total contracts payable and capital lease

■ Revenue Bonds Payable

\$69,840,000 1991 Water Revenue Bonds: \$25,050,000 serial bonds due in annual installments from \$2,590,000 to \$3,100,000 through October 1, 2002, interest at 9.0 percent; and \$25,900,000 serial capital appreciation bonds due in annual installments from \$3,235,000 to \$3,240,000 from October 1, 2003, to October 1, 2010, interest from 6.65 percent to 7.0 percent; and \$18,890,000 term bonds due October 1, 2015, at 6.0 percent (partially advance refunded in 1998)

\$4,710,000 1994 FARECal Revenue Bonds: \$2,420,000 serial bonds due in annual installments from \$155,000 to \$255,000 through July 1, 2010, interest from 5.1 percent to 5.9 percent; \$2,290,000 term bonds due July 1, 2017, at 6.0 percent

\$30,965,000 1998 Water Refunding/Revenue Bonds: \$15,055,000 serial bonds due in annual installments from \$210,000 to \$4,055,000 through October 1, 2013, interest from 4.0 percent to 5.38 percent; \$10,155,000 term bonds due October 1, 2018, interest at 5.0 percent; \$5,755,000 term bonds due October 1, 2027, interest at 5.0 percent

Total water revenue bonds payable

Total obligations

Less: Current portion

Unamortized capital appreciation

Unamortized bond discount

Total long-term obligations

June 30, 2000 June 30, 1999

\$ 1,237		\$ 1,255
32		26
1,269		1,281
34,420		36,820
4,285		4,435
30,380		30,585
69,085		71,840
70,354		73,121
(3,128)		(2,914)
(9,599)		(10,662)
(490)		(517)
\$ 57,137		\$ 59,028

Annual debt service requirements to maturity as of June 30, 2000, are as follows (in thousands):

	2001	2002	2003	2004	2005	Thereafter	Total
Contracts payable/Capital lease	\$ 173	\$ 158	\$ 150	\$ 150	\$ 150	\$ 488	\$ 1,269
Bond interest requirements	2,425	2,165	1,880	1,722	1,701	18,464	28,357
Bond principal requirements	2,955	3,215	3,500	3,655	3,680	52,080	69,085
Unamortized bond (discount) premium	(1,164)	(1,243)	(1,328)	(1,311)	(1,181)	(3,862)	(10,089)
Total	\$4,389	\$4,295	\$4,202	\$4,216	\$4,350	\$67,170	\$88,622

■ **Debt Service Coverage Ratio** The Water Utility's bond indentures require the Water Utility to maintain a debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.17 at June 30, 2000, and 2.77 at June 30, 1999.

CITY OF RIVERSIDE WATER UTILITY NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. RESERVED RETAINED EARNINGS

A reserve for debt service has been established pursuant to applicable bond indentures. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10 percent of the program agreement amounts. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

NOTE 5. JOINTLY-GOVERNED ORGANIZATIONS

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, Santa Cruz; the North Marin Water District; the Northern California Power Agency; the Sacramento Municipal Utility District; and Turlock Irrigation District to create the Financing Authority for Resource

Efficiency of California (FARECal). The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors comprised of one representative from each charter member (the cities of Anaheim, Los Angeles, Palo Alto and Riverside and the North Marin Water District) and three voting-based directors, which currently are representatives from Trinity Public Utilities District, Colton and Pasadena.

NOTE 6. 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 operation of the water utility.

CITY OF RIVERSIDE WATER UTILITY INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the City of Riverside Water Utility as of June 30, 2000 and 1999, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Water Utility's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Water Utility as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

November 3, 2000

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Certain provisions of the Resolution are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Resolution.

Definitions

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified therein. The Accreted Value at any date to which reference is made 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 will include any Designated Investments.

“Bond” or **“Bonds”** means the City of Riverside Water 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 Water Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Water Revenue Fund.

“**Business Day**” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized to be closed.

“**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.

