

\$75,405,000
City of Riverside, California
Electric Refunding Revenue Bonds
Issue of 2003

Dated: Date of Delivery**Due: October 1, as shown below**

The 2003 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 2003 Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of the 2003 Bonds will not receive physical certificates representing their interest in the 2003 Bonds. See "DESCRIPTION OF THE 2003 BONDS" and "APPENDIX E-BOOK-ENTRY SYSTEM." Interest is payable on October 1, 2003 and semi-annually thereafter on April 1 and October 1 of each year. Principal of and interest on the 2003 Bonds are to be paid to purchasers by DTC through the DTC Participants (as defined herein).

The 2003 Bonds are not subject to redemption prior to maturity.

In the opinion of Sidley Austin Brown & Wood LLP, Los Angeles, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the 2003 Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the 2003 Bonds is not includable in the gross income of the owners of the 2003 Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2003 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 2003 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 2003 Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

The 2003 Bonds are special limited obligations of the City of Riverside, California (the "City") payable solely from the Net Operating Revenues of the City's Electric System and do not constitute a general obligation or indebtedness of the City. The 2003 Bonds will be secured by a pledge of the Net Operating Revenues on a parity with \$151,915,000 in aggregate principal amount of electric revenue Bonds to remain outstanding upon the issuance of the 2003 Bonds and any additional electric revenue Bonds and Parity Debt issued in the future.

The 2003 Bonds are being issued (i) to refund the Refunded Obligations (as defined herein), (ii) to fund a reserve account for the 2003 Bonds and (iii) to pay the costs of issuance of the 2003 Bonds.

The scheduled payment of principal of and interest on the 2003 Bonds maturing on and after October 1, 2004 (the "Insured 2003 Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured 2003 Bonds by FINANCIAL SECURITY ASSURANCE INC.



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

Maturity Schedule

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP (768874)	Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP (768874)
2003*	\$1,035,000	2.00%	1.00%	NJ4	2009	\$7,680,000	4.25%	2.24%	NQ8
2004	6,705,000	2.00	1.00	NK1	2010	7,960,000	4.50	2.56	NR6
2005	6,805,000	3.00	1.13	NL9	2011	8,250,000	4.00	2.77	NS4
2006	6,980,000	3.00	1.33	NM7	2012	8,535,000	5.00	2.91	NT2
2007	7,170,000	4.00	1.70	NN5	2013	880,000	4.25	3.04	NU9
2008	7,405,000	4.00	1.98	NP0	2013	6,000,000	5.00	3.04	NV7

The 2003 Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Sidley Austin Brown & Wood LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., Los Angeles, California. It is expected that the 2003 Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about July 31, 2003.

Citigroup

June 12, 2003

* Uninsured maturity.

THE CITY OF RIVERSIDE

CITY COUNCIL

Ronald O. Loveridge, *Mayor*

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

Ed Adkison, 5th Ward
Nancy Hart, 6th Ward
Laura Pearson, 7th Ward

BOARD OF PUBLIC UTILITIES

Lalit N. Acharya, *Chairman*

Dee L. Gipson
Peter G. Hubbard
Joe Tavaglione

Conrad Newberry Jr.
Art Gage
Jim Anderson

CITY OFFICIALS

George A. Carvalho, *City Manager*

Michael J. Beck, Deputy City Manager
Penny Culbreth-Graft, Assistant City Manager
Gregory P. Priamos, City Attorney
Colleen Nicol, City Clerk
Paul C. Sundeen, Finance Director and Treasurer
Brent Mason, Assistant Finance Director

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/Energy Delivery
Donna I. Stevener, Utilities Assistant Director/Finance &
Resources

BOND COUNSEL

Sidley Austin Brown & Wood LLP
Los Angeles, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

McGladrey & Pullen, LLP
Riverside, 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 2003 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2003 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 of Riverside's Electric 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 2003 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT 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.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security, and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2003 Bonds; or (iii) the tax-exempt status of the interest on the 2003 Bonds.

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**Official Statement
of the
City of Riverside, California
relating to its
\$75,405,000
Electric Refunding Revenue Bonds
Issue of 2003**

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 \$75,405,000 aggregate principal amount of Electric Refunding Revenue Bonds, Issue of 2003 (the "2003 Bonds"). The 2003 Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended ("Ordinance No. 5001"), and Resolution No. 17662 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as heretofore amended and supplemented, and as supplemented by a fifth supplemental resolution adopted by the City Council on May 27, 2003 (the "Fifth Supplemental Resolution"). The Master Resolution, as previously amended and supplemented, and as supplemented by the Fifth 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 electric utility system (the "Electric System") (i) Electric Refunding Revenue Bonds, Issue of 1993 (the "1993 Bonds"), issued pursuant to Resolution No. 18182 adopted by the City Council on February 23, 1993, as amended and restated by Resolution No. 18205, adopted by the City Council on March 23, 1993 (the "Second Supplemental Resolution"), supplementing the Master Resolution; (ii) Electric Refunding Revenue Bonds, Issue of 1998 (the "1998 Bonds"), issued pursuant to Resolution No. 19262 adopted by the City Council on April 28, 1998 (the "Third Supplemental Resolution"); and (iii) Electric Revenue Bonds, Issue of 2001 (the "2001 Bonds"), issued pursuant to Resolution No. 19967 adopted by the City Council on July 24, 2001 (the "Fourth Supplemental Resolution"), amending and supplementing the Master Resolution. The City Charter, Ordinance No. 5001 and the Resolution are hereinafter collectively referred to as the "Law."

The 2003 Bonds, together with the \$5,970,000 principal amount of the 1993 Bonds to remain outstanding upon the issuance of the 2003 Bonds, the \$98,730,000 outstanding principal amount of the 1998 Bonds, the \$47,215,000 outstanding principal amount of the 2001 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 Electric 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 2003 BONDS – Net Operating Revenues").

The City has also previously entered into a Resource Efficiency Program Agreement, dated as of July 1, 1994 (the "1994 Contract"), between the City and the Financing Authority for Resource Efficiency of California ("FARECal") in connection with a resource efficiency program for the Electric 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 Electric System then outstanding in the principal amount of \$3,310,000 (the "1994 FARECal Bonds"). All of the 1994 FARECal Bonds will be refunded in connection with the issuance of the 2003 Bonds. The City reserves the right to issue and incur additional parity obligations that do not constitute Bonds ("Parity Debt") from time to time, secured by a pledge and charge on the Net

Operating Revenues of the Electric System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds, to the extent permitted by the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 BONDS – Additional Bonds and Parity Debt."

Purpose of the 2003 Bonds

The 2003 Bonds are being issued (i) to refund \$75,410,000 aggregate principal amount of the 1993 Bonds and \$3,310,000 aggregate principal amount of 1994 FARECal Bonds, (ii) to fund a reserve account for the 2003 Bonds and (iii) to pay the costs of issuance of the 2003 Bonds. See "THE REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Rate Covenant

Pursuant to the Law, the 2003 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 the principal thereof and interest thereon, 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 1993 Bonds that will remain outstanding after the issuance of the 2003 Bonds, the 1998 Bonds, the 2001 Bonds and any other Bonds or Parity Debt issued in the future. Certain of the City's obligations to joint action agencies, including obligations with respect to bonds issued by such joint action agencies, are payable by the City from Gross Operating Revenues as Operating and Maintenance Expenses. See "OUTSTANDING ELECTRIC REVENUE BONDS AND OTHER OBLIGATIONS."

The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay debt service on the Bonds and Parity Debt, to meet its expenses of operation and maintenance and to pay other obligations payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 BONDS – Net Operating Revenues" and "– Rate Covenant." Electric rates are established by the City of Riverside Board of Public Utilities (the "Board"), subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other State agency.

The general fund of the City is not liable for the payment of the 2003 Bonds or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2003 Bonds 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 2003 Bonds 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 Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2003 Bonds and the interest thereon.

2003 Reserve Account

Pursuant to the Resolution, the Electric Refunding Revenue Bonds, Issue of 2003, Reserve Account (the "2003 Reserve Account") will be funded in an amount equal to the 2003 Bond Reserve Requirement (initially, \$7,540,500). The 2003 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 "2003 Bond Reserve Requirement" is defined in the Resolution as an amount equal to, as of any date of calculation, the least of (a) 10% of the stated principal amount or, when required by the Internal Revenue Code of 1986, as amended (the "Code"), or the Treasury Regulations, 10% of the initial offering price to the public of the 2003 Bonds as

determined under Code, or (b) the maximum amount of principal and interest payable on the 2003 Bonds then outstanding in the then current and any subsequent fiscal year or (c) 125% of average annual debt service on the 2003 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 BONDS – 2003 Reserve Account."

Joint Powers Agency Obligations

The City has entered into a power purchase contract with the Intermountain Power Agency, a political subdivision of the State of Utah, to purchase a 7.617% share of the Intermountain Power Project generating station and certain related facilities (the "IPP Generating Station"). For the fiscal year ended June 30, 2002, the IPP Generating Station supplied over 42.2% of the energy of the City's Electric System. In addition, the City and other public agencies in Southern California are members of the Southern California Public Power Authority ("SCPPA"). SCPPA is a joint powers agency created for financing, acquiring and constructing electric generating and transmission projects for participation by some or all of its members. The City is a participant in the following SCPPA projects: the Palo Verde Nuclear Generating Station, consisting of three nuclear electric generating units, each rated 3,893 MW (thermal) near Phoenix, Arizona ("PVNGS") and associated facilities; certain improvements to the generating units at the hydroelectric power plant of the Hoover Dam (the "Hoover Upgrading Project"); a 256-mile, 500kV alternating current ("AC") transmission line from the Phoenix, Arizona area to the area of Boulder City, Nevada (the "Mead-Phoenix Transmission Project"); a 202-mile, 500 kV AC transmission line from the area of Boulder City, Nevada to the Adelanto Substation in Southern California (the "Mead-Adelanto Transmission Project"); and an approximately 490-mile, 500 kV transmission line from the area of Lynndyl, Utah to Adelanto, California (the "Southern Transmission System"). See "THE ELECTRIC SYSTEM – Power Supply" and "– Transmission Facilities."

The City's obligations to make payments with respect to the IPP Generating Station and the SCPPA projects in which it participates are unconditional "take-or-pay" obligations, obligating the City to make such payments as Operating and Maintenance Expenses of the Electric System whether or not any of such projects are operating or operable, or the output thereof is suspended, interfered with, reduced, curtailed or terminated in whole or in part. See "OUTSTANDING ELECTRIC REVENUE BONDS AND OTHER OBLIGATIONS."

Amendments to the Master Resolution

The Third Supplemental Resolution provided for certain amendments to the Master Resolution relating to, among other things, the definition of Net Operating Revenues, covenants relating to rates and charges, and the issuance of additional Bonds and Parity Debt. Such amendments are to become effective on the earlier of the first date on which all of the outstanding 1993 Bonds and the 1994 Contract have been paid or discharged in accordance with their terms (which date is expected to be October 1, 2003) or the date when such amendments have been consented to by Bondholders as provided in the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2003 BONDS – Net Operating Revenues," "– Rate Covenant" and "– Additional Bonds and Parity Debt."

The Electric System

The Electric System serves the entire area of the City. The City's electric requirements are provided by a variety of resources described later in this Official Statement. The Electric System is supplied by seven 66-kV transmission lines which originate at the Vista Substation of Southern California Edison Company ("Edison") to provide bulk delivery of power and energy to the City's internal 66-kV transmission system. For the fiscal year ended June 30, 2002, the average number of customers of the Electric System was 96,503 and the total megawatt-hours ("MWh") generated and purchased were

2,427,200. The Electric System's peak load of approximately 479 megawatts ("MW") occurred on August 31, 1998.

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2003 Bonds to provide certain financial information and operating data relating to the Electric 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."

Brief descriptions of the 2003 Bonds, the security and sources of payment therefore, the Electric System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2003 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. A copy of the most recent annual report of the Electric System may be obtained from the Utilities Assistant Director/Finance & Resources of the City of Riverside Public Utilities Department, at the same address, and is also available on the Utility's website at www.riversidepublicutilities.com. Financial and statistical information set forth herein, except for the audited financial 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 2003 BONDS

General

The 2003 Bonds will be dated the date of delivery thereof 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 October 1, 2003 and semiannually thereafter on April 1 and October 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 2003 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 2003 Bonds will be issued as fully registered bonds in denominations of \$5,000 or in any integral multiple of \$5,000. Principal of and interest on each 2003 Bond is to be paid to purchasers 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."

No Redemption

The 2003 Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE 2003 BONDS

Net Operating Revenues

Pursuant to the Law, the 2003 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 the principal thereof and interest thereon, 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 1993 Bonds, the 1998 Bonds and the 2001

Bonds to remain outstanding upon the issuance of the 2003 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 Electric System from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction. Operating and Maintenance Expenses are the expenses of operation and maintenance of the Electric System, including payments to certain joint powers agencies and any necessary contribution to the retirement system of the Electric System employees.

The Third Supplemental Resolution provided for certain amendments to the Master Resolution (the "Resolution Amendments"), which Resolution Amendments will become effective on the earlier to occur of the first date on which all of the outstanding 1993 Bonds and the 1994 Contract have been paid or discharged in accordance with their terms (which date is expected to be October 1, 2003) or the date on which written consents to such amendments by the owners of a majority in aggregate principal amount of the Bond Obligation of the Bonds then outstanding have been filed with the Fiscal Agent (the date upon which the amendments shall become effective being hereinafter referred to as the "Resolution Amendments Effective Date"). Among the Resolution Amendments are amendments to the definition of Net Operating Revenues under the Master Resolution, the rate covenant and the additional parity indebtedness test contained in the Master Resolution, each as described below under "Rate Covenant" and "Additional Bonds and Parity Debt," and in "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

Pursuant to the Resolution Amendments, upon the Resolution Amendments Effective Date, the definition of the term "Net Operating Revenues" under the Master Resolution shall be modified to mean Gross Operating Revenues less Operating and Maintenance Expenses, plus (for purposes of determining compliance with the City's rate covenant only) the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

The general fund of the City is not liable for the payment of the 2003 Bonds or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2003 Bonds 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 2003 Bonds 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 Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2003 Bonds and the interest thereon.

Resolution Flow of Funds

Electric Revenue Fund. The City has created the Electric Revenue Fund pursuant to the City Charter, which secures the payment of the Bonds and Parity Debt. The Electric Revenue Fund includes several accounts, namely, the Electric System Maintenance and Operation Account (the "M&O Account"), the Bond Service Account, the Electric Revenue Bonds, Mandatory Sinking Account (the "Mandatory Sinking Account"), the Electric Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account") and the Electric Revenue Bonds, Surplus Account (the "Surplus Account"). The Master Resolution provides that the Interest Account and the Principal Account shall be created as sub accounts within the Bond Service Account. The Electric Revenue Fund and all of the

accounts and sub accounts therein are held and administered by the City Treasurer. The 1993 Reserve Account has been created under the Second Supplemental Resolution, the 1998 Reserve Account has been created under the Third Supplemental Resolution, the 2001 Reserve Account has been created under the Fourth Supplemental Resolution and the 2003 Reserve Account has been created under the Fifth Supplemental Resolution, all of which are held by the Fiscal Agent.

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

First, to the M&O Account, as soon as practicable in each month, the Treasurer shall provide for the payment of the Operating and Maintenance Expenses of the Electric System for that month.

Second, to the Interest Account, as soon as practicable in each month, the Treasurer shall set aside (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on Bonds with a fixed rate of interest on the next interest payment date (excluding interest for which there are moneys deposited in the Interest Account) and (ii) 110% of the interest which the Treasurer estimates in his or her reasonable judgment will accrue during that month on Bonds with a variable rate of interest, unless the Interest Account contains at least the amount equal to the interest to become due and payable within the next six months. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

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

Fourth, to the 1993 Reserve Account, the 1998 Reserve Account, the 2001 Reserve Account, the 2003 Reserve Account, any other reserve account for Bonds established pursuant to a Supplemental Resolution and in any reserve account established for Parity Debt as soon as practicable in each month upon the occurrence of any deficiency therein, (i) one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and (ii) the full amount of any deficiency due to any required valuation of the investments in such reserve account until the balance is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

Fifth, to the excess earnings or rebate account for the 1993 Bonds, the 1998 Bonds, the 2001 Bonds, the 2003 Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

Sixth, to the Renewal and Replacement Account, as soon as practicable in each month, the Treasurer shall set aside the amount, if any, required by prior action of the City Council. To date, the City Council has not required the Renewal and Replacement Account to be funded and does not anticipate taking any such action. All amounts in the Renewal and Replacement Account shall be applied to acquisition and construction of renewals and replacements to the Electric System to the extent provision therefore has not been made from other sources.

Seventh, to the Surplus Account, any money remaining in the Electric Revenue Fund after the above transfers and uses have been made. Such money may be: (i) invested in any authorized investments; (ii) used for the redemption of Bonds which are subject to redemption or for purchase in the open market of any Bonds; provided that if the Bonds are subject to redemption prior to maturity, the purchase price shall not exceed the redemption price on the next interest payment date; or (iii) used in any other lawful manner.

The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the 2003 Bonds due and payable on April 1 or October 1 of each year in which 2003 Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the 2003 Bonds maturing by their terms on October 1 of each year in which 2003 Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the 2003 Bonds to be redeemed on that October 1 of each year in which term 2003 Bonds are to be redeemed from amounts on deposit in the Principal Account.

Rate Covenant

Rate Covenant Prior to Resolution Amendments Effective Date. Prior to the Resolution Amendments Effective Date, the City has covenanted under the Resolution to prescribe, revise and collect such charges for the services, facilities and electricity of the Electric 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, principal and Accreted Value (or Mandatory Sinking Account Payments) 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 Electric 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.

Rate Covenant On and After Resolution Amendments Effective Date. On and after the Resolution Amendments Effective Date, the City covenants to prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each fiscal year which, after making allowances for contingencies and error in estimates, shall be at least sufficient to pay the following amounts in the order set forth:

- (a) Operating and Maintenance Expenses;
- (b) the interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;
- (c) all other payments required for compliance with the Resolution or any Supplemental Resolution; 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 shall be so fixed that the Net Operating Revenues shall be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

2003 Reserve Account

Under the Master Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. The Fifth Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2003 Reserve Account. Pursuant to the Fifth Supplemental Resolution, the City shall at all times maintain an amount equal to the 2003 Bond Reserve Requirement (initially, \$7,540,500) in the 2003 Reserve Account until the 2003 Bonds are discharged in accordance with the Resolution. The Resolution also requires that there be maintained in the 1993 Reserve Account for the 1993 Bonds, in the 1998 Reserve Account for the 1998 Bonds, in the 2001 Reserve Account for the 2001 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 2003 Reserve Account will secure only the payment of the 2003 Bonds and may be withdrawn solely (i) to pay principal of and interest on the 2003 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 2003 Bonds. Whenever amounts are withdrawn from the 2003 Reserve Account, the amount in said account shall be restored as described above in "Resolution Flow of Funds – *Application of Gross Operating Revenues.*"

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of and interest on the 2003 Bonds. In the event that the 1993 Reserve Account, the 1998 Reserve Account, the 2001 Reserve Account or the 2003 Reserve Account contains moneys in excess of the amount required to be maintained therein, all of the excess will be transferred to the Electric Revenue Fund.

At the option of the City, amounts required to be held in the 2003 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 2003 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 Electric Revenue Fund or out of Net Operating Revenues payable into such Fund over the Outstanding Bonds.

Additional Bonds and Parity Debt Prior to Resolution Amendments Effective Date. Prior to the Resolution Amendments Effective Date, the Resolution provides that, 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 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 Electric System, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance or the incurrence of such additional Bonds or Parity Debt as set forth in a certificate of the City or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt 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, any 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 herein) 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 Bonds or Parity Debt shall not be less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The items, any or all of which may be added to such Net Operating Revenues for the purpose of meeting the restriction 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 Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of Bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such fiscal year or for 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 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 Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the certificate 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.

