NEW ISSUE — FULL BOOK-ENTRY **RATINGS:**
Insured Ratings: S&P: "AAA"; Fitch: "AAA"
Underlying Ratings: S&P: "AA+"; Fitch: "AA"

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the 2008B Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2008B Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See "TAX EXEMPTION" herein regarding certain other tax considerations.

$58,235,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds
Issue of 2008B

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

The 2008B Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2008B Bonds. Purchasers of the 2008B Bonds will not receive physical certificates representing their interests in 2008B Bonds purchased. Principal of, premium, if any, and interest on the 2008B Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2008B Bonds.

The 2008B Bonds will be dated the date of delivery thereof and will mature in the principal amounts and in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover hereto. The 2008B Bonds will be issued in fully registered form and will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Interest on the 2008B Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2008.

The 2008B Bonds are subject to optional and mandatory sinking account redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2008B BONDS" herein.

The scheduled payment of principal of and interest on the 2008B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2008B Bonds by FINANCIAL SECURITY ASSURANCE INC.

FSA®

The 2008B Bonds are special limited obligations of the City of Riverside, California (the "City") payable solely from the Net Operating Revenues of the City's Water System and do not constitute a general obligation or indebtedness of the City. The 2008B Bonds will be payable by the City on a parity with the City's (i) Water Revenue Bonds, Issue of 1991, (ii) Water Refunding/Revenue Bonds, Issue of 1998, (iii) Water Revenue Bonds, Issue of 2001, and (iv) Variable Rate Refunding Water Revenue Bonds, Issue of 2008A, outstanding upon the issuance of the 2008B Bonds, all as more fully described in this Official Statement.

The 2008B Bonds are being issued to (i) finance additional capital projects of the City's Water System, (ii) fund a reserve account for the 2008B Bonds, and (iii) pay costs of issuance of the 2008B Bonds. See "PLAN OF FINANCE" herein.

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

The 2008B Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Fulbright & Jaworski L.L.P., 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, Hawkins Delafield & Wood LLP, Los Angeles, California. It is expected that the 2008B Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about May 28, 2008.

Merrill Lynch & Co.

Dated: May 15, 2008

$58,235,000
City of Riverside, California
Water Revenue Bonds
Issue of 2008B

MATURITY SCHEDULE
Base CUSIP: 769076†

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2016	$1,610,000	4.000%	3.500%	SS0
2017	1,210,000	4.000	3.630	ST8
2018	1,535,000	4.000	3.750	SU5
2019	1,220,000	4.000	3.870*	SV3
2020	1,245,000	4.000	3.980*	SW1
2021	1,320,000	4.000	4.070	SX9
2022	1,380,000	5.000	4.150*	SY7
2023	1,410,000	5.000	4.220*	SZ4
2024	1,490,000	5.000	4.280*	TA8
2025	1,555,000	5.000	4.330*	TB6
2026	1,625,000	5.000	4.380*	TC4
2027	1,705,000	5.000	4.430*	TD2
2028	2,585,000	5.000	4.480*	TE0

$11,810,000 5.00% Term Bonds due October 1, 2033 - Yield: 4.610%* - CUSIP: TF7†

$26,535,000 5.00% Term Bonds due October 1, 2038 - Yield: 4.650%* - CUSIP: TG5†

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† CUSIP Copyright 2008, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

* Priced to call at par on October 1, 2018.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Ronald O. Loveridge, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Rusty Bailey, 3rd Ward
Frank Schiavone, 4th Ward
Chris Mac Arthur, 5th Ward
Nancy Hart, 6th Ward
Steve Adams, 7th Ward

BOARD OF PUBLIC UTILITIES

David E. Barnhart, *Chairman*

Mary Curtin
Ian J. Davidson
Robert Elliott
Juan "Manny" Sanchez
Robert A. Stockton
Ken L. Sutter
Joe Tavaglione
Berneta M. Titus

CITY OFFICIALS

Bradley J. Hudson, *City Manager*

Paul C. Sundeen,
Assistant City Manager / CFO
Tom DeSantis,
Assistant City Manager
Michael J. Beck,
Assistant City Manager
Gregory P. Priamos,
City Attorney
Colleen J. Nicol,
City Clerk
Brent A. Mason,
Assistant Director of Finance

David H. Wright,
Public Utilities General Manager
Stephen H. Badgett,
Utilities Deputy General Manager / Energy Delivery
Kevin S. Milligan,
Utilities Assistant General Manager / Water Delivery
Gary L. Nolff,
Utilities Assistant General Manager / Resources
Jerry D. Rogers,
Utilities Assistant General Manager / Finance and Customer Relations

BOND COUNSEL

Fulbright & Jaworski L.L.P.
Los Angeles, California

FINANCIAL ADVISOR

Public Financial Management Inc.
San Francisco, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2008B 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 2008B Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security" or the "Insurer") contained under the caption "BOND INSURANCE" and Appendix G - "SPECIMEN OF 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 2008B Bonds; or (iii) the tax exempt status of the interest on the 2008B Bonds.

IN CONNECTION WITH THE OFFERING OF THE 2008B BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2008B BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

The City maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2008B Bonds.

TABLE OF CONTENTS

$58,235,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds
Issue of 2008B

INTRODUCTION

General

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City") of $58,235,000 in aggregate principal amount of its Water Revenue Bonds, Issue of 2008B (the "2008B Bonds"). The 2008B Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 17664 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as heretofore amended and supplemented, and as amended and supplemented by a supplemental resolution adopted by the City Council on May 6, 2008 (the "Sixth Supplemental Resolution"). The Master Resolution, as previously amended and supplemented, and as amended and supplemented by the Sixth Supplemental Resolution, is hereinafter collectively referred to as the "Resolution." The City Charter, the Ordinance and the Resolution are hereinafter collectively referred to as the "Law."

The City has previously issued and has outstanding for the financing of certain costs of its water utility system (the "Water System") (i) Water Revenue Bonds, Issue of 1991 (the "1991 Bonds"), issued pursuant to Resolution No. 17686 adopted by the City Council on February 19, 1991 (the "First Supplemental Resolution"), (ii) Water Refunding/Revenue Bonds, Issue of 1998 (the "1998 Bonds"), issued pursuant to Resolution No. 19263 adopted by the City Council on April 28, 1998 (the "Second Supplemental Resolution"), (iii) Water Revenue Bonds, Issue of 2001 (the "2001 Bonds"), issued pursuant to Resolution No. 19968 adopted by the City Council on July 24, 2001 (the "Third Supplemental Resolution"), and (iv) Water Refunding/Revenue Bonds, Issue of 2005 (the "2005 Bonds"), issued pursuant to Resolution No. 21038 adopted by the City Council on September 13, 2005 (the "Fourth Supplemental Resolution"), and in each case supplementing the Master Resolution. Substantially contemporaneously with the issuance of the 2008B Bonds, the City is issuing its Variable Rate Refunding Water Revenue Bonds, Issue of 2008A (the "2008A Bonds"), issued pursuant to a supplemental resolution adopted by the City Council on May 6, 2008 (the "Fifth Supplemental Resolution"), supplementing the Master Resolution. The Fifth and Sixth Supplemental Resolutions are referred to collectively herein as the "2008 Resolutions."

The 2008B Bonds, together with $9,710,000 principal amount of the 1991 Bonds, $20,705,000 principal amount of the 1998 Bonds, $4,445,000 principal amount of the 2001 Bonds, $60,300,000 principal amount of the 2008A Bonds and any future bonds issued under the Resolution on a parity therewith (herein collectively referred to as the "Bonds"), will be equally and ratably secured by the pledge of and charge on the Net Operating Revenues of the Water System created by the Resolution. The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses, as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues."

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 Water System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds, to the extent permitted by the Resolution. In connection with the issuance of the 2008A Bonds, the City entered into that certain standby bond purchase agreement with Bank of America, N.A. The City's payment obligations under such standby bond purchase agreement, as well as certain reimbursement obligations to the Insurer, constitute Parity Debt. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Debt."

Pursuant to the Resolution, the City reserves the right to issue and incur obligations which are payable from Net Operating Revenues on a basis that is junior and subordinate to the payment of the Bonds or Parity Debt ("Subordinate Obligations"). In connection with the issuance of the 2005 Bonds, the City entered into a variable-to-fixed interest rate swap agreement in a notional amount of $61,125,000, which interest rate swap agreement constitutes a Subordinate Obligation pursuant to the Resolution. See "PLAN OF FINANCE - Interest Rate Swap Agreement for the 2005 Bonds."

Purpose of the 2008B Bonds

The 2008B Bonds are being issued to (i) finance additional capital costs of the Water System, (ii) fund the 2008B Reserve Account, and (iii) pay the costs of issuance of the 2008B Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Rate Covenant

Pursuant to the Law, the 2008B Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues of the Water System and other funds, assets and security described under the Resolution, on a parity with the 1991 Bonds, the 1998 Bonds, the 2001 Bonds and the 2008A Bonds and any other Bonds or Parity Debt issued in the future.

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

The general fund of the City is not liable for the payment of the 2008B Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2008B Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2008B Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2008B Bonds, interest thereon and any premium upon redemption.

Bond Insurance

The scheduled payment of principal of and interest on the 2008B Bonds when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the 2008B Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" herein.

2008B Reserve Account

Pursuant to the Resolution, the Water Revenue Bonds, Issue of 2008B Reserve Account (the "2008B Reserve Account") will be funded in an amount equal to the 2008B Bond Reserve Requirement, initially with a municipal bond debt service reserve insurance policy ("Reserve Policy") to be issued by the Insurer. The "2008B Bond Reserve Requirement" is defined as an amount equal to, as of any date of calculation, fifty percent (50%) of the maximum annual debt service on the 2008B Bonds (initially, $3,940,125). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2008 BONDS - 2008B Reserve Account." See also, "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Water System

The Water System serves an area of approximately 74.05 square miles, of which approximately 70.60 square miles are within the limits of the City. The City obtains over 97.0% of its potable water from local groundwater basins. The Water System provides service to approximately 63,431 meters in the service area, which represents a population served of approximately 291,398. Total water sales for the fiscal year were 23,871 million gallons, with a maximum day distribution of 109.2 million gallons.

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

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2008B Bonds to provide certain financial information and operating data relating to the Water System and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" and Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Summaries and References to Documents

Brief descriptions of the 2008B Bonds, the security and sources of payment therefor, the Water System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2008B Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826 5557. A copy of the most recent annual report of the Water System may be obtained from the Utilities Assistant General Manager / Finance and Customer Relations of the City of Riverside Public Utilities Department (the "Department"), at the same address, and is also available on the Department's website at www.riversidepublicutilities.com. Information set forth on such website is not incorporated by reference herein. 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.

PLAN OF FINANCE

Additional 2008 Bonds

Substantially contemporaneously with the 2008A Bonds, the 2008B Bonds are being issued to finance additional capital costs of the Water System. The City expects to apply the 2008B Bond proceeds to finance a portion of the costs of certain of the projects described under the caption "THE WATER SYSTEM - Capital Improvement Program" herein.

Refunding of 2005 Bonds

A portion of the net proceeds of the 2008A Bonds (the "Refunding Proceeds"), together with certain other available amounts, has been applied to redeem on May 14, 2008 all outstanding 2005 Bonds in an aggregate principal amount of $60,300,000, previously issued as auction rate bonds, at a redemption price equal to the principal amount thereof, plus accrued interest thereon. The City's plan of refunding is intended to reduce the City's exposure to certain market factors for bonds bearing interest at auction rates due to the volatility, uncertainty and disruption in such markets and, upon issuance of the 2008A Bonds, the City no longer has any auction rate Bonds secured by the Net Operating Revenues of the City's Water System.

Interest Rate Swap Agreement for the 2005 Bonds

Upon the issuance of the 2008B Bonds, the City expects to have $153,395,000 in aggregate principal amount of Bonds outstanding, of which $60,300,000 in aggregate principal amount of the 2008A Bonds will bear interest at variable rates. The risk of interest rate volatility with respect to the 2005 Bonds which were issued as auction rate bonds, has been hedged through the execution by the City of a certain interest rate swap agreement. Such interest rate swap agreement was reallocated to the 2008A Bonds as further described below.

The City has entered into an interest rate swap agreement in the form of an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement and Schedule and related Transaction thereto (the "2005 Swap Agreement") with Bear Stearns Capital Markets Inc. (the "Swap Provider") in connection with the 2005 Bonds for the purpose of converting the floating rate interest payments the City is obligated to make on the 2005 Bonds into substantially fixed rate payments.

The 2005 Swap Agreement has a term equal to the final maturity of the 2005 Bonds. Pursuant to the Transaction under the 2005 Swap Agreement, the City pays a fixed rate of interest on an initial notional amount equal to the principal amount of the 2005 Bonds. In return, the Swap Provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate ("LIBOR") one month index plus 12 basis points on a like notional amount. The periodic amounts payable by a party under the 2005 Swap Agreement are netted against the payments to be received by such party thereunder. On the delivery date of the 2008A Bonds, the 2005 Swap Agreement is expected to be reallocated to the 2008A Bonds.

Amounts received by the City from the Swap Provider under the 2005 Swap Agreement constitute Gross Operating Revenues under the Resolution. Both the City and the Swap Provider will have the right to terminate the 2005 Swap Agreement prior to its stated termination date under certain conditions, in which event a termination payment may be owed by either party. Such termination payment could be substantial. Any amounts due from the City under the 2005 Swap Agreement, including regularly scheduled payments and any amount due upon an early termination of the 2005 Swap Agreement are payable by the City from Net Operating Revenues on a basis that is junior and subordinate to the 2008B Bonds and Parity Debt. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - 2005 Swap Agreement" herein.

DESCRIPTION OF THE 2008B BONDS

The following is a summary of certain provisions of the 2008B Bonds. Reference is made to the 2008B Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

General

The 2008B Bonds will be dated their date of delivery, will mature on the dates and in the respective amounts, and will bear interest at the respective rates per annum shown on the inside cover of this Official Statement. The 2008B Bonds may be purchased in book-entry form only, in principal amounts of $5,000 or any integral multiple thereof. Interest on the 2008B Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2008, to the owners of record at the close of business on the 15th day of the preceding calendar month (a "Record Date") by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such 2008B Bonds as of the close of business on the Record Date at such persons' addresses as they appear on such registration books, except that an Owner of $1,000,000 or more in principal amount of 2008B Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least thirty (30) days preceding any interest payment date specifying the wire transfer instructions for such Owner. Such notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. See Appendix F - "BOOK-ENTRY ONLY SYSTEM."

Each 2008B Bond shall bear interest from the interest payment date before the date of authentication thereof unless it is authenticated during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it shall bear interest from the dated date of the 2008B Bonds.

So long as any 2008B Bond is registered in the name of Cede & Co., as nominee of DTC, procedures with respect to the transfer of ownership, redemption, and the payment of principal, redemption price, premium, if any, and interest on such Bond shall be in accordance with arrangements among the City, the Fiscal Agent and DTC. See Appendix F - "BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The 2008B Bonds maturing on or before October 1, 2018, are not subject to optional redemption prior to maturity. The 2008B Bonds maturing on and after October 1, 2019, are subject to optional redemption by the City on any Interest Payment Date on or after October 1, 2018, as a whole or in part in an Authorized Denomination, at a Redemption Price of 100% of the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

Mandatory Sinking Account Redemption. The 2008B Bonds maturing on October 1, 2033 are subject to mandatory sinking account redemption, in part, on October 1, 2029, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2008B Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount	Redemption Date (October 1)	Principal Amount
2029	$1,920,000	2032	$3,445,000
2030	1,995,000	2033†	2,370,000
2031	2,080,000		

† Maturity

The 2008B Bonds maturing on October 1, 2038 are subject to mandatory sinking account redemption, in part, on October 1, 2034, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2008B Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount	Redemption Date (October 1)	Principal Amount
2034	$2,480,000	2037	$7,145,000
2035	2,600,000	2038†	7,505,000
2036	6,805,000		

† Maturity

Mandatory Sinking Account Payments for the 2008B Bonds shall be reduced to the extent the City has purchased 2008B Bonds and surrendered such 2008B Bonds to the Fiscal Agent for cancellation. If 2008B Bonds have been redeemed as provided for under the caption "Optional Redemption" above, then the amount of the 2008B Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such 2008B Bonds as nearly as practicable, pro rata or as otherwise provided by the City. A reduction of Mandatory Sinking Account Payments in any 12 month period ending on October 1 will reduce the principal amount of 2008B Bonds redeemed on that October 1.

Selection of 2008B Bonds for Redemption. If less than all the 2008B Bonds are to be redeemed, the maturities of the 2008B Bonds to be redeemed may be selected by the City. The City shall give written notice of its selection not later than 15 business days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the 2008B Bonds. If the City does not give notice of its selection, such Fiscal Agent shall select the 2008B Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in the Sixth Supplemental Resolution, if less than all of the 2008B Bonds of like maturity are to be redeemed, the particular 2008B Bonds or portions of Bonds to be redeemed shall be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of 2008B Bonds to (i) the Owners of the 2008B Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first-class mail to the Owners of 2008B Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2008B Bonds.

In the event of an optional redemption of 2008B Bonds, if the City shall not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of the redemption price of the 2008B Bonds to be redeemed at the time of such mailing, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefore with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2008B Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2008B Bonds at the place specified in such notice of redemption, such 2008B Bonds shall be redeemed and paid at said redemption price. If on the redemption date moneys for the redemption of the 2008B Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2008B Bonds to be redeemed shall cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Net Operating Revenues

Pursuant to the Law, the 2008B Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2008A Bonds outstanding upon the issuance of the 2008B Bonds, and any other Bonds or Parity Debt issued in the future. All capitalized terms used in this Official Statement not otherwise defined shall have the meanings provided in the Resolution.

The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses. Gross Operating Revenues consist of (i) all revenues of the Water System from rates, fees and charges for providing water service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Water System, including contributions in aid of construction, and (ii) all amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps ("Subordinate Swap Receipts"), including the 2005 Swap Agreement. Operating and Maintenance Expenses are the expenses of operating and maintenance of the Water System, including any necessary contribution to the retirement system of the Water System employees.

The general fund of the City is not liable for the payment of the 2008B Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2008B Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2008B Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2008B Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

The City has created the Water Revenue Fund pursuant to the Law, to secure the payment of the Bonds and Parity Debt. The Water Revenue Fund includes several accounts, namely, the Bond Service Account, the Renewal and Replacement Account and the Surplus Account. The Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Water Revenue Fund and all of the accounts and subaccounts therein are held and administered by the City Treasurer. The 1991 Reserve Account has been created under the First Supplemental Resolution, the 1998 Reserve Account has been created under the Second Supplemental Resolution, the 2001 Reserve Account has been created under the Third Supplemental Resolution, the 2008A Reserve Account has been created under the Fifth Supplemental Resolution, and the 2008B Reserve Account has been created under the Sixth Supplemental Resolution, each of which is held by the Fiscal Agent. The funds held in the 2005 Reserve Account created under the Fourth Supplemental Resolution were transferred and applied in connection with the refunding and defeasance of the 2005 Bonds.

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

Operating and Maintenance Expenses. As soon as practicable in each month, the Treasurer will provide for the payment of the Operating and Maintenance Expenses of the Water System for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the Bonds and any Parity

Debt and prior to the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

Interest Account. As soon as practicable in each month, the Treasurer will set aside (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on 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), (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, and (iii) only after all deposits have been made for such month in the Principal Account and the Reserve Accounts as described below, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (a) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (b) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (iii) above. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

Principal Account. As soon as practicable in each month, the Treasurer will deposit an amount equal to at least (i) one-sixth of any semiannual Bond Obligation becoming due and payable on outstanding Bonds 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 account maintained for Bonds of that Series, no amounts need be set aside toward such principal. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

Reserve Accounts; Supplemental Deposit. Following the transfers described above as required by the Resolution, the Treasurer will deposit as soon as practicable in each month in the 1991 Reserve Account, the 1998 Reserve Account, the 2001 Reserve Account, the 2008A Reserve Account, the 2008B Reserve Account and any other reserve account for Bonds established pursuant to a Supplemental Resolution and in any reserve account established for Parity Debt (either as replenishment or as reimbursement of draws on surety bonds credited to such reserve accounts) 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.