“**Construction Costs**” means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Water 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 Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. “**Designated Investments**” means, with respect to the 2001 Bonds, investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation, the long-term debt or claims paying ability of the guarantor of which, or, in the case of a monoline financial guaranty insurance company, the claims paying ability of which, at the time of execution of such investment agreement is rated in at least the second highest Rating Category by a Rating Agency, subject to such further parameters as may be specified in the Closing Certificate of the City.

“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 with respect to any Series of Bonds, the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series and which may be the Treasurer.

“Fiscal Year” means the year period beginning on July 1st and ending on the next following June 30th.

“Gross Operating Revenues” means all revenues from rates, fees and charges for providing water 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 Water System, including contributions in aid of construction.

“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, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; 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 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 purposes 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 the maximum rate on the Credit Facility and the maximum rate permitted on the Parity Debt or Bonds;

(d) principal and interest payments on Parity Debt and Bonds 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; and

(e) in determining the principal amount due in each Fiscal Year, payment will (unless a different paragraph of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value 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.

“**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 shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City Council (other than Standard & Poor’s).

“**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 the Gross Operating Revenues, less Operating and Maintenance Expenses.

“Operating and Maintenance Expenses” means those expenses of operating and maintenance of the Water System and includes any necessary contribution to retirement of Water 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 shall have been discharged in accordance with the Resolution, including Bonds (or portions of Bonds) referred to in the Resolution; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer deemed to be outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

“Owner” or **“Bondholder”** or **“Bondowner,”** whenever used with respect to a Bond, means the Person in whose name such Bond is registered.

“Parity Debt” means (1) any indebtedness or other obligation of the City for borrowed money, or (2) any obligations of the City for deferred purchase price, in each case having an equal lien and charge upon the Net Operating Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Account” means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

“Rating Agencies” means either or both of Moody’s 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.

“Redemption Account” means the account by that name established pursuant to the Resolution in the Water 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 Water Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Water Revenue Fund.

“Resolution” or **“the Resolution”** means Resolution No. 17664 adopted by the City Council on January 8, 1991, as amended, modified or supplemented from time to time by any Supplemental Resolution.

“Securities Depositories” means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered to any Fiscal Agent.

“Serial Bonds” means the Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

“Series”, whenever used 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 Corporation, 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 shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City (other than Moody’s).

“**State**” means the State of California.

“**Supplemental Resolution**” means any resolution hereafter duly executed and delivered, supplementing, modifying or amending the Resolution in accordance with the Resolution.

“**Surplus Account**” means the Water Revenue Bonds, Surplus Account established pursuant to the Resolution in the Water Revenue Fund.

“**Term Bonds**” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“**Treasurer**” means the Treasurer of the City who may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

“**Variable Rate Indebtedness**” means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness.

“**Water Revenue Fund**” means the revenue fund pertaining to the Water System into which all Gross Operating Revenues are deposited.

“**Water System**” means the water public utility system of the City and will include all works and rights owned, controlled or operated by the City, within or without the City, for supplying the City and its inhabitants with water, including all facilities related thereto and all additions, extensions and improvements thereof.

Revenues, Funds and Accounts

Pledge of Revenues. 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 premium 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 pledges, places a charge upon and assigns 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 pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Out of Gross Operating Revenues there will be applied as hereinafter set forth all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, 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 and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations,

will be surplus and may be used for any lawful purpose. The pledge of Net Operating Revenues made in the Resolution will be irrevocable until there are no longer Bonds Outstanding.

Establishment of Funds and Accounts: Application. Pursuant to the Law, there is continued and there shall be maintained by the Treasurer in accordance with the terms of the Resolution the Water Revenue Fund (sometimes called "Water Revenue Fund"), in which there are created, renamed or continued, as the case may be, the following accounts and subaccounts:

- (a) Water Revenue Bonds, Bond Service Account (sometimes called "Bond Service Account"), in which there are hereby established the following subaccounts:
 - (i) Water Revenue Bonds, Principal Account (sometimes called "Principal Account");
 - (ii) Water Revenue Bonds, Interest Account (sometimes called "Interest Account");
- (b) Water Revenue Bonds, Renewal and Replacement Account (sometimes called "Renewal and Replacement Account"); and
- (c) Water Revenue Bonds, Surplus Account (sometimes called "Surplus Account").