Additional Bonds and Parity Debt On and After Resolution Amendments Effective Date. Pursuant to the Resolution Amendments, on and after the Resolution Amendments Effective Date, except

Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be issued or incurred unless: (i) the City is not in default under the terms of the Resolution, (ii) either (a) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest fiscal year, or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a Certificate of the City, plus, in either case, at the option of the City, either or both of the items designated under (a) and (b) below, shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any fiscal year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt, and (iii) on the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt 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 or both of which may be added to such Net Operating Revenues for the purpose of meeting the restriction 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 Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City; and

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

For definitions of "Maximum Annual Debt Service" and other capitalized terms used 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

Bond Insurance Policy

Concurrently with the issuance of the 2003 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the 2003 Bonds maturing on and after October 1, 2004 (the "Insured 2003 Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured 2003 Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,932,647,000 and its total unearned premium reserve was approximately \$1,077,095,000 in accordance with statutory accounting practices. At March 31, 2003, Financial Security's total shareholders' equity was approximately \$2,043,103,000 and its total net unearned premium reserve was approximately \$904,700,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the 2003 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured 2003 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured 2003 Bonds or the advisability of investing in the Insured 2003 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2003 Bonds are as follows:

Sources:

Principal Amount of 2003 Bonds	\$75,405,000
Plus: Original Issue Premium	7,268,425
Plus: Releases from Refunded Obligations Funds and Accounts.....	<u>10,537,965</u>
Total Sources	<u>\$93,211,390</u>

Uses:

Deposit to 1993 Escrow Fund	\$78,173,244
Deposit to FARECal Escrow Fund.....	3,538,294
Deposit to 2003 Reserve Account	7,540,500
Costs of Issuance ⁽¹⁾	<u>3,959,352</u>
Total Uses	<u>\$93,211,390</u>

⁽¹⁾ Includes Underwriter's discount, bond insurance premium, payment under an interest rate hedging agreement, 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 2003 Bonds.

THE REFUNDING PLAN

A portion of the proceeds of the 2003 Bonds, together with certain other funds, will be used (i) to refund \$75,410,000 in aggregate principal amount of the 1993 Bonds, maturing in 2004 through 2010, inclusive, and 2013 (the "Refunded 1993 Bonds"), and (ii) to prepay the City's obligation under the 1994 Contract resulting in the refunding of the 1994 FARECal Bonds (the "Refunded FARECal Bonds," and together with the Refunded 1993 Bonds, the "Refunded Obligations").

The City will effect the refunding of the Refunded 1993 Bonds by causing a portion of the 2003 Bond proceeds and certain other moneys to be deposited into an escrow fund for the Refunded 1993 Bonds (the "1993 Escrow Fund") created under an Escrow Agreement, dated as of July 1, 2003, by and between the City and U.S. Bank National Association, as escrow agent. FARECal and the City will effect the refunding of the Refunded FARECal Bonds by causing a portion of the 2003 Bond proceeds to be deposited into an escrow fund for the Refunded FARECal Bonds (the "FARECal Escrow Fund") created under an Escrow Agreement, dated as of July 1, 2003, by and among FARECal, the City and BNY Western Trust Company, as escrow agent.

Amounts in the 1993 Escrow Fund and the FARECal Escrow Fund are to be invested in certain federal securities (the "Defeasance Securities"), the principal and interest on which, together with any other moneys on deposit therein, will be sufficient to pay all installments of interest and principal or redemption prices of the Refunded Obligations as such payments become due, to and including their respective redemption dates, as set forth below.

Refunded 1993 Bonds
Redemption Date: October 1, 2003

Refunded FARECal Bonds
Redemption Date: July 1, 2004

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u>	<u>Maturity Date</u> <u>(July 1)</u>	<u>Principal</u>
2004	\$ 6,125,000	2004	\$ 160,000
2005	6,390,000	2005	165,000
2006	6,670,000	2006	175,000
2007	6,985,000	2007	185,000
2008	7,285,000	2008	200,000
2009	7,645,000	2009	210,000
2010	8,005,000	2010	220,000
2013	26,305,000	2017	1,995,000

Verification of Mathematical Computations. In connection with the issuance of the 2003 Bonds, McGladrey & Pullen, LLP will verify the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the City relating to (a) computation of anticipated receipts of principal and interest on the Defeasance Securities and the anticipated payments of principal, premium and interest to pay or redeem the Refunded Obligations, and (b) computation of the yields on the 2003 Bonds and the Defeasance Securities. Such computations will be based solely upon assumptions and information supplied by the Underwriter on behalf of the City. McGladrey & Pullen, LLP will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the anticipated outcome.

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, 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 35 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 15 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/Energy Delivery, 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 29 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 31 years of experience in the municipal utilities field.

Ms. Donna I. Stevener, Utilities Assistant Director/Finance & Resources, 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 12 years of experience in municipal government, including six years as Public Utilities Finance/Accounting Manager and five 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 of Public Utilities, 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 \$50,000, and authorize the acquisition, construction, improvement, extension, enlargement, diminution or curtailment of all or any part of its 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:

Lalit N. Acharya – Chairman of the Board, appointed to the Board in 1999, term expires March 1, 2007. Mr. Acharya is a professor of communications at a local university.

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

Peter G. Hubbard – Appointed to the Board in 1999, term expires March 1, 2007. Mr. Hubbard is a director of the local ambulance company.

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

Conrad Newberry Jr. – Appointed to the Board in 1997, term expires March 1, 2006. Mr. Newberry is a Performance Contracting Engineer.

Art Gage – Appointed to the Board in 2002, term expires March 1, 2006. Mr. Gage is a president of an executive recruiting firm.

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 ELECTRIC SYSTEM

The Electric System operates as a vertically integrated utility providing service to virtually all electric consumers within the city limits of Riverside, which encompasses 78.1 square miles. The Electric System's power supply requirements are met through (i) purchases of power under long-term power sales agreements, (ii) the City's ownership interest in the San Onofre Nuclear Generating Station ("SONGS") and the Springs Generating Project (as described below) and (iii) purchases of firm and non-firm energy from several western utilities when it is available at an economical price or when needed to satisfy periods of peak demand. For the fiscal year ended June 30, 2002, the average number of customers of the Electric System was 96,503 and the total megawatt-hours generated and purchased were 2,427,200.

History of the Electric System

The Electric System was established in 1895 and until the 1980s was essentially a sub-transmission and distribution system, though the City did generate part of its own power from 1900 to 1924. Power was purchased exclusively from Edison from 1950 to May 1976. At that time, the City began receiving non-firm energy purchased from the Nevada Power Company and delivered to the City by Edison.

The City has since continued to expand its distribution system and available generation resources to meet the growing demands of its customers. The Electric System provides service throughout the City to domestic, commercial, industrial, agricultural, municipal and other customers.

Existing Facilities

Major facilities in the Electric System include the new Springs Generating Project (which began commercial operations in October 2002), sub-transmission, and distribution system, which provide service to virtually all electric customers within the City limits. Power is supplied to the City through seven separate 66,000-volt transmission lines owned and operated by Edison. These lines are used for the sole purpose of delivering electric energy from Edison's Vista Substation to the northerly limits of the City, at which connection points are made to the City-owned and operated 66,000-volt sub-transmission system.

The Springs Generating Project consists of four 10 MW natural gas, simple cycle turbine generators, each with a capacity of 10 MW (for a total of 40 MW), to be used primarily to serve the Electric System's native load during periods of peak power demand in the City. These facilities would

also be used if normal operations of the Electric System were disrupted, and would provide essential emergency services within the City such as hospital care, traffic control and police and fire dispatching.

The City had 1,200 circuit miles of sub-transmission and distribution lines as of the fiscal year ended June 30, 2002. The 576 circuit miles of underground lines are primarily in commercial and new residential areas. There are 14 substations, with a combined capacity of 844 million volt-amperes (“MVA”).

SONGS Units 2 and 3 are rated at 1,070 MW and 1,080 MW, respectively, and have been in commercial operation since October 1983 and April 1984, respectively. Edison is the principal owner and operating agent for SONGS Units 2 and 3 and provides transmission of the City’s ownership interest. The capacity available to the City from SONGS Units 2 and 3 is 19.2 MW and 19.3 MW, respectively.

The following table sets forth statistical information relating to the facilities of the Electric System for the periods shown. In the table, only the dollar amounts are subject to audit.

ELECTRIC SYSTEM FACILITIES

	Fiscal Year Ended June 30,				
	1998	1999	2000	2001	2002
Utility Plant (less accumulated provision for depreciation) ⁽¹⁾	\$208,256,000	\$209,107,000	\$203,655,000	\$203,909,000	\$212,056,000
Construction in Progress ⁽¹⁾	\$7,158,000	\$7,300,000	\$12,483,000	\$17,589,000	\$50,856,000
Distribution—					
Overhead Circuit Miles	542	546	544	555	540
Underground Circuit Miles ...	499	515	523	540	576
Street Light Circuit Miles	810	810	820	812	812

⁽¹⁾ Dollars rounded to the nearest thousand.

Power Supply

The electricity supplied to the City consists of power from the City’s Springs Generating Project and its ownership interest in SONGS, entitlements in the Intermountain Power Project (“IPP”) Generating Station, the Palo Verde Nuclear Generating Station (“PVNGS”), the Hoover Uprating Project, long-term contracts of firm purchases from the California Department of Water Resources (“DWR”), Bonneville Power Administration (“BPA”), Deseret Generation and Transmission Cooperative (“Deseret”), and firm and non-firm energy purchases from other entities. For the fiscal year ended June 30, 2002, the overall average net cost of generation and transmission was 6.0 cents per kilowatt-hour (“kWh”).

The various power supply resources available to the City during the fiscal year ended June 30, 2002 are described below. During the fiscal year ended June 30, 2002, the Electric System generated and purchased a total of 2,427,200 MWh of electricity for delivery to customers throughout the City. The following table sets forth the amounts, in megawatt-hours and percentages of electricity obtained by the City during the fiscal year ended June 30, 2002.

ANNUAL ELECTRICITY SUPPLY⁽¹⁾
Fiscal Year Ended June 30, 2002

<u>Resource</u>	<u>MWh</u>	<u>Percentage</u>
IPP Generating Station.....	1,027,000	42.2%
Firm Contracts (Deseret, Bonneville, DWR and others)	1,008,300	41.5
SONGS	312,100	12.9
PVNGS	94,700	3.9
Hoover Uprating Project	40,200	1.7
Springs Generating Project ⁽²⁾	1,300	0.1
Non-firm Contracts	1,300	0.1
Net Exchange In/(Out).....	<u>(57,700)</u>	<u>(2.4)</u>
Total	<u>2,427,200</u>	<u>100.0%</u>

⁽¹⁾ Includes both native load and wholesale power sales.

⁽²⁾ Began commercial operations in October 2002.

The system peak for fiscal year ended June 30, 2002 of 446.6 MW occurred on August 14, 2001 and was 32.6 MW below the historic system peak of 479.2 MW that occurred on August 31, 1998. The following table sets forth, in MWh of electricity, the total purchases of power and Electric System peak demand during the periods shown.

TOTAL ENERGY GENERATED AND PURCHASED AND PEAK DEMAND

	<u>Fiscal Year Ended June 30,</u>				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
From Own Generation (MWh)	291,900	288,800	342,000	250,100	313,400
From Edison (MWh).....	500	0	0	0	0
From Other Sources (MWh).....	<u>1,557,500⁽¹⁾</u>	<u>1,675,300</u>	<u>1,993,300</u>	<u>2,338,400</u>	<u>2,113,800⁽²⁾</u>
System Total (MWh).....	<u>1,849,900</u>	<u>1,964,100⁽³⁾</u>	<u>2,335,300⁽³⁾</u>	<u>2,588,500⁽³⁾</u>	<u>2,427,200⁽³⁾</u>
System Native Load (MWh).....	1,624,000	1,646,000	1,734,000	1,750,000	1,716,000
System Peak Demand (MW)	458.5	479.2	473.1	463.8	446.6

⁽¹⁾ Amount adjusted to reflect gross generation and purchases for consistency with other years presented.

⁽²⁾ For fiscal year 2001-02, non-firm spot market purchases accounted for less than 1.0% of total power supply.

⁽³⁾ Before system losses.

Intermountain Power Project. The City has a 7.617% (approximately 133.7 MW) entitlement in the coal-fired IPP Generating Station Units 1 and 2 located near Lynndyl, Utah, which were declared to be commercially operational in June 1986 and May 1987, respectively. The City has entered into a power sales agreement with Intermountain Power Agency ("IPA"), which obligates the City to its share of capacity and energy of the IPP Generating Station on a "take-or-pay" basis. IPA has issued debt for the IPP Generation Station, of which approximately \$324,462,000 in principal amount was payable by the City as of April 1, 2003. During the fiscal year ended June 30, 2002, Unit 1 of the IPP operated at a plant capacity factor of approximately 93% and Unit 2 of the IPP operated at a plant capacity factor of approximately 89%. In the fiscal year ended June 30, 2002, the IPP Generating Station provided 1,027,000 MWh of energy to the City at an average cost of 3.92 cents per kWh (exclusive of delivery costs).

The IPP Generating Station consists of: (a) a two-unit coal-fired, steam-electric generating plant with a net rating of 1,755 MW and a switchyard located near Lynndyl, Utah; (b) a rail car service center located in Springville, Utah; (c) certain water rights and coal supplies; and (d) certain transmission

facilities consisting primarily of the Southern Transmission System. See “Transmission Facilities – Southern Transmission System.”

IPP Generating Station purchasers are 36 utilities (collectively, the “IPP Purchasers”) consisting of the City, and the California cities of Los Angeles, Anaheim, Burbank, Glendale and Pasadena (the “IPP Participants”); PacifiCorp (which merged with Scottish Power), as successor to the obligations of Utah Power & Light Company (“UP&L”); 22 members of IPA and Heber Light & Power Company (collectively, the “Utah Municipal Purchasers”); and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada and Wyoming (collectively, the “Cooperative Purchasers”). The IPP is operated by the Los Angeles Department of Water and Power (“LADWP”).

LADWP, as operating agent, manages the coal supplies for the IPP. Fuel requirements for the IPP currently average approximately 5.3 million tons per year. LADWP manages long-term coal supply agreements that are capable of supplying coal for in excess of an 80% capacity factor through 2006, and for in excess of a 50% capacity factor through 2010. Additional coal will be purchased through a combination of long-term contracts, spot contracts and from IPA-owned coal properties. In addition, LADWP manages two rail transportation service agreements providing transportation for a minimum of 95% of the coal delivered to the IPP. The balance may be delivered by truck or by train depending on conditions at the time of purchase.

San Onofre Nuclear Generating Station. The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County. The capacity available to the City from SONGS Units 2 and 3 is 19.2 MW and 19.3 MW, respectively. SONGS has a nominal net generating capability of 2,150 MW. Other owners are Edison, 75.05%; San Diego Gas & Electric Company, 20%; and the City of Anaheim 3.16%. Units 2 and 3 of SONGS became operational on August 18, 1983 and April 1, 1984, respectively. The City’s share of construction costs for the project was approximately \$193 million, which was financed mainly through revenue bonds. In the fiscal year ended June 30, 2002, SONGS provided 312,100 MWh of energy to the City at an average cost of 6.78 cents per kWh (exclusive of delivery costs).

SONGS is operated and maintained by Edison under an agreement with the City and the other owners that expires upon termination of the easement for the plant which is in the year 2050. The four-member SONGS’ Board of Review approves the budget for capital expenditures and operating expenses. The City and other owners each have one representative on the Board. The ownership agreement provides that each owner is entitled to its proportionate share of benefits of and pays its proportionate share of costs and liabilities incurred by Edison for construction, operation and maintenance of the project; each owner’s obligation is several and not joint or collective.

The City’s share of the costs to purchase and process nuclear fuel for SONGS is funded by Electric System revenues. The cost of nuclear fuel is amortized to expense using the “as burned” method, or as utilized. Prior to its utilization it is considered inventory. In accordance with the Nuclear Waste Policy Act of 1982, the City is charged a fee for the disposal of nuclear fuel at the rate of one mill per kWh on the City’s share of electricity generated from SONGS. The City currently has no agreement that fixes its liability for decommissioning costs for, or its administrative responsibility with respect to, the SONGS facilities.

The original operating license for SONGS Units 2 and 3 was set to expire year end 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3, respectively. The owners of the plant have not yet agreed to extend operations until 2022. The plant site easement for SONGS terminates in May 2050. The plant must be decommissioned and the site restored by the time the easement terminates. In a

study dated October 2001 and prepared by ABZ, Incorporated on behalf of the participants in SONGS, the cost of decommissioning SONGS Units 2 and 3 was estimated to be approximately \$2.378 billion based on 2001 dollars. The City's share of such cost is approximately \$42.6 million. The City anticipates receiving a new estimate of decommissioning costs every three years. As required by regulations of the Nuclear Regulatory Commission (the "NRC") and State law, each of SONGS' participants has established trust funds and is collecting money in those funds over time to meet their respective obligations to pay for the decommissioning of SONGS. The City had deposited \$37.3 million in its trust fund as of March 31, 2003.

Edison currently stores spent nuclear fuel in on-site spent fuel pools near the units. The pools are expected to be filled in the year 2006 or 2007. Edison has advised the City that it believes that until a permanent repository for high-level nuclear waste becomes available, additional on-site spent fuel storage is required by using dry casks similar to those currently used at certain other nuclear plants. On behalf of its owners, Edison is currently seeking all necessary approvals and authorizations and has commenced the engineering work to construct dry cask storage at the San Onofre site.

Hoover Upgrading Project. Modern insulation technology has made it possible to "uprate" the nameplate capacity of existing generators. The Hoover Upgrading Project consists principally of the upgrading of the capacity of the 17 existing generating units at the hydroelectric power plant of the Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. The City has a 31.9% (30 MW) entitlement interest in SCPPA's approximately 94 MW interest in the total capacity and allocated energy of the Hoover Upgrading Project. The City has executed a power sales contract with SCPPA under which the City has agreed to make monthly payments on a "take-or-pay" basis in exchange for its share of SCPPA's proportionate share of capacity and allocated energy. As of April 1, 2003, SCPPA had outstanding \$23,780,000 principal amount of its bonds in connection with the Hoover Upgrading Project. In the fiscal year ended June 30, 2002 the Hoover Upgrading Project provided 40,200 MWh of energy to the City at an average cost of 2.03 cents per kWh (exclusive of delivery costs).

The lower Colorado River has been included in a Critical Habitat Designated Area ("Habitat"), which required the Bureau of Reclamation (the "Bureau") to prepare and file with the United States Fish and Wildlife Service (the "Service") a Biological Assessment of the effect of its operations of the lower Colorado River on endangered species within the Habitat. Subsequently, the Service issued a Biological Opinion regarding the Bureau's operations and will outline remedial actions to be taken to correct any adverse effects to endangered species. The Hoover customers, together with certain other parties, are working on a multi-species conservation plan in cooperation with the Bureau and the Service to mitigate operational scenarios which would adversely affect the Hoover Participants and the other parties.