Following the transfers to the Reserve Accounts as described above, the Treasurer will, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount described in clause (iii) under “Interest Account” above.

Excess Earnings Account. Following the transfers described above as required by the Resolution, the Treasurer will deposit in the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds, the 2008A Bonds, the 2008B Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

Surplus Account. On the first day of each calendar month, after transfers to the aforementioned accounts as required by the Resolution and all other covenants of the City contained in the Resolution have been duly performed, any amounts remaining in the Water Revenue Fund after the above transfers and uses have been made, will be transferred to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time in the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) will not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any lawful manner.

Application of Funds and Accounts. The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the 2008B Bonds as it will become due and payable (including accrued interest on any 2008B Bonds purchased or redeemed prior to maturity). The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the 2008B Bonds maturing by their terms on October 1 of the years in which 2008B Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the 2008B Bonds to be redeemed on that October 1 of each year in which term 2008B Bonds are to be redeemed from amounts on deposit in the Principal Account.

Rate Covenant

The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services, facilities and water of the Water 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 Resolutions; and

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

The charges shall 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, shall be at least 1.25 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

2008B Reserve Account

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve account for any Series of Bonds issued thereunder. The Sixth Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2008B Reserve Account. Pursuant to the Sixth Supplemental Resolution, the City shall at all times maintain an amount equal to the 2008B Bond Reserve Requirement in the 2008B Reserve Account until the 2008B Bonds are discharged in accordance with the Resolution. Initially, the 2008B Bond Reserve Requirement will be satisfied by the Reserve Policy. The Resolution also requires that there be maintained in the 1991 Reserve Account for the 1991 Bonds, the 1998 Reserve Account for the 1998 Bonds, the 2001 Reserve Account for the 2001 Bonds, the 2008A Reserve Account for the 2008A 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 2008B Reserve Account will secure only the payment of the 2008B Bonds and may be withdrawn solely (i) to pay principal of and interest on the 2008B 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 2008B Bonds. Whenever amounts are withdrawn from the 2008B Reserve Account, the amount in said account shall be restored as described above in "Resolution Flow of Funds - Reserve Accounts; Supplemental Deposit."

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of, premium, if any, and interest on the 2008B Bonds. In the event that the 1991 Reserve Account, the 1998 Reserve Account, the 2001 Reserve Account or the 2008A Reserve Account contains moneys in excess of the amount required to be maintained therein, all of the excess moneys will be transferred to the Water Revenue Fund.

At the option of the City, amounts required to be held in the 2008B 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 2008B Bonds then in effect.

Additional Bonds and Parity Debt

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

Issuance of Additional Bonds and Parity Debt. The Resolution provides that, 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 any Parity Debt shall be created or incurred unless: (i) the City is not in default under the terms of the Resolution; (ii) either (a) the Net Operating Revenues of the Water System, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance or incurrence of such additional Bonds or Parity Debt set forth in a Certificate of the City or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items designated under (a), (b) and (c) below, shall have amounted to at least 1.25 times the Maximum Annual Debt Service (as defined in Appendix C) in any fiscal year thereafter on all Bonds and Parity Debt to be outstanding immediately subsequent to the incurring of such additional Bonds or Parity Debt; and (iii) on the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of Bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed l8-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City,

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

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

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

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

2005 Swap Agreement

As described under "PLAN OF FINANCE - Interest Rate Swap Agreement for the 2005 Bonds," the City entered into the 2005 Swap Agreement with the Swap Provider whereby the City effectively fixed the interest rate on the 2005 Bonds. On the delivery date of the 2008A Bonds, the 2005 Swap Agreement was reallocated to the 2008A Bonds.

The obligation of the City to make regularly scheduled payments to the Swap Provider under the 2005 Swap Agreement is subordinate to the City's obligation to make payments on the Bonds and Parity Debt. Both the City and the Swap Provider will have the right to terminate the 2005 Swap Agreement prior to its stated termination date under certain conditions, and the City may be required to make a substantial termination payment to the Swap Provider. In the event of early termination of the 2005 Swap Agreement, there can be no assurance that (i) the City will receive any termination payment payable to the City by the Swap Provider, (ii) the City will have sufficient amounts to pay termination payments payable by it to the Swap Provider, or (iii) the City will be able to obtain replacement 2005 Swap Agreement with comparable terms.

There is no guarantee that the floating rate payable to the City pursuant to the 2005 Swap Agreement will match the variable interest rate on the 2008A Bonds at all times or at any time. Under certain circumstances, the respective Swap Provider may be obligated to make a payment to the City under the 2005 Swap Agreement that is less than the interest due on the 2008A Bonds. In such event, the City would be obligated to pay such insufficiency from Net Operating Revenues.

Certain Information Related to the Swap Provider. JPMorgan Chase & Co. announced it is acquiring The Bear Stearns Companies Inc. The Boards of Directors of both companies have unanimously approved the transaction. The transaction will be a stock-for-stock exchange. JPMorgan Chase will exchange 0.05473 shares of JPMorgan Chase common stock per one share of Bear Stearns stock. Based on the closing price of March 15, 2008, the transaction as originally announced would have had a value of approximately $2 per share. On March 24, 2008, it was reported that the value of this transaction would be $10 per share. Effective on the date of the initial announcement, JPMorgan Chase began guaranteeing the trading obligations of Bear Stearns and its subsidiaries and providing management oversight for its operations. Other than shareholder approval, the closing is not subject to any material conditions. The transaction is expected to have an expedited close by the end of the calendar second quarter 2008. The Federal Reserve, the Office of the Comptroller of the Currency and other federal agencies have given all necessary approvals. The City is unable to predict whether the proposed transaction will be approved by the shareholders and, if approved, then as to the final per share value to be received by the shareholders.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. No representation is made by the City or the Underwriter as to the accuracy or completeness of such information or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to Appendix G for a specimen of the Insurer's Policy.

Bond Insurance Policy

Concurrently with the issuance of the 2008B Bonds, Financial Security Assurance Inc. will issue its Municipal Bond Insurance Policy for the 2008B Bonds. The Policy guarantees the scheduled payment of principal of and interest on the 2008B Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. See Appendix G - "SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY" attached hereto.

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 financial guaranty 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, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management 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, 2008, Financial Security's consolidated policyholders' surplus and contingency reserves were approximately $3,012,872,486 and its total net unearned premium reserve was approximately $2,419,501,630 in accordance with statutory accounting principles. At March 31, 2008, Financial Security's consolidated shareholder's equity was approximately $3,053,752,711 and its total net unearned premium reserve was approximately $1,882,057,335 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2007 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the 2008B Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 2008B 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 2008B Bonds or the advisability of investing in the 2008B 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 2008B Bonds are as follows:

Sources:

Principal Amount of 2008B Bonds	$58,235,000.00
Net Original Issue Premium	1,896,738.00
Other Available Amounts	808,065.88
Total Sources	$60,939,803.88

Uses:

Deposit to the Construction Fund	$60,000,000.00
Underwriter's Discount	193,359.20
Costs of Issuance[1]	746,444.68
Total Uses	$60,939,803.88

(1) Includes legal fees, Fiscal Agent fees, Policy and Reserve Policy premiums of the Insurer, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2008B Bonds.

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 in the City Council, and is supervised by the Public Utilities General Manager who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. David H. Wright, Public Utilities General Manager, 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 20 years of experience in municipal government, including five years as Utilities Assistant Director of Finance and Administration and five years as the Utilities Deputy Director.

Mr. Stephen H. Badgett, Utilities Deputy General Manager / Energy Delivery, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with the Department since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at the Department, Mr. Badgett was with Memphis Light Gas and Water for 16 years and has been involved with public power for nearly 34 years.

Mr. Kevin S. Milligan, Utilities Assistant General Manager / Water Delivery, holds a Bachelor of Science degree in Engineering from California State Polytechnic University, Pomona and a Master of Business Administration from the University of Redlands. He has been with the City since 1984, and has nearly 24 years of experience in the water industry.

Mr. Gary L. Nolff, Utilities Assistant General Manager / Resources, holds a Bachelor of Science degree in Business and Management from the University of Redlands. He has over 34 years in the electric utilities industry, including 17 years as Power Resources Projects / Contracts Manager (15 of which are with the City), and 14 years as a generation station and bulk power electric system operator with SCE and the United States Army. Mr. Nolff has been with the Department since 1990.

Mr. Jerry D. Rogers, Utilities Assistant General Manager / Finance and Customer Relations, holds a Bachelor of Science degree in Business Administration / Finance, from California State University, Long Beach. He has 26 years of prior finance-related experience, including 15 years with the City, where he was Finance Director / Treasurer from 1997-2000.

Board of Public Utilities

The Board, created by Article XII, Section 1201 of the City Charter, currently consists of nine members appointed by the City Council. As set forth in said Article XII, the Board, among other things, has the power and obligation to: (1) consider the annual budget for the Department during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager; (2) within the limits of the budget of the Department, authorize and award bids for the purchase of equipment, materials or supplies, exceeding the sum of $50,000, and authorize the acquisition, construction, improvement, extension, enlargement, diminution or curtailment of all or any part of any public utility system, and no such purchase, acquisition, construction, improvement, extension, enlargement, diminution or curtailment may be made without such authorization; (3) within the limits of the budget of the Department, make appropriations from the contingency reserve fund for capital expenditures directly related to the appropriate utility function;

(4) require of the City Manager monthly reports of receipts and expenditures of the Department, segregated as to each separate utility, and monthly statements of the general condition of the Department and its facilities; (5) establish rates for water and electric revenue producing utilities owned, controlled, or operated by the City, but subject to the approval of the City Council; (6) approve or disapprove the appointment of the 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 voters in the City passed Measure MM (the "Measure") on November 2, 2004, which became fully effective upon approval of the City Council on May 17, 2005. The Measure amended the City Charter provisions and granted the authority to award bids and authorize procurement contracts to the Board. The effect of the Measure streamlines the process for procurement approvals by eliminating the need for City Council approval, assuming funding authority exists in the Department's budget, as adopted or amended by the City Council. Contracts that are subject to the Measure are public works, goods, non-professional and professional services. Contracts related to property acquisitions / dispositions, power and transmission and other negotiated agreements are not affected by the Measure, and remain subject to prior approval requirements established by the City Council.

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

David E. Barnhart - Chairman of the Board, appointed to the Board in 2003, term expires March 1, 2009. Mr. Barnhart is a retired director of transportation.

Robert A. Stockton - Vice Chairman of the Board, appointed to the Board in 2004, term expires March 1, 2010. Mr. Stockton is a principal / vice president of a consulting civil engineering company.

Joe Tavaglione - Appointed to the Board in 2001, term expires March 1, 2009. Mr. Tavaglione is a local contractor / developer.

Robert Elliott - Appointed to the Board in 2006, term expires March 1, 2010. Mr. Elliott is a retired general manager.

Berneta M. Titus - Appointed to the Board in 2006, term expires March 1, 2011. Ms. Titus is a president / CEO of a local credit union.

Ian J. Davidson - Appointed to the Board in 2007, term expires March 1, 2011. Mr. Davidson is a owner / president of a local company.

Juan "Manny" Sanchez - Appointed to the Board in 2008, term expires March 1, 2012. Mr. Sanchez is a professional (Civil) Engineer.

Ken L. Sutter - Appointed to the Board in 2005, term expires March 1, 2009. Mr. Sutter is a retired licensed architect.

Mary Curtin - Appointed to the Board in 2006, term expires March 1, 2009. Ms. Curtin is a teacher at a local community college.

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

THE WATER SYSTEM

General

The City has owned, operated and maintained the Water System since 1913. The Water System provides potable water service to almost all residential, commercial and industrial consumers located within the incorporated area of the City. The Water System is the retail provider of water service to all consumers in the City except for approximately 10,000 customer accounts in higher elevations of the City.

The Water System provides service to approximately 63,431 meters within a service area of 74.05 square miles, of which 70.60 square miles are within the City limits. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The population served is approximately 291,398. Presently, portions of the Water System service area are fully developed, while other portions are only sparsely developed or completely undeveloped. The City provides water service primarily to residential customers, although there are a number of commercial and industrial customers as well. The City also provides irrigation water within its service area.

The following table sets forth certain general statistical information relating to the Water System for fiscal years 2002-03 through 2006-07.

WATER SYSTEM
GENERAL STATISTICS
Fiscal Years 2002-03 through 2006-07

	Fiscal Year Ended June 30,				
	2003	**2004**	**2005**	**2006**	**2007**
No. of Service Connections	60,625	61,668	62,492	62,985	63,431
Annual Water Production(1)	23,354	27,205	25,364	25,832	28,476
Production from System Wells(1)	23,128	26,654	24,017	24,962	27,795
Peak Daily Distribution(2)	101.5	105.0	112.1	118.8	109.2
Average Daily Production(2)	63.8	74.2	64.6	67.8	75.9

(1) In millions of gallons.
(2) In millions of gallons per day.

History of the Water System

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

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

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

Existing Facilities

Major facilities in the Water System include supply wells, transmission pipelines, distribution pipelines, storage reservoirs, treatment plants, pumping facilities, and pressure reducing facilities. The City maintains 49 active wells for supplying domestic and irrigation water to its service area. Distribution and transmission pipelines for the Water System range in diameter from 2 to 72 inches and total over 973 miles. There are 16 storage reservoirs with a total capacity of 100.4 million gallons. Ten treatment plants remove contaminants from local groundwater before the water is delivered to the distribution system, consisting of 56 granular activated carbon ("GAC") vessels to treat trichloroethylene ("TCE") and 42 ion exchange ("IX") vessels to treat dibromochloropropane ("DBCP") and perchlorate. Thirty-nine booster-pumping stations deliver water to higher elevation pressure zones. Twenty-two pressure reducing stations deliver water from higher to lower pressure zones.

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

The City also maintains over 7,187 fire hydrants throughout the distribution system. The Water System currently has a Class 2 rating (the second highest of ten classifications) assigned by the Insurance Services Office.

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

WATER SYSTEM FACILITIES
($ In Thousands)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Utility Plant (less provision for accumulated depreciation)(1)	$202,303	$204,553	$229,043	$247,762	$259,329
Construction in Progress(1)	9,802	26,359	12,656	6,663	27,067(2)
Miles of Pipeline	938	938	957	967	973
Number of Active Domestic Wells	50	50	53	51	49
Number of Active Reservoirs	16	16	16	16	16

(1) Dollars rounded to the nearest thousand.

(2) Includes $12.5 million to replace the main transmission lines, $1.7 million for the White Gates Reservoir Replacement, $3.1 million in booster station replacements, $800,000 for the John W. North Wastewater Treatment Plant, $752,000 for the Jurupa Underpass project, $673,000 for meter replacements, $521,000 for new development, $421,000 for the Customer Resource Center and $6.6 million for various other projects, such as well betterments, vault replacements, and leak repairs throughout the City.

Water Supply

The City obtains over 97% of its potable water from water rights in its wells in the San Bernardino (or Bunker Hill) and Riverside / Colton groundwater basins. The remainder is imported water obtained from MWD through Western Municipal Water District of Riverside County ("WMWD"), a member agency of MWD and the wholesale distributor for the Riverside area. In the fiscal year ended June 30, 2007, the Water System pumped or purchased a total 28,476 million gallons of water. Approximately 27,795 million gallons (98%), were pumped from local groundwater basins and approximately 681 million gallons (2%) were purchased from WMWD.

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

WATER PRODUCTION
(In Millions of Gallons)

	Fiscal Year Ended June 30,				
	2003	**2004**	**2005**	**2006**	**2007**
Local Groundwater	23,128	26,654	24,017	24,962	27,795
Purchases from WMWD	226	551	1,347	870	681[(1)]
Total Water Production	23,354	27,205	25,364	25,832	28,476

(1) Although historically the City purchased minimal quantities of water only during the summer peak season, water purchases have fluctuated over the last few years as a result of a number of factors, including ongoing drought conditions, the need for additional capital replacement and rehabilitation of City facilities, certain facilities being out of operation due to construction projects, and other factors.

The largest source of water for the City is the Bunker Hill Basin ("BHB") located approximately eight miles northeast of the City. Water is collected from a total of 38 wells in the BHB and conveyed to the City through two separate transmission pipelines, the 60-inch Gage Pipeline and the 42-inch Waterman Transmission Main. Twelve of these wells are treated through two wellhead and three regional treatment plants for perchlorate and/or TCE.

The second source of groundwater for the City is pumped from a total of 11 wells in the Riverside / Colton Basin, consisting of the Riverside North, Riverside South, and Colton Basins. Within the Riverside South Basin, eight wells are located in the North Orange Well Field and conveyed to the distribution system through the 60-inch North Orange transmission pipeline. Four of these wells pump through the Palmyrita Treatment Plant and two of the wells pump through the Garner B Treatment Plant to remove DBCP. In the Riverside North Basin, three wells pump directly into the 60-inch Gage Pipeline.

The third source of water is imported water treated and delivered from the Mills Filtration Plant by WMWD. This water is generally used by the City only during peak summer months because of its higher cost, and the availability of sufficient groundwater rights to meet the City's demand. In fiscal year 2007, imported water accounted for less than three percent (3%) of the City's water demand. The City also pumps irrigation wells into its Riverside Canal to transmit irrigation water from the City's irrigation wells to the Gage Canal Company in exchange for the City's right to pump additional potable water from the BHB pursuant to the Gage Canal Company's water rights.

The new John W. North Water Treatment Plant ("JWNWTP") will enable five existing irrigation wells (the Flume Wells) to be converted to a potable water supply. The new plant is located on the site of the former Grand Terrace Pump Station, a five-acre site owned by the City within the City of Grand Terrace. The JWNWTP is a 10 million-gallon-per-day ("mgd") submerged membrane ultrafiltration plant designed to treat groundwater under the influence of surface water. In order to deliver the additional capacity to the City, the project includes a new 50 mgd pump station and the replacement of 8,500 linear feet of the 42-inch Waterman Transmission Pipeline downstream of the plant with new higher pressure 48-inch diameter pipeline.

The JWNWTP is currently under construction with an expected in-service date in early summer 2008. The JWNWTP is expected to cost approximately $17.4 million with an additional $8.3 million to replace and upgrade the existing Waterman Transmission Pipeline. The City submitted these projects to the State of California for funding under Chapter 4b of Proposition 50 grant funds, which was authorized by California voters in November 2002, to construct water-related infrastructure that reduces Southern California's consumption of Colorado River water (imported water) for drinking water supplies. This project was ranked number one on the State's priority list for Proposition 50 Chapter 4b funding. It is anticipated that fifty percent (50%) of the $25.7 million project will be grant funded and the remaining portion will be funded by the City. The City is currently working with the California Department of Public Health to finalize the Funding Agreement.

Water Supply Conditions

The City believes that its current and anticipated future water needs to provide water to its service area through for the next 100 years are adequately met by its existing water rights, new sources of supply and by the availability of supplemental imported water from WMWD, primarily to cover peak days of water demand. As a result of a court decision in 1969 (the "1969 Judgment"), the City's rights to extract water from the Bunker Hill Basin are fixed at 49,542 acre-feet per year ("AFY"). An acre-foot of water is the amount of water required to cover one acre of area to a depth of one foot (one acre-foot is approximately 325,900 gallons). The administration of the 1969 Judgment and the "safe yield" determination are assigned to two "Watermasters" (as defined in the 1969 Judgment). With its ownership in several mutual water companies with rights in the BHB, the City's rights total 53,528 acre-feet per year. The long-term supply of this basin appears secure, and currently supplies approximately two-thirds of the City's water requirements under normal conditions.

Rights to water in the Riverside North, Riverside South and Colton Basins are not adjudicated. However, base period (1959-63) extractions for use in Riverside County from these basins were determined at a total amount of about 54,000 acre-feet per year. The City has the entitlement to a major portion of this base period extraction, and can increase its production beyond the base period extraction provided that the basins are replenished. These basins are considered another reliable long-term source of water to meet the City's needs, and actions have been taken to increase production of domestic water from the Riverside North and Riverside South Basins. These basins currently supply approximately 30 to 35% of the City's water requirements under normal conditions.