All funds and 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.

Water Revenue Fund. The Gross Operating Revenues will be deposited in the Water Revenue Fund, and payments from said fund will be made only as provided by the Law and the Resolution or any Supplemental Resolution relating to the Bonds.

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

Bond Service Account. Upon delivery of the Bonds to the purchasers thereof, the amount specified pursuant to the Resolution will be placed in the Bond Service Account.

Thereafter, following the transfers required by the Resolution, there will be set aside and transferred within the Water Revenue Fund to the Bond Service Account for transfer to the Interest Account and the Principal Account, as applicable, the following amounts at the following times:

- (A) ***Interest Account.*** As soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness), 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 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) is on deposit in such account, and (b) 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 such deposit into the Interest Account for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month 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. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the estimated 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). If the City issues or incurs any Parity Debt, the payments required to be placed in any debt service account 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.

(B) *Principal Account.* As soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such funds moneys sufficient to pay 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. If the City issues or incurs any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt will rank and be made pari passu with the payments required to be placed in the Principal Account.

Reserve Accounts. Following certain transfers required by the Resolution, the Treasurer will deposit as soon as practicable in each month in any reserve account established under a Supplemental Resolution for a Series of Bonds and in any reserve account established for any Parity Debt, upon the occurrence of any deficiency therein, one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve account.

Excess Earnings Account. Following certain transfers required by the Resolution, the Treasurer will deposit in any excess earnings or rebate account established pursuant to a Supplemental Resolution for a Series of Bonds such amounts at such times as will be required pursuant to the Supplemental Resolution or other document creating such account.

Renewal and Replacement Account. Following certain transfers 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, as will be required by prior action of the City Council.

Surplus Account. On the first day of each calendar month, after the transfers to the aforementioned accounts required by the Resolution or any Supplemental Resolution and all other covenants of the City contained in the Resolution have been duly performed, any moneys remaining in the Water Revenue Fund (sometimes referred to as "Surplus") will be transferred within the Water Revenue Fund to the Surplus Account and may be: (i) invested in any Authorized Investments, or (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, 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 and Accounts.

(A) *Bond Service Account.*

(i) *Interest Account.* Amounts in the Interest Account will be used and withdrawn by the Treasurer solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) and 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.

(ii) *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, moneys in the Principal Account may be applied to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (1) within the next six months in the case of Bonds subject to semi-annual maturity dates or (2) within the next twelve months in the case of Bonds subject to annual maturity dates (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) 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.

(B) *Reserve Accounts.* Amounts on deposit in any reserve account for a Series of Bonds shall be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.

(C) *Excess Earnings Accounts.* Amounts on deposit in any excess earnings or rebate account for a Series of Bonds shall be used and withdrawn as provided in the Supplemental Indenture authorizing the issuance of such Series.

(D) *Renewal and Replacement Account.* Amounts on deposit in the Renewal and Replacement Account shall be applied to the acquisition and construction of renewals and replacements to the Water System to the extent provision therefore has not been made from other sources.

Establishment, Funding and Application of Redemption Account. The Treasurer will establish, maintain and hold in trust a special account within the Water 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 such 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 then applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

Establishment and Application of Construction Fund. The Fiscal Agent will establish, maintain and hold in trust a separate fund designated as the "Water Revenue Bonds, Issue of 2001, Construction Fund." The moneys in the 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 necessary or convenient for the storage, transmission or distribution of water; or incidental to, or in connection with, the operation of the Water System or to pay or reimburse the City for interest on the 2001 Bonds during the construction period for the improvements to the Water System funded by the 2001 Bonds. Moneys on deposit in the Construction Fund will be invested in Authorized Investments. On or before June 30 of each year, commencing June 30, 2002, the Fiscal Agent will, at the direction of the Treasurer, transfer to the City for deposit in the Interest Account from interest, profit or other income derived from the investment of moneys held in the Construction Fund (other than amounts required to be deposited in the rebate account) the amount, if any, determined by the City to be deposited in the Interest Account and applied to the payment of interest on the Bonds. Interest, profit or other income derived from the investment of moneys may also be deposited in the rebate account in an amount determined by the City to be required.