Palo Verde Nuclear Generating Station. The City has a 5.4% (11.7 MW) entitlement interest in SCPPA's 5.91% ownership interest in PVNGS, including certain associated facilities and contractual rights, 5.56% ownership in the Arizona Nuclear Power Project ("ANPP") High Voltage Switchyard and associated contractual rights, and 6.55% share of the rights to use certain portions of the ANPP Valley Transmission System. The City has entered into a power sales agreement with SCPPA which obligates the City to its share of capacity and energy on a "take-or-pay" basis. SCPPA has issued bonds for PVNGS of which approximately \$761,455,000 principal amount were outstanding as of April 1, 2003. In the fiscal year ended June 30, 2002, PVNGS provided 94,700 MWh of energy to the City at an average cost of 10.67 cents per kWh (exclusive of delivery costs). SCPPA restructured its debt for PVNGS in 1997 to accelerate the repayment of all but approximately \$148,000,000 in principal amount of such debt by July 1, 2004. As a result, the cost of power from PVNGS will be artificially high through fiscal year 2003-04, but is projected to be significantly lower thereafter. The City expects the cost of PVNGS power to be approximately 3 cents per kWh in fiscal year 2004-05 (exclusive of delivery costs).

PVNGS consists of three nearly identical nuclear electric generating units located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. Units 1, 2 and 3 (each designed for a 40-year life) achieved firm operation on January 27, 1986, September 18, 1986, and January 19, 1988, respectively. Each PVNGS unit is currently rated at 3,893 MW (thermal). The maximum dependable capacity of Units 1, 2 and 3 under adverse atmospheric conditions is 1,243 MW, 1,243 MW and 1,247 MW, respectively. For the fiscal year ended June 30, 2002, Units 1, 2 and 3 operated at a capacity factor of 100.7%, 82.7% and 88.9%, respectively, and generated 10,986,684 MWh, 9,003,520 MWh and 9,713,784 MWh, respectively.

Units 1, 2 and 3 each operate under a 40-year Full-Power Operating License from the NRC. The Full-Power Operating Licenses for Units 1, 2 and 3 expire in 2024, 2025 and 2027, respectively. SCPPA has informed the City that all other necessary permits, licenses and approvals necessary to operate the PVNGS have been secured. Arizona Public Service Company ("APS") is the Construction Manager and Operating Agent of PVNGS and the Westwing 500 kV Switchyard. The high-voltage switchyard portion of the PVNGS was constructed by and is being managed by Salt River Project Agricultural Improvement and Power District.

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. SCPPA's records indicate that the external account for decommissioning was approximately \$112,301,000 at December 31, 2002. Based on the most recent 2001 estimate of decommissioning costs of TLG Engineering, SCPPA has advised the City that it estimates that its share of the amount required for decommissioning of PVNGS is approximately 91% funded. Under the foregoing assumptions, an additional \$11,247,000 would be required for SCPPA to currently fully fund, together with interest earnings, its share of decommissioning costs. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs. SCPPA has advised the City that it anticipates receiving a new estimate of decommissioning costs every three years.

California Department of Water Resources. The City has entered into two power purchase agreements with DWR for 23 MW and 30 MW of seasonal capacity and associated energy. Deliveries of DWR power under these agreements began in May 1996 and are made available at Edison's Vincent Substation, with the California Independent System Operator (the "ISO") providing the remaining transmission to the City. Under the terms of the agreements, service is provided each May through October. The agreements stipulate that energy deliveries shall be between 10% and 58%. Each percentage represents a monthly capacity factor. Each agreement provides for fixed energy rates through 1996 and fixed capacity rates through 2001 with annual renegotiations thereafter. The energy and capacity components have been negotiated annually since 1997 and 2002, respectively.

The agreements described above are not related to DWR's agreements addressing California's power supply crisis, and are not payable from retail end use customer payments for electricity. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS."

Deseret Agreement. On March 31, 1992, the City entered into a Power Sale Agreement (the "Deseret Agreement") with Deseret, providing for the purchase by the City from Deseret of 52 MW of electric capacity and certain associated energy from Deseret's entitlement to the output of the Hunter Generating Station located near the City of Castle Dale, Utah and Deseret's Bonanza Generating Station located near the City of Vernal, Utah. In the fiscal year ended June 30, 2002, the City purchased 395,277 MWh of energy through the Deseret Agreement at an average cost of 4.0 cents per kWh (exclusive of delivery costs).

The City notified Deseret of its intention to terminate the Deseret Agreement effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement

agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after June 30, 2002 through the term of the agreement in 2009. In exchange, the City paid Deseret \$25 million from Electric Fund reserves, which is reflected on the balance sheet of the Electric System as unamortized purchased power. On July 1, 2002, the Electric System began to realize the benefits related to the price reductions and will amortize the \$25 million over the remaining term of the agreement using the straight-line method. Unless sooner terminated at the option of the City, the Deseret Agreement is to terminate on December 31, 2009. On July 1, 2003, the average cost of power under the Deseret Agreement will become 2.2 cents per kWh (exclusive of delivery costs).

Bonneville Power Administration Power Sales Agreements. The City and Bonneville have entered into two power sales agreements (exchange contracts), which make available to the City at the Nevada-Oregon border, 23 MW and 60 MW, respectively, of power for the summer season and 16 MW and 15 MW, respectively, of power during the winter season. Transmission for the first power sales agreement is provided to the City under an agreement with the cities of Burbank and Pasadena in California by means of the Pacific direct current intertie to the border of the ISO's system in the Los Angeles area and then by the ISO to the City. Transmission for the second agreement is also provided to the City entirely by the ISO. These power sales agreements will terminate on February 1, 2011 and May 1, 2016, respectively, or upon termination of certain other specified agreements. Under the terms of the exchange contracts, the City paid Bonneville \$962,000 and received 115,006 MWh of electricity during peak usage and returned 172,721 MWh of electricity to Bonneville during off peak periods for the fiscal year ended June 30, 2002.

A portion of the capacity charges for the first power sales agreement may be increased by Bonneville as a result of uncertainty in the western power market. Although the amount of any anticipated increase cannot be determined, due to the terms of the agreements and the relatively small amount and seasonal nature of the purchases from Bonneville, the overall fiscal impact to the City is not anticipated to be significant.

Springs Generating Project. The City used proceeds of the 2001 Bonds to finance the construction of the Springs Generating Project comprised of four natural gas, simple cycle turbine generators, each with a capacity of 10 MW. The Springs Generating Project is used primarily during periods of peak power demand in the City. For the fiscal year ended June 30, 2002, the Springs Generating Project was still being used for testing purposes, and it began commercial operations in October 2002.

Other Power Purchases. The City supplements the energy available from its firm resources with energy purchased from other suppliers throughout the western United States. These purchases are made under the Western Systems Power Pool Agreement and numerous bilateral agreements between the City and various suppliers. In fiscal year ending June 30, 2002, the City purchased 1,008,300 MWh of firm energy (about 41.5% of its total energy) through short-term and long-term contracts and 1,300 MWh of non-firm energy (about 0.1% of its total energy) from various suppliers. The City provides for its energy needs by dispatching power from generating plants in which it has an ownership share, from power sales agreements, forward purchase contracts, short term (monthly, weekly, daily or hourly) purchases it makes in the forward market and firm and non-firm purchases on the spot market. The cost of obtaining the necessary energy will depend upon contract requirements and the current market price for energy. Spot market prices are dependent upon such factors as the availability of generating resources in the region and weather conditions such as ambient temperatures and the amount of rainfall or snowfall. Generating unit outages, dry weather, hot or cold temperatures, time of year and other factors can all affect the supply and price of energy. Spot market prices for energy have fluctuated dramatically during recent years. See "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS."

Wholesale Power Trading

In recent years, significant changes occurred within California's electric power industry, and management of power resources on a day-to-day basis became critical to the financial stability of an electric utility. In response to these changes, in October 1998 the City adopted formal policies for the administration of risk management activities within the Power Resources Division of the Electric System. These policies define the limits for power trading activities to mitigate and reduce risks associated with this business activity. The City also appointed an Energy Risk Manager in 1999 to oversee the development of a formalized financial risk management program for power supply activities.

Energy Risk Management and Counterparty Credit

The City's risk management policies call for a Risk Management Committee that has responsibility to oversee compliance with the risk management policies. The committee is chaired by the Public Utilities Director and includes the Utilities Assistant Director/Finance & Resources, City Finance Director, Utilities' Energy Risk Manager and Deputy City Attorney.

The City's primary objective is to reduce the cost of power to its customers while maintaining the reliability, efficiency and safety of electric operations. The City seeks to hedge its power costs, and speculative trading activities typically associated with a power trading organization are prohibited under its risk management policies.

To help meet the City's mission of highest quality electric service at the lowest possible rates, the City has implemented a comprehensive Risk Management Policy for its power supply function. The major purpose of this policy is to provide guidance and procedures to manage risks surrounding the purchase of power supply. The policy also defines the limits for activities in this area and specifically prohibits speculation in power supply purchasing. In addition, a Counterparty Credit Risk Policy has been adopted by the City Council, and implemented by the Utilities' Energy Risk Manager, which provides a necessary framework for measuring credit risk exposure and assessing counterparty quality. The objective of the Counterparty Credit Risk Policy is to preserve the City's capital, liquidity, and power supply reliability by limiting counterparty credit risk and supplier concentration to acceptable levels.

Over the last several years, transactions entered into under these policies include forward power purchases, exchanges, optimization transactions, sales of excess resources, and trading into various market hubs to balance to load requirements of Electric System customers.

Transmission Facilities

Southern Transmission System. In connection with its entitlement to IPP power, the City has acquired a 10.2% (195 MW) entitlement in SCPPA's share of the transfer capability of the Southern Transmission System to provide for the transmission of energy from the IPP Generating Station to the Electric System. SCPPA's interest in the Southern Transmission System provides approximately 1,920 MW of transfer capability. As of April 1, 2003 SCPPA had outstanding approximately \$987,540,000 principal amount of its bonds, including refunding bonds, to finance making payments-in-aid of construction with respect to the Southern Transmission System. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance.

As mentioned above in "Power Supply – *Intermountain Power Project*," the Southern Transmission System consists of a 500 kV direct current transmission line from the coal-fired, steam-

electric generation station and switchyard located near Lynndyl, Utah, to Adelanto, California, approximately 490 miles in length, together with an AC/DC converter station at each end.

Mead-Phoenix Transmission Project. In connection with its entitlement to PVNGS power, the City has acquired a 4.0% (12 MW) entitlement to SCPPA's share of the Mead-Phoenix Transmission Project other than the SCPPA interest acquired for the Western Area Power Administration ("Western"). As of April 1, 2003, SCPPA had outstanding approximately \$71,915,000 principal amount of its bonds, including refunding bonds, to finance its interest in the Mead-Phoenix Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance.

The Mead-Phoenix Transmission Project consists of a 256-mile, 500-kV alternating current transmission line that extends between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the 500-kV switchyard constructed in the existing Mead Substation in southern Nevada with transfer capability of 1,300 MW. By connecting to Marketplace Substation, the Mead-Phoenix Transmission Project interconnects with the Mead-Adelanto Transmission Project (as described below) and with the McCullough Substation. The Mead-Phoenix Transmission Project is comprised of three project components. SCPPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563% member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership share in the Mead-Marketplace project component. Other owners of the line are APS, M-S-R Public Power Agency, Salt River Project and the City of Vernon, California. The commercial operation date for the project was May 15, 1996.

Mead-Adelanto Transmission Project. In connection with the Mead-Phoenix Transmission Project, the City has acquired a 13.5% (118 MW) entitlement to SCPPA's share of the Mead-Adelanto Transmission Project. The Mead-Adelanto Transmission Project consists of a 202-mile, 500-kV AC transmission line that extends between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation. By connecting to Marketplace Substation, the line interconnects with the Mead-Phoenix Transmission Project and the existing McCullough Substation in southern Nevada. The line has an initial transfer capability of 1,286 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owners of the line are M-S-R Public Power Agency and the City of Vernon. As of April 1, 2003, SCPPA had outstanding approximately \$229,175,000 principal amount of its bonds, including refunding bonds, to finance its interest in the Mead-Adelanto Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance. The commercial operation date for the project was May 15, 1996, which coincided with the completion of the Mead-Phoenix Transmission Project.

Independent System Operator

The Electric System serves as its own scheduling coordinator with the ISO and has served, to a limited degree, as the scheduling agent, under a Utility Services Agreement, for the City of Banning. Services include the scheduling of firm and non-firm energy from various sources, including the Western Systems Power Pool. The City of Banning shares the cost of the Electric System's Power Supply Operations Center.

In June 2002, the City notified the ISO of its intent to become a Participating Transmission Owner (“PTO”) by turning over operational control of the City’s transmission entitlements (the “ISO-Transferred Entitlements”) to the ISO effective January 1, 2003. In December 2002, the City executed the Transmission Control Agreement (“TCA”) between the ISO and the other PTOs. On January 1, 2003, the ISO assumed operational control of the City’s ISO-Transferred Entitlements under the terms of the TCA and the ISO’s tariff and the City became a PTO. In return, the City is entitled to receive payments from the ISO based upon the City’s transmission revenue requirement. The City now obtains all of its transmission requirements from the ISO.

Seismic Issues

The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Electric System facilities. In addition, many of the transmission and generation facilities relied upon by the Electric System are located at or near major active earthquake faults. Although the City has not experienced significant earthquake-related damage to its facilities, the City’s Electric System and its power supply could be adversely affected by a major local earthquake. See “RISK FACTORS – Casualty Risk.”

In October 1999, Duke Engineering and Services (“Duke”) completed a comprehensive seismic assessment of all of the Electric System’s electricity distribution substations, and recommended a number of minor improvements to enhance bracing, anchoring and reinforcing to reduce displacement during an earthquake. As of March 31, 2003, 90% of these improvements had been completed, and the City anticipates completing the remaining work within the next 12 months.

Customers and Energy Sales

The following tables set forth the average number of customers and total energy sold during the periods shown.

AVERAGE NUMBER OF CUSTOMERS

	Fiscal Year Ended June 30,				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Domestic	81,640	82,937	83,637	85,584	86,874
Commercial.....	8,650	8,859	9,050	9,087	9,092
Industrial	203	292	324	393	398
Other	<u>116</u>	<u>125</u>	<u>136</u>	<u>140</u>	<u>139</u>
Total – all classes.....	<u>90,609</u>	<u>92,213</u>	<u>93,147</u>	<u>95,204</u>	<u>96,503</u>

ENERGY SOLD
(Millions of kWh)

	Fiscal Year Ended June 30,				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Domestic	555	575	594	610	600
Commercial.....	404	406	436	432	434
Industrial	620	619	651	654	629
Other	45	46	53	54	53
Wholesale Sales	<u>135</u>	<u>151</u>	<u>419</u>	<u>600</u>	<u>471</u>
Total kWh Sold ⁽¹⁾	<u>1,759</u>	<u>1,797</u>	<u>2,153</u>	<u>2,350</u>	<u>2,187</u>

⁽¹⁾ The difference between the total kWh generated and purchased and total kWh sold is due to transmission and distribution system losses.

Many of the Electric System’s industrial customers have a load of under 500 kW. The Electric System’s largest customer and its second largest customer provided approximately 3.0% and 2.8%, respectively, of its revenues for the fiscal year ended June 30, 2002. The Electric System’s commercial and industrial customer base, comprising its five largest customers, provided approximately 11% of its revenues for the fiscal year ended June 30, 2002. No other customer of the Electric System provided more than 1% of its revenues for the fiscal year ended June 30, 2002.

Capital Improvement Program

The City estimates that it will invest up to \$189 million in capital improvements to the Electric System over the next five years beginning July 1, 2003. Of this amount, \$110 million relates to construction of 100 MW of peaking generation within the City. It is likely that a 50 MW plant, at a cost of approximately \$55 million, will be constructed beginning in fiscal year 2004, and will be 100% bond financed. The remaining \$55 million may be expended for an additional 50 MW of peaking generation that would be constructed beginning in fiscal year 2008, but the construction of same is less certain. Whether the second 50 MW plant should be constructed will be evaluated further in conjunction with the Electric System’s long-term resource and financial plans. Of the remaining \$79 million, approximately 37% thereof is expected to be financed with additional Bonds. Other capital expenditures contemplated by the Electric System’s five-year Capital Improvement Program will be dedicated to improving and updating the distribution system, with the remainder for betterments to the SONGS plant, transmission and other facilities.

Electric Rates and Charges

The City is obligated by its Charter and by the resolutions under which it has electric revenue bonds outstanding to establish rates and collect charges in an amount sufficient to meet its operation and maintenance expenses and debt service requirements, with specified requirements as to priority and coverage. Electric rates are established by the Board of Public Utilities and subject to approval by the City Council. Electric rates are not subject to regulation by the CPUC or by any other State agency.

Although its rates are not subject to approval by any federal agency, the City is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 (“PURPA”). The City believes that it is operating in compliance with PURPA.

At present, the Electric System has 14 rate schedules in effect. The City provides no free electric service. The current electric rates were established by the Board, approved by the City Council and

became effective on November 1, 2002, except for Schedule NEM (Net Energy Metering) which became effective on July 1, 2002.

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

On June 4, 2002, the City Council unanimously approved a resolution implementing rate increases for each of the following three fiscal years, and revised the Electric Rules, Fees and Charges. The electric rate increases resulted in a 3.4% overall increase effective November 1, 2002, and will result in an overall 3.1% and 2.2% increase effective November 1, 2003 and November 1, 2004, respectively. A portion of the rate increases will be used to increase the amount of cash reserves held by the Electric System, and 0.5% of the rate increase (approximately \$900,000) effective November 1, 2002 will be used to fund the expanded overhead to underground and accelerated cable replacement programs. The changes to the fees and charges for the Electric System became effective September 1, 2002, and are designed to recover the actual cost of service.

The Electric System's base rates have been changed six times over the period beginning January 1, 1984. The following table sets forth the percentage increase in rates for the indicated customer classes. Such percentage changes do not reflect changes in the power cost adjustment account.

PERCENTAGE INCREASE IN ELECTRIC RATES^{(1) (2)}

<u>Effective Date</u>	<u>Overall System</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial⁽³⁾</u>
January 1, 1984	7.8%	7.8%	7.8%	7.8%
May 1, 1991	4.0	4.7	3.1	4.3
December 1, 1992	5.0	6.5	6.5	2.5
July 28, 1993	1.4	2.1	2.1	0.0
January 1, 1998 ⁽⁴⁾	2.85	2.85	2.85	2.85
November 1, 2002 ⁽⁵⁾	3.4	4.0	3.0	3.0
November 1, 2003 ⁽⁵⁾	3.1	3.25	3.0	3.0
November 1, 2004 ⁽⁵⁾	2.2	2.5	2.0	2.0

⁽¹⁾ Since March 1984, the City has modified its electric rates four times through changes in the Power Cost Adjustment Factor (the "PCAF"). These changes were designed to refund to the customers \$3,893,437 obtained from Edison through settlement of wholesale rate cases.

⁽²⁾ From July 1, 1989 to December 31, 1990, the City's customers received a .779¢ "credit" per kWh used. This equates to an overall revenue reduction of 5% during the relevant period.

⁽³⁾ Prior to August 1, 1988, when the City implemented its own industrial Time-of-Use ("TOU") rates, certain industrial TOU customers were charged rates equal to those charged by Edison in surrounding areas. These customers were subject to any changes in rates initiated by Edison, which changed its rates nine times for a cumulative increase of 5.3% between January 1, 1984 and August 1, 1988. In addition, these customers were exempt from the PCAF, including refunds.

⁽⁴⁾ Public benefit surcharge pursuant to AB 1890.

⁽⁵⁾ Three-year rate increase approved by City Council on June 4, 2002.

State and Federal Investigations

During the period from June 2000 through June 2001, the City sold portions of its available excess power to the ISO, the California Power Exchange (the "PX"), the DWR, and others. The Governor of California has expressed his concern that the rates at which power was sold to the ISO, the PX, and the DWR by power marketers, independent power producers, and municipalities, among others, may have been excessive. The Federal Energy Regulatory Commission ("FERC") has instituted proceedings to investigate those rates and make a determination as to whether refunds are appropriate.

The City is an active participant in those proceedings, and has provided documents and responses to data requests directed to the City in those proceedings.