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

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

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

New Sources of Supply

The City is actively developing and securing additional water supplies to meet projected increased demands. Although significant growth in the City is anticipated, certain of this growth area is served by special districts and other water suppliers. Completion of the JWNWTP in early summer 2008 will permit the City to reactivate five wells and increase water production in the Riverside / Colton Basin.

In May 2007, Riverside has submitted an application to the State Water Resources Control Board ("SWRCB") to divert up to 41,000 AFY of recycled water from the City's Regional Water Quality Control Plant ("RWQCP"). On April 18, 2008, SWRCB issued its draft Order Conditionally Approving Wastewater Change Petition, which is scheduled to be considered at the May 20, 2008 meeting.

The City developed a Recycled Water Master Plan and a supporting programmatic environmental impact report, both of which have been adopted by the City Council. On February 15, 2008, the Board gave conceptual approval of a facilities plan which outlines specific infrastructure requirements to begin significant expansion of recycled water projects within the Department's service territory. Included in the plan are large diameter pipelines to transfer water from the City's RWQCP to the northerly city limit and to the Riverside and Gage Canals. Preliminary estimates for agricultural and landscape irrigation supply is 18,000 AFY, a portion of which the City currently supplies with potable water. By supplying a portion of such demand with recycled water, the City will free up potable water to serve other customer needs.

Pending issuance from the SWRCB of a permit to utilize the water stored behind the Seven Oaks Dam, San Bernardino Valley Municipal Water District ("SBVMWD") and WMWD applied for and received a temporary permit from the SWRCB for the temporary right to divert up to 45,000 AFY. Based upon prior agreements with SBVMWD and WMWD, as well as previously adjudicated water rights, the City is entitled to up to approximately 26% of any such water available, to be used for storage or to serve potable water needs, at a cost significantly lower than purchasing imported water.

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

Water Quality

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

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

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

Some City wells are contaminated by the plumes of TCE, perchlorate and/or DBCP. To provide safe drinking water, several wellhead and regional treatment facilities have been constructed. As described in "Water Quality Settlements" below, Lockheed Martin Corporation ("Lockheed Martin") has constructed three regional GAC facilities (Tippecanoe, Sunnyside, and Raub) to treat TCE at eleven of the City wells. Lockheed Martin has also constructed two wellhead IX treatment facilities (Gage 46-1 and Gage 66-1) and three regional facilities (Tippecanoe, Sunnyside, and Raub) for removal of perchlorate from thirteen of the City's wells. Shell Oil constructed two regional GAC plants (Palmyrita and Garner) to treat DBCP at six of the City wells. See " – Water Quality Settlements" below for discussions on operational costs funded by other parties.

Water Quality Settlements

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

Lockheed Martin Corporation Settlement. On November 10, 1998, the City entered into an agreement with the Lockheed Martin to address contamination of certain City wells by TCE. This contamination was caused by the Crafton-Redlands plume, a plume of TCE which is situated in the groundwater in the BHB of San Bernardino County, California. Pursuant to the agreement, Lockheed Martin agreed to design and construct certain new components for the City's water system to address the contamination problem. Specifically, Lockheed Martin designed, purchased, constructed and installed water treatment systems in the City's Gage well field to maintain water quality. The Gage well field consists of approximately 15 groundwater extraction wells and associated equipment owned by the City in the BHB. Lockheed Martin funded the design and construction of pipelines to transport water from supply wells in the North Orange area to the Linden-Evans reservoirs and to provide return flows to the North Orange area, as well as other costs associated with these projects. Construction of the majority of the treatment facilities was completed in fiscal year 2003-04. Lockheed Martin has funded approximately $16.5 million of the costs to construct various treatment facilities.

The City also detected perchlorate in a number of its drinking water wells. While Lockheed Martin has not admitted liability for the presence of perchlorate in the City's wells, Lockheed Martin has agreed to pay for the design, construction, installation, rental and permitting, and to reimburse the City for its operation and maintenance costs associated with perchlorate treatment facilities on certain of the City's drinking water wells, under an agreement between the City and Lockheed Martin dated October 29, 2002 (the "Interim Perchlorate Agreement"). The Interim Perchlorate Agreement has been thrice amended, on November 25, 2003, on February 22, 2005, and May 31, 2007, with each amendment increasing the number of wells from an original four wells to fourteen wells now being treated for perchlorate at Lockheed Martin's expense.

The majority of the operating costs for the TCE and Perchorate treatment facilities is paid directly by Lockheed Martin, including the GAC and IX media replacement costs and major maintenance costs. However, certain operating costs are reimbursed by Lockheed Martin directly to the City. For fiscal year 2007-08, the estimated amount of operating costs (City labor, power, lab analyses, and associated expenses) to be reimbursed by Lockheed Martin is $1.2 millon.

DBCP Settlement. In May 2001, the City settled a lawsuit it had brought against certain manufacturers and distributors of DBCP, a pesticide that the Environmental Protection Agency banned in the mid-1970s, and was detected in certain City-owned potable water wells. The forty-year settlement agreement with the Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, The Best Fertilizer Company and Occidental Petroleum Corporation (the "DBCP Defendants") provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating GAC treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for DBCP. Construction of the existing treatment facilities was completed in fiscal year 2002-03. The construction costs funded by the DBCP Defendants is approximately $4 million. For fiscal year 2007-08, the estimated amount of operating costs to be reimbursed by the DBCP Defendants relating to these existing treatment facilities is $700,000.

MTBE Settlement. In March 2008, the City settled a lawsuit it has brought against certain manufacturers and distributors of methyl tertiary butyl ether ("MTBE") and tertiary butyl alcohol ("TBA"), which were used as either octane enhancers and/or additive to gasoline by certain manufacturers and refiners of gasoline. The thirty-year settlement agreement, reached with such parties and related entities as BP America, Chevron, ConocoPhillips, Texaco, Shell, Marathon, Valero, CITGO, Sunoco, Hess, Flint Hills and Tesoro ("MTBE Defendants"), provides for the MTBE Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating treatment facilities to remove MTBE from certain City wells, with such treatment obligation triggered by detections of levels of MTBE in City water which exceed federal and state limits for MTBE. To date, the City has not had such exceedance. The settlement agreement is expected to cover the majority of any future treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for MTBE.

Environmental Matters

In operating the Water System, the City is subject to environmental regulation by various governmental authorities. Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had any material effect on the City's capital expenditures, earnings or competitive position. The City is unaware of any pending environmental matters which will have a material effect on the operations or financial condition of the Water System. The following table sets forth the number of meters and total water sold during the five fiscal years shown.

NUMBER OF METERS

	Fiscal Year Ended June 30,				
	2003	**2004**	**2005**	**2006**	**2007**
Residential	55,376	56,254	56,916	57,308	57,666
Commercial / Industrial	4,782	4,932	5,114	5,204	5,279
Other	467	482	462	473	486
Total - All Classes	60,625	61,668	62,492	62,985	63,431

The following table sets forth the total water sold, average daily production, maximum day distribution and average daily sales per capita during the five fiscal years shown. Total water sold increased from 21,119 million gallons in the fiscal year ended June 30, 2003 to 23,871 million gallons in the fiscal year ended June 30, 2007. During the fiscal year ended June 30, 2007, the Water System produced an average of 75.9 million gallons of water per day with a maximum day distribution of 109.2 million gallons.

WATER SALES AND DISTRIBUTION
(In Millions of Gallons)

	Fiscal Year Ended June 30,				
	2003	**2004**	**2005**	**2006**	**2007**
Total Water Sales	21,119	22,746	20,719	21,456	23,871
Average Daily Production	63.8	74.2	64.6	67.8	75.9
Maximum Day Distribution	101.5	105.0	112.1	118.8	109.2
Average Daily Sales per Meter (In Gallons)	954	1,008	908	950	1,039

Water Rates and Charges

The City is obligated by the Law (including the Resolution) to establish rates and collect charges in an amount sufficient to meet all Water System operation and maintenance expenses and debt service on the Water System's indebtedness, with specified requirements as to priority and coverage. The City funds Water System operations and maintenance entirely from water service charges. Water rates are established by the Board and are subject to approval by the City Council. Such rates are examined each year and adjusted as needed to meet budgetary requirements. Water rates are not subject to regulation by the California Public Utilities Commission or by any other State agency. See "CONSTITUTIONAL LIMITATIONS - Proposition 218" herein for additional information.

At present, the Water System has eleven rate schedules in effect. The City provides no free water service. The City Council approved a five-year Safe W.A.T.E.R. (Water Available to Everyone in Riverside) Rate Plan, consisting of one twelve percent (12%) and four ten percent (10%) rate increases effective on November 1, 2006, 2007, 2008, 2009, and 2010, respectively. This plan provides the initial funding to implement recommendations in the Water Master, Water Supply and Asset Management Plans to address system inadequacies, preventative maintenance, resource protection, emergency preparedness, and agricultural support to ensure the City's water infrastructure continues to deliver safe water to the City customers.

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

The monthly service charge for commercial customers is calculated on the basis of meter size, as well as whether the customer is located inside or outside of City limits. Such charges for service within the City range from $7.89 for meters of five-eighths of an inch to $835.91 for twelve-inch meters. The rate for commercial customers ranges between $1.39 and $ 1.72 per 100 cubic feet of water in the summer and $1.08 to $1.39 per 100 cubic feet of water in the winter. The rate for industrial customers ranges between $1.38 to $1.72 per 100 cubic feet of water in the summer and $1.06 to $1.39 per 100 cubic feet of water in the winter.

The calculation basis of the monthly service charge for residential customers is the same as for commercial customers as discussed above. Such charges for service within the City range from $8.79 for meters of five-eighths of an inch to $46.80 for two-inch meters. The quantity rate is summarized in the following table.

QUANTITY WATER RATES FOR RESIDENTIAL CUSTOMERS(3)

Quantity(1)	Summer Rate(2)	Winter Rate(2)
First 15 ccf	$0.84	$0.84
16 - 35 ccf	1.52	1.36
36 - 60 ccf	2.07	1.66
Over 60 ccf	2.78	1.88

(1) ccf = 100 cubic feet per month.
(2) Per 100 cubic feet. Summer months are June through October; all other months are deemed winter months for rate purposes.
(3) Effective as of November 1, 2007.

There is a surcharge for customers outside of the City limits. At the present time, the surcharge rates are in effect for 3,527 customers outside the City. The total surcharge was approximately $1,000,000 for fiscal year 2006-07.

Residential and commercial customers are billed monthly. Bills are due and payable on presentation, and become delinquent after 19 days. After a bill is delinquent, the City may disconnect the water service by following certain procedures. Before service is reinstated, the customer must bring the entire bill current, pay a deposit equal to the estimated water bill for two months of service and compensate the City for the cost of cutting off and reinstating the service. Based on the average amount for the past three years, the City experienced less than 0.24% of uncollectible accounts, representing an amount less than $56,000.

In June 2004, the City began collecting a surcharge for Water Conservation and Reclamation programs. This surcharge was approved by City Council and was phased in over a three-year period with a 0.5% surcharge effective June 1, 2004, 1.0% effective June 1, 2005 and 1.5% effective June 1, 2006. The surcharge is used to fund: (a) cost-effective demand-side management and conservation services; (b) new investment in renewable energy resources and technologies; (c) research, development and demonstration programs to advance science and technology; and (d) services provided to low-income customers. This surcharge is scheduled to be in effect for services rendered on or after June 1, 2004 through May 31, 2014.

The following table sets forth the percentage increase in rates for the indicated customer classes.

PERCENTAGE INCREASE IN WATER RATES

Effective Dates	Overall System	Residential	Commercial / Industrial	Irrigation
August 25, 1997	8.5	8.5	8.5	8.5
February 28, 2001	2.4	2.4	2.4	2.4
March 1, 2002	4.0	4.0	4.0	4.0
March 1, 2003	3.9	3.9	3.9	3.9
June 1, 2004	8.5	8.5	8.5	8.5
June 1, 2005	8.5	8.5	8.5	8.5
June 1, 2006	8.5	8.5	8.5	8.5
November 1, 2006*	12.0	12.0	12.0	12.0
November 1, 2007*	10.0	10.0	10.0	10.0
November 1, 2008*	10.0	10.0	10.0	10.0
November 1, 2009*	10.0	10.0	10.0	10.0
November 1, 2010*	10.0	10.0	10.0	10.0

* On March 28, 2006, the City Council approved the five-year SAFE W.A.T.E.R. rate increase consisting of a 12% and four 10% rate increases on November 1, 2006, 2007, 2008, 2009 and 2010, respectively (for a cumulative 52% rate increase). The SAFE W.A.T.E.R plan provides the initial funding mechanism to begin implementing recommendations contained in the Water Master, Water Supply and Asset Management Plans to address system inadequacies, preventative maintenance, resource protection, emergency preparedness, and agricultural support to ensure the City's water infrastructure continues to deliver safe water to customers.

Capital Improvement Program

Beginning July 1, 2007, the City estimates that it will invest up to $141.4 million in capital improvements to the Water System over the next five years. The Capital Improvement Program will be funded with bond proceeds, rate revenues, grant funds, and contributions in aid of construction from developers. The improvements are needed to maintain system reliability, secure new water resources, serve new residential and commercial developments, relocate facilities for transportation improvements and refurbish the water system.

The five-year plan incorporates portions of the Water Master, Water Supply, and Asset Management Plans, and was adopted by the City Council on March 28, 2006. The Water System's Capital Improvement Program is organized around three main sections, Water System Improvements, Recurring Projects and Other.

Water System Improvements totaling $74.6 million include capital betterments and improvements to the Water System for constructing, reconstructing, replacing, extending and improving facilities to deliver water throughout the City's service area including the construction of four new reservoirs. The Board and City Council have approved an enhanced infrastructure replacement program which provides for replacement of approximately five miles of distribution mains per year (increasing to twelve miles per year within this five-year capital plan period), to be financed by Water System revenues. The Capital Improvement Plan includes $34.0 million over the five-year period for main replacements. Total transmission and distribution system expansion and improvements represent approximately 77% of the total Capital Improvement Program budget.

The recurring projects in the Capital Improvement Program consists of water supply improvements totaling $22.8 million during the five-year period. These include water stock, meters, system expansion for new customers and distribution system facilities, and represent approximately 16% of the total Capital Improvement Program budget. The majority of recurring new capital facilities to meet growth, such as meters and fire hydrants, are financed through system connection fees. Other projects totaling $9.9 million include property acquisition, street improvements, and projects related to relocation of facilities for transportation improvements.

Seismic Issues

The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Water System facilities. The City's Waterman and Gage transmission mains both cross the San Jacinto fault before reaching the Linden and Evans storage reservoirs. Although the City has not experienced significant earthquake-related damage to its facilities, the City's Water System and its water supply could be adversely affected by a major local earthquake.

Capital expenditures totaling approximately $22 million are planned over the next five years to rehabilitate or replace the existing 16 million gallon Evans Reservoir, which has been identified as susceptible to damage from a major local earthquake. The seismic vulnerability of the Water System is further mitigated by a number of interconnections which allow the City to purchase water from other agencies in the event of a local disaster.

Employee Relations

As of June 30, 2007, 165 City employees were assigned specifically to the Water System. Certain functions supporting Water System operations, including meter reading, customer billing and collections, are performed by the staff of the Department. Substantially all of the non-administrative City personnel assigned to the Water System are represented by the International Brotherhood of Electrical Works ("IBEW"). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2010. Portions of the administrative staff are represented by the Service Employees International Union ("SEIU"). The City and the SEIU are parties to a Memorandum of Understanding that expires on June 30, 2010. The Water System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future.

Retirement benefits to City employees, including those assigned to the Water System, are provided through the City's participation in the Public Employees Retirement System (PERS) of California, an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. 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 2.7 % 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 eight percent (8%) of their annual covered salary. The Water System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water System pays both the employee and employer contributions. Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2007, 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, 2007. See also Note 1 to Appendix B - "AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2007" for further discussion.

The City provides post-retirement healthcare benefits by making defined contributions to a pooled fund for all active employee members of IBEW and SEIU. Upon retirement, retirees pay the full amount of applicable premiums; however, they participate in the City's healthcare plans and, as such, an implicit subsidy exists. The City is currently evaluating the impact of the implicit subsidy to the cost of the existing healthcare plans. The City provides no other post-retirement benefits other than those described herein.

Insurance

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

Water System Litigation

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

FINANCIAL RESULTS OF THE WATER SYSTEM

Transfers to the City's General Fund

Contributions to the City's General Fund of surplus funds of the Water System (after payment of operating and maintenance expenses and debt service on the Bonds and Parity Debt) are limited by the City Charter, amendment of which requires voter approval. Such transfers are limited to twelve equal monthly installments during each fiscal year, comprising a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfer to the City's General Fund for the fiscal year ended June 30, 2007 was $3,928,000. The budgeted transfer for the fiscal year ended June 30, 2008 is $4,954,800.

Investment Policy and Controls

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

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

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

Significant Accounting Policies

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

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

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

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

Summary of Operations

The following table shows the Net Operating Revenues of the Water System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution, and has been prepared by the City based on audited financial statements for the Water System for fiscal years 2002-03 through 2006-07 and on unaudited financial information for the six-months ended December 31, 2006 and December 31, 2007.

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

	Fiscal Year Ended June 30,					Six-Months Ended December 31, (unaudited)	
	2003	2004	2005	2006	2007	2006	2007
Operating Revenues:							
Water Sales:							
Residential	$18,075	$19,921	$20,043	$22,336	$28,396	$16,006	$17,517
Commercial	8,338	9,182	9,252	10,470	13,255	7,519	8,529
Other Sales	1,054	1,380	1,582	1,617	1,916	1,001	938
Wholesale Sales	560	149	142	151	164	94	98
Other Operating Revenues	610	1,750	2,855	2,476	2,438	1,239	1,074
Total Water Revenues	28,637	32,382	33,874	37,050	46,169	25,859	28,156
Interest Income	1,763	664	582	1,773	2,931	1,347	1,523
Contributions in Aid	4,919	12,954	9,721	10,878	5,611	1,845	3,727
Non-Operating Revenues	1,669	1,093	1,171	16,525	988	581	652
Total Revenues	$36,988	$47,093	$45,348	$66,226	$55,699	$29,632	$34,058
Operating Expenses:							
Field Operations	$ 5,536	$ 6,318	$ 6,942	$ 7,171	$ 7,569	$ 3,859	$ 4,838
Production and Operations	9,552	11,933	13,181	13,516	15,050	7,572	8,407
Engineering	4,840	5,516	6,313	6,341	6,842	3,687	4,534
Total Expenses(1)	$19,928	$23,767	$26,436	$27,028	$29,461	$15,118	$17,779
Net Operating Revenues Available for Debt Service and Depreciation	$17,060	$23,326	$18,912	$39,198	$26,238	$14,514	$16,279
Debt Service Requirements on Outstanding Bonds	$6,565	$6,632	$6,636	$7,665	$7,754	$4,160	$3,951
Debt Service Coverage	2.60x	3.52x	2.85x	5.11x	3.38x	3.49x	4.12x

(1) Does not include contributions to City's General Fund of $3,182,000, $3,163,000, $3,487,502, $3,539,000 and $3,928,000 for the fiscal years ended June 30, 2003, 2004, 2005, 2006 and 2007, respectively, and $1,964,000 and $2,477,400 for the six months ended December 31, 2006 and 2007, respectively.

Audited Balance Sheet and Related Statements

The following table presents summaries of financial data relating to the Water System for fiscal years 2002-03 through 2006-07. This data is extracted from the City's Water Utility Audited Balance Sheets and Related Statements for such fiscal years.

The City's Water Utility Audited Balance Sheets and Related Statements for the fiscal year 2006-07 were audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor"), in accordance with generally accepted auditing standards, and contain opinions that the financial statements present fairly the financial position of the Water System. The reports include management's discussion and analysis and certain notes to the financial statements, which may not be fully described below. Such discussion, analysis and notes constitute integral parts of the audited balance sheets and related statements. Copies of these reports are available on request from the Department and are included in Appendix B.