Disbursements will be made from the 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.

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 Water 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 a fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Resolution into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Treasurer or any Fiscal Agent under the Resolution 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 shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent 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

Pursuant to the Resolution, the City has covenanted as follows:

Punctual Payment. The City covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Resolution, and that the payments into the Bond Service Account and any reserve fund or account will be made, all in strict conformity with the terms of said Bonds and of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions and of the Bonds issued under the Resolution, and that time of such payment and performance is of the essence of the City's contract with the Owners of the Bonds.

Discharge Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City will pay from the Water Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Water Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water 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 Water System in Efficient and Economical Manner. The City covenants and agrees to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

Against Sale; Eminent Domain. The City covenants that the Water 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 Water Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premium, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues 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 further covenants that it will not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt or which otherwise would impair the rights of the Owners with respect to the Net Operating Revenues or the operation of the Water System. If any substantial part of the Water 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 Water 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 covenants that any amounts received as awards as a result of the taking of all or any part of the Water 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 Water 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 covenants 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 Water 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 Water System shall be damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Water System will be used for repairing or rebuilding the damaged or destroyed Water 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 Water System separate from all other records and accounts in which complete and correct entries will be made of all transactions relating to the Water 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.

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 water or other service from the Water System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no such water or other service will be rendered to any such public agency or any private corporation or Person at rates lower than those charged other Persons for similar service, except that charges to the City for water used for facilities of the City may be made at rates lower than those charged private Persons. No building or other real property of the Water System will be furnished free to any such public agency or any private Person or corporation, but each of the foregoing will pay the reasonable rental value of any property so used. Reasonable and proper charges for service rendered or quarters furnished to the Water System will be paid to the City from the Water Revenue Fund. The City will maintain and enforce valid regulations for the payment of bills for water service. Such regulations will at all times during such period provide that the City will, to the extent permitted by law, discontinue water service to any user whose water bill has not been paid within the time fixed by said regulations.

Rates and Charges. The City will prescribe, revise and collect such rates and charges for the services, facilities and water of the Water System 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 and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term 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 which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

The charges will be so fixed that the Net Operating Revenues, plus any amounts on deposit in the Surplus Account pledged by resolution of the City Council to the payment thereof, will be at least 1.25 times the amounts payable under (b) above and 1.0 times the amounts payable under (c) and (d) above.

No Priority for Additional Bonds. No additional bonds, notes or other evidences of indebtedness payable out of the Net Operating Revenues will be issued having any priority in payment of principal or interest out of the Water Revenue Fund or out of any Net Operating Revenues payable into such Fund over the Outstanding Bonds.

Limits on Additional Debt. Except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no additional Bonds or Parity Debt will be created or incurred unless:

First: The City is not in default under the terms of the Resolution; and

Second: Either (i) the Net Operating Revenues, calculated on generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than 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 (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items hereinafter in this covenant designated (a), (b) and (c), shall have amounted to at least 1.25 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Debt to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Debt.

The items either or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in this covenant are the following:

- (a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Water 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 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 or opinion of a qualified independent engineer employed by the City.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Water 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 or opinion of a qualified independent engineer employed by the City.

(c) Any amounts on deposit in the Surplus Account pledged by resolution of the City Council to the payment of such Bonds or Parity Debt.

Third: On the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt heretofore established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

Nothing in the Resolution will limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents.

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

(A) The City may appoint a Fiscal Agent, who may be the Treasurer, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent will act as the agent of the City and will perform such duties and only such duties as are specifically set forth in the Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants will be read into the Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent will exercise such of the rights and powers vested in it by the Resolution or the Supplemental Resolution pursuant to which it was appointed.