A March 26, 2003 FERC staff report recommends that FERC direct numerous parties, including the City, to show cause why their alleged market gaming activities did not violate applicable FERC tariffs. If the City is found to have engaged in such alleged market gaming activities, the City has determined that it might be required to refund a nominal amount of revenues based upon the analysis utilized in the FERC staff report. It has not been determined that FERC may legally require the City to refund or disgorge any amounts in connection with power sales made by the City. On March 26, 2003, FERC issued an order regarding refunds by various energy market participants and the methodology for determining the price of natural gas for power sales by such energy market participants. Based upon the City's preliminary analysis, the City believes that the March 26, 2003 FERC order will have no material adverse effect on the Electric System's financial condition or operations. In addition, in April 2001, the California Senate created the Senate Select Committee to Investigate Price Manipulation of the Wholesale Energy Markets (the "Dunn Committee"). In response to requests by the Dunn Committee beginning in July 2001, the City submitted information and documents to the Dunn Committee related to the City's energy sales during the June 2000 through June 2001 period. Additionally, in connection with Enron Corporation investigations by FERC and the Commodity Futures Trading Commission, the City has provided documents, testimony and other information requested by such investigating agencies. The City is unable to predict the outcome of existing investigations and proceedings regarding California's energy crisis, including those involving the City, or whether further investigations, litigation or other actions will follow.

Employee Relations

As of June 30, 2002, 266 City employees were assigned specifically to the Electric System. Certain functions supporting Electric System operations, including meter reading, customer billing and collections, are performed by the staff of the Department. Substantially all of the non-management City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers ("IBEW"). The City and IBEW are parties to a Memorandum of Understanding that expires on March 31, 2004. The Electric 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 Electric 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 ELECTRIC UTILITY FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001" for further discussion.

Insurance

The Electric 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 Electric System, is self-insured for up to \$750,000 for all insurance needs including casualty and liability and up to \$3,000,000 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 \$15 million for casualty and liability. The City maintains property insurance on most City real property holdings and personal property contents up to an aggregate

of \$329,000,000, subject to a \$100,000 deductible. All property valued at over \$100,000 is insured at full replacement value based on periodic appraisals and annual CPI adjustment.

Electric System Litigation

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

FINANCIAL RESULTS OF THE ELECTRIC SYSTEM

Revenues

Gross revenues from the sale of electricity increased from approximately \$164,477,000 in the fiscal year ended June 30, 1998 to approximately \$214,329,000 in the fiscal year ended June 30, 2002, an increase of 30%. The following table sets forth such electric sales during the periods shown.

**REVENUES FROM SALES OF ELECTRICITY
(In Thousands)**

	Fiscal Year Ended June 30,				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Domestic	\$ 59,827	\$ 61,674	\$ 64,315	\$ 65,426	\$ 64,625
Commercial.....	43,262	43,010	46,389	45,478	46,265
Industrial.....	51,588	49,796	52,210	51,558	49,487
Other	4,901	5,190	5,739	5,733	5,794
Wholesale Sales ⁽¹⁾	<u>4,899</u>	<u>10,911</u>	<u>18,209</u>	<u>89,254⁽²⁾</u>	<u>48,158</u>
Total.....	<u>\$164,477</u>	<u>\$170,581</u>	<u>\$186,862</u>	<u>\$257,449</u>	<u>\$214,329</u>

⁽¹⁾ Includes ancillary services revenues through December 31, 2001.

⁽²⁾ Increase from prior fiscal year was due primarily to an increase in sales of excess energy caused by additional block energy purchases to cover peak demand and to protect the City from the volatile energy market.

The table below sets forth the average billing price per kilowatt-hour of the various customer classes during the last five fiscal years.

**AVERAGE BILLING PRICE
(Cents Per Kilowatt-Hour)**

	Fiscal Year Ended June 30,				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Domestic.....	10.8	10.7	10.8	10.8	10.8
Commercial	10.7	10.6	10.6	10.6	10.6
Industrial.....	8.3	8.2	8.0	7.9	7.8
Other	10.9	11.3	10.8	11.1	11.2
Average - All Classes Combined....	9.8	9.8	9.7	9.7	9.7

Operating Expenses

A staff of 266 persons is employed by the City to operate and maintain the Electric System. For the period ending June 30, 2002, the total operating expenses of the Electric System were \$190,909,000 excluding depreciation. The total revenues of the Electric System, including interest income, were \$231,610,000.

Operating expenses (excluding depreciation) increased from \$145,140,000 in the fiscal year ended June 30, 1998 to \$190,909,000 in the fiscal year ended June 30, 2002, an increase of 32%. With the exception of power supply costs (including purchased power and transmission expenses), overall operating expenses decreased from \$21,322,000 for fiscal year ended June 30, 1998 to \$20,944,000 for fiscal year ended June 30, 2002, a decrease of 2%, despite the general effects of inflation and Electric System growth. Although purchased power and transmission expenses increased during this five year period, they were offset by an increase in excess power sales. Purchased power and transmission costs, net of wholesale sales, increased from \$118,919,000 for the fiscal year ended June 30, 1998 to \$123,460,000 for the fiscal year ended June 30, 2002, an increase of 4%. The increase in purchased power and transmission costs is primarily attributable to a 6.5% increase in the average number of customers, offset by a 1% decrease in average consumption. Purchased power expenses for fiscal years 1997-98 through 2001-02 include the costs for PVNGS, the IPP Generating Station, the Hoover Upgrade Project, DWR, BPA, Deseret, forward market and, to a limited degree, spot market energy purchases. Power costs also include costs of transmission and production at SONGS.

Transfers to the General Fund of the City

Effective December 1, 1977, transfers to the General Fund of the City of surplus funds of the Electric System (after payment of Operating and Maintenance Expenses and debt service) 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 constituting a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfers to the General Fund of the City for the fiscal year ending June 30, 2002 was \$15,324,000, equal to approximately 9.0% of the prior fiscal year's Gross Operating Revenues. The budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2003 is \$15,333,000, equal to approximately 9.0% of the prior fiscal year's Gross Operating Revenues. See "ELECTRIC SYSTEM STRATEGIC PLAN – Operating Cost Reductions and Competitive Transition Account/Reserves."

Significant Accounting Policies

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

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

Investments are stated at fair value. 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 relating specifically to the Electric System, see the notes to the financial statements in Appendix B.

Summary of Operations

The following table shows the Net Operating Revenues of the Electric 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 upon audited financial statements for the Electric System for fiscal years 1997-98 through 2001-02 and on unaudited financial information for the nine months ended March 31, 2001 and March 31, 2002.

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

	Fiscal Year Ended June 30,					Nine-Months Ended March 31, (unaudited)	
	1998	1999	2000	2001	2002	2002	2003
Operating Revenues:							
Residential	\$ 59,827	\$ 61,674	\$ 64,315	\$ 65,426	\$ 64,625	\$ 50,754	\$ 53,045
Commercial and Industrial.....	99,751	97,996	104,338	102,769	101,546	76,031	80,157
Wholesale Sales ⁽¹⁾	4,899	10,911	18,209	89,254 ⁽⁷⁾	48,158	46,858	15,109
Other	<u>1,675</u>	<u>1,552</u>	<u>1,777</u>	<u>1,971</u>	<u>1,777</u>	<u>1,273</u>	<u>1,691</u>
Total Operating Revenues Before (Reserve)/Recovery.....	166,152	172,133	188,639	259,420	216,106	174,916	150,002
Reserve for Uncollectible, Net of (Reserve)/Recovery ⁽²⁾⁽⁶⁾	<u>(667)</u>	<u>(601)</u>	<u>(604)</u>	<u>(11,546)</u>	<u>1,635</u>	<u>(701)</u>	<u>(681)</u>
Total Operating Revenues, Net of (Reserve)/Recovery.....	\$165,485	\$171,532	\$188,035	\$247,874	\$217,741	174,215	149,321
Rate Stabilization ⁽³⁾⁽⁴⁾	10,300	0	0	0	0	0	0
Recognition of Rate Stabilization - Extraordinary Item ⁽⁴⁾	23,469	0	0	0	0	0	0
Interest Income.....	5,411	6,200	5,061	8,589	6,670	5,076	3,560
Capital Contributions.....	1,189	1,529	2,016	4,269	2,498	2,791	1,469
Non-Operating Revenues.....	<u>1,413</u>	<u>1,769</u>	<u>2,127</u>	<u>1,309</u>	<u>1,491</u>	<u>1,218</u>	<u>931</u>
Total Revenues.....	<u>\$207,267</u>	<u>\$181,030</u>	<u>\$197,239</u>	<u>\$262,041</u>	<u>\$228,400</u>	<u>\$183,300</u>	<u>\$155,281</u>
Operating Expenses:							
Nuclear Production	\$ 9,533	\$ 11,031	\$ 9,597	\$ 9,955	\$ 9,877	\$ 6,692	\$ 9,240
Purchased Power.....	94,177	93,690	100,476	167,339 ⁽⁸⁾	139,472	121,172	83,991
Transmission Expenses	18,915	20,468	19,357	17,160	19,004	13,584	13,257
Distribution Expenses.....	6,864	7,072	6,883	7,083	7,015	5,085	5,600
Customer Account Expenses.....	4,455	4,563	4,916	4,838	4,846	3,922	3,941
Customer Service Expenses.....	341	617	735	1,015	811	541	541
Administration & General Expenses	6,023	5,909	4,629	4,453	4,236	3,332	3,280
Clearing & Miscellaneous Expenses	<u>2,972</u>	<u>3,012</u>	<u>2,978</u>	<u>3,638</u>	<u>4,036</u>	<u>2,948</u>	<u>4,369</u>
Total Expenses ⁽⁵⁾	<u>\$143,280</u>	<u>\$146,362</u>	<u>\$149,571</u>	<u>\$215,481</u>	<u>\$189,297</u>	<u>\$157,276</u>	<u>\$124,219</u>
Net Operating Revenues Available for Debt Service And Depreciation.....	<u>63,987</u>	<u>34,668</u>	<u>47,668</u>	<u>46,560</u>	<u>39,103</u>	<u>26,024</u>	<u>31,062</u>
Debt Service Requirements on Prior Bonds	\$ 17,006	\$ 17,256	\$ 17,353	\$ 17,280	\$ 17,226	\$ 13,175	\$ 14,720
Debt Service Coverage Ratio	3.76x	2.01x	2.75x	2.69x	2.27x	1.98x ⁽⁹⁾	2.11x ⁽⁹⁾

(1) Includes ancillary services revenues through December 31, 2001.

(2) June 30, 2001 amount includes estimated reserve for uncollectible accounts of \$11.0 million related to financial instability of certain California counterparties.

(3) See discussion below under "Competitive Transition Account/Reserves."

(4) Represents the recognition of deferred Gross Operating Revenues arising from a prior litigation settlement with Edison and certain payment refunds.

(5) Does not include contributions to City's General Fund of \$15,491,000, \$14,411,000, \$14,405,000, \$15,243,000 and \$15,324,000 for fiscal years 1997-98 through 2001-02, respectively.

(6) June 30, 2002 amount includes bad debt recoveries of \$2.8 million related to funds recovered from amounts previously considered uncollectible from Edison for ancillary services.

(7) Increase from prior fiscal year was due primarily to an increase in sales of excess energy caused by additional block energy purchases to cover peak demand and to protect the City from the volatile energy market.

(8) Increase from prior fiscal year due primarily to increased power supply costs for short term contracts at market prices that were substantially higher than previously experienced.

(9) Amounts for the nine months ended March 31, 2002 and 2003 are prorated.

Audited Balance Sheets and Related Statements

The following table presents summaries of financial data relating to the Electric System for fiscal years 1997-98 through 2001-02. This data is extracted from the City's Electric Utility Audited Balance Sheets and Related Statements for such fiscal years.

The City's Electric 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 Electric 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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ELECTRIC FUND BALANCE SHEET
(In Thousands)

	Fiscal Year Ended June 30,				
	1998	1999	2000	2001	2002
ASSETS					
Utility plant: ⁽¹⁾					
Production.....	\$125,424	\$126,467	\$126,850	\$127,482	\$128,009
Transmission.....	15,017	15,021	15,021	15,032	15,025
Distribution.....	186,913	195,256	201,339	212,340	232,056
General.....	<u>22,171</u>	<u>26,258</u>	<u>24,471</u>	<u>24,549</u>	<u>24,626</u>
	349,525	363,002	367,681	379,403	399,716
Less accumulated depreciation	<u>(141,269)</u>	<u>(153,895)</u>	<u>(164,026)</u>	<u>(175,494)</u>	<u>(187,660)</u>
	208,256	209,107	203,655	203,909	212,056
Construction in progress	7,158	7,300	12,483	17,589	50,856
Nuclear fuel, at amortized cost	<u>1,945</u>	<u>2,486</u>	<u>1,490</u>	<u>2,065</u>	<u>1,397</u>
Total utility plant	<u>217,359</u>	<u>218,893</u>	<u>217,628</u>	<u>223,563</u>	<u>264,309</u>
Restricted assets.....	<u>72,448</u>	<u>74,981</u>	<u>74,120</u>	<u>73,133</u>	<u>79,336</u>
Current assets:					
Cash and investments ⁽²⁾	64,178	57,694	40,654	46,801	45,030
Accounts receivable, net	21,465	21,736	28,930	27,198	24,790
Accrued interest receivable.....	689	893	795	928	602
Prepaid expenses.....	4,578	3,886	3,916	4,188	4,371
Nuclear materials inventory.....	<u>989</u>	<u>974</u>	<u>989</u>	<u>1,024</u>	<u>1,097</u>
Total current assets	<u>91,899</u>	<u>85,183</u>	<u>75,284</u>	<u>80,139</u>	<u>75,890</u>
Other non-current assets:					
Unamortized purchased power.....	0	0	25,056	25,056	25,056
Unamortized costs	<u>6,939</u>	<u>6,643</u>	<u>6,338</u>	<u>6,038</u>	<u>6,301</u>
Total other non-current assets	<u>6,939</u>	<u>6,643</u>	<u>31,394</u>	<u>31,094</u>	<u>31,357</u>
Total assets.....	<u>\$388,645</u>	<u>\$385,700</u>	<u>\$398,426</u>	<u>\$407,929</u>	<u>\$450,892</u>
EQUITY AND LIABILITIES					
Equity:					
Invested in capital assets, net of related debt ...	\$ 26,839	\$ 30,331	\$ 28,839	\$ 43,315	\$44,614
Restricted for debt service.....	18,099	18,214	18,378	18,426	23,723
Unrestricted	<u>86,757</u>	<u>79,890</u>	<u>91,872</u>	<u>88,347</u>	<u>84,035</u>
Total equity ⁽¹⁾⁽³⁾	131,695	128,435	139,089	150,088	152,372
Long-term obligations, less current portion	<u>212,672</u>	<u>206,106</u>	<u>199,219</u>	<u>191,884</u>	<u>232,684</u>
Total equity and long-term obligations	<u>344,367</u>	<u>334,541</u>	<u>338,308</u>	<u>341,972</u>	<u>385,056</u>
Non-current liabilities:					
Nuclear decommissioning liability	<u>22,401</u>	<u>25,237</u>	<u>28,300</u>	<u>31,527</u>	<u>34,855</u>
Current liabilities payable from					
Restricted assets:					
Accrued interest payable.....	2,604	2,685	2,611	2,531	2,906
Deferred revenue-public benefit programs	1,308	4,765	8,017	8,733	4,291
Current portion of long-term obligations	<u>6,555</u>	<u>6,610</u>	<u>6,930</u>	<u>7,385</u>	<u>7,840</u>
Total current liabilities payable					
from restricted assets.....	<u>10,467</u>	<u>14,060</u>	<u>17,558</u>	<u>18,649</u>	<u>15,037</u>
Current liabilities:					
Accounts payable.....	5,094	5,145	7,378	9,042	8,136
Other liabilities	<u>6,316</u>	<u>6,717</u>	<u>6,882</u>	<u>6,739</u>	<u>7,808</u>
Total current liabilities	<u>11,410</u>	<u>11,862</u>	<u>14,260</u>	<u>15,781</u>	<u>15,944</u>
Total equity and liabilities	<u>\$388,645</u>	<u>\$385,700</u>	<u>\$398,426</u>	<u>\$407,929</u>	<u>\$450,892</u>

⁽¹⁾ Effective July 1, 1999, the City implemented a change in Accounting Policy with regard to the capitalization of fixed assets. The effect of this change was to expense all assets less than \$5,000, and only capitalize assets greater than \$5,000. The change affected fixed assets, accumulated depreciation and depreciation expense, and as a result, beginning equity was decreased by \$932,000. No change was made to fiscal years ended June 30, 1998 and 1999, as the effect would be immaterial.

⁽²⁾ See discussion below under "Competitive Transition Account/Reserves."

⁽³⁾ Effective July 1, 1999, the City adopted GASB 33, which required that cash and non-cash capital contributions be reflected in the Operating Statement and included in Unreserved Retained Earnings. Also effective July 1, 1999, the City adopted GASB 34, which required changes to certain categories and classifications of the Balance Sheet.

Competitive Transition Account/Reserves

A Competitive Transition Account/Reserves (“CTA/Reserves”) was established in June 1998 after approval by the Board of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account. The CTA/Reserves is an internally restricted asset, and the Board and City Council will approve the usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. Possible uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA/Reserves at March 31, 2003 was \$28.8 million. A portion of the electric rate increases approved on June 4, 2002 (see “THE ELECTRIC SYSTEM – Electric Rates and Charges”) is expected to be used to increase the balance in the CTA/Reserves through the fiscal year ending June 30, 2005.

Investment Policy and Controls

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

The management and accounting functions of the City’s investment portfolio are separated. The 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.

OUTSTANDING ELECTRIC REVENUE BONDS AND OTHER OBLIGATIONS

Electric Revenue Bonds Outstanding

As indicated in the following table, upon the issuance of the 2003 Bonds and the refunding of the Refunded Obligations, the City will have outstanding electric revenue Bonds in the aggregate principal amount of \$227,320,000 issued under the Resolution. No Parity Debt will be outstanding upon the issuance of the 2003 Bonds.

ELECTRIC REVENUE BONDS OUTSTANDING

<u>Name of Issue</u>	<u>Principal Amount</u>
Electric Refunding Revenue Bonds, Issue of 1993	\$ 5,970,000
Electric Refunding Revenue Bonds, Issue of 1998	98,730,000
Electric Revenue Bonds, Issue of 2001	47,215,000
Electric Refunding Revenue Bonds, Issue of 2003	<u>75,405,000</u>
Total	<u>\$227,320,000</u>

Joint Powers Agency Obligations

As previously discussed, the City participates in or contracts with IPA and SCPPA. Obligations of the City under the agreements with IPA and SCPPA constitute Operating and Maintenance Expense of the City payable prior to any of the payments required to be made on the Bonds and any Parity Debt. Agreements between the City and IPA and the City and SCPPA are on a “take-or-pay” basis, which requires payments to be made whether or not applicable projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. All of these agreements contain “step up” provisions obligating the City to pay a share of the obligations of a defaulting participant. The City’s participation and share of principal obligation (without giving effect to any “step up” provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

OUTSTANDING DEBT OF JOINT POWERS AGENCIES

As of April 1, 2003
(Dollars in Thousands)

	<u>Principal Amount of Outstanding Debt</u>	<u>Riverside Participation</u> ⁽¹⁾	<u>Riverside Share of Principal Amount of Outstanding Debt</u> ⁽²⁾
Intermountain Power Agency			
Intermountain Power Project ⁽³⁾	\$3,996,225	7.6%	\$303,713
Southern California Public Power Authority			
Palo Verde Nuclear Generating Station	761,455	5.4	41,119
Southern Transmission System	987,540	10.2	100,729
Hoover Dam Upgrading	23,780	31.9	7,586
Mead-Phoenix Transmission	71,915	4.0	2,877
Mead-Adelanto Transmission	<u>229,175</u>	13.5	<u>30,939</u>
Total	<u>\$6,070,090</u>		<u>\$486,963</u>

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

⁽²⁾ Excludes interest on the debt.