WATER FUND BALANCE SHEET
(Dollars In Thousands)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
ASSETS					
Utility plant:					
Source of supply	$ 28,213	$ 28,509	$ 37,384	$ 32,684	$ 32,822
Pumping and treatment	22,228	23,278	24,983	29,435	36,750
Transmission and distribution	226,986	233,762	251,642	273,785	284,010
General and Intangible	13,079	13,309	15,246	14,938	16,014
	290,506	298,858	329,255	350,842	369,596
Less accumulated depreciation	(88,203)	(94,305)	(100,212)	(106,971)	(114,190)
	202,303	204,553	229,043	243,871	255,406
Construction in progress	9,802	26,359	12,656	6,663	27,067
Land	0	0	0	3,891[1]	3,923[1]
Total utility plant	212,105	230,912	241,699	254,425	286,396
Restricted assets	21,526	14,284	8,537[2]	37,434[2]	23,310[2]
Current assets:					
Cash and investments	20,320	17,302	15,911	33,765	40,127
Accounts receivable, net	3,919	7,593	5,853	7,947	7,128
Accrued interest receivable	231	178	217	327	399
Prepaid Expenses	0	0	0	368	2
Total current assets	24,470	25,073	21,981	42,407	47,656
Other non-current assets:					
Deferred pension costs	0	0	5,890	5,876	5,838
Deferred bond issuance / refunding costs	1,405	1,325	1,245	1,067[3]	1,003[3]
Advance to general fund	62	72	48	28	20
Total other non-current assets	1,467	1,397	7,183	6,971	6,861
Total assets	$259,568	$271,666	$ 279,400	$341,237	$364,223
LIABILITIES AND FUND EQUITY					
Equity:					
Reserved for debt service	$8,417	$8,431	$8,440	$12,491	$12,525
Conservation & Reclamation Programs	0	0	132	337	853
Unreserved	20,610	18,586	15,870	35,344	39,707
Invested in capital assets, not of related debt	152,718	167,325	175,041	180,708	200,832
Total equity	181,745	194,342	199,483	228,880	253,917
Long-term obligations, less current portion	69,361	66,593	63,684	94,961[3]	91,568[3]
Non-current liabilities:					
Pension obligation	0	0	5,890	5,823	5,761
Arbitrage liability	0	0	0	0	416
Total non-current liabilities	0	0	5,890	5,823	6,177
Current liabilities payable from restricted assets:					
Accrued interest payable	622	616	611	325	318
Current portion of long-term obligations	4,010	4,045	4,075	4,300	4,355
Total current liabilities payable from restricted assets	4,632	4,661	4,686	4,625	4,673
Current liabilities:					
Accounts payable	1,296	3,363	2,115	3,248	4,436
Other liabilities	2,534	2,707	3,542	3,700	3,452
Total current liabilities	3,830	6,070	5,657	6,948	7,888
Total equity and liabilities	$259,568	$271,666	$ 279,400	$341,237	$364,223

(1) For reporting purposes, land is reported as a separate component from the utility plant beginning in fiscal year ended June 30, 2006.

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

(3) Beginning in fiscal year ended June 30, 2007 bond refunding costs were reported net with long-term obligations.

Water Revenue Bonds Outstanding

As indicated herein, upon the issuance of the 2008B Bonds, the City will have outstanding Bonds in the aggregate principal amount of $153,395,000 issued under the Resolution. In connection with the issuance and delivery of the 2008A Bonds, the City entered into a certain standby bond purchase agreement with Bank of America, N.A. The City's payment obligations under such standby bond purchase agreement, as well as certain reimbursement obligations to the Insurer, constitute Parity Debt. No other Parity Debt will be outstanding upon the issuance of the 2008B Bonds.

WATER REVENUE BONDS OUTSTANDING

Name of Issue	Principal Amount
Water Revenue Bonds, Issue of 1991	$9,710,000[1]
Water Refunding / Revenue Bonds, Issue of 1998	20,705,000
Water Revenue Bonds, Issue of 2001	4,445,000
Variable Rate Refunding Water Revenue Bonds, Issue of 2008A	60,300,000
Water Revenue Bonds, Issue of 2008B	58,235,000
Total	$153,395,000

(1) Reflects maturity value of capital appreciation bonds.

Subordinate Obligations

As described herein, the City entered into the 2005 Swap Agreement in connection with the 2005 Bonds. The obligations of the City under the 2005 Swap Agreement constitute Subordinate Obligations pursuant to the Resolution. See "PLAN OF FINANCE - Interest Rate Swap Agreement for the 2005 Bonds" herein for additional information.

Debt Service Requirements

The following table sets forth the estimated debt service on the 2008B Bonds, 2008A Bonds, 2001 Bonds, 1998 Bonds and 1991 Bonds to remain outstanding upon delivery of the 2008B Bonds.

Debt Service Requirements[1]

Period Ending (October 1)	Parity Debt Principal[2]	Parity Debt Current Interest[3]	2008B Bonds Principal	2008B Bonds Interest	Total Debt Service
2008[4]	$4,375,000	$1,363,149	--	$ 967,036	$ 6,705,185
2009[4]	4,415,000	3,134,020	--	2,830,350	10,379,370
2010[4]	4,465,000	3,089,303	--	2,830,350	10,384,653
2011	4,590,000	3,041,063	--	2,830,350	10,461,413
2012	4,820,000	2,818,213	--	2,830,350	10,468,563
2013	5,050,000	2,582,594	--	2,830,350	10,462,944
2014	5,285,000	2,348,581	--	2,830,350	10,463,931
2015	5,560,000	2,102,756	--	2,830,350	10,493,106
2016	1,595,000	1,843,488	$1,610,000	2,830,350	7,878,838
2017	2,130,000	1,776,000	1,210,000	2,765,950	7,881,950
2018	1,925,000	1,700,100	1,535,000	2,717,550	7,877,650
2019	2,375,000	1,630,400	1,220,000	2,656,150	7,881,550
2020	2,475,000	1,554,400	1,245,000	2,607,350	7,881,750
2021	2,525,000	1,475,200	1,320,000	2,557,550	7,877,750
2022	2,600,000	1,394,400	1,380,000	2,504,750	7,879,150
2023	2,725,000	1,311,200	1,410,000	2,435,750	7,881,950
2024	2,800,000	1,224,000	1,490,000	2,365,250	7,879,250
2025	2,900,000	1,134,400	1,555,000	2,290,750	7,880,150
2026	3,000,000	1,041,600	1,625,000	2,213,000	7,879,600
2027	3,100,000	945,600	1,705,000	2,131,750	7,882,350
2028	2,400,000	846,400	2,585,000	2,046,500	7,877,900
2029	3,275,000	769,600	1,920,000	1,917,250	7,881,850
2030	3,400,000	664,800	1,995,000	1,821,250	7,881,050
2031	3,525,000	556,000	2,080,000	1,721,500	7,882,500
2032	2,375,000	443,200	3,445,000	1,617,500	7,880,700
2033	3,700,000	367,200	2,370,000	1,445,250	7,882,450
2034	3,825,000	248,800	2,480,000	1,326,750	7,880,550
2035	3,950,000	126,400	2,600,000	1,202,750	7,879,150
2036	--	--	6,805,000	1,072,750	7,877,750
2037	--	--	7,145,000	732,500	7,877,500
2038	--	--	7,505,000	375,250	7,880,250
Total	$95,160,000	$41,532,866	$58,235,000	$66,134,886	$261,062,752

(1) Totals may not add due to rounding.
(2) Includes maturity values of capital appreciation bonds.
(3) Assumes an annual interest rate of 3.20% on the 2008A Bonds, reflecting the anticipated effect of the 2005 Swap Agreement. See "PLAN OF FINANCE."
(4) 1991 Bonds maturing during these years are capital appreciation bonds, shown at maturity values.

WATER SYSTEM STRATEGIC PLAN

Management and employees, in conjunction with the Board continues, through leadership and creativity, to provide stewardship to the Department.

Strategic Plan

In October 2001, a comprehensive Strategic Plan was adopted for the Water System and the City's electric system. The Board and the City Council are committed to "act like we are in open competition" and strongly believe in 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 strategic planning process, the following goals were revised in October 2002 to fulfill the Department's mission statement:

- Improve and protect the current excellent financial health of the utility
- Build a high quality infrastructure to serve new and existing customers
- Maintain the obligation to serve and improve community relations
- Reduce dependence on a single point of energy delivery (Vista Substation)
- Increase the share of renewable generation in the portfolio
- Safeguard the supply and quality of Riverside water resources for the next 100 years
- Meet essential water and electric services during an emergency or disaster

Short-term actions to achieve these goals were completed as planned in 2003.

In October 2003, a complete review of the three-year strategic plan was completed, with some changes to the three-year goals (2004-2007). Revised goals were as follows:

- Improve and protect the current excellent financial health of the utility
- Build and maintain a safe and reliable infrastructure
- Promote the efficient use of water and electricity
- Enhance community relations and customer satisfaction
- Expand the customer base through economic development
- Attract, develop, and retain quality employees

Short-term actions to achieve these goals included (i) implementation of a work management system to improve efficiencies and reduce costs, (ii) continued increase of established cash reserve levels, (iii) review rate structures to encourage efficiencies, and (iii) expand the business visitation program to small and medium size customers.

On November 5, 2004, the Board agreed with management's recommendation that the annual strategic planning process be combined with a series of long-term planning workshops, which began in early 2005, and were completed in June 2005. The Strategic Long Range Planning would develop ten to twenty-year long-term policies and objectives that would provide the framework under which to implement the Department's Mission Statement and three-year specific goals.

On October 2, 2006, the Department management held a workshop to update the 2006-2009 Three Year Strategic Goals and Objectives. As a result, the Board expanded and supplemented previously adopted goals and adopted the following (not in order of priority):

- Improve system reliability, increase capacity and obtain optimal power and water resources
- Attract, develop and retain quality employees
- Increase organizational effectiveness and efficiency

- Increase public awareness and support for Riverside Public Utilities
- Enhance and protect the current excellent financial health of Riverside Public Utilities

Short-term actions to achieve these goals include: (i) define water supply, transmission, pumping and storage needs to reduce purchases of MDW's Mills Filtration Plant water to zero by summer 2009, (ii) complete the cost-sharing agreement with Western for the Riverside Basin Groundwater Study, and (iii) develop a plan for knowledge transfer from those who are retiring.

In order to ensure maximum efficiency and improvements in operations, management determined that meeting every six months to review / revisit the existing goals / objectives was necessary to reflect any substantive changes in the utility operating environment. On March 19, 2007, September 25, 2007 and March 26, 2008, the Department management held additional workshops to consider the adequacy of the previously approved goals. As a result of these meetings, the Board adopted and articulated the following goals (not in order of priority):

- Improve system reliability, increase capacity and obtain optimal power and water resources
- Attract, develop and retain quality employees
- Enhance organizational effectiveness, efficiency and financial health
- Increase public awareness and support for Riverside Public Utilities
- Provide environmental leadership in renewable energy, conservation and sustainability

In addition, the following short-term actions were added: (i) prepare and present to the California Water Resources Control Board the Water Rights Application for the Santa Ana River, (ii) complete Phase I of the Riverside Groundwater Basin Study, (iii) present for approval the Upper Santa Ana Integrated Regional Water Management Plan, (iv) implement the Riverside Basin Automated Water Level Monitoring Program, (v) present the draft Water Supply Plan, (vi) award a contract for preparing the Riverside Basin Numerical Groundwater Model and the Riverside North Basin Recharge Project Environmental Impact Report, and (vii) substantially complete construction of and place into service the John W. North Water Treatment Plant.

RISK FACTORS

The purchase of the 2008B Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2008 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of any 2008B Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2008B Bonds, any premium thereon upon redemption prior to maturity or their interest. No owner of any 2008B 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 2008B Bonds and any premium upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2008B Bonds, interest thereon and any premium upon redemption.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2008B Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2008B Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Water System serves an essential public purpose.

Water System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Water System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2008B Bonds.

The ability of the City to comply with its covenants under the Resolution and to generate Net Operating Revenues sufficient to pay principal of and interest on the Bonds, including the 2008B Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS." Any remedies available to the owners of the Bonds, including the 2008B Bonds, upon the occurrence of an event of default under the Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Rate Regulation

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

Casualty Risk

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

Certain Other Limitations on Fees and Charges

On July 6, 2005, the California First District Court of Appeals certified for publication *The Regents of the University of California v. East Bay Municipal Utility District*, No. A105674 (Cal. Ct. App. filed July 7, 2005), concluding that the capital component of a public utility's periodic water service charges constituted a capital facilities fee within the meaning of California Government Code Section 54999 et seq. (often referred as the "San Marcos Legislation"). The San Marcos Legislation authorizes any public agencies providing public utility service (which is defined to include, among other things, water and electric service) to continue to charge, increase or impose capital facilities fees, including upon public agencies; provided, that the imposition of such capital facilities fees upon certain educational entities, such as the University of California, or state agencies is subject to certain limitations. Among the limitations on the imposition of such capital facilities fees are the following requirements: (i) for capital facilities fees imposed prior to July 21, 1986, (a) the fee must be necessary to defray the actual construction costs of that portion of a public utility facility actually serving the educational entity or state agency and (b) any increase in the fee is limited to the percentage increase in the Implicit Price Deflator for State and Local Government Purchases; (ii) for new capital facilities fees imposed after July 21, 1986, or any increase in a capital facilities fee in excess of the amount set forth in clause (i)(b), an agreement must be reached through negotiations entered into by both parties, and (iii) capital facilities fees imposed for electric utility service are subject to certain additional procedural requirements including certain prior notice, hearing and disclosure requirements. The impact of the *East Bay Municipal Utility District* decision is to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges, i.e., rates. The University of California's Riverside campus is the City's largest water user. The City has a Potable Water Transportation Agreement, dated April 6, 1993, under which the Regents of the University of California have agreed with the City as to the rates, including capital facilities fees payable to the City.

Loss of Tax Exemption

As discussed under the caption "TAX EXEMPTION" herein, interest with respect to the 2008B Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2008B Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the 2008 Resolutions. Should such an event of taxability occur, the 2008B Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

CONSTITUTIONAL LIMITATIONS

Article XIIIB

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

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

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

The City is of the opinion that their service charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIIIB.

Proposition 218

An initiative measure known as Proposition 218 was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Articles XIIIC and Article XIIID to the California Constitution.

Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the City's ability to increase such fee or charge could be limited by a majority protest. The City has complied with these procedures with respect to its current charges.

In addition, Article XIIID includes a number of requirements applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted. The City believes that its current fees and charges comply with these requirements.

Article XIIID provides that stand-by charges, whether characterized as charges or assessments, are classified as assessments and cannot be imposed without compliance with the provisions of Proposition 218 pertaining to assessments.

The City has covenanted, to the maximum extent permitted by law, to establish and collect sufficient rates and charges to comply with the rate covenants thereunder. As discussed above, Proposition 218 could limit the City's ability to raise rates. See "RISK FACTORS - Water System Expenses and Collections" herein.

Article XIIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIID defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." On July 24, 2006, the California Supreme Court concluded in *Bighorn-Desert View Water Agency v. Beringson* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Section 3 of Article XIIIC, which establishes that the initiative power of the electorate "shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." Therefore, the Court held, Article XIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. However, the Court specifically noted that it was not holding that the initiative power is free of all limitations; and the Court stated that it was *not* determining whether the electorate's initiative power is subject to certain statutory provisions applicable to the Bighorn-Desert View Water Agency that require water service charges to be set at certain minimum rates to cover operations and maintenance costs, debt service and other costs.

No courts have ruled on the question of whether Article XIIIC grants to the voters the power to repeal or reduce rates and charges in a manner which would impair the City's contractual obligations, including but not limited to, an obligation to pay debt service on bonds. Courts have held under certain circumstances that the Contracts Clause of the United States Constitution prohibits public agencies from enacting laws that impair obligations of the public agencies under their own contracts. There can be no assurance of the availability of particular remedies adequate to protect the interests of Bond owners. Remedies available to Bond owners in the event of a default are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Certain aspects of the impact of Proposition 218 in these and other areas remain unclear as court decisions interpreting the application of Proposition 218 to various circumstances continue to be published on a frequent basis.

Future Initiatives

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

TAX EXEMPTION

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2008B Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Under applicable Treasury Regulations, for purposes of evaluation of the excludibility of interest on the 2008B Bonds, the 2008 Bonds would be treated as a single issue; noncompliance with any of the foregoing requirements in respect of any of the 2008 Bonds could cause the interest on the 2008B Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2008B Bonds. The City has undertaken certain covenants in the 2008 Resolutions necessary to maintain the exclusion of the interest on the 2008B Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the 2008B Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenants, interest on the 2008B Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenants, the 2008B Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2008B Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the 2008B Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 % of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2008B Bonds may affect the tax status of interest on the 2008B Bonds or the tax consequences of the ownership of the 2008B Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2008B Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2008B Bonds from the gross income of the owners thereof for federal income tax purposes. On November 9, 2007, the United States Supreme Court heard oral argument in its review of a decision of the Court of Appeals of

Kentucky that held that the Commerce Clause of the United States Constitution prohibits the Commonwealth of Kentucky from exempting interest on bonds issued by the Commonwealth or its localities and authorities from income tax of the Commonwealth of Kentucky while subjecting interest on bonds issued by other states and their localities and authorities to income tax of the Commonwealth. On May 19, 2008, the United States Supreme Court overturned the Kentucky Court of Appeals decision, thereby preserving the right of states to exempt interest on in-state bonds from state income tax while subjecting interest on bonds issued by other states and their localities to state income tax. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2008B Bonds, or the interest thereon, if any action is taken with respect to the 2008 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2008 Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2008 Bonds, the City may have different or conflicting interests from the owners. Further, the disclosure of the initiation of an audit of the 2008 Bonds may adversely affect the market price and liquidity of the 2008B Bonds, regardless of the final disposition of the audit.

To the extent that a purchaser of a 2008B Bond acquires that Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the 2008B Bonds (determined, in the case of a callable 2008B Bond, under the assumption described below), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a 2008B Bond that is callable, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the 2008B Bond will be called on the redemption date that would minimize the purchaser's yield on the 2008B Bond (or that the 2008B Bond will not be called prior to maturity if that would minimize the purchaser's yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2008B Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2008B Bond to the owner.

The excess, if any, of the stated redemption price at maturity of 2008B Bonds of a maturity over the initial offering price to the public of the 2008B Bonds of that maturity set forth on the inside cover page of this Official Statement is "original issue discount." Such original issue discount accruing on a 2008B Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any 2008B Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2008B Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2008B Bond accruing during each period is added to the adjusted basis of such 2008B Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2008B Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2008B Bonds who purchase such 2008B Bonds other than at the initial offering price and pursuant to the initial offering.

Any person considering purchasing a 2008B Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2008B Bond. Any person considering purchasing a 2008B Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of 2008B Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2008B Bonds under federal individual and corporate alternative minimum taxes.

Although Bond Counsel is of the opinion that interest on the 2008B Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2008B Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2008B Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2008B Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the 2008B Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2008B Bonds, (iii) interest on the 2008B Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2008B Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2008B Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2008B Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2008B Bonds are subject to the unqualified approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Said opinion in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2008B Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. The payment of the fees and expenses of Bond Counsel is contingent upon the closing of the sale of the 2008B Bonds.

LITIGATION

At the time of delivery and payment for the 2008B Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2008B Bonds or the power and authority of the City to issue the 2008B Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2008B Bonds.