(B) The City may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent shall cease to be eligible as described in paragraph (E) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent,

or a receiver of such Fiscal Agent or its property shall be appointed, or any public officer shall take control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such Fiscal Agent, and thereupon will appoint 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 and by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent. Upon receiving such notice of resignation, the City 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 shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Resolution, 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 the Resolution 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 will cease to be eligible in accordance with the provisions described in paragraph (E), 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.

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 shall be proved 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 will require 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 will not be 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 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 under the Resolution will be construed to impose 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 shall determine 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 of the Resolution.

Amendments

Amendments Permitted.

(A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the City Council with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds 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 will (a) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution, or deprive the Owners of the Bonds of the lien created by the Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Resolution), without the consent of the Owners of all of the Bonds then Outstanding, or (c) modify any rights or duties of the Fiscal Agent without its consent.

It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent shall approve 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 in the Resolution reserved 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 hereafter 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 will materially and adversely affect the interests of the Owners of any of the Bonds;

(6) if the City has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and

(7) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

Defeasance

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, 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 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 shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable to any provider of a Credit Facility under the Resolution by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent,

signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution 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 to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to such Fiscal Agent shall have been made for the giving of such notice, then all liability of this City in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will 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 the provisions of the Resolution and the continuing duties of the Fiscal Agent for such Series under the Resolution.

The City may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, 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 funds and 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 shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice, the amount to be deposited or held 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 shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series shall have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

Events of Default; Remedies

Events of Defaults. The following events will be 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 or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
- (d) Destruction or damage to any substantial part of the Water 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 Water System or any substantial part of the City's property, or to the taking possession by any such official of the Water 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 hereafter 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 Water System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City or its affairs; or
- (g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions described in 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 will include

without limitation acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City 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 shall have occurred and be 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 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 Owners; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee 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 certain Events of Default specified in the Resolution, 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. 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 60 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 Water 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 will be cumulative and will be in addition to any other remedy given to the Bondholders under the Resolution or now or hereafter 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 will 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 will affect any subsequent default or Event of Default or will 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 expressed in the Resolution and in the Bonds.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Riverside (the “City”) in connection with the City’s issuance of \$20,000,000 Water Revenue Bonds, Issue of 2001 (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 17664 of the City adopted by the City Council on January 8, 1991, as supplemented, including as supplemented by Resolution No. 19968 adopted by the City Council on July 24, 2001 (collectively, the “Master Resolution”). The City covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Master 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 City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean any person or entity appointed by the City and that has entered into a written agreement with the City pursuant to which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

“Fiscal Year” shall mean the one-year period ending on June 30 of each year.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit A.

“Owner” shall mean a registered owner of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days following the end of each Fiscal Year of the City (which Fiscal Year presently ends on June 30), commencing with the report for Fiscal Year 2000-01, provide to each Repository an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the City changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent, if any. If by such date the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent, if any, as the case may be, has not furnished any Annual Report to the Repositories by the date required in subsection (a), the City or the Dissemination Agent, as applicable, shall send a notice to each Repository in substantially the form attached as Exhibit B.

(d) The City (or, in the event that the City shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with each Repository on or before the date required in subsection (a). In addition, if the City shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

1. The audited financial statements of the City’s Water Utility for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by the Governmental Accounting Standards Board.

2. Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.

3. Balance in the 2001 Reserve Account as of the end of the immediately preceding Fiscal Year and a statement of the 2001 Bond Reserve Requirement.

4. Updated information comparable to the information in the table entitled “Water System General Statistics” as it appears in the Official Statement.

5. Updated information comparable to the information in the table entitled “Average Number of Customers” as it appears in the Official Statement.

6. Updated information comparable to the information in the table entitled “Water Sales and Distribution” as it appears in the Official Statement.

7. Updated information comparable to the information in the table entitled “Summary of Operations and Debt Service Coverage” as it appears in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, that have been submitted to each of the Repositories; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent or unscheduled Bond calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections

(a)(4) and (5) 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 Master Resolution.