⁽³⁾ Includes subordinate notes and full accreted value at maturity for all capital appreciation bonds. Inclusive of the IPP Excess Power Sales Agreement, after reduction for portion withdrawn by Utah members in accordance with such Agreement.

Debt Service Requirements

The following table indicates the scheduled debt service on the 2003 Bonds, the 2001 Bonds, the 1998 Bonds and the 1993 Bonds immediately following the issuance of the 2003 Bonds.

Debt Service Requirements

Fiscal Year Ended June 30,	Parity Bond Principal ⁽¹⁾	Parity Bond Interest ⁽¹⁾	2003 Bonds Principal	2003 Bonds Interest	Total Debt Service ⁽²⁾
2004	\$10,620,000	\$8,065,613	\$1,035,000	\$1,951,189	\$21,671,802
2005	7,850,000	6,723,580	6,705,000	2,842,350	24,120,930
2006	8,210,000	6,397,470	6,805,000	2,673,225	24,085,695
2007	8,620,000	6,031,206	6,980,000	2,466,450	24,097,656
2008	9,040,000	5,641,343	7,170,000	2,218,350	24,069,693
2009	9,535,000	5,212,607	7,405,000	1,926,850	24,079,457
2010	10,035,000	4,741,639	7,680,000	1,615,550	24,072,189
2011	10,590,000	4,237,978	7,960,000	1,273,250	24,061,228
2012	8,930,000	3,744,356	8,250,000	929,150	21,853,506
2013	9,425,000	3,265,175	8,535,000	550,775	21,775,950
2014	9,955,000	2,754,103	6,880,000	168,700	19,757,803
2015	10,510,000	2,221,000	—	—	12,731,000
2016	11,080,000	1,670,263	—	—	12,750,263
2017	7,535,000	1,193,313	—	—	8,728,313
2018	2,930,000	925,750	—	—	3,855,750
2019	3,080,000	775,500	—	—	3,855,500
2020	3,235,000	617,625	—	—	3,852,625
2021	3,400,000	451,750	—	—	3,851,750
2022	3,575,000	277,375	—	—	3,852,375
2023	<u>3,760,000</u>	<u>94,000</u>	<u>—</u>	<u>—</u>	<u>3,854,000</u>
Totals	<u>\$151,915,000</u>	<u>\$65,041,646</u>	<u>\$75,405,000</u>	<u>\$18,615,839</u>	<u>\$310,977,485</u>

⁽¹⁾ Excludes the Refunded 1993 Bonds.

⁽²⁾ Total does not add due to rounding.

ELECTRIC SYSTEM STRATEGIC PLAN

Strategic Plan

In October 2001, to adapt to the changing conditions in the electric industry in California, a comprehensive strategic plan was adopted. See “DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS.” While open access appears to be over in the near future, the Board and City Council remain committed to “act like we are in open competition” and in October 2001 adopted the following mission statement: “Riverside Public Utilities is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.”

As part of an ongoing process, the following goals were revised in October 2002 to fulfill Riverside Public Utilities’ mission statement:

- Improve and protect the current excellent financial health of the utility
- Build a high quality infrastructure to serve new and existing customers
- Reduce dependence on a single point of energy delivery (Vista Substation)
- Maintain the obligation to serve and improve community relations
- Increase the share of renewable generation in the portfolio
- Meet essential water and electric services during an emergency or disaster

Short-term action plans to achieve these goals include (i) establish rate increases not to exceed 5% per year over the next three years to, among other things, improve financial liquidity and Electric System reliability, (ii) establish cash reserve levels of 90 days operating expenses, (iii) implement a cable replacement program, (iv) obtain 25 MW of renewable resources, (v) construct the Springs Generating Project, and (vi) update the disaster management plan. On August 2, 2001, the City issued \$47,215,000 aggregate principal amount of electric revenue bonds to finance the cost of the Springs Generating Project to provide for extra peaking capacity. The Springs Generating Project commenced commercial operation in October 2002.

Electric Rates

Historically, electric rates for City customers have been lower than rates for Edison. The City cannot predict future rate actions with respect to Edison or other utilities. Based on current rates in place, the rate differential with Edison's residential and small commercial rates varies from 10 to 45%. On June 4, 2002, the City Council approved increases to electric rates and certain fees. Rates for residential customers were increased by 4% on November 1, 2002, and rates for large commercial and industrial customers were increased by 3%. These were the first increases in basic retail rates since July 28, 1993. Increases for 2003 and 2004 have also been approved, as well as changes to certain fees and charges (see above under "THE ELECTRIC SYSTEM – Electric Rates and Charges").

Operating Cost Reductions and Competitive Transition Account/Reserves

The City has actively worked to reduce operating costs since deregulation began in 1996. Over the last six years, the City has strived to reduce operating and maintenance costs (excluding public benefit programs), including a 10% reduction in staff despite an 8.8% increase in the number of customers and a 2.3% increase in retail revenues. In addition, the City reduced the General Fund Transfer level to 9% from the all-time high of 10.5% in 1996. It is the City Council's policy to review this transfer annually, but it is currently contemplated that no additional reductions or increases will be implemented.

The City also plans to continue to build cash reserves, and a portion of the rate increases approved on June 4, 2002 is expected to help fulfill this goal. Excluding operating cash, cash reserves in the CTA/Reserves increased from \$19.5 million at June 30, 2000 to \$27.9 million on June 30, 2002. As of March 31, 2003, the balance in the CTA/Reserves was \$28.8 million. Funds accumulated in reserves may be used to cost-effectively retire outstanding generation debt or finance new generating projects.

Customer Base

Customers and community relations continue to be an important focus for the City. The marketing function created several years ago continues to enhance customer relations. Because the decision to offer open access to Electric System customers has been postponed, the emphasis on long-term customer contracts has been reduced, with a new emphasis on assisting customers in reducing their electric bills through utilizing public benefit programs. In addition, economic development is now being emphasized through a strategic partnership with the City's Development Department.

Power Resource Portfolio Management

Efforts continue to reduce long-term generation costs, with an emphasis on risk mitigation and providing stable and predictable rates for customers through the procurement of new energy supply sources at reasonable prices and implementation of a new Long-Range Power Resource Plan described below.

The City has updated its Long-Range Power Resource Plan and Load Forecast to provide for the anticipated growth in demand. The City has provided for firm resources to cover expected load through 2003 and is implementing the long-range plan to cover expected load in the 2004 to 2013 timeframe. The plan is divided into phases, with the first phase calling for the installation of 40 MW of simple cycle combustion turbines to provide additional peaking capacity and system security. This phase has been completed with the addition of the Springs Generating Project, which began commercial operation in October 2002. The second phase is currently underway with efforts made to acquire additional capacity and energy for 2004 and beyond. Additional internal peaking generation, up to 50 MW, is currently being evaluated for a target delivery date of 2005.

Possible Exposure from California Energy Crisis

During the 2000-2001 energy crisis in California, many utilities experienced adverse fiscal consequences and service level impacts to their customers. As a vertically integrated utility that has maintained the obligation to serve its customers, the City is meeting all of its current load requirements primarily with its own resources and did not raise its rates as a direct result of the crisis. While the City experienced increased power supply costs due to increased prices in the short-term market, these increases were offset by the increase in wholesale sales discussed previously. Most wholesale sales from July to December 2000 were to the PX and the ISO. In mid-January 2001, the PX discontinued operations and filed for bankruptcy protection. Also, wholesale sales to the ISO largely ceased due to the City's creditworthiness concerns relating to others participating in the ISO's markets, except for sales to the ISO in emergency situations. As a result of the PX's January 2001 bankruptcy and the occurrence of credit events affecting others in California's energy market, certain amounts remain owing to the City by the PX and ISO. Unpaid amounts owed to the City by the PX and ISO amounted to \$1.4 million on November 1, 2002, and it is anticipated to ultimately be paid by PG&E. Due to current circumstances surrounding the financial viability of the ISO, PX, and PG&E, no assurances can be given that the City will recover all or any portion of these amounts.

As of June 30, 2002, the amounts due from the ISO and PX had been fully reserved as potentially uncollectible amounts, as shown in the table set forth above under the caption "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM – Summary of Operations."

In January 2001, due to Edison's financial difficulties, Edison ceased making payments to the City for ancillary services pursuant to the Edison Riverside Restructuring Agreement. The City sued Edison in October 2001, for breach of the Restructuring Agreement and offset certain amounts the City owed Edison against Edison's obligations owed to the City. After an arbitrator's ruling interpreting Edison's ancillary services obligations under the Restructuring Agreement, Edison and the City reached a settlement as to the amounts owed each other, resulting in a net amount of approximately \$4.1 million that the City over withheld from Edison.

Additionally, investigations of the wholesale energy market in California in the years 2000 and 2001 have included the City due to the City's participation in the wholesale market during that period. It is unknown whether such investigations will result in refunds either payable by or to the City for prices paid or received by the City during that period that are deemed excessive. See "THE ELECTRIC SYSTEM – State and Federal Investigations."

DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS

Background; Electric Market Deregulation

In September 1996, State Legislative Assembly Bill 1890 ("AB 1890") became effective, essentially creating the necessary legal framework to initiate a partial deregulation of the California electric energy market. AB 1890 mandated the creation of an independent system operator of the transmission system, which has been established as the California Independent System Operator (the "ISO"), and an independent power exchange, which has been established as the California Power Exchange (the "PX"). The ISO and the PX commenced operations in March 1998. The PX was originally established to permit power generators to sell power on a competitive spot-market basis; however, the PX has ceased all operations and filed for bankruptcy protection.

Although municipal and other public agency utilities ("municipal utilities"), including the City, are not subject to the general jurisdiction of the California Public Utilities Commission (the "CPUC") and AB 1890 applies primarily to the California investor-owned utilities ("IOUs"), municipal utilities were encouraged to participate in its competitive framework.

Additional Developments

Financial Difficulties of the IOUs and Certain Other Market Participants. During portions of 2000 and 2001, the market price of electricity in California significantly exceeded capped prices under AB 1890. As a result, the creditworthiness of Pacific Gas & Electric Company ("PG&E") and Edison deteriorated to the point they could no longer purchase electricity, and ultimately defaulted on many of their obligations. In April 2001, PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code and those proceedings are ongoing. Bankruptcies involving large and complex organizations may take several years to reach conclusion. The potential for Edison to declare bankruptcy subsided following an October 2001 settlement reached with the CPUC that permits Edison to recover from its customers a substantial portion of its accumulated debts. On appeal, however, the United States Court of Appeals for the Ninth Circuit remanded the case to the California Supreme Court to resolve certain state law questions. The settlement will remain in effect during the California Supreme Court proceedings.

During 2001, Enron Corporation experienced severe financial difficulties. In December 2001, it voluntarily filed for bankruptcy protection under Chapter 11 of the federal Bankruptcy Code. Since then, certain other marketers, power suppliers and power plant developers have experienced downgrades of their credit ratings. The bankruptcy of Enron Corporation and the financial difficulties of such other market participants are not expected to have a material adverse impact on the financial condition of the City or the operation of its Electric System.

State Intervention. In January 2001, California Governor Gray Davis proclaimed a state of emergency to exist in California and ordered DWR to purchase electric power as necessary to assist in mitigating the effects of the emergency. In order to repay moneys borrowed from the State's General Fund to pay a portion of such purchases, DWR issued approximately \$12 billion of revenue bonds in 2002. Effective January 1, 2003, DWR no longer purchases power for the IOUs, and the IOUs are administering the power contracts previously entered into by DWR.

FERC Price Mitigation. In June 2001, FERC ordered the implementation of cost-based price mitigation in the electricity spot markets for California and the rest of the area within the western United States. This action significantly reduced the power prices in such spot markets. FERC ordered the ISO, among other things, to implement, effective October 31, 2002, certain automatic procedures to mitigate

the effects of market power and to impose a \$250 per MWh cap on bids into the ISO spot market. The \$250 per MWh cap also applies to all power sales in the western half of the United States.

Litigation and Investigations. A number of lawsuits have been filed concerning various aspects of the energy situation. In addition, State and federal authorities are conducting investigations and other proceedings concerning various aspects of the energy situation. These include, for example, disputes over rates set by the CPUC, investigations by FERC and the California Senate Select Committee to Investigate Price Manipulation of the Wholesale Energy Markets into alleged overcharging for the sale of electricity (including sales by municipal utilities), responsibility for electricity and natural gas purchases made by the IOUs and the ISO and antitrust and fraud claims against various parties. Adverse rulings in certain of these cases may affect the City's power costs and revenues and result in judgments and/or refunds payable by the City to the State or other entities. The City is unable to predict the outcome of such litigation, investigations and proceedings. See "THE ELECTRIC SYSTEM – State and Federal Investigations."

Shortages and Volatility Could Occur in the Future. During portions of 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. These difficulties have moderated substantially. Licenses for several new power plants have been issued by the California Energy Commission, construction on several power plants has been completed and construction of additional power plants is underway. In addition, certain conservation measures during the height of the electricity crisis in California were successful. However, some of the applications to build additional power plants have been withdrawn. Many power plant developers are experiencing financial difficulties and are reviewing the timing and economic feasibility of building additional power plants in California. Some power plant developers have stopped work on new power plants under construction. In addition, progress on new transmission line projects within California has been slow. As a result of the foregoing, no assurance can be given that measures undertaken during the last several years, together with measures to be taken in the future, will be sufficient to prevent shortages, price volatility or other energy problems from occurring again in California.

Impact of Developments on the City. The effect of these developments in the California energy markets on the City cannot be fully ascertained at this time. Volatility in energy prices in California may return due to a variety of factors which affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, insufficient generation resources, fuel costs and availability, weather, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City's revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Energy Policy Act of 1992

The Energy Policy Act of 1992 (the "Energy Policy Act") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry.

As amended by the Energy Policy Act, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other

person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under the Energy Policy Act, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213.

Changes in Federal Regulation of Electric Utilities

In 1996, FERC issued a final rule that effected significant changes in the regulation of transmission services provided by public utilities (as defined in the Federal Power Act) that own, operate or control interstate transmission facilities and which are subject to FERC jurisdiction over wholesale contracts, rates and services ("jurisdictional utilities"). The City is a not public utility (as defined in the Federal Power Act) and is not a jurisdictional utility under the Federal Power Act.

One of the final rules, Order No. 888, (i) requires the provision of open access transmission services on a nondiscriminatory basis by all jurisdictional utilities by requiring all such utilities to file tariffs that offer other entities seeking to effect wholesale power transactions the same transmission services they provide themselves, under comparable terms and conditions, and (ii) requires a nonjurisdictional utility, such as the City, that purchases transmission services from a jurisdictional utility under an open access tariff and that owns or controls transmission facilities to, in turn, offer to provide open access service to the jurisdictional utility under terms that are comparable to the service that the nonjurisdictional utility provides itself. This is referred to as the reciprocity requirement. The City is not required by Order No. 888 to provide reciprocal transmission service if doing so would jeopardize the tax-exempt status of its bonds issued to finance or refinance transmission facilities.

In May 1999, FERC issued a notice of proposed rulemaking concerning the formation of regional transmission organizations ("RTOs"). FERC is encouraging the voluntary formation of regional organizations independent from owners of generation and other market participants that will provide transmission access on a non-discriminatory basis to buyers and sellers of power. IOUs and publicly-owned utilities are being encouraged to participate in the formation and operation of RTOs, but are not, at this time, being ordered by FERC to participate. FERC issued a final ruling in December 1999 ("Order 2000"). Under Order 2000, investor-owned utilities were required to file with FERC a proposal for an RTO, consistent with the rule. California entities did not submit an RTO proposal to FERC until June 1, 2001. Since that time, FERC has adopted a "go slow" approach to the issue of RTO formation in the West, as it is engaged in a wholesale overhaul of the California market design, referred to as the "MDO2 proceeding." These FERC proceedings will have potential impacts on every electric utility, including the City, that utilizes the ISO transmission grid. It is not certain at this time what impact, if any, FERC's final rule will have on the City.

On July 31, 2002, FERC issued a notice of proposed rulemaking ("NOPR"). FERC proposes to modify the open access transmission tariff established under FERC Order No. 888 and to provide a national standard for the exchange of electricity and transmission services. FERC also proposes active monitoring and mitigation to prevent market abuses, a central spot-power market that complements a decentralized contract-based market for long-term power supplies, and price information and market transparency mechanisms. An independent entity would: administer spot markets for wholesale power, ancillary services and transmission congestion rights; establish a real-time "balancing" market to maintain reliable operations of the power grid; and create a separate "day-ahead" spot market. There would be a \$1,000 per megawatt-hour cap placed upon these markets to mitigate price volatility.

In addition, the NOPR provides that all transmission customers would be allowed network transmission rights that provide the same operational flexibility available to transmission owners, with an ability to lock in transmission rights across congested transmission paths through financial instruments that may be traded on a secondary market. Load-serving entities would be required to assure sufficient supply and demand-reduction resources to meet peak demand plus a 12% reserve margin. Transmission pricing would be based upon a "locational marginal pricing" methodology that is intended to allow more efficient management of the transmission grid and provide economic information that might encourage investment in generation and transmission facilities. The City is unable to predict the outcome of this regulatory proceeding or, if the proposed regulations are approved by FERC, what impact, if any, they would have on the ISO or the City.

Proposed Federal Deregulation and Tax Legislation

Bills have been introduced in the United States House of Representatives and the United States Senate regarding the electric utility industry. In addition, bills have been introduced which would impact the issuance of tax-exempt bonds for transmission and generation facilities. The City is unable to predict whether any of these bills or any similar federal bills proposed in the future will become law or, if they become law, what their final form or effect would be. Such effect, however, could be material to the City.

RISK FACTORS

The purchase of the 2003 Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2003 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of any 2003 Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2003 Bonds or their interest. No owner of any 2003 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 2003 Bonds 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 2003 Bonds and the interest thereon.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2003 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 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 2003 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 Electric System serves an essential public purpose.

Electric System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Electric System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2003 Bonds.

Rate Regulation

The authority of the City to impose and collect rates and charges for power service is not currently subject to the direct regulatory jurisdiction of the CPUC or FERC, and presently no other regulatory authority directly limits or restricts such rates and charges. See "THE ELECTRIC SYSTEM – Electric Rates and Charges." It is possible that future legislative or regulatory changes could subject the rates or service areas of the City to the direct jurisdiction of the CPUC or FERC or to other limitations or requirements.

IOU Bankruptcy

The City has entered into, and in the future may enter into, various power purchase, transmission service and other arrangements with the IOUs or with other entities that have related arrangements with the IOUs. See "THE ELECTRIC SYSTEM – Power Supply" and "– Transmission Facilities" above for a discussion of existing contracts and other arrangements. In the event of bankruptcy of an IOU with which the City has, or is a beneficiary of, such contractual arrangements, in the bankruptcy proceedings the IOU debtor or its bankruptcy trustee must determine prior to the confirmation of its plan for reorganization, or within a shorter time period determined by the court, whether to assume or reject any of its executory contracts. The City may be subjected to payment delays pending this determination. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of an executory contract by the debtor would give rise to an unsecured claim of the other party or parties to the contract for contract rejection damages. In the event of rejection by the debtor in the bankruptcy proceedings of any of the contracts to which the City is a party or beneficiary, the City may be required to replace the services or power supplied under these arrangements at an increased cost, which could result in higher electric rates being charged by the City. The City is unable to determine the ultimate impact on the Electric System if such an IOU declares, or is forced into, bankruptcy.