FINANCIAL STATEMENTS

The financial statements of the City of Riverside Water Utility as of and for the year ended June 30, 2007 included in Appendix B to this Official Statement have been audited by Mayer Hoffman McCann P.C., 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 2006-07 financial statements. The Auditor's review in connection with such 2006-07 audited financial statements included in Appendix B included events only as of June 30, 2007 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Fitch and Standard & Poor's are expected to assign ratings of "AAA" and "AAA," respectively, with the understanding that upon delivery of the 2008B Bonds, the Policy will be issued by the Insurer. In addition, Fitch and Standard & Poor's have assigned underlying ratings of "AA" and "AA+," respectively, to the 2008B Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies at the following addresses: Fitch Ratings, 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 2008B Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter") has agreed, subject to certain conditions, to purchase the 2008B Bonds from the City at a price of $59,938,378.80 (which reflects $193,359.20 in Underwriter's discount and $1,896,738.00 in net original issue premium) and to make a bona fide public offering of the 2008B Bonds at not in excess of the initial public offering prices. The Underwriter will be obligated to purchase all of the 2008B Bonds if any 2008B Bonds are purchased.

The Underwriter may offer and sell the 2008B Bonds to certain dealers and others (including underwriters and other dealers depositing such 2008B Bonds into investment trusts) at prices lower than the respective initial public offering prices, and the public offering prices may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

The City has retained Public Financial Management Inc., of San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance and delivery of the 2008B Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor is contingent upon the issuance and delivery of the 2008B Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2008B Bonds to provide certain financial information and operating data relating to the Water System (the "Annual Report") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2007-08 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository, if any. The notices of material events will be filed by the City with the repositories (and with the appropriate State Repository, if any). The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

While certain of the City's filings with respect to its 1999 Municipal Improvement Corporation Certificates of Participation failed to include certain sales tax information, such filings have been corrected, and the City has not otherwise failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

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MISCELLANEOUS

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

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Paul C. Sundeen
Treasurer

By: /s/ David H. Wright
Public Utilities General Manager

APPENDIX A

CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

The Bonds will not be secured by any pledge of ad valorem taxes or General Fund revenues of the City but will be payable solely from the Net Operating Revenues of the City's Water System. The description of economic and demographic information of the City and County of Riverside set forth in this Appendix A is included in the Official Statement for information purposes only.

General

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

Riverside and San Bernardino Counties cover approximately 27,400 square miles, a land area larger than the State of Virginia. With a population of over 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 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 close to 2,850 full and part-time personnel. The City operates and maintains a sewer, water and electric system. Other City services include police, fire, diversified recreation programs, parks, a museum and libraries.

Population

As of January 1, 2007 the population of the City was estimated to be 291,398 and the County had a population of approximately 2,031,625. As of January 1, 2007, San Bernardino County had a population of approximately 2,028,013. The following table presents population data for both the City and the County.

Table 1
CITY OF RIVERSIDE AND COUNTY OF RIVERSIDE
POPULATION

Year	City of Riverside	County of Riverside
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2001	262,264	1,590,186
2002	270,944	1,653,847
2003	277,459	1,726,321
2004	281,775	1,807,624
2005	287,321	1,888,311
2006	287,820	1,953,330
2007	291,398	2,031,625

Sources: 1960-2000 U.S. Census; 2001-2007 California Department of Finance (Demographic Research Unit)

Personal Income

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income and personal current transfer receipts. Net earnings is earnings by place of work (the sum of wage and salary disbursements (payrolls), supplements to wages and salaries, and proprietors' income) less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis. Personal income is measured before the deduction of personal income taxes and other personal taxes and is reported in current dollars (no adjustment is made for price changes). Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area.

The following table sets forth the per capita personal income in the County and the State for calendar years 2001 through 2005.

Table 2
COUNTY OF RIVERSIDE
PER CAPITA PERSONAL INCOME
Calendar Years 2001 through 2005

Year	County of Riverside	California
2001	$24,661	$32,859
2002	24,789	32,769
2003	25,276	33,469
2004	26,361	35,380
2005	27,167	36,936

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
(1) Per capital personal income was computed using Census Bureau midyear population estimates. Estimates reflect County population estimates available as of March 2007.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 65 elementary, middle schools and high schools. Not all these schools are located within the boundaries of the City. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

The following table sets forth public elementary and secondary school enrollment in the County for school years 2003 through 2007.

Table 3
COUNTY OF RIVERSIDE
PUBLIC SCHOOL ENROLLMENT
School Years 2003 through 2007

Grades	2003	2004	2005	2006	2007
Elementary(1)	247,845	257,868	266,742	275,194	286,207
Secondary(2)	101,762	106,989	114,222	119,989	126,852
Total	349,607	364,857	380,964	395,183	413,059

Source: State Department of Education.
(1) Includes grades K-8 and un-graded elementary students.
(2) Includes grades 9-12 and un-graded secondary students.

The following table sets forth enrollment figures for colleges and universities in the City for school year 2006-07.

Table 4
CITY OF RIVERSIDE
COLLEGE AND UNIVERSITY ENROLLMENT
School Year 2006-07[1]

College or University	Enrollment
Riverside Community College	29,486
University of California at Riverside	16,875
California Baptist University	3,409
La Sierra University	1,896

Source: U.S. Department of Education, National Center for Education Statistics.
(1) Data reflects Fall semester enrollment.

Employment

The following table presents the annual average distribution of persons in various wage and salary employment categories for the MSA for calendar years 2002 through 2006. 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 MSA. The MSA lays to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation.

Table 5
RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT COMPARISON
Calendar Years 2002 through 2006

	2002	2003	2004	2005	2006
Civilian Labor Force[1]	1,541,400	1,591,600	1,662,500	1,724,700	1,770,500
Employment	1,445,000	1,489,800	1,564,600	1,633,300	1,684,400
Unemployment	96,400	101,800	97,900	91,400	86,100
Unemployment Rate	6.3%	6.4%	5.9%	5.3%	4.9%
Wage and Salary Employment[2]					
Agriculture	20,300	20,300	18,700	18,300	17,200
Natural Resources and Mining	1,200	1,200	1,200	1,400	1,400
Construction	90,900	99,000	111,800	123,300	129,500
Manufacturing	115,400	116,100	120,100	121,000	124,000
Wholesale Trade	41,900	43,500	45,600	49,900	53,800
Retail Trade	137,500	142,700	153,800	165,700	171,500
Trans., Warehousing and Utilities	46,800	50,100	55,500	60,200	63,800
Information	14,100	13,900	14,000	14,500	15,200
Finance and Insurance	23,500	25,700	28,000	30,100	31,900
Real Estate and Rental and Leasing	15,900	16,900	17,700	18,900	20,000
Professional and Business Services	106,800	115,400	125,500	133,200	142,200
Educational and Health Services	112,400	115,800	118,400	119,900	122,700
Leisure and Hospitality	107,200	109,000	116,700	122,600	128,700
Other Services	38,100	38,400	39,300	40,800	42,600
Federal Government	16,900	17,000	17,300	18,700	18,800
State Government	26,600	26,600	26,500	27,000	27,300
Local Government	169,300	167,900	168,700	174,800	178,100
Total, All Industries	1,084,800	1,119,400	1,178,700	1,240,300	1,288,400

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

The 25 largest employers in the County are shown below.

Table 6
COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of October, 2007)

	Employer Name	Location	Industry
1.	Boston Scientific Corp	Temecula	Physicians
2.	C A State Transportation	Lake Elsinore	Government
3.	Conduit Networks Inc	Not Available	Computers-Networking
4.	Crossroads Truck Dismantling	Mira Loma	Automobile
5.	Desert Regional Medical Center	Palm Springs	Hospitals
6.	Desert Sands Unified School District	La Quinta	Schools
7.	Eisenhower Medical Center	Rancho Mirage	Hospitals
8.	Hemet Valley Medical System	Hemet	Hospitals
9.	La Quinta Resort & Club	La Quinta	Resorts
10.	Labtechniques	Rancho Mirage	Laboratories-Medical
11.	Marriott-Desert Springs Resort	Palm Desert	Hotels
12.	Morongo Casino Resort & Spa	Cabazon	Tourist
13.	Oasis Distributing	Thermal	Fruits
14.	Palm Springs Unified School District	Palm Springs	Schools
15.	Pechanga Development Corp	Temecula	Casinos
16.	Riverside Community College	Riverside	Schools-Universities
17.	Riverside Community Hospital	Riverside	Hospitals
18.	Riverside County Regional Med	Moreno Valley	Hospitals
19.	Riverside Forklift Training	Riverside	Trucks-Industrial
20.	Robertson’s Ready Mix	Corona	Concrete-Ready
21.	Starcrest Products-California	Perris	Internet
22.	Sun World Intl Llc	Coachella	Fruits
23.	T Michael Intl	Perris	Internet
24.	University Of California	Riverside	Schools-Universities
25.	Watson Pharmaceuticals Inc	Corona	Drug

Source: California Employment Development Department, extracted from The America’s Labor Market Information System (ALMIS) Employer Database.

Housing

The following table sets forth estimates of the City's housing stock for calendar years 2003 through 2007.

Table 7
CITY OF RIVERSIDE
HOUSING STOCK[(1)]
Calendar Years 2003 through 2007

Type	2003	2004	2005	2006	2007
Single family					
Detached	57,323	58,106	58,673	59,933	60,838
Attached	4,185	4,185	4,139	4,139	4,144
Multifamily					
2 to 4 units	5,824	5,826	5,826	5,832	5,840
5 or more units	20,770	20,801	22,382	22,639	23,147
Mobile homes	2,409	2,431	2,431	2,477	2,477
Total units	90,511	91,349	93,451	95,020	96,446

Source: California State Department of Finance.
(1) Housing units are estimated by adding new construction and annexations, and subtracting demolitions and conversions from the 2000 benchmark or a prior year's estimate.

Construction Activity

The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the number of new dwelling units authorized in the City during calendar years 2003 through 2007.

Table 8
CITY OF RIVERSIDE
BUILDING PERMIT ACTIVITY
Calendar Years 2003 through 2007
(Dollars in Thousands)

	2003	2004	2005	2006	2007
PERMIT VALUATION					
New Single-family	$140,055.6	$205,436.7	$333,223.8	$200,821.0	$88,700.6
New Multi-family	93,711.0	23,610.9	44,223.8	32,498.8	59,369.5
Res. Alterations/Additions	19,772.5	22,225.7	22,817.8	17,139.3	183,372.3
Total Residential	$253,539.1	$251,273.3	$400,265.4	$250,459.2	$166,512.4
New Commercial	$62,900.5	$161,598.7	$107,106.2	$118,436.3	$117,693.6
New Industrial	14,973.6	14,593.8	26,909.5	35,484.2	45,943.6
New Other	18,816.8	32,324.4	35,436.2	26,905.6	27,857.2
Com. Alterations/Additions	45,913.7	40,374.2	56,320.9	63,389.2	67,889.5
Total Nonresidential	$142,604.6	$248,891.2	$225,772.7	$244,315.3	$259,383.9
NEW DWELLING UNITS					
Single Family	689	820	1,442	847	342
Multiple Family	1,377	282	521	286	599
TOTAL	2,066	1,102	1,963	1,133	941

Source: Construction Industry Research Board.

Retail Sales

The following table sets forth taxable transactions for calendar years 2002 through 2006 in the City by type of business.

Table 9
CITY OF RIVERSIDE
TAXABLE TRANSACTIONS
Calendar Years 2002 through 2006
(Dollars in Thousands)

	2002	2003	2004	2005	2006
Apparel stores	$ 105,476	$ 124,223	$ 145,023	$ 160,138	$ 174,662
General merchandise stores	510,038	536,795	597,030	625,500	606,351
Food stores	136,076	145,308	154,562	168,015	176,052
Eating & drinking places	257,711	276,757	300,858	330,249	350,911
Home furnishings & appliances	81,844	93,977	102,243	108,873	119,217
Building materials & farm implements	346,277	395,175	517,865	584,760	573,736
Auto dealers and auto supplies	864,486	987,372	1,172,792	1,245,340	1,219,784
Service stations	192,914	222,575	266,658	306,008	342,810
Other retail stores	396,808	427,978	461,968	491,080	519,454
Retail Stores Totals	$2,891,630	$3,210,160	$3,718,999	$4,019,963	$4,082,977
All other outlets	769,277	764,423	884,770	930,291	951,095
Total all outlets	$3,660,907	$3,974,583	$4,603,769	$4,950,254	$5,034,072

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.

Transportation

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

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

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles west of the City. 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 County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, County voters approved extending Measure A until 2039. Measure A is expected to generate $4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program, and that sales tax was similarly extended by a vote of the electorate in November 2003.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Independent Auditors' Report

Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
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To the Honorable City Council and Board of Public Utilities
City of Riverside
Riverside, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2006 and, in our report dated September 30, 2006, we expressed an unqualified opinion on those financial statements.

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

As discussed in Note 1 to the financial statements, the financial statements of the City of Riverside, California, Water Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside, California, Water Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, 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, California, Water Utility, as of June 30, 2007 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, as listed in the table of contents, is not a required part of the basic 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 consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditors' Report

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To the Honorable City Council and Board of Public Utilities

City of Riverside

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Water Utility's basic financial statements. The supplementary information entitled Water Key Historical Data, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California

October 19, 2007

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Water Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 51 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2007 and 2006 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base, increased consumption due to a prolonged summer heat wave, and the effects of rate increases.

- Retail sales, net of reserve/recovery were $43,403 and $34,301 for the years ended June 30, 2007 and 2006, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2007 and 2006 by $253,917 and $228,880, respectively. Of this amount, $39,707 and $35,344, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2007 and 2006 increased by $25,037 and $29,397 from fiscal years ended June 30, 2007 and 2006, respectively.
- As of June 30, 2007 and 2006, unrestricted equity represented over 106% and 103% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Riverside Water Utility financial statements. The Water 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 Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Riverside's "Comprehensive Annual Financial Report."

The City of Riverside Water 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 Water Utility, including key historical operating and other relevant data.

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

The ***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, e.g., 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.

Management's Discussion and Analysis

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 55 to 64 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 Water Utility, assets exceeded liabilities by $253,917 and $228,880 at the close of the fiscal years 2007 and 2006, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2007, 2006 and 2005:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2007	2006	2005
Current and other assets	$ 77,827	$ 86,812	$ 37,197
Capital assets	286,396	254,425	241,699
Total assets	364,223	341,237	278,896
Long-term debt outstanding	91,568	94,961	63,180
Other liabilities	18,738	17,396	16,233
Total liabilities	110,306	112,357	79,413
Invested in capital assets, net of related debt	200,832	180,708	175,041
Restricted	13,378	12,828	8,572
Unrestricted	39,707	35,344	15,870
Total equity (net assets)	$ 253,917	$ 228,880	$ 199,483

Assets

Fiscal Year 2007 Total assets of $364,223 reflect an increase of $22,986 (6.7%), mainly due to the following:

- The increase in net capital assets (Utility plant) of $31,971 is a result of significant expenses in the pipeline replacement program, system expansion and improvements, and the contribution of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 48 to 49 of this report.

- Current and other assets reflect a net decrease of $8,985 due to positive operating results and the use of bond proceeds and operating cash for construction projects and equipment. Restricted assets decreased by $14,124 primarily due to a $15,121 decrease in bond proceeds used for capital projects, offset by a $516 increase in the Utility's Conservation and Reclamation Program assets. Unrestricted assets increased by $5,139 largely from a $6,362 increase in cash and cash equivalents from positive operating results, offset by a $819 decrease in accounts receivable.

Fiscal Year 2006 Total assets of $341,237 increased $62,341 (22.4%), due to a $12,726 increase in net capital assets (Utility plant), primarily relating to improvements to the Water Utility's distribution system and treatment facilities, and a $49,615 increase in current and other assets. The $49,615 is comprised of $28,900 in restricted cash and investments (predominantly from $34,400 in new bond proceeds offset by use of bond proceeds for construction projects), $2,094 in accounts receivable, and $17,854 in cash from operations, primarily relating to sales of excess water property.

Liabilities

Fiscal Year 2007 The Utility's total liabilities were $110,306, a decrease of $2,051 (1.8%), due to the following:

- Long-term debt outstanding decreased by $3,393 largely due to $4,300 in principal repayments, offset by the amortization of deferred bond refunding costs, capital appreciation, and bond discounts.
- Other liabilities increased by $1,342, primarily from a $1,188 increase in accounts payable.

Fiscal Year 2006 The Water Utility's liabilities increased by $32,944 (41.5%) to a total of $112,357. Long-term obligations increased by $31,781 principally due to $61,125 Water Refunding/Revenue bond issue, offset by a $26,598 deposit into a refunding escrow account and $3,912 of principal payments.

Equity (Net Assets)

Fiscal Year 2007 The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $253,917, an increase of $25,037 (10.9%), comprised of the following:

- The largest portion of the Utility's equity is $200,832 (79.1%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion increased by $20,124 (11.1%) over prior fiscal year due to the amount of capital assets constructed or purchased that are not bond financed. The Water 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 Sheets must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $13,378 (5.3% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by $550 from prior fiscal year primarily due to Water Conservation and Reclamation program assets.
- The unrestricted portion totaled $39,707 (15.6% of total equity), an increase of $4,363, primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

Fiscal Year 2006 Total Water fund equity increased $29,397 (14.7%) to a total of $228,880. The portion of equity invested in capital assets, net of related debt, increased by $5,667. The restricted portion increased by $4,256, due to an increase in the required debt service reserve as a result of the $61,125 bond issue. The unrestricted portion increased by $19,474 primarily from positive operating results.

Management's Discussion and Analysis

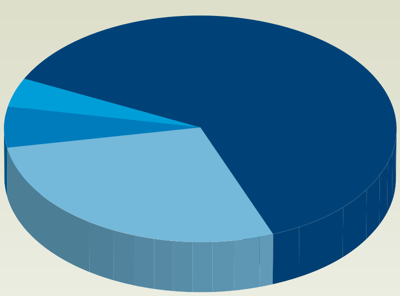
The Water Utility's overall increase in equity of $25,037 and $29,397 during fiscal years 2007 and 2006, respectively, due to positive operating results can be further explained in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2007	2006	2005
Revenues:			
Retail sales, net	$ 43,403	$ 34,301	$ 30,754
Other revenues	4,491	19,708	5,066
Investment income	2,931	1,773	582
Capital contributions	20,074	16,511	11,826
Total revenues	70,899	72,293	48,228
Expenses:			
Operations and maintenance	23,449	21,514	20,129
Purchased energy and water	6,233	5,742	6,331
Depreciation	7,783	7,142	6,314
Interest expense and fiscal charges	4,469	4,959	3,812
Total expenses	41,934	39,357	36,586
Transfers to the City's general fund	(3,928)	(3,539)	(3,487)
Special item	-	-	(3,014)
Changes in equity	25,037	29,397	5,141
Equity, July 1	228,880	199,483	194,342
Equity, June 30	$ 253,917	$ 228,880	$ 199,483

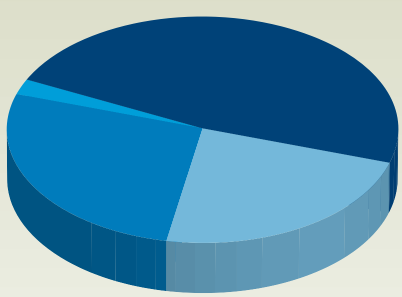
REVENUES BY SOURCES

June 30, 2007



Retail Sales (62%)
Capital Contributions (28%)
Other (6%)
Investment Income (4%)

June 30, 2006



Retail Sales (48%)
Capital Contributions (23%)
Other (27%)
Investment Income (2%)

Water

Management's Discussion and Analysis

Fiscal Year 2007 Total revenues of $70,899, decreased by $1,394 (1.9%), due to the following major changes:

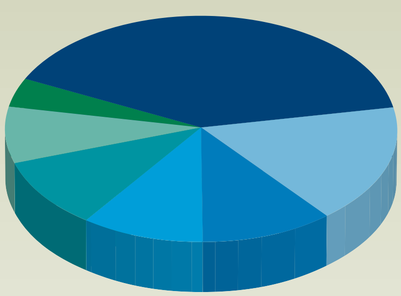
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery of $43,403 was an increase of $9,102 (26.5%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 61.2% of total revenues. The increase in retail sales is primarily due to an 8.5% rate increase that became effective June 1, 2006, a 12% increase that became effective November 1, 2006 as part of the SAFE W.A.T.E.R. Plan, and an 11.3% increase in retail consumption.
- Other revenues of $4,491 decreased by $15,217 (77.2%) predominantly due to $15,384 received from the sale of surplus property in the previous fiscal year.
- Capital contributions were $20,074 and reflect an increase of $3,563 (21.6%), primarily due to a non-cash contribution of $7,243 for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources, offset by a decrease of $5,598 in construction projects funded by developers.
- Investment income of $2,931 reflects an increase of $1,158 (65.3%), due to an increase in operating cash resulting in increased interest earnings of $726, and an overall net increase in the fair market value of investments of $432.

Fiscal Year 2006 Total revenues of $72,293, reflect an increase of $24,065 (49.9%), with significant changes due to:

- Net retail sales were $34,301, making up 47.4% of total revenues. Net retail sales increased $3,547 (11.5%) due to an 8.5% rate increase that became effective June 1, 2005 and a 3.6% increase in consumption over prior year.
- Other revenues of $19,708 increased by $14,642 (289.0%) due to $15,384 received from sales of surplus property.
- Capital contributions were $16,511, an increase of $4,685 (39.6%), reflecting a higher level of construction projects funded by developers.

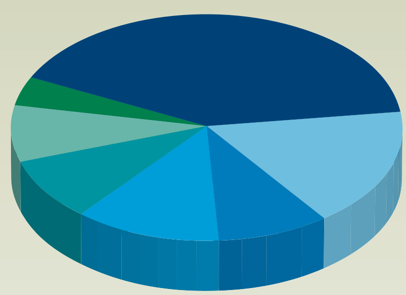
EXPENSES BY SOURCES

June 30, 2007



- Operations (40%)
- Depreciation (17%)
- Maintenance (11%)
- Interest Expense (10%)
- Purchased Energy (10%)
- Contributions to the City's General Fund (8%)
- Purchased Water (4%)

June 30, 2006



- Operations (41%)
- Depreciation (17%)
- Maintenance (9%)
- Interest Expense (12%)
- Purchased Energy (9%)
- Contributions to the City's General Fund (8%)
- Purchased Water (4%)

Fiscal Year 2007 Total expenses were $41,934, an increase of $2,577 (6.5%), due to the items discussed below:

- Purchased energy and water costs of $6,233 increased by $491 (8.6%) due to a $624 increase in the cost of electricity and gas necessary for operations, offset by a $133 reduction in purchased water costs.
- Operations and maintenance costs were $23,449, and reflected an increase of $1,935 (9.0%), largely due to an increase in labor costs, professional service costs and maintenance expenses.

Fiscal Year 2006 Total expenses were $39,357, reflecting a $2,771 (7.6%) increase, due to higher interest expense as a result of a new revenue bond issue, increased costs for labor, taxes and assessments, offset by lower purchased water costs and charges for professional services.

Transfers

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues by Section 1204(f) of the City Charter. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

Fiscal Year 2007 The Water Utility transferred the maximum allowable by the City Charter, or $3,928, an increase of $389, as a result of an increase in retail sales of $3,547 for fiscal year 2006.

Fiscal Year 2006 Transfers to the City's general fund of $3,539, increased by $52, primarily the result of a $391 increase in retail sales for fiscal year 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Water Utility's investment in Capital Assets includes investments in source of supply, pumping, treatment, transmission and distribution facilities, and construction in progress, as well as general items such as office equipment, furniture, etc.

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

	2007	2006	2005
Source of supply	$ 22,266	$ 22,727	$ 21,935
Pumping	7,641	7,918	4,714
Treatment	20,293	13,483	12,758
Transmission and distribution	195,557	190,708	173,732
General	3,680	3,066	3,352
Land	3,923	3,891	6,283
Intangible	5,969	5,969	6,269
Construction in progress	27,067	6,663	12,656
Total	$ 286,396	$ 254,425	$ 241,699

Water

Fiscal Year 2007 The Water Utility's investment in capital assets, net of accumulated depreciation, was $286,396, an increase of $31,971 (12.6%). The increase resulted primarily from the following significant capital projects:

- $11,279 for continued pipeline replacement programs.
- $10,045 for system expansion and improvements including pump station replacements and facilities rehabilitation.
- $7,243 from non-cash contributions for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources.

Fiscal Year 2006 Capital assets, net of depreciation, for the Water Utility increased $12,726 (5.3%), for a total of $254,425. Major capital projects included the following:

- $10,700 related to the ongoing pipeline replacement program.
- $5,300 related to system expansion and improvements to water facilities.

Additional information regarding capital assets can be found in Note 3 on Page 60 of this report.

Debt Administration

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	2007	2006	2005
Revenue bonds	$ 99,515	$ 103,815	$ 71,015
Contracts payable	974	979	1,015
Less:			
Current portion	(4,505)	(4,450)	(4,225)
Unamortized deferred bond refunding costs	(2,510)	(2,587)	(504)
Unamortized capital appreciation	(1,629)	(2,487)	(3,499)
Unamortized bond discounts	(277)	(309)	(622)
Total	$ 91,568	$ 94,961	$ 63,180

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 3.38, 5.11, and 2.85 at June 30, 2007, 2006 and 2005, respectively. The revenue bond debt is backed by the revenues of the Utility.

Fiscal Year 2007 Total long-term debt decreased by $3,393 (3.6%) to a total of $91,568, due to repayment of principal on outstanding revenue bonds and the amortization of deferred bond refunding costs, capital appreciation and bond discounts.

Fiscal Year 2006 Long-term debt of $94,961 increased by $31,781 (50.3%), due to the issuance of a $61,125 variable rate Water Refunding/Revenue bond issue offset by the repayment of principal on the Water Utility's outstanding revenue bonds.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 60 to 63 of this report.

Credit Ratings

The Water Utility maintains an "AA" credit rating from Standard & Poor's and Fitch, Inc. for its revenue bonds.

ECONOMIC FACTORS AND RATES

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the Water Utility's escalation in costs are not strictly attributable to inflation. One of the primary drivers of the increase in costs relates to the Water Utility's aging infrastructure.

To address this concern, in March 2006, the Board of Public Utilities, after the requisite public hearing, adopted and the City Council unanimously approved, the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. This plan implements system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan is initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008, 2009, and 2010, respectively.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates such as reclaimed water, infrastructure needs, system growth, source of supply, ground water contamination, stricter contaminant guidelines, legislative mandates, and others. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they may cause to Riverside's water quality.

Requests for Information

This financial report is designed to provide a general overview of the City of Riverside Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Customer Relations or the Utilities Assistant Chief Financial Officer, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.riversidepublicutilities.com.

Balance Sheets

ASSETS	June 30, 2007	June 30, 2006
	(in thousands)	
UTILITY PLANT:		
Source of supply	$ 32,822	$ 32,684
Pumping	14,053	13,986
Treatment	22,697	15,449
Transmission and distribution	284,010	273,785
General	10,045	8,969
	363,627	344,873
Less accumulated depreciation	(114,190)	(106,971)
	249,437	237,902
Land	3,923	3,891
Intangible	5,969	5,969
Construction in progress	27,067	6,663
Total utility plant (Note 3)	286,396	254,425
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	4,475	4,424
Cash and investments at fiscal agent (Note 2)	17,982	32,673
Total restricted non-current assets	22,457	37,097
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,838	5,876
Deferred bond issuance costs	1,003	1,067
Advances to the City's general fund	20	28
Total other non-current assets	6,861	6,971
Total non-current assets	315,714	298,493
CURRENT ASSETS:		
Unrestricted:		
Cash and cash equivalents (Note 2)	40,127	33,765
Accounts receivable, less allowance for doubtful accounts 2007 $58; 2006 $36	5,290	4,283
Accounts receivable, other utilities and governments, less allowance for doubtful accounts 2007 $155; 2006 $215	1,838	3,664
Accrued interest receivable	399	327
Prepaid expenses	2	368
Total unrestricted current assets	47,656	42,407
Restricted assets:		
Cash and cash equivalents (Note 2)	741	276
Conservation and Reclamation Programs Receivable	112	61
Total restricted current assets	853	337
Total current assets	48,509	42,744
Total assets	$ 364,223	$ 341,237

Water

See accompanying notes to the financial statements

Balance Sheets

EQUITY AND LIABILITIES	June 30, 2007	June 30, 2006
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 200,832	$ 180,708
Restricted for:		
Debt service (Note 5)	12,525	12,491
Conservation & Reclamation Programs	853	337
Unrestricted	39,707	35,344
Total equity	253,917	228,880
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	91,568	94,961
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Note 4)	5,761	5,823
Arbitrage liability	416	-
Total other non-current liabilities	6,177	5,823
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	318	325
Current portion of long-term debt (Note 4)	4,355	4,300
Total current liabilities payable from restricted assets	4,673	4,625
CURRENT LIABILITIES:		
Accounts payable	4,436	3,248
Accrued liabilities	1,959	2,150
Current portion of long-term debt (Note 4)	150	150
Customer deposits	1,343	1,400
Total current liabilities	7,888	6,948
Total liabilities	110,306	112,357
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	$ 364,223	$ 341,237

Water

See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 28,396	$ 22,336
Commercial sales	13,255	10,470
Other sales	1,916	1,617
Wholesale sales	164	151
Conservation & Reclamation	737	434
Other operating revenue	2,602	2,598
Total operating revenues before (reserve)/recovery	47,070	37,606
Reserve for uncollectible, net of bad debt recovery	(164)	(122)
Total operating revenues, net of (reserve)/recovery	46,906	37,484
OPERATING EXPENSES:		
Operations	18,382	17,593
Maintenance	4,846	3,693
Purchased energy	4,534	3,910
Purchased water	1,699	1,832
Conservation & Reclamation Programs	221	228
Depreciation	7,783	7,142
Total operating expenses	37,465	34,398
Operating income	9,441	3,086
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,931	1,773
Interest expense and fiscal charges	(4,469)	(4,959)
Gain (loss) on sale of capital assets	(144)	12
Gain on sale of land	70	15,384
Other	1,062	1,129
Total non-operating revenues (expenses)	(550)	13,339
Income before contributions and transfers	8,891	16,425
Capital contributions	20,074	16,511
Transfers out - contributions to the City's general fund	(3,928)	(3,539)
Total capital contributions and transfers out	16,146	12,972
Increase in equity	25,037	29,397
EQUITY, BEGINNING OF YEAR	228,880	199,483
EQUITY, END OF YEAR	$ 253,917	$ 228,880

Water

See accompanying notes to the financial statements

Statements of Cash Flows

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 47,781	$ 35,497
Cash paid to suppliers and employees	(28,445)	(26,476)
Other receipts	1,062	1,129
Net cash provided by operating activities	20,398	10,150
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(3,928)	(3,539)
Principal paid on pension obligation bonds	(62)	(67)
Net cash used by non-capital financing activities	(3,990)	(3,606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(25,469)	(17,167)
Proceeds from the sale of utility plant	103	18,327
Principal paid on long-term obligations	(4,305)	(3,912)
Interest paid on long-term obligations	(3,445)	(4,086)
Proceeds from the sale of revenue bonds, net of bond premium	-	61,824
Deposit to escrow account for advance bond refunding	-	(24,450)
Bond issuance cost	-	(2,940)
Capital contributions	5,611	10,878
Net cash provided (used) by capital and related financing activities	(27,505)	38,474
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reduction in advances to the City's general fund	8	20
Purchases of investment securities	(430)	(3,589)
Income from investments	3,276	1,663
Net cash provided (used) by investing activities	2,854	(1,906)
Net increase (decrease) in cash and cash equivalents	(8,243)	43,112
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including $29,327 and $4,069 at June 30, 2006 and June 30, 2005, respectively, reported in restricted accounts)	63,092	19,980
CASH AND CASH EQUIVALENTS, END OF YEAR (including $14,722 and $29,327 at June 30, 2007 and June 30, 2006, respectively, reported in restricted accounts)	$ 54,849	$ 63,092
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 9,441	$ 3,086
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,783	7,142
Amortization of deferred charges-pension costs	38	14
Increase (decrease) in allowance for uncollectible accounts	(38)	28
Decrease (increase) in accounts receivable	806	(2,172)
Decrease (increase) in prepaid expenses	366	(368)
Increase in accounts payable	1,188	1,133
Increase (decrease) in accrued liabilities	(191)	123
Increase (decrease) in customer deposits	(57)	35
Other receipts	1,062	1,129
Net cash provided by operating activities	$ 20,398	$ 10,150
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	14,463	5,633
Increase in fair value of investments	23	6

Water

See accompanying notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Water Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission. The Water Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

USE OF ESTIMATES

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

REVENUE RECOGNITION

Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $2,732 at June 30, 2007, and $2,553 at June 30, 2006.

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

UTILITY PLANT AND DEPRECIATION

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

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

Supply, pumping and treatment plant……………………………………...……..15-60 years
Transmission and distribution plant……………………………………….……....25-50 years
General plant and equipment………………………………………………..……....3-50 years

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Balance Sheets because their use is limited by applicable bond covenants.

In June 2004, the City began collecting a surcharge for water conservation and reclamation programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5%, 1.0% and 1.5% surcharge effective June 1, 2004, 2005 and 2006, respectively. The programs and services offered include conservation, education, and water use efficiency programs; programs to encourage the use of reclaimed water; research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and water service provided to low-income customers. This surcharge is scheduled to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. The activity associated with the surcharge for water conservation and reclamation programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND INVESTMENTS

In accordance with Water Utility policy, the Water Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Water Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

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

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value.

City-wide information concerning cash and investments for the year ended June 30, 2007, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

BOND DISCOUNTS, CAPITAL APPRECIATION, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond discounts, capital appreciation, issuance costs and gains and losses on refunding are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts, capital appreciation, and gains and losses on refunding are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds do not pay annual interest and mature at a pre-determined par value.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2007 and 2006, respectively, was $1,343 and $1,400 (including $969 and $1,032, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of the remaining cash asset to shareholders, of which the City is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2007 and 2006. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $1,899 at June 30, 2007, and $2,114 at June 30, 2006, 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 accrual may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of $100,000.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2007, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2007, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were $219 and $376 for the years ended June 30, 2007 and 2006, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (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 2.7 percent of their highest 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 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June, 30 2007 and 2006, was 13.18 percent and 19.74 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2007 and 2006, was $1,579 and $1,539, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2007, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Water Utility's share is $5,890 as reflected in the accompanying Balance Sheet as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with CalPERS. The balance in deferred pension costs as of June 30, 2007 and 2006 was $5,838 and $5,876, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Water Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Water Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. The balance in arbitrage liability as of June 30, 2007 was $416.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EQUITY

The Water Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

Invested in capital assets, net of related debt – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted net assets – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2006-07 and 2005-06, the Water Utility transferred 11.5 percent of gross operating revenues, or $3,928 and $3,539, respectively.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2007 and 2006, consist of the following (in thousands):

	June 30, 2007 (Fair Value)		June 30, 2006	
Equity interest in City Treasurer's investment pool	$	45,343	$	38,465
Investments at fiscal agent		17,982		32,673
Total cash and investments	$	63,325	$	71,138

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

	June 30, 2007		June 30, 2006	
Unrestricted cash and cash equivalents	$	40,127	$	33,765
Restricted cash and cash equivalents		5,216		4,700
Restricted cash and investments at fiscal agent		17,982		32,673
Total cash and investments	$	63,325	$	71,138

Cash and investments distribution by maturities as of year end are as follows:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 107	$ 107	$ -	$ -	$ -
Federal agency securities	415	415	-	-	-
Investment contracts[1]	15,029	-	9,506	-	5,523
Commercial paper	2,431	-	-	2,431	-
City Treasurer's investment pool [2]					
Money market funds	3,609	3,609	-	-	-
Federal agency securities	27,808	5,736	3,980	18,092	-
Corp medium term notes	2,270	-	2,270	-	-
State investment pool	11,656	11,656	-	-	-
Total	$ 63,325	$ 21,523	$ 15,756	$ 20,523	$ 5,523

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

		Rating as of Year End			
Investment Type	Total	AAA	Aa	A-1	Unrated
Held by fiscal agent					
Money market funds	$ 107	$ 107	$ -	$ -	$ -
Federal agency securities	415	415	-	-	-
Investment contracts	15,029	15,029	-	-	-
Commercial paper	2,431	-	-	2,431	-
City Treasurer's investment pool [2]					
Money market funds	3,609	-	-	-	3,609
Federal agency securities	27,808	27,808	-	-	-
Corp medium term notes	2,270	-	2,270	-	-
State investment pool	11,656	-	-	-	11,656
Total	$ 63,325	$ 43,359	$ 2,270	$ 2,431	$ 15,265

[1] Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

[2] Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Retirements/ Transfers	Balance, As of 6/30/06	Additions	Retirements/ Transfers	Balance, As of 6/30/07
Source of supply	$ 31,315	$ 1,377	$ (8)	$ 32,684	$ 138	$ -	$ 32,822
Pumping	10,515	3,471	-	13,986	67	-	14,053
Treatment	14,313	1,136	-	15,449	7,248	-	22,697
Transmission and distribution	251,583	22,374	(172)	273,785	10,873	(648)	284,010
General	8,977	234	(242)	8,969	1,210	(134)	10,045
Depreciable utility plant	316,703	28,592	(422)	344,873	19,536	(782)	363,627
Less accumulated depreciation:							
Source of supply	(9,380)	(587)	10	(9,957)	(595)	(4)	(10,556)
Pumping	(5,801)	(267)	-	(6,068)	(344)	-	(6,412)
Treatment	(1,555)	(411)	-	(1,966)	(438)	-	(2,404)
Transmission and distribution	(77,851)	(5,359)	133	(83,077)	(5,819)	443	(88,453)
General	(5,625)	(518)	240	(5,903)	(586)	124	(6,365)
Accumulated depreciation	(100,212)	(7,142)	383	(106,971)	(7,782)	563	(114,190)
Net depreciable utility plant	216,491	21,450	(39)	237,902	11,754	(219)	249,437
Land	6,283	221	(2,613)	3,891	35	(3)	3,923
Intangible	6,269	-	(300)	5,969	-	-	5,969
Construction in progress	12,656	22,831	(28,824)	6,663	24,294	(3,890)	27,067
Nondepreciable utility plant	25,208	23,052	(31,737)	16,523	24,329	(3,893)	36,959
Total utility plant	$ 241,699	$ 44,502	$ (31,776)	$ 254,425	$ 36,083	$ (4,112)	$ 286,396

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Reductions	Balance, As of 6/30/06	Additions	Reductions	Balance, As of 6/30/07	Due Within One Year
Revenue bonds	$ 66,390	$ 58,854	$ (26,812)	$ 98,432	$ -	$ (3,333)	$ 95,099	$ 4,355
Pension obligation	5,890	-	(67)	5,823	-	(62)	5,761	79
Water stock acquisition rights	1,015	-	(36)	979	-	(5)	974	150
Arbitrage liability	-	-	-	-	416	-	416	-
Total long-term obligations	$ 73,295	$ 58,854	$ (26,915)	$ 105,234	$ 416	$ (3,400)	$ 102,250	$ 4,584

NOTE 4. LONG-TERM OBLIGATIONS (continued)

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

	June 30, 2007	June 30, 2006
Contracts Payable		
Water Stock Acquisitions: Payable on demand to various water companies	$ 974	$ 979
Total contracts payable	974	979
Revenue Bonds Payable		
$69,840 1991 Water Revenue Bonds: $25,900 serial capital appreciation bonds due in annual installments from $3,235 to $3,240 from October 1, 2007 through October 1, 2010, interest from 6.9 percent to 7.0 percent; (partially advance refunded in 1998)	12,950	16,185
$30,965 1998 Water Refunding/Revenue Bonds: $15,055 serial bonds due in annual installments from $285 to $3,690 through October 1, 2013, interest from 4.5 percent to 5.38 percent; $10,155 term bonds due October 1, 2018, interest at 5.0 percent; $5,755 term bonds due October 1, 2027; a portion of the serial and term bonds were advance refunded on September 20, 2005 with the 2005 Water Refunding/Revenue bonds	20,990	21,265
$20,000 2001 Water Revenue Bonds: $10,070 serial bonds due in annual installments from $405 to $585 through October 1, 2016, interest from 3.40 percent to 4.75 percent; $4,345 term bonds due October 1, 2026, and $5,585 term bonds due October 1, 2031 were advance refunded on September 20, 2005 with the 2005 Water Refunding/Revenue bonds	4,850	5,240
$61,125 2005 Water Refunding/Revenue Bonds: $61,125 Auction Rate Securities due in annual installments from $425 to $3,950 through October 1, 2035. Interest is variable and rate is subject to weekly repricing (rate at June 26, 2007 was 3.60 percent).	60,725	61,125
Total water revenue bonds payable	99,515	103,815
Total water revenue bonds and contracts payable	100,489	104,794
Unamortized deferred bond refunding costs	(2,510)	(2,587)
Unamortized capital appreciation	(1,629)	(2,487)
Unamortized bond discount	(277)	(309)
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation and bond discount	96,073	99,411
Less current portion	(4,505)	(4,450)
Total long-term water revenue bonds and contracts payable	$ 91,568	$ 94,961

NOTE 4. LONG-TERM OBLIGATIONS (continued)

Annual debt service requirements to maturity, as of June 30, 2007, are as follows (in thousands):

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2036	Total
Principal	$ 4,505	$ 4,525	$ 4,565	$ 4,615	$ 4,740	$ 22,534	$ 11,430	$ 14,025	$ 15,700	$ 13,850	$ 100,489
Interest	3,194	3,153	3,109	3,063	3,110	11,338	7,889	5,807	3,448	890	45,001
Total	$ 7,699	$ 7,678	$ 7,674	$ 7,678	$ 7,850	$ 33,872	$ 19,319	$ 19,832	$ 19,148	$ 14,740	$ 145,490

ADVANCE REFUNDING

In prior years the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financials statements. At fiscal year ended June 30, 2007, $22,560 of bonds outstanding are considered defeased.

2005 WATER REFUNDING/REVENUE BONDS

On September 20, 2005, the Water Utility issued $61,125 of Water Refunding/Revenue Bonds, in the form of Auction Rate Securities, to finance capital improvement programs and refund certain existing Water revenue bonds. $30,000 of Water revenue bonds will be used to finance the costs of certain improvements to the City's Water System as part of the Capital Improvement Program. The remaining portion was used to refund all the outstanding 1994 FARECal bonds ($3,425), $7,705 of the outstanding 1998, and $13,320 of the outstanding 2001 Water revenue bond issues. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,271. This difference is being charged to operations using a proportional method. The City completed the current refunding to reduce net aggregate debt service payments over the next 26 years by $3,663 and to obtain an economic gain (difference between present value of the old and new debt service payments) of $2,303. Annual principal payments ranging from $425 to $3,950 are due from October 1, 2007 through October 1, 2035. Assuming a variable rate of 3.2%, the all-in true interest cost for this issue is 3.54%.

INTEREST RATE SWAPS ON REVENUE BONDS

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in September 2005, the City entered into interest rate swap agreements in connection with its $61,125 2005 Water Refunding/Revenue Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20% for the respective Water Refunding/Revenue Bonds.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2007, the notional value of the swaps and the principal amounts of the associated debt decline by $400 to $3,950 until the debt is completely retired in fiscal year 2036. The bonds' variable rate coupons are established on a weekly basis through the results of an auction process administered through an auction agent, termed Auction Rate Securities ("ARS").

NOTE 4. LONG-TERM OBLIGATIONS (continued)

The bonds and the related swap agreements for the 2005 Water Refunding/Revenue Bonds mature on October 1, 2035. As of June 30, 2007, rates were as follows:

Interest Rate Swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(3.26362%)
Net interest rate swap payments		(0.06362%)
Variable-rate bond coupon payments	ARS	3.12994%
Synthetic interest on bonds		3.06632%

Fair value: As of June 30, 2007, in connection with all swap agreements, the transactions had a total positive fair value of $3,371. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2007, the City was exposed to credit risk in the amount of $3,371 because the swap had a positive value. The swap counterparty, Bear Stearns, was rated A+ by Standard & Poor's. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A-, the fair value of the swap will be collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

Basis risk: As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the auction-rate converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized

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

Swap payments and associated debt: As of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 425	$ 1,887	$ 38	$ 2,350
2009	425	1,874	38	2,337
2010	425	1,861	37	2,323
2011	450	1,847	37	2,334
2012	800	1,821	37	2,658
2013-2017	4,075	8,714	176	12,965
2018-2022	10,550	7,563	153	18,266
2023-2027	14,025	5,533	112	19,670
2028-2032	15,700	3,208	65	18,973
2033-2036	13,850	726	15	14,591
Total	$ 60,725	$ 35,034	$ 708	$ 96,467

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 water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2005 Refunding/Revenue bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. LITIGATION

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

The Water Utility is also a plaintiff in a lawsuit against the manufacturers and distributors of methyl tertiary-butyl ether (MTBE) and its by-products, and of fuel containing these chemicals, arising out of the threat to the Water Utility wells of contamination with those chemicals from leaking underground storage tanks.

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. The consolidated cases are in the discovery phase, with no trial date set.

The City also detected perchlorate in a number of its drinking water wells. While Lockheed Martin has not admitted liability for the presence of perchlorate in the City's wells, Lockheed Martin has agreed to pay for the design, construction, installation, rental and permitting, and to reimburse the City for its operational and maintenance costs associated with perchlorate treatment facilities on certain of the City's drinking water wells, under an agreement between the City and Lockheed Martin dated October 29, 2002 (the "Interim Perchlorate Agreement"). The Interim Perchlorate Agreement has been thrice amended, on November 25, 2003, on February 22, 2005, and on May 31, 2007, with each amendment increasing the number of wells from an original four wells to fourteen wells being treated for perchlorate at Lockheed Martin's expense.

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2007, the Water Utility had major commitments of approximately $19,276 with respect to unfinished capital projects, of which $10,106 is expected to be funded by bonds, $8,099 funded by other sources and $1,071 funded by rates.

Key Historical Operating Data

WATER SUPPLY (ACRE FEET)	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Pumping	85,299	76,605	73,732	81,797	70,977
Purchases	2,092	2,670	4,137	1,693	695
Total:	87,391	79,275	77,869	83,490	71,672
Percentage pumped	97.6%	96.6%	94.7%	98.0%	99.0%
System peak day (gallons)	109,200,000	118,782,000	112,094,000	105,029,000	101,484,000

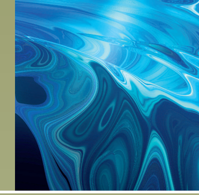
WATER USE	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Number of meters as of year end					
Residential	57,666	57,308	56,916	56,254	55,376
Commercial/Industrial	5,279	5,204	5,114	4,932	4,782
Other	486	473	462	482	467
Total:	63,431	62,985	62,492	61,668	60,625
*CCF sales					
Residential	19,848,653	17,702,717	17,245,315	19,056,556	17,824,440
Commercial/Industrial	10,817,783	9,822,196	9,252,639	9,988,578	9,411,391
Other	1,243,927	1,157,130	1,199,448	1,361,809	995,815
Wholesale	199,845	182,987	177,851	189,377	1,052,205
Total:	32,110,208	28,865,030	27,875,253	30,596,320	29,283,851

*(CCF equals 100 cubic feet)

WATER FACTS	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Average annual CCF per residential customer	345	312	308	342	324
Average price ($/CCF) per residential customer	$1.43	$1.26	$1.16	$1.05	$1.01
Debt service coverage ratio	3.38	5.11	2.85	3.52	2.60
Employees[1]	165	137	130	130	125

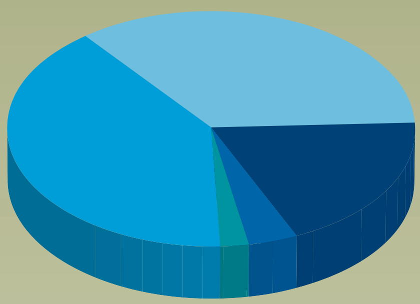
[1]Approved positions

Key Historical Operating Data



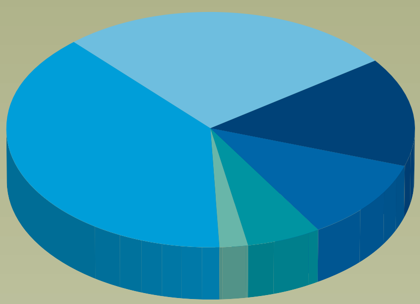
2006/2007 WATER REVENUE AND RESOURCES

Source of Revenue



- Residential Sales (40¢)
- Other Revenues (35¢)
- Commercial Sales (19¢)
- Investment Income (4¢)
- Other Sales (2¢)

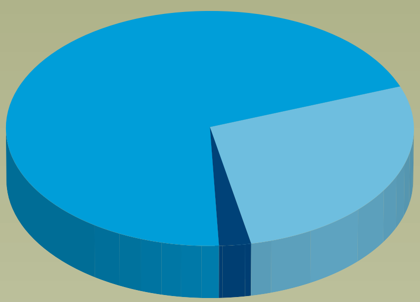
Distribution of Revenue



- Operations & Maintenance (39¢)
- Additional Reserves (27¢)
- Additions & Replacements to the System (15¢)
- Debt Services (11¢)
- Transfers to the City's general fund* (6¢)
- Water Supply (2¢)

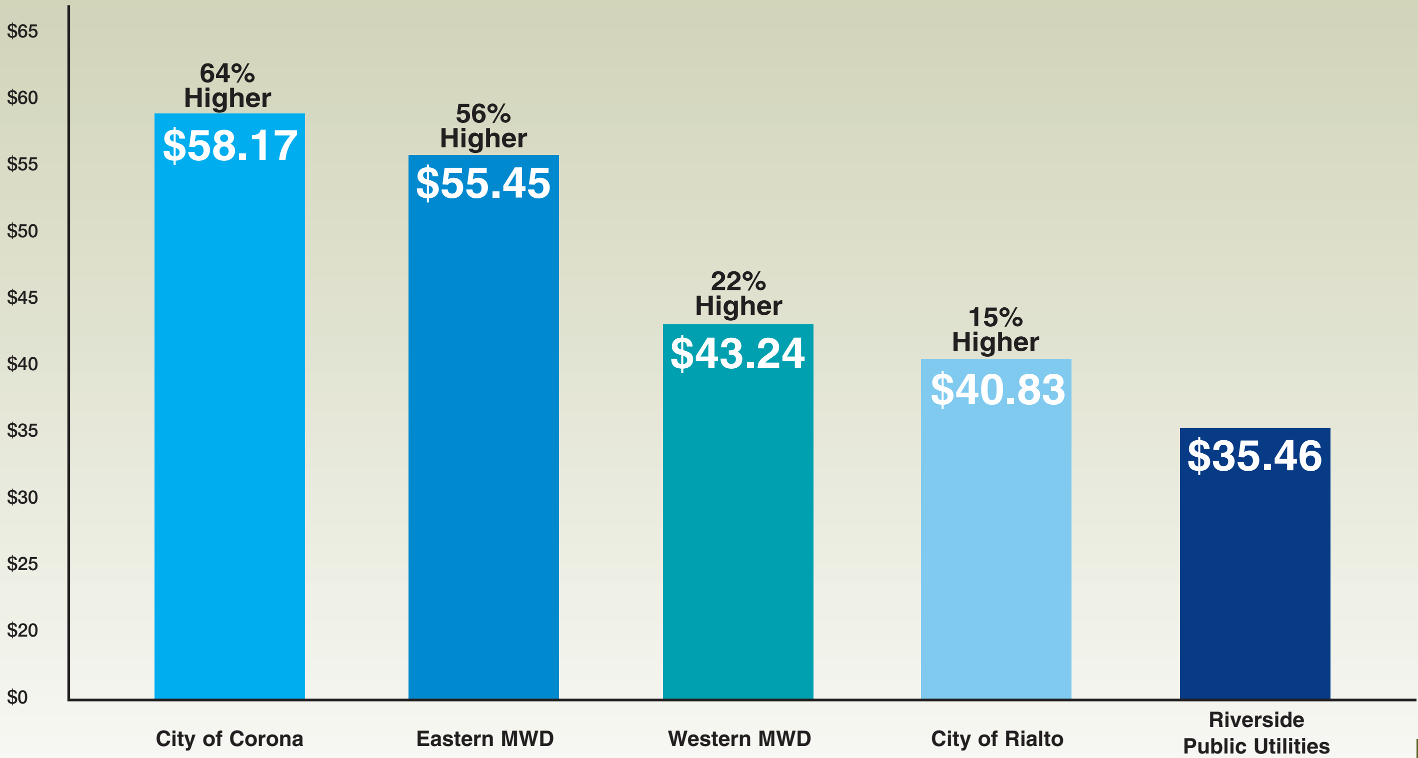
**Based on transfer of 11.5% of fiscal year 2005/2006 revenues*

Water Resources



- San Bernardino Basin Wells (70.1%)
- Riverside Basin Wells (27.5%)
- Purchased Water (2.4%)

RESIDENTIAL WATER RATE COMPARISON - 27 CCF PER MONTH (AS OF JULY 1, 2007)



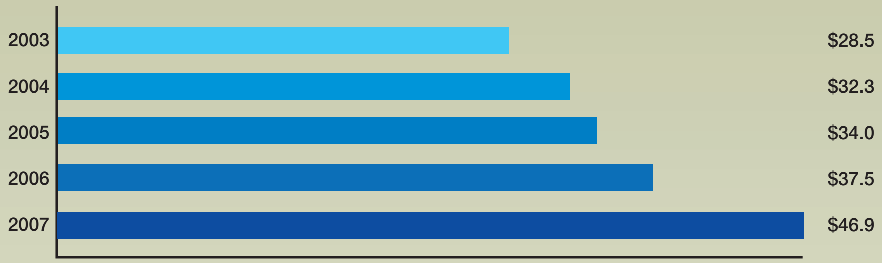
Water

Key Historical Operating Data

General Fund Transfer (in millions)

Number of Meters at Year End

Total Operating Revenue (in millions)



Production (in acre feet)

Peak Day Demand (in million gallons)

WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	291,398
Service Area Size (square miles)	74.05
System Data:	
Smallest pipeline	2.0”
Largest pipeline	72.0”
Miles of pipeline	973
Number of domestic wells	49
Number of active reservoirs	16
Total reservoir capacity (gallons)	100,400,000
Number of treatment plants	10
Number of treatment vessels	98
Miles of canal	14
Number of fire hydrants	7,187
Daily average production (gallons)	75,927,063
2006-07 Peak day (gallons): 7/17/06 & 7/24/06 113 degrees	109,200,000
Historical peak (gallons): 8/9/05 99 degrees	118,782,000

BOND RATINGS

FITCH RATINGS	AA
STANDARD & POOR’S	AA

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

"**Accreted Value**" means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified in the Resolution. The Accreted Value at any date to which reference is made shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

"**Accreted Value Table**" means the table denominated as such, and to which reference is made in, a Supplemental Resolution for any Capital Appreciation Bonds issued pursuant to such Supplemental Resolution.

"**Assumed Debt Service**" means, with respect to any Excluded Principal Payment for any Fiscal Year (or other designated 12 month period) on or after the Excluded Principal Payment date the sum of the amount of principal and interest which would be payable in each such Fiscal Year (or other designated 12 month period) if that Excluded Principal Payment were amortized for a period specified by the City at the time of issuance of such Bonds or Parity Debt (no greater than 30 years from the date of such Excluded Principal Payment) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the City could borrow (as of the time of calculation) for such period, as certified by a certificate of a financial advisor or investment banker delivered to the City at the time of issuance of such Bonds or Parity Debt, which may rely conclusively on such certificate, within 30 days of the date of calculation.

"**Authorized Investments**" means any investments in which the City may legally invest sums subject to its control, as certified to each Fiscal Agent, and shall include any Designated Investments.

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

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

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

"**Bond Register**" means the Bond Register as defined in the Resolution.

"**Bond Service Account**" means the Water Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Water Revenue Fund.

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

"**Capital Appreciation Bonds**" means any Bonds the interest on which is compounded and not scheduled to be paid until maturity or on prior redemption.

"**Certificate**," "**Statement**," "**Request**," "**Requisition**" and "**Order**" of the City means, respectively, a written certificate, statement, request, requisition or order signed by the Treasurer or any other Person authorized by the City Council to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Resolution, each such instrument shall include the statements provided for in the Resolution.

"**Charter**" means the Charter of the City, as it may be amended from time to time.

"**City**" means the City of Riverside, California.

"**City Clerk**" means the City Clerk of the City.

"**City Council**" or "**Council**" means the City Council of the City.

"**Construction Costs**" means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Water System and any facilities related thereto.

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

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

"**Designated Investments**" means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. With respect to the 2008B Bonds, "Designated Investments" means the following:

(a) investment agreements, guaranteed investment contracts, funding agreements, or any other form of obligation or corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed in full by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by two or more Rating Agencies;

(b) repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over collateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent for the 2008B Bonds or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent for the 2008B Bonds to liquidate the collateral;

(c) forward delivery or forward purchase agreements with underlying securities of the types outlined in the California Government Code 53601;

(d) the Local Agency Investment Fund ("LAIF") established pursuant to Section 16429.1 of the Government Code of the State of California; and

(e) any other investments which are rated "AA" or better by the Rating Agencies which the City deems to be prudent investments and are not prohibited by law.

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

"**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, and any successor appointed in accordance with the Resolution.

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

"**Fitch**" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized rating agency selected by the City and not objected to by the Fiscal Agent.

“**Gross Operating Revenues**” means (i) all revenues from rates, fees and charges for providing water service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Water System, including contributions in aid of construction, and (ii) all Subordinate Swap Receipts.

“**Initial Amount**” means the principal amount of a Capital Appreciation Bond on the date of issuance and delivery to the original purchaser thereof.

“**Information Services**” means Financial Information, Incorporated’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250-77 Center Drive, Charlotte, North Carolina 28217, Attention: Called Bond Department; Kenny Standard & Poor’s, 55 Water Street, New York, New York 10041; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the City may designate in a Request of the City delivered to any Fiscal Agent.

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

“**Law**” means collectively the City Charter, Ordinance No. 5001 of the City Council, as it may be amended from time to time, and the Resolution.

“**Mandatory Sinking Account Payment**” means, with respect to Bonds of any Series and maturity, the amount required by the Resolution to be deposited by the Treasurer in the Principal Account for the payment of Term Bonds of such Series and maturity.

“**Maximum Annual Debt Service**” shall mean, 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 shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

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

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

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

(e) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Parity Debt and Bonds, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date; and

(f) interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Bonds and such Subordinate Swap, including but not limited to the effects that (i) such Bonds would, but for such Subordinate Swap, be treated as Variable Rate Indebtedness instead shall be treated as Bonds bearing interest at a fixed interest rate, and (ii) such Bonds would, but for such Subordinate Swap, be treated as Bonds bearing interest at a fixed interest rate instead shall be treated as Variable Rate Indebtedness; and accordingly, the amount of interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds plus the Subordinate Swap Payments minus the Subordinate Swap Receipts, and for the purpose of calculating as nearly as practicable the Subordinate Swap Payments and the Subordinate Swap Receipts under such Bonds, the following assumptions shall be made:

> (1) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a net variable interest rate with respect to such Bonds and Subordinate Swap by the City, the interest rate on such Bonds for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Subordinate Swap is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Bonds, minus (ii) the fixed rate paid by the Subordinate Swap Provider to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Subordinate Swap Provider with respect to such Subordinate Swap (but only during the period that such interest rate cap is in effect) and (B) the applicable variable interest rate calculated in accordance with paragraph (b) or (c) above, as applicable; and
>
> (2) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a fixed interest rate with respect to such Bonds and Subordinate Swap by the City, the interest on such Bonds shall be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap.

Notwithstanding any other paragraph of this definition of Maximum Annual Debt Service, except as set forth in subsection (f) above, no amounts payable under any Subordinate Swap (including Termination Payments) shall be included in the calculation of Maximum Annual Debt Service.

“**Moody’s**” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

“**Municipal Obligations**” means municipal obligations, rated in the highest Rating Category by each of the Rating Agencies, meeting the following conditions:

(a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“**Net Operating Revenues**” means Gross Operating Revenues, less Operating and Maintenance Expenses.

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

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

“**Outstanding**,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Resolution) all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (1) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Resolution, including Bonds (or portions of Bonds) referred to in the Resolution; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

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

“**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 with the Bonds 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 Fitch and Standard & Poor's, and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.

"**Rating Category**" means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"**Redemption Account**" means the account by that name established pursuant to the Resolution in the Water Revenue Fund.

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

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

"**Renewal and Replacement Account**" means the Water Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Water Revenue Fund.

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

"**Securities Depository**" means the Securities Depository acting as such under the Supplemental Resolution authorizing the issuance of the Bonds of that Series.

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

"**Series**," whenever used in the Resolution with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Resolution.

"**Standard & Poor's**" means Standard & Poor's Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

"**State**" means the State of California.

"**Subordinate Bonds**" means any indebtedness or other obligation of the City (other than Subordinate Swaps and Subordinate Swap Policy Agreements), designated by the City on the date of issuance or incurrence as "Subordinate Bonds," in each case having an equal lien and charge upon the Net Operating Revenues with the Subordinate Swaps and the Subordinate Swap Policy Agreements and therefore payable on a parity with the Subordinate Swaps and the Subordinate Swap Policy Agreements (whether or not any Subordinate Swaps or Subordinate Swap Policy Agreements have been executed and delivered).

"**Subordinate Obligations**" means the Subordinate Swaps, the Subordinate Swap Policy Agreements and the Subordinate Bonds.

"**Subordinate Payments**" means all amounts required to be paid when due by the City under the Subordinate Obligations.

"**Subordinate Providers**" means the Subordinate Swap Providers, the Subordinate Swap Policy Providers and the owners of the Subordinate Bonds.

"**Subordinate Swap**" means a written agreement for the purpose of managing or reducing the City's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Subordinate Swap Provider to the extent authorized under the Law in connection with, or incidental to, the issuance of any Bonds (without regard to when issued), that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device; provided, however, that the written agreement with respect to each Subordinate Swap shall provide that payments by the City under the Resolution shall be secured by the subordinate lien on Net Operating Revenues created under the Resolution with respect to Subordinate Swaps (and other Subordinate Obligations).

"**Subordinate Swap Payments**" means (i) the amounts periodically required to be paid when due by the City to all Subordinate Swap Providers under all Subordinate Swaps and (ii) Termination Payments.

"**Subordinate Swap Policy**" means any insurance policy or similar agreement insuring payment of the City's obligations under a particular Subordinate Swap.

"**Subordinate Swap Policy Agreement**" means any agreement between the City and a Subordinate Swap Policy Provider obligating the City to reimburse such Subordinate Swap Policy Provider for amounts paid under the related Subordinate Swap Policy.

"**Subordinate Swap Policy Provider**" means, with respect to any Subordinate Swap Policy, the issuer or provider of a Subordinate Swap Policy.

"**Subordinate Swap Provider**" means, with respect to each Subordinate Swap, the entity (other than the City and, if applicable, the Fiscal Agent) that is a party thereto, and its permitted successors and assigns, whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to "A2" and "A" from at least two nationally recognized credit rating agencies, or whose payment obligations under the Subordinate Swap are enhanced by a credit support provider or other similar entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to "A2" and "A" from at least two nationally recognized credit rating agencies and whose credit enhancement of the Subordinate Swap Provider's obligations under the Subordinate Swap are pursuant to a guaranty or other form of credit enhancement (including, but not limited to, contingent swap counterparty arrangements, transfer/novation arrangements or option arrangements acceptable to the Treasurer or any duly authorized designee of the Treasurer designated by the Treasurer in writing to act on behalf of such officer for such purpose (such acceptance to be evidenced by the execution and delivery of any such Subordinate Swap)).

"**Subordinate Swap Receipts**" means the amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps.

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

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

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

"**Termination Payments**" means any payments due and payable by the City to a Subordinate Swap Provider in connection with the termination of a Subordinate Swap.

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

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

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

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

Revenues; Funds and Accounts

Pledge of Net Operating Revenues. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured 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.

The Subordinate Obligations are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable solely from and secured by a lien upon the Net Operating Revenues; provided, however, that such pledge and lien shall be junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt. The City pledges, places a charge upon and assigns the Net Operating Revenues to secure the payment of Subordinate Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (including that the pledge and lien on the Net Operating Revenues are junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt), and the Net Operating Revenues constitute a trust fund for the security and payment of the Subordinate Obligations (on a basis junior and subordinate to the pledge and lien created for the benefit of the Owners of the Bonds and the owners of the Parity Debt). There are pledged to secure the payment of the Subordinate Obligations in accordance with their respective terms amounts (excluding proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Out of Gross Operating Revenues there shall be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, to the following: the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund payments of the Bonds and Parity Debt and any reserve fund with respect thereto; the payment of amounts due under the Subordinate Obligations; and the excess earnings or rebate requirements with respect to the Bonds. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be surplus and may be used for any lawful purpose. The pledges of Net Operating Revenues made in the Resolution shall be irrevocable until there are no longer Bonds Outstanding and all amounts due under the Subordinate Obligations have been paid.

Establishment of Water Revenue Fund and Accounts. Pursuant to the Law, there is continued and there shall be maintained by the Treasurer in accordance with the terms of the Resolution the Water Revenue Fund (the "Water Revenue Fund"), in which there are created, the following accounts and sub-accounts:

(1) Water Revenue Bonds, Bond Service Account (the "Bond Service Account"), in which there are established the following sub-accounts:

(a) Water Revenue Bonds, Principal Account (the "Principal Account"); and

(b) Water Revenue Bonds, Interest Account (the "Interest Account");

(2) Water Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account"); and

(3) Water Revenue Bonds, Surplus Account (the "Surplus Account").

All funds and accounts established or continued under the Resolution or by any Supplemental Resolution shall be held by the Treasurer or, if applicable, a Fiscal Agent, and shall be accounted for separate and apart from all other funds and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with the Resolution and any Supplemental Resolution and all Subordinate Obligations have been paid in full in accordance with their respective terms.

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

Operating and Maintenance Expenses. As soon as practicable in each month, the Treasurer shall provide for the payment of the Operating and Maintenance Expenses for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

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

Thereafter, following the transfers required to pay Operating and Maintenance Expenses, there shall be set aside and transferred within the Water Revenue Fund to the Bond Service Account for transfer to the Interest Account and to the Principal Account, as applicable, the following amounts at the following times:

(A) *Interest Account*. As soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness) is on deposit in such account, (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 (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and (c) only after all deposits have been made for such month in the Principal Account as provided in the immediately following paragraph and the Reserve Accounts as provided below, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as provided in clause (c) of this paragraph. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service account to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account with respect to the Bonds.

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

Reserve Accounts; Supplemental Deposit as Provided in Clause (c) under "Interest Account" above.

> (A) Following the transfers described above (other than clause (c) under *"Interest Account"* above), the Treasurer shall deposit as soon as practicable in each month in any reserve account established under a Supplemental Resolution for a Series of Bonds and in any reserve account established for any Parity Debt, upon the occurrence of any deficiency therein, one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve account.
>
> (B) Following the transfers required by the immediately preceding paragraph, the Treasurer shall, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount provided for in clause (c) under *"Interest Account"* above.

Excess Earnings and Certain Other Accounts. Following the transfers required above, the Treasurer shall deposit in any excess earnings account, rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under Section 148 of the Internal Revenue Code of 1986 and applicable regulations of the United States Treasury) established pursuant to a Supplemental Resolution for a Series of Bonds or Parity Debt such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

Renewal and Replacement Account. Following the transfers required above, the Treasurer shall set aside in the Renewal and Replacement Account as soon as practicable in each month such amount, if any, as shall be required by prior action of the City Council.

Surplus Account. On the first day of each calendar month, after the transfers to the aforementioned accounts required above or by any Supplemental Resolution and all other covenants of the City contained in the Resolution have been duly performed, any moneys remaining in the Water Revenue Fund ("Surplus") shall be transferred within the Water Revenue Fund to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) shall not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any other lawful manner.

Application of Funds and Accounts.

(A) Bond Service Account.

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

(ii) *Principal Account.*

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

(b) Notwithstanding paragraph (a) above, moneys in the Principal Account may be applied to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (1) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (2) 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) shall not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this subsection shall be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction shall be delivered to the Treasurer by the Fiscal Agent for such Series.

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

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

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

Establishment, Funding and Application of Redemption Account. The Treasurer shall establish, maintain and hold in trust a special account within the Water Revenue Fund designated as the "Redemption Account." All moneys deposited with the Treasurer for the purpose of optionally redeeming

Bonds shall, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account shall be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Account shall be allocated to Mandatory Sinking Account Payments 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 shall be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be transferred to the Water Revenue Fund when received. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment shall be credited to the fund or account from which such accrued interest was paid.

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

The Treasurer and each Fiscal Agent shall keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and shall set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

Covenants

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

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

The City covenants that it will duly and punctually pay or cause to be paid all amounts when due under the Subordinate Obligations, on the dates, at the place or places and in the manner mentioned in the Resolution in accordance with the Resolution, and that the payments into the Bond Service Account will be made, all in strict conformity with the terms of the Subordinate Obligations and of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions, and that time of such payment and performance is of the essence of the City's contract with the Subordinate Providers.

Discharge Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds and the subordinate priority and security of the Subordinate Obligations, the City shall pay from the Water Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds or the lien of the Subordinate Obligations and impair the security of the Bonds or the Subordinate Obligations. The City shall also pay from the Water Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the revenues therefrom.

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

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

Against Sale; Eminent Domain. The City covenants that the Water System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Water Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt and of any amounts due with respect to the Subordinate Obligations, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Operating

Revenues to pay the principal of and interest on the Bonds or any Parity Debt and to pay all amounts due under the Subordinate Obligations or which otherwise would impair the rights of the Owners or the Subordinate Providers with respect to the Net Operating Revenues or the operation of the Water System. If any substantial part of the Water System is sold, the payment therefor shall, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Water System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

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

Insurance. The City covenants that it shall at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the Water System shall be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, shall be applied to the retirement of any Outstanding Bonds.

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

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

The City shall cause the books and accounts of the Water System to be audited annually by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the Owners at the office of the City Clerk, and at the office of the Treasurer and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

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

Rates and Charges. The City shall prescribe, revise and collect such rates and charges for the services, facilities and water of the Water 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 and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) as they become due and payable;

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

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

The charges shall 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, shall be at least 1.25 times the amounts payable under (b) above and 1.0 times the amounts payable under (c) and (d) above.

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

Limits on Additional Debt. Except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no additional Bonds or Parity Debt shall 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 Water System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items 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 to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt.

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

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

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

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

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

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

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

(B) The City may remove any Fiscal Agent at any time with or without cause and shall remove any Fiscal Agent if at any time such Fiscal Agent shall cease to be eligible in accordance with subsection (E) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property shall be appointed, or any public officer shall take control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such Fiscal Agent, and thereupon shall appoint a successor Fiscal Agent by an instrument in writing.

(C) Each Fiscal Agent may at any time resign by giving 90 days prior written notice of such resignation to the City by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent and by giving prior written notice of such resignation by mail to the Subordinate Providers. Upon receiving such notice of resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing.

(D) Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Resolution, shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Resolution. Upon request of the successor Fiscal Agent, the City and the predecessor Fiscal Agent shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent shall be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company shall have a combined capital and surplus of at least one hundred million dollars ($100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the

Resolution the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor shall be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

Upon merger, consolidation, or reorganization of a Fiscal Agent, the City will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent shall cease to be eligible in accordance with the provisions described in paragraph (E) above, such Fiscal Agent shall resign immediately in the manner and with the effect specified in the Resolution.

If, by reason of the judgment of any court, a Fiscal Agent for a Series of Bonds or any successor Fiscal Agent is rendered unable to perform its duties under the Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent shall be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

Amendments

Amendments Permitted.

(A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds, the Subordinate Providers and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the City Council with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding and, if the modification or amendment affects certain specified sections of the Resolution in a material adverse manner to one or more Subordinate Providers, then with the written consent of the affected Subordinate Swap Providers and Subordinate Swap Policy Providers and the affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Resolution.

(2) No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution for the benefit of the Owners of the Bonds, or deprive the Owners of the Bonds of such lien created by the Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Resolution), without the consent of the Owners of all of the Bonds then Outstanding, (c) extend or reduce the amount payable by the City under any Subordinate Obligation without the consent of the affected Subordinate Swap Provider, affected Subordinate Swap Policy Provider or affected owner of a Subordinate Bond, (d) permit the creation of any lien on the Net Operating Revenues prior to or on a parity with the subordinate lien created by the Resolution for the benefit of the Subordinate Providers, or deprive the Subordinate Providers of such lien created by the Resolution on such Net Operating Revenues

(in each case, except as expressly provided in the Resolution), without the consent of the affected Subordinate Swap Providers, affected Subordinate Swap Policy Providers and affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners, or (e) modify any rights or duties of the Fiscal Agent without its consent.

It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City Council of any Supplemental Resolution pursuant to the Resolution, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment shall mail a notice provided by the City, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect in the Resolution, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

(B) The Resolution and the rights and obligations of the City, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the City Council may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Resolution thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Resolution reserved to or conferred upon the City, in each case which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the City Council may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification 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 shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Resolution;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of any of the Bonds;

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

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

Defeasance

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, 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 and all sums payable to all Subordinate Providers by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds 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 shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer shall cause an accounting for such period or periods as the City may request to be prepared and filed with the City and shall cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to such Fiscal Agent shall have been made for the giving of such notice, then all liability of the City in respect of such Bond shall cease, terminate and be completely discharged; provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Resolution and the continuing duties of the Fiscal Agent for such Series under the Resolution.

The City may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Treasurer. Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the funds and accounts established pursuant to the Resolution and shall be one or more of the following:

(a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable 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 Default. Each of the following events shall be an Event of Default under the Resolution:

(a) Default by the City in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the City in the due and punctual payment of the interest on any Bond;

(c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution (other than covenants, conditions or agreements for the exclusive benefit of one or more of the Subordinate Providers) or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) Destruction or damage to any substantial part of the Water System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);

(e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the Water System or any substantial part of the City's property, or to the taking possession by any such official of the Water System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

(f) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the Water System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City of its affairs; or

(g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions described in subsections (c) and (d) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Resolution, the City shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Resolution shall include without limitation acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the City, and the City shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City unfavorable to it.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the 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) shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee shall be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Resolution on any Owner; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the City Clerk.

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsections (e), (f) or (g) above, 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 shall forthwith become due and payable. Upon any such declaration the City shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys in the Resolution 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 shall extend to or affect any subsequent default or impair any right consequent thereon.

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates, fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the City itself might do. No bond shall be required of such receiver.

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

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders under the Resolution or now or 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 shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence in the Resolution, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Resolution by the Owners shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Unconditional Right to Receive Principal, Accreted Value, Premium and Interest. Nothing in the Resolution shall, however, affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Resolution, or the obligation of the City to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued under the Resolution to the respective holders thereof at the time and place, from the source and in the manner expressed in the Resolution and in the Bonds.

Special Insurance Provisions Relating to the 2008B Bonds

So long as the payment of principal of and interest on the 2008B Bonds is insured by a municipal bond insurance policy issued simultaneously with the delivery of the 2008B Bonds, the bond insurer shall be deemed to be the sole Owner of the 2008B 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 2008B 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 $58,235,000 Water Revenue Bonds, Issue of 2008B (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 17664 of the City adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. 21622, adopted by the City Council on May 6, 2008 (the "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 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 which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate. The initial Dissemination Agent shall be U.S. Bank National Association.

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

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission may be found at the following internet address: http://www.sec.gov/info/municipal/nrmsir.htm.

"Owner" shall mean a registered owner of the Bonds.

"Participating Underwriter" shall mean the original underwriter or 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 2007-08, 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 A.

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

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

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

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

3. Balance in the 2008B Reserve Account as of the end of the immediately preceding Fiscal Year and a statement of the 2008B Bond Reserve Requirement.

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

5. Updated information comparable to the information in the table entitled "Number of Meters" as it appears in the Official Statement.

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

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

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

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Bondholders.

4. optional, contingent or unscheduled Bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on the credit enhancements reflecting financial difficulties.

10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the 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 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. The Dissemination Agent (if other than the City) shall have only such duties as are specifically set forth in this Disclosure Certificate, , and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Owners or Beneficial Owners of the Bonds, or any other party. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds..

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

Date: May ___, 2008

CITY OF RIVERSIDE

By: ________________________________
Paul C. Sundeen
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: WATER REVENUE BONDS, ISSUE OF 2008B

Date of Issuance: May ___, 2008

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 May __, 2008 relating to the Bonds. The City anticipates that the Annual Report will be filed by _______________.

Dated: _________

CITY OF RIVERSIDE, CALIFORNIA

By: ________________________________

Title: ______________________________

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

May __, 2008

City of Riverside
Riverside, California

$58,235,000
City of Riverside, California
Water Revenue Bonds, Issue of 2008B

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 Water Revenue Bonds, Issue of 2008B (the "Bonds") in the aggregate principal amount of $58,235,000. 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 by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 17664 adopted by the City Council on January 8, 1991, as previously amended and supplemented (the "Master Resolution"), and as amended and supplemented by Resolution No. 21622 adopted by the City Council on May 6, 2008 (collectively, the "Bond Resolution"). The Bonds are being issued contemporaneously with and subsequent to the issuance by the City of its Variable Rate Refunding Water Revenue Bonds, Issue of 2008A (the "2008A Bonds" and, with the Bonds, the "2008 Bonds"). The 2008A Bonds were issued pursuant to the Ordinance, the Master Resolution and Resolution No. 21621 adopted by the City Council on May 6, 2008 (the "2008A Bond Resolution" and, with the Bond Resolution, the "2008 Bond Resolutions").

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.

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 that are payable from Net Operating Revenues on a parity basis with the Bonds.

5. The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Under applicable Treasury Regulations, for purposes of evaluation of the excludability of interest on the Bonds, and given the issuance of the 2008A Bonds, the 2008 Bonds are treated as a single issue; noncompliance with any of the foregoing requirements in respect of any of the 2008 Bonds could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. The City has undertaken certain covenants in the 2008 Bond Resolutions necessary to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenants, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the 2008 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Very truly yours,

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the 2008B Bonds. The 2008B 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 2008B Bond certificate will be issued for each maturity of 2008B Bond, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2008B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008B 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 2008B 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 2008B Bonds, except in the event that use of the book-entry system for the 2008B Bonds is discontinued.

To facilitate subsequent transfers, all 2008B Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2008B 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 2008B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008B 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 2008B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2008B Bonds may wish to ascertain that the nominee holding the 2008B 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 2008B 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 2008B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008B 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 2008B 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 2008B 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 2008B 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, 2008B Bond certificates will be printed and delivered.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Discontinuation of the Book-Entry System

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Fiscal Agent, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2008B Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2008B Bonds as requested by DTC and will deliver new 2008B Bonds in fully registered form in authorized denominations in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2008B Bonds will be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. The interest on 2008B 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 2008B Bonds

Any 2008B 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 2008B Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent. The 2008B Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2008B Bonds of other authorized denominations of the same Series, tenor, maturity and interest rate; provided that no transfer or exchange may occur during the 15 days before the date of selection of 2008B Bonds for redemption, or of any 2008B Bond or portion of a 2008B Bond so selected for redemption. The Fiscal Agent shall require the bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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APPENDIX G

SPECIMEN OF 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 or 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 telecopied 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 76 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. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

FINANCIAL SECURITY ASSURANCE®

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

ISSUER: Policy No.: -N

BONDS: 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

SPECIMEN

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019
(212) 826-0100

Form 560NY (CA 1/91)

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