SECTION 6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

SECTION 7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Master Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Owner or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the City and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August 16, 2001

CITY OF RIVERSIDE

By: _____
Title: Finance Director and Treasurer

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of August 16, 2001:

Bloomberg Municipal Repositories

100 Business Park Drive
Skillman, NJ 08558
E-MAIL: Munis@Bloomberg.com
PHONE: (609) 279-3225
FAX: (609) 279-5962

FT Interactive Data

Attn: NRMSIR
100 Williams Street
New York, NY 10038
E-MAIL: NRMSIR@FTID.com
PHONE: (212) 771-6999
FAX: (212) 771-7390 (Secondary Market
Information)
(212) 771-7391 (Primary Market Information)

Standard & Poor's J.J. Kenny Repository

55 Water Street, 45th Floor
New York, NY 10041
E-MAIL: nrmsir_repository@sandp.com
PHONE: (212) 438-4595
FAX: (212) 438-3975

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
E-MAIL: NRMSIR@dpcdata.com
PHONE: (201) 346-0701
FAX: (201) 947-010

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: WATER REVENUE BONDS, ISSUE OF 2001

Date of Issuance: August 16, 2001

NOTICE IS HEREBY GIVEN that the City of Riverside, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated August 16, 2001 relating to the Bonds and by Resolution No. 19968 adopted by the City Council on July 24, 2001. The City anticipates that the Annual Report will be filed by

_____.

Dated: _____

CITY OF RIVERSIDE, CALIFORNIA

By: _____

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APPENDIX E

BOOK-ENTRY SYSTEM

General

The 2001 Bonds will be available in book-entry form only in denominations of \$5,000 or any integral multiple thereof and, when delivered, will initially be evidenced by one fully registered 2001 Bond for each maturity in the name of Cede & Co. (“Cede”), as nominee for DTC. As long as DTC, or its nominee, Cede, is the registered Owner of all 2001 Bonds, the principal of, premium, if any, and interest on, the 2001 Bonds will be paid directly to DTC. Disbursement of such payments to the DTC Participants (as hereinafter defined) will be the responsibility of DTC, and disbursement of such payments to the actual purchasers of the 2001 Bonds (the “Beneficial Owners”) will be the responsibility of the DTC Participants.

DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities on behalf of its participants (“DTC Participants”) and to facilitate the clearance and settlement of securities transactions among DTC Participants through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of which (or their representatives) own DTC (the “DTC Participants”). Access to the DTC system is also available to others, including, without limitation, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the “Indirect Participants”).

Purchases of 2001 Bonds under the book-entry system may be made only through brokers and dealers who are, or act through, DTC Participants. Upon such purchase, each DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant’s 2001 Bonds. The ownership interest of each Beneficial Owner is to be recorded through the records of a DTC Participant. Each Beneficial Owner is to receive a written confirmation of each purchase providing certain details of the 2001 Bonds acquired. Transfers of ownership interests in the 2001 Bonds will be accomplished only by book entries made by DTC and, in turn, by DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners of the 2001 Bonds will not receive or have the right to receive physical delivery of 2001 Bonds, and will not be, or be considered to be, Owners thereof under the Third Supplemental Resolution, except as specifically provided in the Third Supplemental Resolution, in the event participation in the book-entry system is discontinued.

U.S. Bank Trust National Association, as Fiscal Agent for the 2001 Bonds under the Resolution (the “Fiscal Agent”), may treat DTC (or its nominee) as the sole and exclusive Owner of the 2001 Bonds registered in its name for the purposes of payments of the principal of, premium, if any, and interest on, the 2001 Bonds, selecting the 2001 Bonds or portions thereof to be redeemed pursuant to the Resolution, giving any notice permitted or required to be given to the Owners of 2001 Bonds under the Resolution, registering the transfer of 2001 Bonds, obtaining any consent or other action to be taken by Owners of 2001 Bonds and for any other purpose.

Neither the City nor the Fiscal Agent shall have any responsibility with respect to the accuracy of any records maintained by DTC, Cede or any DTC Participant; the payment by DTC to any DTC Participant; the payment by any DTC Participant to any Beneficial Owner of any principal of, premium,

if any, or interest on the 2001 Bonds; the delivery to any DTC Participant or any Beneficial Owner of any notice which is permitted or required to be given to Owners of 2001 Bonds under the Resolution; the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of 2001 Bonds; or other action taken by DTC as Owner of 2001 Bonds.