Factors Affecting the Electric Utility Industry

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described below, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less

expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the proposed repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of the changes in the economy, (q) effects of the filing by Enron Corporation for bankruptcy protection under Chapter 11 of the federal Bankruptcy Code and (r) effects of possible manipulation of the electric markets. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of the Electric System, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. See "ELECTRIC SYSTEM STRATEGIC PLAN," "DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" and "OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY." Such discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2003 Bonds should obtain and review such information.

Casualty Risk

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

Proposition 218

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters of the State on November 5, 1996. Proposition 218 added Articles XIIC and XIID to the State Constitution. Article XIID creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and "property-related" fees and charges. Article XIID explicitly exempts fees for the provision of electric service from the provisions of such article. Article XIIC expressly extends the people's initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. Since the terms "fees and charges" are not defined in Article XIIC, the initiative power may affect more than "property-related"

fees and charges as defined in Article XIID. Additionally, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the California Court of Appeal for the Second District held that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIID) might be subject to the initiative provision of Article XIIC, thereby subjecting such fees and charges imposed by the City to reduction by the electorate.

The interpretation and application of Proposition 218 will likely be subject to 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 rates for electric service.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the 2003 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2003 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 2003 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 2003 Bonds and the timely payment of certain investment earnings to the United States, interest on the 2003 Bonds is not includable in the gross income of the owners of the 2003 Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2003 Bonds to be included in gross income retroactively to the date of issuance of the 2003 Bonds.

In the further opinion of Bond Counsel, interest on the 2003 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 2003 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 2003 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 2003 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 2003 Bonds will not have an adverse effect on the tax-exempt status of the 2003 Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the 2003 Bonds.

The difference between the amount payable at maturity of a 2003 Bond with a yield less than its interest rate (as set forth on the cover of this Official Statement) (each a "Premium 2003 Bond") and the tax basis of an owner of a Premium 2003 Bond (other than an owner who holds a Premium 2003 Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium 2003 Bond is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Premium 2003 Bond based on the yield to maturity of the Premium 2003 Bond, except in the case of a Premium 2003 Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium 2003 Bond. An owner of a Premium 2003 Bond is required to decrease his or her adjusted basis in such Premium 2003 Bond by the amount of bond premium attributable to each taxable year in which such owner holds such Premium 2003 Bond. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Owners of Premium 2003 Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of Premium 2003 Bonds, and with respect to the state and local tax consequences of owning and disposing of Premium 2003 Bonds.

In the further opinion of Bond Counsel, interest on the 2003 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 2003 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 2003 Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski L.L.P., Los Angeles, California. The payment of the fees and expenses of Bond Counsel is contingent upon the closing of the sale of the 2003 Bonds.

LITIGATION

At the time of delivery and payment for the 2003 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 2003 Bonds or the power and authority of the City to issue the 2003 Bonds, or (ii) the authority of the City to fix, charge and collect rates for the sale of power and energy by the City as provided in the Resolution.

FINANCIAL STATEMENTS

The balance sheets of the City of Riverside Electric Utility as of June 30, 2002 and June 30, 2001 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 September 30, 2002 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 are expected to assign ratings of "AAA" and "AAA," respectively, to the Insured 2003 Bonds, with the understanding that upon the issuance of the 2003 Bonds the Policy will be issued by Financial Security Assurance Inc. See "BOND INSURANCE." The underlying ratings on the Insured 2003 Bonds, without regard to the Policy, and the ratings on the uninsured 2003 Bonds which mature on October 1, 2003, are "A+" and "A+" by Fitch, Inc. and Standard & Poor's, respectively. 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 will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2003 Bonds.

UNDERWRITING

Citigroup Global Markets Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the 2003 Bonds from the City at an aggregate Underwriter's discount of \$341,012.71 from the respective initial public offering prices set forth on the cover of this Official Statement and to make a bona fide public offering of the 2003 Bonds at not in excess of such initial public offering prices. The Underwriter will be obligated to purchase all of the 2003 Bonds if any 2003 Bonds are purchased.

The Underwriter may offer and sell the 2003 Bonds to certain dealers and others (including Underwriter and other dealers depositing such 2003 Bonds into investment trusts) at prices lower than the respective public offering prices, and the public offering prices may be changed from time to time by the Underwriter.

APPENDIX A

CITY OF RIVERSIDE ECONOMIC AND FINANCIAL INFORMATION

The 2003 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 Electric 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 Geronimo 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 3.4 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 85.6 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; Fire Fighters' Association; and the International Brotherhood of Electrical Workers.

Population

As of July 1, 2002 the population of the City was approximately 265,700, an increase of approximately 17.3% 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
2001.....	262,335	1,609,400
2002.....	265,700	1,699,112

Source: 1950-2000: U.S. Census. 2001 and 2002: State of California Department of Finance, Population Research Unit.

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 1997 and 2001 the City's median household effective buying power increased 8.6%, while at the same time, the County's increased 5.5%, the State increased 19.3% and there was growth of 10.8% 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 1997 through 2001.

PERSONAL INCOME
For Calendar Years 1997 Through 2001

<u>Year and Area</u>	<u>Total Effective Buying Income (\$ in thousands)</u>	<u>Median Household Effective Buying Income</u>
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
2000		
City of Riverside.....	3,735,911	37,395
Riverside County	25,144,120	39,293
California	652,190,282	44,464
United States.....	5,230,824,904	38,129
2001		
City of Riverside.....	3,636,701	37,231
Riverside County	23,617,301	34,480
California	650,521,407	43,532
United States.....	5,303,481,498	38,365

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

A comparison of effective buying income groupings per household for 2001 is shown in the following table:

INCOME GROUPINGS FOR 2001

<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	26.5%	25.6%	21.8%	23.5%
35,000-49,999	23.0	21.4	19.0	19.3
50,000 and over	30.2	31.9	41.9	35.3

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 1998 through 2002**

<u>Grades</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
K-8	205,572	211,973	219,433	228,348	237,880
9-12	<u>79,944</u>	<u>83,256</u>	<u>87,622</u>	<u>91,562</u>	<u>95,450</u>
Total	<u>285,516</u>	<u>295,229</u>	<u>307,055</u>	<u>319,910</u>	<u>333,330</u>

Source: State Department of Education.

Locally, higher education is available at four institutions: Riverside City College, which had an enrollment of approximately 20,811 in the Fall of 2002; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 12,703 in the Fall of 2002; California Baptist University, which had an enrollment of 1,954 in the Fall of 2002; and La Sierra University at Riverside, which had an enrollment of approximately 1,286 in the Fall of 2002. Also located in the City are the California School for the Deaf, which had an enrollment of 499 during the Fall of 2002, and the Sherman Institute, a federally-run school for Indians, which had an enrollment of 373 during the Fall of 2002.

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 1,646,900 in 2002 from the 1,388,700 average in 1998. 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 1998 through 2002

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
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
2001				
MSA.....	1,575,100	1,496,100	79,000	5.0
California	17,182,900	16,260,100	922,800	5.4
United States.....	142,314,000	134,055,000	8,259,000	5.8
2002				
MSA.....	1,646,900	1,549,700	97,200	5.9
California	17,404,600	16,241,800	1,162,800	6.7
United States.....	142,542,000	133,952,000	8,590,000	6.0

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 March 2002 and March 2003.

MONTHLY EMPLOYMENT COMPARISON RIVERSIDE MSA
(In Thousands)

<u>Industry</u>	<u>March 2002</u>	<u>March 2003</u>
Agriculture, Forestry, Fisheries	21.4	22.0
Mining	1.1	1.1
Construction	86.7	92.6
Manufacturing – Durables	82.1	81.1
Manufacturing – Nondurables	33.2	33.4
Transportation and Public Utilities	44.7	44.9
Trade: Wholesale	40.9	40.4
Trade: Retail	133.9	141.3
Finance, Insurance, Real Estate	38.7	40.4
Services	376.1	376.9
Government	<u>211.2</u>	<u>215.4</u>
Total	<u>1,070.0</u>	<u>1,089.5</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 \$357,800,000 in fiscal year 2002, a decrease of approximately 5.5% from fiscal year 2001. 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 1998 Through 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Valuation (\$ in millions)					
Residential	\$145.2	\$209.8	\$272.3	\$283.1	\$250.0
Nonresidential	<u>46.0</u>	<u>59.7</u>	<u>38.0</u>	<u>95.4</u>	<u>107.8</u>
Total	<u>\$191.2</u>	<u>\$269.5</u>	<u>\$310.3</u>	<u>\$378.5</u>	<u>\$357.8</u>
New Dwelling Units					
Single Family	630	825	1,017	1,237	1,113
Multiple Family	<u>336</u>	<u>846</u>	<u>895</u>	<u>40</u>	<u>0</u>
Total	<u>966</u>	<u>1,671</u>	<u>1,912</u>	<u>1,277</u>	<u>1,113</u>

Source: City of Riverside Planning Department.

Retail Sales

The following table indicates growth of taxable transactions for the period 1997 through 2001 in the City by type of business:

CITY OF RIVERSIDE TAXABLE TRANSACTIONS
For Calendar Years 1997 Through 2001
(\$ in millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Apparel stores	\$ 67.8	\$ 68.9	\$ 78.6	\$ 92.2	\$ 98.9
General merchandise stores	392.0	411.8	438.1	465.5	485.6
Food stores.....	124.8	121.4	126.0	133.3	134.5
Eating and drinking places.....	183.6	196.7	209.0	223.3	239.8
Home furnishings and appliances	66.5	65.7	74.8	77.6	75.8
Building materials and farm implements	201.8	253.9	275.4	290.7	326.6
Service stations	139.7	129.2	151.4	200.2	199.2
Automobile dealers and suppliers.....	428.4	505.4	580.8	698.1	780.6
Miscellaneous	<u>269.8</u>	<u>285.6</u>	<u>314.0</u>	<u>341.3</u>	<u>351.1</u>
Total retail outlets	1,874.4	2,038.6	2,248.1	2,522.2	2,692.1
All other outlets	<u>497.5</u>	<u>563.4</u>	<u>661.4</u>	<u>697.8</u>	<u>715.2</u>
Total all outlets	<u>\$2,371.9</u>	<u>\$2,602.0</u>	<u>\$2,909.5</u>	<u>\$3,220.0</u>	<u>\$3,407.3</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.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEARS ENDED
JUNE 30, 2002 AND JUNE 30, 2001**

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INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE CITY COUNCIL AND BOARD OF PUBLIC UTILITIES CITY OF RIVERSIDE, CALIFORNIA

We have audited the accompanying financial statements of the City of Riverside Electric Utility as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Electric 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.

As discussed in Note 1, the accompanying financial statements present only the Electric Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Electric Utility as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The supplementary information entitled Electric Statistics as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Electric Utility. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

KPMG LLP

September 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF RIVERSIDE ELECTRIC UTILITY

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Electric Utility financial statements this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on page 2 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by \$152,372 (equity). Of this amount, \$84,035 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by \$2,284 from the prior fiscal year, primarily due to contributions from developers totaling \$5,485 offset by a lower volume of retail and wholesale sales, including a sharp decrease in the price received for sales of excess power.

At the end of the current fiscal year, unrestricted equity represented over 41 percent of annual operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Included as part of the financial statements are three separate statements.

The *Balance Sheets* present information on assets and liabilities, with the difference between the two reported as equity. Over

time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Equity* present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. This is called the accrual basis of accounting and is more fully described in the accompanying *Notes to the Financial Statements*.

The *Statements of Cash Flows* present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 12 to 20 of this report.

Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities by \$152,372 at the close of the most recent fiscal year.

A portion of the Utility's net assets (29 percent) reflects its investment in capital assets, such as transmission, distribution and generation facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The unrestricted portion of the Utility's net assets (55 percent) may be used to meet the Utility's ongoing obligations to creditors and customers. This percentage decreased 5 percent over the prior year level primarily due to an increase in the amount restricted for debt service as a result of a \$47 million bond issue in August 2001. Also, excluding the effect of capital contributions, the Utility experienced a \$3.2 million reduction in net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Riverside Electric Utility's Equity (Net Assets)

	2002	2001
Current and other assets	\$186,583	\$184,366
Capital assets	264,309	223,563
Total assets	\$450,892	\$407,929
Long-term debt outstanding	\$232,684	\$191,884
Other liabilities	65,836	65,957
Total liabilities	\$298,520	\$257,841
Equity (net assets):		
Invested in capital assets, net of related debt	\$ 44,614	\$ 43,315
Restricted	23,723	18,426
Unrestricted	84,035	88,347
Total equity (net assets)	\$152,372	\$150,088

An additional portion of the Electric Utility's equity (16 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets. The 29 percent increase over the June 2001 amount is due to additional debt service requirements relating to a \$47 million bond issue in August 2001.

The Electric Utility's equity increased by \$2,284 during the current fiscal year. The Utility received \$5,485 in developer fees and capital contributions due to building activity in Riverside. However, this increase was offset by a lower volume of retail and wholesale sales, including a sharp decrease in the price received for sales of excess power.

City of Riverside Electric Utility's Changes in Equity (Net Assets)

	2002	2001
Revenues:		
Retail sales	\$166,171	\$168,195
Wholesale sales	46,505	73,090
Ancillary services	1,653	16,164
Investment income	6,670	8,589
Other	3,491	3,060
Total revenues before (reserve)/ recovery	224,490	269,098
Less reserve for bad debt, net of recoveries	1,635	(11,546)
Total revenues before capital contributions	226,125	257,552
Capital contributions	5,485	8,275
Total revenues and capital contributions	231,610	265,827
Expenses:		
Production	150,961	178,265
Transmission	19,004	17,160
Distribution	20,944	21,027
Depreciation	12,787	12,306
Interest expense	10,306	10,827
Total expenses	214,002	239,585
Contributions to the City's general fund	15,324	15,243
Total expenses and contributions to the City's general fund	229,326	254,828
Increase in equity (net assets)	2,284	10,999
Equity, beginning of year	150,088	139,089
Equity, end of year	\$152,372	\$150,088

Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the electric utility making up 72 percent of total revenue. Retail sales showed a slight decrease from prior year (1.2 percent) due to conservation measures by customers and cooler than normal weather.

MANAGEMENT'S DISCUSSION AND ANALYSIS

VERBIC ELECTRIC UTILITY

Wholesale sales decreased 36 percent below the prior year levels. Although the volume of megawatt-hours (MWhs) sold decreased 21 percent, the primary driver of the decrease in wholesale sales revenue is a more stable energy market. Prices received for sales of excess power to other utilities did not experience the volatility seen in the prior year, and were stabilized due to a Federal Energy Regulatory Commission (FERC) imposed cap on the market price of power.

Investment income decreased by \$1,919, or 22 percent over prior year levels. Although the Electric Utility's cash and investments increased in the current year, the overall market conditions deteriorated, resulting in lower earnings on the Utility's investment portfolio.

Capital contributions decreased 34 percent from prior year levels. The level of building activity in the prior year was unusually robust, although the Utility continues to experience significant building activity.

Total expenses for the Electric Utility decreased by 11 percent from last fiscal year. Although the Utility experienced increases in certain operating expenses in the current year (negotiated salary increases with various unions as well as general cost of living type increases for other cost categories), these were more than offset by an overall decrease in power production costs. The prior year expenditures reflect higher power costs from a volatile electric market, as well as additional costs incurred as a result of unplanned outages at several power plants, which required purchasing additional

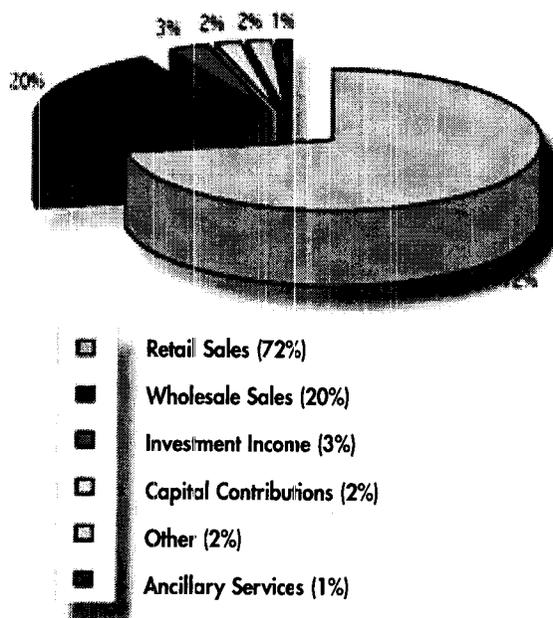
replacement power at very high prices. In the current year there were no major unplanned plant outages that required the Utility to purchase additional replacement power.

Transmission expenses increased by 11 percent, which is more consistent with historical levels. Prior year lower levels were the result of a refinancing of a bond issue that made funds available from a debt service reserve fund that were used to reduce debt service and operation and maintenance expenses for the Utility's largest transmission entitlement.

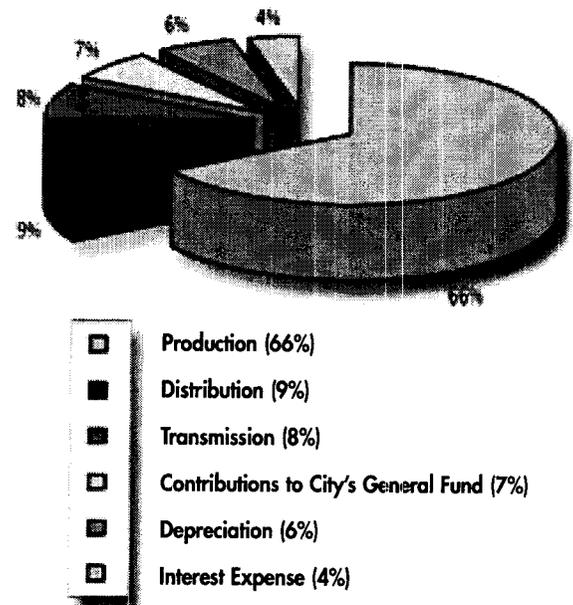
Distribution costs were consistent with last fiscal year. Although personnel costs increased due to negotiated salary increases with various bargaining units, these were offset by cost decreases in professional services and charges to/from others.

Contributions to the City's general fund are based on a formula using operating revenues from the prior fiscal year. This amount also increased by \$81 or 0.5 percent.

Revenues by Sources - Electric Utility



Expenses - Electric Utility



CAPITAL ASSET AND DEBT ADMINISTRATION

The Electric Utility's investment in capital assets as of June 30, 2002 amounts to \$264,309 (net of accumulated depreciation). This includes investments in production (generation), transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 18.2 percent increase in capital assets over the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF RIVERSIDE PUBLIC UTILITIES

Major capital asset events during the current fiscal year included:

- Various capital additions at the City's San Onofre Nuclear Generating Station (SONGS) equal to \$527
- Capital additions to connect new customers to the system totaled \$6,500
- Capital additions to increase system reliability totaled \$1.700
- Capital additions to maintain the obligation to serve and improve community relations totaled \$39,600 (Projects include Photovoltaic Carport and Springs Generation - see discussion below under long-term debt.)

City of Riverside Electric Utility's Capital Assets (Net of depreciation)

	2002	2001
Production	\$ 45,710	\$ 50,139
Transmission	6,938	7,321
Distribution	144,934	131,080
General	14,474	15,369
Construction in progress	50,856	17,589
Nuclear fuel, at amortized costs	1,397	2,065
Total	\$264,309	\$223,563

Additional information regarding capital assets can be found in Note 1 on page 12 and in Note 3 on Page 15 of this report.

Long-term Debt At the end of the current fiscal year, the City of Riverside's Electric Utility had long-term debt outstanding of \$232,684. This debt is backed by the revenue of the utility (revenue bonds), with the exception of \$11, which is a capital lease for office equipment. During the fiscal year, the Electric Utility issued \$47,215 of new bonds, with an interest cost of 4.4 percent to fund the Springs Generation Project, which consists of four natural gas, simple cycle turbine generators, each with a capacity of 10 MW, to be used during periods of peak power demand, or in case of emergency outages of major portions of the electric system. These units, located within the City of Riverside, were substantially completed by June 30, 2002, and commenced operation in October 2002.

City of Riverside Electric Utility's Outstanding Debt (Revenue Bonds and Capital Lease Obligation)

	2002	2001
Revenue bonds	\$238,475	\$198,645
Capital lease obligation	11	22
Less: Current portions	(7,851)	(7,401)
Unamortized premium	2,049	618
Total	\$232,684	\$191,884

The electric utility maintains an "A+" rating from Standard & Poor's and Fitch IBCA, Duff & Phelps for its revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 16 and 17 of this report.

Economic Factors and Rates

While general inflationary trends in the region compare favorably to national indices, the prior year costs for purchased power included in the production expense category reached unprecedented levels. Fortunately, the FERC imposed price caps on purchased power effective June 2001, and market prices stabilized to more historic levels. However, during the volatile market period, when Californians did not see a resolution to their high prices, and FERC had refused to implement price caps, the Utility entered into short term agreements to purchase power at costs in excess of historic market levels. The production costs for the current fiscal year reflect these increased costs. Currently the forward price curves indicate that prices have stabilized, however, regulatory actions and other factors could impact them as well.

In an era that has seen the state's largest investor owned utility file for bankruptcy protection and many other electric companies have had their credit downgraded, the Electric Utility has worked diligently to ensure its financial stability.

In an effort to strengthen its financial stability, the Riverside City Council, after the requisite public hearing, unanimously approved a three year electric rate increase in order to meet increased costs associated with operating the utility, improve system reliability, and increase cash reserve levels. The overall increases are 3.4 percent, 3.1 percent, and 2.2 percent effective November 1, 2002, 2003 and 2004, respectively.

Requests for Information

This financial report is designed to provide a general overview of the City of Riverside Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant Director Finance/Resources, Riverside Public Utilities, 3900 Main Street, 4th floor, Riverside, CA 92522.

BALANCE SHEETS

ASSETS	JUNE 30 2002	JUNE 30 2001
	<i>(in thousands)</i>	
UTILITY PLANT:		
Production	\$128,009	\$127,482
Transmission	15,025	15,032
Distribution	232,056	212,340
General	24,626	24,549
	<u>399,716</u>	<u>379,403</u>
Less accumulated depreciation	(187,660)	(175,494)
	212,056	203,909
Construction in progress	50,856	17,589
Nuclear fuel, at amortized cost	1,397	2,065
	<u>1,397</u>	<u>2,065</u>
Total utility plant (Note 3)	<u>264,309</u>	<u>223,563</u>
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	38,515	40,626
Investments (Note 2)	39,995	31,881
Public benefit programs receivable	826	626
	<u>826</u>	<u>626</u>
Total restricted assets	<u>79,336</u>	<u>73,133</u>
OTHER NON-CURRENT ASSETS:		
Unamortized purchased power (Note 8)	25,056	25,056
Unamortized bond issuance costs	2,517	2,099
Unamortized bond refunding costs	3,784	3,939
	<u>3,784</u>	<u>3,939</u>
Total other non-current assets	<u>31,357</u>	<u>31,094</u>
Total non-current assets	<u>375,002</u>	<u>327,790</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	45,030	46,801
Accounts receivable, less allowance for doubtful accounts		
2002 \$239; 2001 \$294	19,022	19,718
Accounts receivable other utilities, less allowance for doubtful accounts		
2002 \$8,783; 2001 \$11,037	5,768	7,480
Accrued interest receivable	602	928
Prepaid expenses	4,371	4,188
Nuclear materials inventory	1,097	1,024
	<u>1,097</u>	<u>1,024</u>
Total current assets	<u>75,890</u>	<u>80,139</u>
Total assets	<u>\$450,892</u>	<u>\$407,929</u>

See accompanying notes to the financial statements

BALANCE SHEETS

EQUITY AND LIABILITIES	JUNE 30 2002	JUNE 30 2001
	<i>(in thousands)</i>	
EQUITY:		
Invested in capital assets, net of related debt	\$ 44,614	\$ 43,315
Restricted for debt service (Note 5)	23,723	18,426
Unrestricted	84,035	88,347
Total equity	<u>152,372</u>	<u>150,088</u>
 LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4):	 232,684	 191,884
 OTHER NON-CURRENT LIABILITIES:		
Nuclear decommissioning liability (Notes 1 and 4)	34,855	31,527
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,906	2,531
Deferred revenue, public benefit programs	4,291	8,733
Current portion of long-term debt (Note 4)	7,840	7,385
Total current liabilities payable from restricted assets	<u>15,037</u>	<u>18,649</u>
 CURRENT LIABILITIES:		
Accounts payable	8,136	9,042
Accrued liabilities	4,684	4,620
Current portion of long-term debt (Note 4)	11	16
Customer deposits	3,113	2,103
Total current liabilities	<u>15,944</u>	<u>15,781</u>
Total liabilities	<u>298,520</u>	<u>257,841</u>
 COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		
Total equity and liabilities	<u>\$450,892</u>	<u>\$407,929</u>

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

FOR THE FISCAL YEARS
ENDED JUNE 30
2002 2001
(in thousands)

OPERATING REVENUES:

Residential sales	\$ 64,625	\$ 65,426
Commercial sales	46,265	45,478
Industrial sales	49,487	51,558
Other sales	5,794	5,733
Wholesale sales	46,505	73,090
Ancillary services	1,653	16,164
Other operating revenue	1,777	1,971
Total operating revenues before (reserve)/recovery	216,106	259,420
Reserve for uncollectible	(1,129)	(11,600)
Bad debt recovery	2,764	54
Total operating revenues, net of (reserve)/recovery	217,741	247,874

OPERATING EXPENSES:

Production	150,961	178,265
Transmission	19,004	17,160
Distribution	20,944	21,027
Depreciation	12,787	12,306
Total operating expenses	203,696	228,758
Operating income	14,045	19,116

NON-OPERATING REVENUES (EXPENSES):

Investment income	6,670	8,589
Interest expense	(10,306)	(10,827)
Gain (loss) on retirement of utility plant	223	(220)
Other	1,491	1,309
Total non-operating revenues (expenses)	(1,922)	(1,149)
Income before capital contributions and transfers	12,123	17,967
Capital contributions	5,485	8,275
Transfers out - contributions to the City's general fund	(15,324)	(15,243)
Total capital contributions and transfers out	(9,839)	(6,968)
Increase in equity	2,284	10,999
EQUITY, BEGINNING OF YEAR	150,088	139,089
EQUITY, END OF YEAR	\$152,372	\$150,088

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS
ENDED JUNE 30
2002 2001
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$220,959	\$249,243
Cash paid to suppliers and employees	(191,509)	(209,956)
Net cash provided by operating activities	29,450	39,287
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(15,324)	(15,243)
Other non-operating revenue	1,491	1,309
Net cash used by non-capital financing activities	(13,833)	(13,934)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(51,276)	(14,101)
Purchase of nuclear fuel	(944)	(1,545)
Proceeds from the sale of utility plant	285	221
Proceeds from sale of revenue bonds, net of premium	48,617	0
Principal paid on long-term debt	(7,395)	(6,941)
Interest paid on long-term debt	(10,166)	(10,554)
Capital contributions	2,498	4,269
Net cash used by capital and related financing activities	(18,381)	(28,651)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(8,114)	(3,204)
Income from investments	6,996	8,456
Net cash provided (used) by investing activities	(1,118)	5,252
Net increase (decrease) in cash and cash equivalents	(3,882)	1,954
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	87,427	85,473
CASH AND CASH EQUIVALENTS, END OF YEAR ¹	\$ 83,545	\$ 87,427
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 14,045	\$ 19,116
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	12,787	12,306
Amortization/burn of nuclear fuel	1,612	970
Provision for (recovery of) uncollectible accounts receivable	(2,309)	10,941
Decrease (increase) in accounts receivable	4,517	(9,211)
Increase in prepaid expenses	(183)	(272)
Increase in nuclear materials inventory	(73)	(35)
Increase (decrease) in accounts payable	(906)	1,664
Increase in accrued liabilities	64	226
Increase (decrease) in public benefit program deferred revenue	(4,442)	716
Increase (decrease) in customer deposits	1,010	(361)
Increase in nuclear decommissioning liability	3,328	3,227
Net cash provided by operating activities	\$ 29,450	\$ 39,287
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	\$ 2,987	\$ 4,006

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

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

THE CITY OF SAN JOSE
PUBLIC UTILITIES

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City.

■ **Basis of Accounting** The accounting records of the Electric Utility are in accordance with accounting principles generally accepted in the United States of America as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC. The Electric Utility 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 Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$8,149,000 at June 30, 2002, and \$8,535,000 at June 30, 2001.

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. The significant decrease in the allowance for fiscal year 2002 is related to funds recovered from amounts previously considered uncollectible from Southern California Edison for ancillary services (see Note 9).

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

Production plant	30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-15 years

■ **Nuclear Fuel** The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

■ **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. Funds set aside for the nuclear decommissioning reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

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

■ **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 and certain trust agreements. 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 Utility values its cash and investments in accordance with the 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 Statement of Revenues, Expenses and Changes in Equity in the year in which the change occurred. Fair value is determined using quoted market prices.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Electric 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.

■ **Bond Discounts and Issuance Costs** Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, whereas issuance costs are recorded as other assets.

■ **Nuclear Decommissioning Liability** Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant. Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$34,855,000 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by SCE and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1.6 million per year to fund this obligation. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

■ **Competitive Transition Account** A Competitive Transition Account (CTA) was established in June 1998 after approval by the Board of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account. The CTA is an internally restricted asset and the Board and City Council will approve usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. This account was established for a short-term period (five years) during the anticipated phase-in of retail

competition in the electric utility industry. Possible fund uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2002 and 2001, was \$27.9 and \$20.7 million, respectively, and is reflected as a current asset in the accompanying financial statements as part of cash and cash equivalents.

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2002 and 2001, was \$3,113,000 and \$2,103,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2002 and 2001. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$4,317,000 at June 30, 2002, and \$4,233,000 at June 30, 2001, and is included in accrued liabilities in the accompanying balance sheets.

Employees receive 10 to 25 vacation days per 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 Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City 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, 2002, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were \$306,000 and \$405,000 for the years ended June 30, 2002 and 2001. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

NOTES TO THE FINANCIAL STATEMENTS

ELECTRIC UTILITY

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

■ **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 of their annual covered salary. The Electric 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 Electric Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2002, 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, 2002.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2002 and 2001, consist of the following (in thousands):

Deposits with City Treasurer's investment pool
Cash and investments at fiscal agent

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

Cash and cash equivalents
Restricted assets:
 Cash and cash equivalents
 Investments

■ Contributions to the City's General Fund

Pursuant to the City Charter, the Electric 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 2001-02 and 2000-01, the Electric Utility transferred approximately 9.0 percent of gross operating revenues, or \$15,324,000 and \$15,243,000, respectively.

■ Budgets and Budgetary Accounting

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

■ **Reclassifications** Certain reclassifications have been made to the prior year's financial statements to conform with the current year's presentation.

June 30, 2002	June 30, 2001
Fair Value	
\$ 67,078	\$ 72,957
56,462	46,351
\$123,540	\$119,308

June 30, 2002	June 30, 2001
\$ 45,030	\$ 46,801
38,515	40,626
39,995	31,881
78,510	72,507
\$123,540	\$119,308

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

■ **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 deposits
- 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 Electric Utility's share of the City's investment pool at June 30, 2002, represents approximately 26 percent or \$123,540,000 of the City's total cash and investments of \$478,609,000. 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, 2002. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent (category 1), or are not subject to risk categorization.

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal year ended June 30, 2002 and 2001 (in thousands):

	Balance, As of 7/1/2000	Additions	Deletions/ Transfers	Balance, As of 6/30/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002
Production	\$126,850	\$ 632	\$ 0	\$127,482	\$ 527	\$ 0	\$128,009
Transmission	15,021	11	0	15,032	6	(13)	15,025
Distribution	201,339	11,774	(773)	212,340	19,941	(225)	232,056
General	24,471	587	(509)	24,549	520	(443)	24,626
Construction in progress	12,483	18,244	(13,138)	17,589	54,280	(21,013)	50,856
Nuclear fuel	1,490	1,545	(970)	2,065	944	(1,612)	1,397
Subtotal	381,654	32,793	(15,390)	399,057	76,218	(23,306)	451,969
Less accumulated depreciation	(164,026)	(12,306)	838	(175,494)	(12,786)	620	(187,660)
Total utility plant	\$217,628	\$20,487	(\$14,552)	\$223,563	\$63,432	(\$22,686)	\$264,309

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2002 and 2001 (in thousands):

	Balance, As of 7/1/2000	Additions	Reductions	Balance, As of 6/30/2001	Additions	Reductions	Balance, As of 6/30/2002
Revenue bonds	\$206,141	\$ 0	(\$6,878)	\$199,263	\$48,618	(\$7,357)	\$240,524
Capital leases	32	0	(10)	22	0	(11)	11
Nuclear decommissioning liability (Note 1)	28,300	3,227	0	31,527	3,328	0	34,855
Total long-term obligations	\$234,473	\$3,227	(\$6,888)	\$230,812	\$51,946	(\$7,368)	\$275,390

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

Capital Lease

Equipment Purchased Through Capital Lease:

\$54,339 capital lease due in monthly installments of \$1,115 through December 31, 2002, interest at 8.5 percent

Total capital lease

Revenue Bonds Payable

\$68,175,000 1991 Electric Revenue Bonds: \$27,395,000 serial bonds due in annual installments of \$1,955,000 through October 1, 2002, interest at 6.4 percent (partially advance refunded in 1998)

\$118,550,000 1993 Electric Refunding Revenue Bonds: \$92,245,000 serial bonds due in annual installments from \$5,735,000 to \$8,005,000 through October 1, 2010, interest from 4.6 percent to 5.3 percent; \$26,305,000 term bonds due October 1, 2013, interest at 5.0 percent

\$4,100,000 1994 FARECal Electric Revenue Bonds: \$2,105,000 serial bonds due in annual installments from \$150,000 to \$220,000 through July 1, 2010, interest from 5.3 percent to 5.9 percent; \$1,995,000 term bonds due July 1, 2017, interest at 6.0 percent

\$98,730,000 1998 Electric Refunding/Revenue Bonds: \$63,165,000 serial bonds due in annual installments from \$4,650,000 to \$7,085,000 through October 1, 2013, interest from 4.25 percent to 5.38 percent; \$21,595,000 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970,000 term bonds due October 1, 2022, interest at 5.0 percent

\$47,215,000 2001 Electric Revenue Bonds: \$47,215,000 serial bonds due in annual installments from \$2,855,000 to \$4,750,000 through October 1, 2016, interest from 2.9 percent to 5.25 percent

Total electric revenue bonds payable

Total debt
Unamortized bond premium (discount)

Total long-term debt, net of bond premium (discount)

Less: current portion

Total long-term debt

June 30, 2002 June 30, 2001

\$ 11	\$ 22
11	22
1,955	3,690
87,115	92,625
3,460	3,600
98,730	98,730
47,215	0
238,475	198,645
238,486	198,667
2,049	618
240,535	199,285
(7,851)	(7,401)
\$232,684	\$191,884

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2002, are as follows (in thousands):

	2003	2004	2005	2006	2007	2008-2012	2013-2017	2018-2022	2023-2027	Total
Principal	\$ 7,851	\$10,780	\$14,140	\$14,775	\$15,475	\$ 87,520	\$67,965	\$16,220	\$3,760	\$238,486
Interest	11,564	11,123	10,579	9,940	9,241	33,840	12,297	3,048	94	101,726
Unamortized bond (discount) premium	(18)	84	143	144	145	731	689	109	22	2,049
Total	\$19,397	\$21,987	\$24,862	\$24,859	\$24,861	\$122,091	\$80,951	\$19,377	\$3,876	\$342,261

■ **Debt Service Coverage Ratio** The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 2.27 at June 30, 2002, and 2.69 at June 30, 2001.

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding 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 and 1991 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

■ **Southern California Public Power Authority** On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2001-02 and 2000-01 fiscal years, the Electric Utility paid approximately \$20,700,000 and \$18,600,000, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production expense in the financial statements.

■ **Power Agency of California** On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the state of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

■ **Financing Authority for Resource Efficiency of California** On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, 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 City of Santa Cruz joined in 1994, and Trinity Public Utility District joined in 1996. 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 currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena and the North Marin Water District and Trinity Public Utility District. The Electric Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SOUTHERN CALIFORNIA ELECTRIC UTILITY

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

Pursuant to a settlement agreement with SCE, dated August 4, 1972, the City was granted the right to acquire a 1.79 percent ownership interest in San Onofre Nuclear Generating Station (SONGS), Units 2 and 3, equating to 19.2 MW and 19.3 MW respectively, of the available capacity. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement that sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas & Electric Company, 20.00 percent; and the city of Anaheim, 3.16 percent. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the City.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$128,009,000 and \$127,482,000 for fiscal years ended June 30, 2002 and 2001, respectively. The accumulated depreciation amounted to \$82,300,000 and \$77,343,000 for the fiscal years ended June 30, 2002 and 2001, respectively. The Electric Utility made provisions during fiscal years 2001-02 and 2000-01 for nuclear fuel burn of \$1,612,000 and \$970,000, respectively, and for future decommissioning costs of \$1,581,000 for 2001-02 and 2000-01 fiscal years (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in SONGS, the Electric Utility could be subject to assessment of retrospective insurance premiums in the event of a nuclear incident at San Onofre or any other licensed reactor in the United States.

NOTE 8. COMMITMENTS

Take-or-Pay Contracts The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 126.4 MW, of the generation output of IPA's 1,660 megawatt coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues. The power purchase contract requires the Electric Utility to pay certain minimum charges that are based on debt service requirements. Such payments are considered a cost of production.

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, the Electric Utility will be obligated for its proportionate share of the project cost.

The projects and the Electric Utility's proportionate share of SCPPA's obligations, including final maturities and contract expirations are as follows:

PROJECT	PERCENT SHARE	ENTITLEMENT	FINAL MATURITY	CONTRACT EXPIRATION
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195 MW	2023	2027
Hoover Dam Upgrading	31.9 percent	30 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118 MW	2020	2030

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Take-or-pay commitments terminate upon the later of contract expiration or final maturity of outstanding bonds for each project.

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.0 percent to 6.9 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS (CONTINUED)

DEBT SERVICE PAYMENTS (In thousands) Year Ending June 30	IPA		SCPPA				TOTAL
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2003	\$ 8,125	\$ 4,384	\$ 6,942	\$ 627	\$ 156	\$ 1,651	\$ 21,885
2004	27,109	4,405	7,203	705	156	1,651	41,229
2005	25,836	4,417	6,983	704	156	1,651	39,747
2006	26,349	1,620	7,224	704	156	1,651	37,704
2007	26,376	1,620	7,447	700	272	2,956	39,371
2008-2012	129,612	12,030	33,930	3,491	1,411	14,719	195,193
2013-2017	126,812	15,528	37,806	3,439	1,364	14,724	199,673
2018-2022	103,189	23,303	38,958	681	1,030	11,624	178,785
2023-2027	17,734	0	13,412	0	0	0	31,146
Total	\$491,142	\$67,307	\$159,905	\$11,051	\$4,701	\$50,627	\$784,733

In addition to debt service, Riverside's entitlement requires the payment for fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the years ended June 30, 2002 and 2001, are as follows:

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Upgrading	TOTAL
2002	\$17,832	\$2,040	\$1,607	\$209	\$45	\$99	\$21,832
2001	20,158	2,103	1,177	209	48	106	23,801

These costs are included in production expense on the Statements of Revenues, Expenses and Changes in Equity.

Power Purchase Agreements The Electric Utility has executed five firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; California Department of Water Resources (CDWR); and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 2002-2003 (in thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$3,463	\$1,771	\$5,234
CDWR III	508	0	508
CDWR IV	662	0	662
BPA (two agreements)	971*	0	971
Total	\$5,604	\$1,771	\$7,375

*Estimated

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of

capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2001 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized purchased power. On July 1, 2002, the Electric utility will begin to realize the benefits related to the price reductions, and will amortize the \$25 million over the remaining term of the agreement using the straight-line method.

There are two separate agreements with CDWR. CDWR III is for the purchase of 23 megawatts of capacity from May through October of each year beginning June 1, 1996, for 15 years. CDWR IV is for the purchase of 30 megawatts of capacity from May through October beginning June 1, 1996, for 15 years.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS (CONTINUED)

The first agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. The 1996 BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the 1996 agreement.

■ **Construction Commitments** As of June 30, 2002, the Electric Utility had major commitments of approximately \$5,000,000, with respect to unfinished capital projects, all of which is expected to be funded by bond proceeds.

NOTE 9. LITIGATION

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the Market Design and Western Markets refunding dockets.

On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (PG&E Bankruptcy) are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy, PG&E's operations are expected to continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its various creditors. PG&E was the largest purchaser of electricity from the Independent System Operator (ISO) and the Power Exchange (PX), and is therefore the largest creditor to the ISO and PX. Riverside is owed approximately \$1 million by the PX and approximately \$300,000 by the ISO, primarily related to PG&E. This amount was fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. The various creditors' classes recently voted on plans of reorganization prepared by PG&E and by the California Public Utilities Commission (CPUC). Each plan provides for 100 percent repayment to creditors for allowed claims. Legal challenges associated with the voting process for the plans has delayed the bankruptcy court's selection and approval of one of the plans. This in turn delays any payments to Riverside under the selected plan.

On November 20, 2001, the City filed a lawsuit in Los Angeles County Superior Court against Southern California Edison (SCE). The suit alleges that SCE has failed to make monthly payments to the City since December 2000 for ancillary services as required under the Restructuring Agreement between the City and SCE. The complaint seeks damages of approximately \$8.5 million, including interest. SCE responded to the lawsuit with a cross complaint against the City alleging the City overcharged SCE by approximately \$6.8 million. At June 30, 2002, amounts owed the City by SCE were fully reserved with an allowance for potentially uncollectible receivables. Binding arbitration of this case is scheduled for late 2002.

NOTE 10. SUBSEQUENT EVENTS

The City began participating in the ISO markets when the ISO began operations in 1998. Riverside is a Scheduling Coordinator and Utility Distribution Company under the ISO Tariff, and has not turned over the rights to use its transmission entitlements due to a variety of legal, financial and operational concerns. Currently the entities that have committed the operational control of their transmission assets or entitlements (also known as a Participating Transmission Owner, or (PTO) to the ISO include Southern California Edison, Pacific Gas & Electric, San Diego Gas & Electric and the City of Vernon.

The City has filed an application and notice of intent to join the ISO as a PTO effective January 1, 2003. As a PTO, the City would commit the operational control of certain transmission entitlements to the ISO, while still maintaining its ownership-like interest in various transmission projects. In anticipation of becoming a PTO and to resolve its legal concerns, the City participated in requesting and receiving a private letter ruling from the Internal Revenue Service (IRS) stating that committing tax-exempt bond-financed transmission entitlements to the ISO would not constitute a private use under current IRS regulations. The City has conditioned its application to join the ISO, on the ISO, FERC, and other PTO's agreeing that the Utility may withdraw from the agreement in the event that SCPPA's bond counsel finds that the tax exempt status of the City's bonds that financed the transmission facilities is jeopardized by the ISO's continued exercise of operational control. The City believes that the aforementioned financial and operational concerns have been resolved.

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.

“BMA Municipal Bond Index” means the BMA Municipal Bond Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then “BMA Municipal Bond Index” means such other reasonably comparable index selected by the City.

“Bond” or **“Bonds”** means the City of Riverside Electric Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution.

“Bond Counsel” means a firm of lawyers nationally recognized in the area of tax-exempt bonds.

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

“Bond Register” means the Bond Register as defined in the Resolution.

“Bond Service Account” means the Electric Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Electric Revenue Fund.

“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 Electric System and any facilities related thereto.

“Credit Facility” means a letter of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal or Accreted Value, premium and/or interest of such Series or portion of a Series of Bonds and/or the purchase price of such Series or portion of a Series of Bonds. A Credit Facility may be comprised of two or more credit facilities issued by two or more financial institutions.

“Current Interest Bonds” means the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

“Designated Investments” means, with respect to the 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 2003 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.

“Effective Date” means the earlier of: (i) the first date upon which all of the Outstanding 1991 Bonds and 1993 Bonds and the 1994 Contract have been paid or discharged in accordance with their terms, or (ii) the first date upon which the City has filed with the Fiscal Agent the written consents to the amendments to the Resolution set forth in the third Supplemental Resolution of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, all in accordance with the terms of the Resolution.

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

“Electric System” means the electric public utility system of the City and 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 electric energy, including all facilities related thereto and all additions, extensions and improvements thereof.

“Excluded Principal Payment” means each payment of principal of Bonds or Parity Debt which the City designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Debt) to be an Excluded Principal Payment. No such determination will affect the security for such Bonds or Parity Debt or the obligation of the City to pay such payments from Net Operating Revenues or from the applicable reserve account, if any.

“Federal Securities” means direct obligations of, or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are held in safekeeping by a custodian on behalf of the owners of such receipts.

“Final Compounded Amount” means the Accreted Value of any Capital Appreciation Bond on its maturity date.

“Fiscal Agent” means 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 electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction.

“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" (A) Prior to the Effective Date, 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 shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Parity Debt or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Debt or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Debt or Bonds on the date of calculation or, if such Parity Debt or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Debt or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to the City;

(c) if the Parity Debt or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Debt or Bonds, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of the maximum rate permitted on the Credit Facility and the maximum rate on the Parity Debt or Bonds;

(d) principal and interest payments on Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest; and

(e) in determining the principal amount due in each Fiscal Year, payment shall (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 Bonds or Parity Debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date; and

(B) On and after the Effective Date, means, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purpose of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments will be excluded from such calculation and Assumed Debt Service will be included in such calculation;

(b) if the Parity Debt or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Debt or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Debt or Bonds for periods when the actual rate cannot yet be determined will be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Debt or Bonds on the date of calculation or, if such Parity Debt or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Debt or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to the City;

(c) if the Parity Debt or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Debt or Bonds, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the greater of: (i) the then current interest rate on the Parity Debt or Bonds and (ii) the BMA Municipal Bond Index;

(d) principal and interest payments on Bonds and Parity Debt will be excluded to the extent such payments are to be paid from amounts on deposit as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest; and

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

“M&O Account” means the Electric System Maintenance and Operation Account established pursuant to the Resolution in the Electric Revenue Fund.

“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” (A) Prior to the Effective Date, means the Gross Operating Revenues, less Operating and Maintenance Expenses, and

(B) On and after the Effective Date, means Gross Operating Revenues, less Operating and Maintenance Expenses, plus, for purposes of determining compliance with certain provisions of the Resolution, the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

“Operating and Maintenance Expenses” means those expenses of operating and maintenance of the Electric System and includes any necessary contribution to retirement of Electric System employees.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Resolution) all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (1) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (2) Bonds with respect to which all liability of the City 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

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 Electric Revenue Fund.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Resolution.

“Refunding Bonds” means all Bonds whether issued in one or more Series, authorized pursuant to the Resolution, to the extent the proceeds thereof are used or allocated to pay or to provide for the payment of Bonds or Parity Debt.

“Renewal and Replacement Account” means the Electric Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution.

“Resolution” or **“the Resolution”** means Resolution No. 17662 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 Electric Revenue Bonds, Surplus Account established pursuant to the Resolution in the Electric 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.

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 premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City 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 set forth in the Resolution 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. There are created pursuant to the Resolution, and the Treasurer will maintain in accordance with the terms of the Resolution, within the Electric Revenue Fund, the following accounts:

- (a) Electric System Maintenance and Operation Account (sometimes called "M & O Account");
- (b) Electric Revenue Bonds, Bond Service Account (sometimes called "Bond Service Account");
- (c) Electric Revenue Bonds, Mandatory Sinking Account (sometimes called "Mandatory Sinking Account");
- (d) Electric Revenue Bonds, Renewal and Replacement Account (sometimes called "Renewal and Replacement Account"); and
- (e) Electric Revenue Bonds, Surplus Account (sometimes called "Surplus Account").

There will additionally be created and maintained within the Bond Service Account two sub-accounts designated as the Interest Account and the Principal Account.

All funds, accounts and sub-accounts established or continued under the Resolution or by any Supplemental Resolution will be held by the Treasurer or a Fiscal Agent and will be accounted for separate and apart from all other accounts 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.

Allocation of Revenues. All Gross Operating Revenues will be deposited with the Treasurer and placed in the Electric Revenue Fund. The Treasurer will transfer the Gross Operating Revenues from the Electric Revenue Fund to the funds and accounts and will set aside such money in the amounts and in the order of priority described below.

So long as any Bonds are Outstanding, the Treasurer will transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the payment of Operating and Maintenance Expenses, and thereafter to the Bond Service Account, any debt service account created or established to provide for the payment of Parity Debt, any reserve account and excess earnings or rebate account established under any Supplemental Resolution or for any Parity Debt, the Renewal and Replacement Account and the Surplus Account and will set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund resulting from lack of Gross Operating Revenues sufficient to make

any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

(1) *Operating and Maintenance Expenses.* As soon as practicable in each month, the Treasurer will provide for the 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.

(2) *Interest Account.* The Treasurer will set aside in the Interest Account as soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness), 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 fund, 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 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 fund to pay interest on such Parity Debt will rank and be made *pari passu* with the payments required to be placed in the Interest Account.

(3) *Principal Account.* The Treasurer will deposit in the 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 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 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 fund established and maintained for Bonds of that Series, no amounts need be set aside towards 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 Fund, 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 fund moneys sufficient to pay the Bond Obligation 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.

(4) *Bond Reserve Accounts.* 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.

(5) *Excess Earnings Account.* 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.

(6) *Renewal and Replacement Account.* 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. All amounts in the Renewal and Replacement Account will be applied to acquisition and construction of renewals and replacements to the Electric System to the extent provision therefore has not been made from other sources.

Any amounts remaining in the Electric Revenue Fund after the foregoing transfers described in paragraphs 1, 2, 3, 4, 5 and 6 above, except as otherwise provided in a Supplemental Resolution, will be transferred to the Surplus Account and applied as set forth in the Resolution.

Application of Funds and Accounts.

(A) *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.

(B) *Principal Account.*

(1) 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 Bonds made by such providers.

(2) Notwithstanding paragraph (1) above, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (i) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Establishment, Funding and Application of Redemption Account. The Treasurer will establish, maintain and hold in trust a special account within the Electric Revenue Fund designated as the "Redemption Account." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds will, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account will be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which 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 applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Resolution will be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account will be transferred to the Electric Revenue Fund when

received. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment will be credited to the fund or account from which such accrued interest was paid.

The Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Resolution into a separate account or accounts for investment purposes only, provided that all accounts or sub-accounts held by the Treasurer or any Fiscal Agent under the Resolution will be accounted for separately as required by the Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent will keep proper books of record and accounts containing complete and correct entries of all transactions 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 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 Electric Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Electric System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Electric Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Electric System or upon any part thereof or upon any of the revenues therefrom.

Commence Acquisition and Construction. As soon as funds are available therefor, the City will commence the accomplishment of the purposes for which each Series of Bonds are issued and will continue the same to completion with all practical dispatch and in an economical manner.

Operate Electric System in Efficient and Economical Manner. The City covenants and agrees to operate Electric System in an efficient and economical manner and to operate, maintain and preserve the Electric System in good repair and working order.

Against Sale; Eminent Domain. The City covenants that the Electric System will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Electric Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt, and 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 Electric System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt or which otherwise would impair the rights of the Owners with respect to the Net Operating Revenues or the operation of the Electric System. If any substantial part of the Electric System is sold, the payment therefor will, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Electric System by the lawful exercise of eminent domain or sale under threat thereof, if and to the extent that such right can be exercised against such property of the City, will either be used for the acquisition and/or construction of improvements and extensions of the Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution.

Insurance. The City 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 Electric System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Electric System shall be damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Electric System will be used for repairing or rebuilding the damaged or destroyed Electric System, and to the extent not so applied, will be applied to the retirement of any Outstanding Bonds.

The City will also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City and the Owners.

Records and Accounts. The City will keep proper books of records and accounts of the Electric System separate from all other records and accounts in which complete and correct entries will be made of all transactions relating to the Electric System. Said books will at all times be subject to the inspection of the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

No Free Service. (A) Prior to the Effective Date, the City covenants except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no electricity or other service from the Electric System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no such electricity 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 electricity 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 Electric 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 Electric System will be paid to the City from the Electric Revenue Fund. The City will maintain and enforce valid regulations for the payment of bills for electric service. Such regulations will at all times during such period provide that the City will, to the extent permitted by law, discontinue electric service to any user whose electric bill has not been paid within the time fixed by said regulations.

(B) On and after the Effective Date, the City covenants except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no electricity or other service from the Electric System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. No building or other real property of the Electric System will be furnished free to any such public agency or any private Person or corporation. The City will maintain and enforce valid regulations for the payment of bills for electric service. Such regulations will at all times during such period provide that the City will, to the extent permitted by law, discontinue electric service to any user whose electric bill has not been paid within the time fixed by said regulations.

Rates and Charges. (A) Prior to the Effective Date, the City will prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric 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, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) or Prior Bonds as they become due and payable;
- (c) All other payments required for compliance with the Prior Resolutions, this 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.

(B) On and after the Effective Date, the City will prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which, after making allowances for contingencies and error in estimates, will be at least sufficient to pay the following amounts in the order set forth:

(a) Operating and Maintenance Expenses;

(b) The interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds (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 will be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

Notwithstanding the foregoing, nothing in this Resolution will limit the ability of the City to increase the coverage required to be maintained for the amounts payable under (b) above to a level higher than 1.10, as and to the extent the City in its sole discretion will determine pursuant to a resolution of the City Council.

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 Electric Revenue Fund or out of any Net Operating Revenues payable into such Fund over the Outstanding Bonds.

Limits on Additional Debt. (A) Prior to the Effective Date, 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 Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a certificate or 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 to be Outstanding and all Parity Debt and Prior Bonds 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 described 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 Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12-consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues 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 Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-consecutive month period within the last completed 18-month period, as shown by the certificate 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 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 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 hereunder 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 this Resolution or any Parity Debt documents.

(B) On and after the Effective Date, except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt will be issued or incurred unless:

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

Second: Either (i) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year, or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such

additional Bonds or Parity Debt as set forth in a Certificate of the City, or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a Certificate of the City, plus, in either case, at the option of the City, any or all of the items hereinafter in this covenant designated (a) and (b), shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds to be Outstanding and all Parity Debt to be Outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt.

The items any 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 Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

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

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 hereunder 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 accounts and sub-accounts established pursuant to the Resolution and will be one or more of the following:

(a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption 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 or premium, if any, 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 then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
- (d) Destruction or damage to any substantial part of the Electric System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);
- (e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the Electric System or any substantial part of the City's property, or to the taking possession by any such official of the Electric System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;
- (f) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or 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 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 90 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Electric System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates, fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the City itself might do. No bond will be required of such receiver.

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy 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.

Special Insurance Provisions

So long as the payment of principal of and interest on the Insured 2003 Bonds is insured by a municipal bond insurance policy issued simultaneously with the delivery of the 2003 Bonds, the bond insurer shall be deemed to be the sole Owner of the Insured 2003 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of

the Insured 2003 Bonds are entitled to take under the provisions of the Resolution pertaining to defaults and remedies under the Resolution.

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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 \$75,405,000 Electric Refunding Revenue Bonds, Issue of 2003 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 17662 of the City adopted by the City Council on January 8, 1991, as supplemented, including as supplemented by Resolution No. 20420 adopted by the City Council on May 27, 2003 (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 internet address listing the National Repositories is set forth on 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 2002-03, 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 Electric 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 2003 Reserve Account as of the end of the immediately preceding Fiscal Year and a statement of the 2003 Bond Reserve Requirement;
4. Updated information comparable to the information in the table entitled “Electric System Facilities” 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 "Energy Sold" as it appears in the Official Statement;

7. Updated information comparable to the information in the table entitled "Percentage Increase in Electric Rates" as it appears in the Official Statement;

8. Updated information comparable to the information in the table entitled "Revenues From Sales of Electricity" as it appears in the Official Statement;

9. Updated information comparable to the information in the table entitled "Average Billing Price" as it appears in the Official Statement;

10. Updated information comparable to the information in the table entitled "Historical Summary of Operations and Debt Service Coverage" as it appears in the Official Statement; and

11. Updated information comparable to the information in the table entitled "Outstanding Debt of Joint Powers Agencies" 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.

Dated: July 31, 2003

CITY OF RIVERSIDE

By: _____
Paul C. Sundeen
Finance Director and City Treasurer

EXHIBIT A

An updated list of Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission may be found at the following internet address:
<http://www.sec.gov/consumer/NRMSIR.htm>

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: ELECTRIC REFUNDING REVENUE BONDS, ISSUE OF 2003

Date of Issuance: JULY 31, 2003

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 July 31, 2003 relating to the Bonds and by Resolution No. 20420 adopted by the City Council on May 27, 2003. 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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2003 Bond certificate will be issued for each maturity of the 2003 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2003 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2003 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2003 Bonds, except in the event that use of the book-entry system for the 2003 Bonds is discontinued.

To facilitate subsequent transfers, all 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Bonds; DTC’s records

reflect only the identity of the Direct Participants to whose accounts such 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2003 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2003 Bonds may wish to ascertain that the nominee holding the 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2003 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price (if any) and interest payments on the 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2003 Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2003 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2003 Bond certificates will be printed and delivered.

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 2003 Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2003 Bonds as requested by DTC and will deliver new 2003 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 2003 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. The interest on 2003 Bonds will be payable by check mailed to the respective owners thereof at their addresses as they appear on the books maintained by the Fiscal Agent.

Transfer and Exchange of 2003 Bonds

Any 2003 Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2003 Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent. The 2003 Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2003 Bonds of other authorized denominations of the same series, tenor, maturity and interest rate by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2003 Bond for cancellation; provided that no transfer or exchange may occur during the period established by the Fiscal Agent for selection of 2003 Bonds for redemption, or of any 2003 Bond or portion of a 2003 Bond so selected for redemption. The Fiscal Agent shall require the bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

City of Riverside
Riverside, California

\$75,405,000
City of Riverside
Electric Refunding Revenue Bonds, Issue of 2003

Ladies and Gentlemen:

We have acted as bond counsel to the City of Riverside, California (the "City") in connection with the issuance by the City of its Electric Refunding Revenue Bonds, Issue of 2003 (the "Bonds") in the aggregate principal amount of \$75,405,000. 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. 17662 adopted by the City Council on January 8, 1991, as amended and supplemented, including as supplemented by Resolution No. 20420 adopted by the City Council on May 27, 2003 (collectively, the "Bond Resolution").

In our capacity as bond counsel, we have reviewed 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.

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 or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds 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.

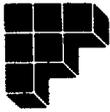
The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law,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

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,

APPENDIX G
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on 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 unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer 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. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 26 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

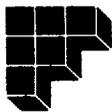
By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

BONDS:

Policy No.:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

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 SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)

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