As long as the book-entry system is used for the 2001 Bonds, the Fiscal Agent will give any notice of redemption or any other notices required to be given to Owners of 2001 Bonds only to DTC or its nominee. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2001 Bonds called for redemption or of any other action premised on such notice.

The Fiscal Agent will pay the principal of, premium, if any, and interest on, the 2001 Bonds to Cede, as nominee of DTC. Upon receipt of any such monies, DTC's current practice is to credit immediately the accounts of DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Fiscal Agent, or the City, subject to any statutory and regulatory requirements as may be in effect from time to time.

Discontinuation of the Book-Entry System

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Fiscal Agent, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2001 Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2001 Bonds as requested by DTC and will deliver new 2001 Bonds in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2001 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. The interest on 2001 Bonds will be payable by check mailed to the respective Owners thereof at their addresses as they appear on the books maintained by the Fiscal Agent on the fifteenth day of the month immediately preceding the applicable interest payment date, except that an Owner of \$1,000,000 or more in principal amount of 2001 Bonds may be paid interest by wire transfer to an account in the United States if such Owner mails a written request to the Fiscal Agent at least 30 days preceding any interest payment date specifying the wire transfer instructions for such Owner.

The registration of any 2001 Bonds may be transferred upon the surrender of such 2001 Bonds to the Fiscal Agent by the Owner thereof or by such Owner's duly authorized attorney with a duly executed written instrument of transfer in a form satisfactory to the Fiscal Agent. The 2001 Bonds may be exchanged upon their surrender at the principal corporate trust office of the Fiscal Agent for a like aggregate principal amount of such 2001 Bonds of the same maturity of any other authorized denominations. The Fiscal Agent shall require the Owner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. Neither the City nor the Fiscal Agent is required to transfer or exchange any 2001 Bond within 15 days before the date of selection of 2001 Bonds for redemption, or any 2001 Bond or portion thereof so selected for redemption.

The foregoing description concerning DTC and DTC's book-entry system is based solely on information furnished by DTC. The City makes no representation as to the accuracy or completeness of such information.

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

City of Riverside
Riverside, California

\$20,000,000
City of Riverside
Water Revenue Bonds, Issue of 2001

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Riverside, California (the "City") of its Water Revenue Bonds, Issue of 2001 (the "Bonds") in the aggregate principal amount of \$20,000,000. 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. 17664 adopted by the City Council on January 8, 1991, as supplemented, including as supplemented by Resolution No. 19968 adopted by the City Council on July 24, 2001 (collectively, the "Bond Resolution").

In our capacity as bond counsel, we have reviewed the Constitution and statutes of the State of California, the Charter, certified copies of proceedings for the authorization, issuance and sale of the Bonds, including, without limitation, the Ordinance and the Bond Resolution, certifications of the City and others, opinions of counsel to the City and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Resolution.

Certain requirements and procedures contained or referred to in the Bond Resolution and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Resolution, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Bond Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of

California. Furthermore, the imposition of fees and charges by the City relating to the Water System may be subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special revenue obligations of the City.

2. The Bond Resolution was duly adopted at meetings of the City Council of the City which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Bond Resolution. The general fund of the City is not liable for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest.

4. Additional Bonds and other Parity Debt of the City have been and may from time to time hereafter be issued under the Bond Resolution which are payable from Net Operating Revenues on a parity basis with the Bonds.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the City with certain covenants in the Bond Resolution and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation. Interest on the Bonds will not be treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations; however, such interest will be included as an adjustment in the calculation of corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

6. Under existing law, interest on the Bonds is exempt from personal income tax imposed by the State of California.

Other than as described herein, we have neither addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Bonds.

Respectfully submitted,

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Quincy Brown

**Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent**

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Mandatory California State Amendatory Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association
(California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE
IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE,
THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to
be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by
virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent



