

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Remarketing Statement, interest on the 2011A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2011A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”



\$39,275,000
CITY OF RIVERSIDE, CALIFORNIA
Variable Rate Refunding Electric Revenue Bonds
Issue of 2011A
(CUSIP 768874 TS8)

Date of Initial Delivery: April 28, 2011

Due: October 1, 2035

Remarketing of the 2011A Bonds. Pursuant to the provisions of the Resolution (as such term is defined herein), the City of Riverside (the “City”) has exercised its option to effect a mandatory tender of the above-captioned bonds (the “2011A Bonds”) on April 16, 2020.

Upon the purchase of the 2011A Bonds pursuant to such mandatory tender: (i) the Interest Rate Period for the 2011A Bonds will be Converted from an Index Interest Rate Period to a Weekly Interest Rate Period; and (ii) the 2011A Bonds will be remarketed and will bear interest at a Weekly Interest Rate commencing on April 16, 2020. Promptly after the Remarketing Agent determines the initial Weekly Interest Rate relating to the 2011A Bonds for the Weekly Interest Rate Period commencing on April 16, 2020, the City will publish it by supplementing this Remarketing Statement and posting the supplement on the EMMA system.

The Purchase Price of the 2011A Bonds will be paid on April 16, 2020 from moneys held by the Fiscal Agent, consisting of immediately available funds on deposit in the Remarketing Account, as more fully described herein.

Terms of the 2011A Bonds. The 2011A Bonds are being remarketed in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2011A Bonds will not receive securities certificates representing their beneficial ownership in the 2011A Bonds purchased. The principal of and interest on the 2011A Bonds are payable by the Fiscal Agent to Cede & Co. and such interest and principal payments and premium, if any, are to be disbursed to the Beneficial Owners of the 2011A Bonds through their nominees.

The 2011A Bonds are being issued initially as variable rate demand obligations in denominations of \$100,000 or any \$5,000 increment in excess of \$100,000. The 2011A Bonds will bear interest at a Weekly Interest Rate as described herein, until the interest rate mode is changed as provided herein. So long as the 2011A Bonds are in a Weekly Interest Rate Period, interest on the 2011A Bonds will be payable on the first Business Day of each month, commencing on the first Business Day of the month following the commencement of the Weekly Interest Rate Period. The 2011A Bonds will be subject to mandatory tender for purchase upon a conversion to an Interest Rate Period other than a Weekly Interest Rate Period, and upon the occurrence of certain other events, in the manner described herein.

This Remarketing Statement is not intended to describe the 2011A Bonds while in an Interest Rate Period other than the Weekly Interest Rate Period.

Security for the 2011A Bonds. The 2011A Bonds are special limited obligations of the City and are secured by a pledge of and lien upon, and payable solely from, the Net Operating Revenues (as such term is defined under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Net Operating Revenues”) of the Electric System and other funds, assets and security described in the Resolution. The 2011A Bonds do not constitute a general obligation or indebtedness of the City. The City is not funding a debt service reserve account for the 2011A Bonds.

Redemption Prior to Maturity. The 2011A Bonds are subject to redemption prior to maturity. See the caption “DESCRIPTION OF THE 2011A BONDS—Redemption Provisions.”

Existing Parity Debt. The 2011A Bonds are secured by and payable from Net Operating Revenues on a parity with certain outstanding bonds, which are referred to in this Remarketing Statement as the “Prior Parity Bonds.” See the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt and Swap Agreement.”

Future Parity Debt. The City is authorized to issue additional bonded indebtedness and to incur additional obligations that are secured by a lien upon and payable from Net Operating Revenues on a parity with the Prior Parity Bonds and the 2011A Bonds, as described in this Remarketing Statement.

Letter of Credit. The regularly scheduled payments of principal of and interest on the 2011A Bonds when due will be supported by an irrevocable, direct pay Letter of Credit issued by Bank of America, N.A. The Fiscal Agent may also draw funds under the Letter of Credit on and subject to the terms and conditions thereof to pay the purchase price of 2011A Bonds which are tendered for purchase and not remarketed to the extent that other moneys are not available therefor. The Letter of Credit issued by Bank of America, N.A. has a scheduled termination date of May 31, 2023, subject to earlier termination under conditions described herein, and may be extended or replaced by an alternate letter of credit or other security at or prior to termination.

BANK OF AMERICA, N.A.

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

The 2011A Bonds are being remarketed subject to the approval of certain matters by Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is acting as Disclosure Counsel to the City, and Nixon Peabody LLP, Los Angeles, California, is acting as counsel to Bank of America, N.A., as Credit Provider, and BofA Securities, Inc., as Remarketing Agent. It is anticipated that the remarketed 2011A Bonds will be available for delivery through the facilities of DTC on April 16, 2020.

BofA Securities
as Remarketing Agent

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Rusty Bailey, Mayor

Erin Edwards, 1st Ward
Andy Melendrez, 2nd Ward
Ronaldo Fierro, 3rd Ward
Chuck Conder, 4th Ward

Gaby Plascencia, 5th Ward
Jim Perry, 6th Ward
Steve Hemenway, 7th Ward

BOARD OF PUBLIC UTILITIES

Jo Lynne Russo-Pereyra, Chair
Elizabeth E. Sanchez-Monville, Vice Chair

David R. Austin
David M. Crohn
Jeanette Hernandez

Ana Miramontes
Gildardo Ocegueda
Andrew C. Walcker

CITY OFFICIALS

Al Zelinka, *City Manager*

Edward Enriquez,
Chief Financial Officer/City Treasurer

Todd Corbin,
Utilities General Manager

Gary G. Geuss
City Attorney

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

Susan D. Wilson,
Assistant City Attorney

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

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

Colleen J. Nicol,
City Clerk

BOND COUNSEL AND DISCLOSURE COUNSEL

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

MUNICIPAL ADVISOR

PFM Financial Advisors LLC
Los Angeles, California

FISCAL AGENT AND CALCULATION AGENT

U.S. Bank National Association
Los Angeles, California

Neither the City nor the Remarketing Agent has authorized any dealer, broker, salesman or other person to give any information or to make any representations other than as contained in this Remarketing Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Remarketing Agent. This Remarketing Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2011A Bonds in any jurisdiction in which such offer to sell or solicitation of an offer to buy is unlawful.

This Remarketing Statement is not to be construed as a contract with the purchasers of the 2011A Bonds. Statements contained in this Remarketing 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 in this Remarketing Statement are subject to change without notice, and neither the delivery of this Remarketing Statement nor any sale made of the 2011A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Statement: The Remarketing Agent has reviewed the information in this Remarketing 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 Remarketing Agent does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Remarketing Statement constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “**Securities Act**”), 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 2011A Bonds have not been registered under the Securities Act in reliance upon an exception from the registration requirements contained therein. The 2011A Bonds have not been registered or qualified under the securities law of any state.

The City maintains a website; however, the information it contains is not part of this Remarketing Statement and should not be relied upon in making investment decisions with respect to the 2011A Bonds.

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\$39,275,000
CITY OF RIVERSIDE, CALIFORNIA
Variable Rate Refunding Electric Revenue Bonds
Issue of 2011A

INTRODUCTION

Pursuant to the provisions of the Resolution (as such term is defined herein), the City of Riverside (the “City”) has exercised its option to effect a mandatory tender of the above-captioned bonds (the “2011A Bonds”) on April 16, 2020.

*Upon the purchase of the 2011A Bonds pursuant to such mandatory tender: (i) the Interest Rate Period for the 2011A Bonds will be Converted from an Index Interest Rate Period to a Weekly Interest Rate Period; and (ii) the 2011A Bonds will be remarketed by BofA Securities, Inc., as remarketing agent (the “**Remarketing Agent**”) and will bear interest at a Weekly Interest Rate commencing on April 16, 2020. Promptly after the Remarketing Agent determines the initial Weekly Interest Rate relating to the 2011A Bonds for the Weekly Interest Rate Period commencing on April 16, 2020, the City will publish it by supplementing this Remarketing Statement and posting the supplement on the EMMA system.*

This Remarketing Statement is not intended to describe the 2011A Bonds while in an Interest Rate Period other than the Weekly Interest Rate Period (as described below under the caption “DESCRIPTION OF THE 2011A BONDS”).

Authority for the 2011A Bonds

The 2011A Bonds were authorized and issued pursuant to the following, which are referred to collectively in this Remarketing Statement as the “**Law**”:

- (i) the City Charter;
- (ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005; and
- (iii) Resolution No. 17662 adopted by the City Council on January 8, 1991 (the “**Master Resolution**”), as previously amended and supplemented, including as amended and supplemented by Resolution No. 22193, the sixteenth supplemental resolution, which provides for the issuance of the 2011A Bonds (as amended by Resolution No. 22664 adopted on March 25, 2014, the “**Sixteenth Supplemental Resolution**”), which was adopted by the City Council on April 5, 2011. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Sixteenth Supplemental Resolution, is referred to collectively in this Remarketing Statement as the “**Resolution.**”

The City and the Electric System

The City is the county seat of Riverside County (the “**County**”) and is located in the western portion of the County, approximately 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. The City was incorporated in 1883 and covers 81.5 square miles. The City is a charter city and has a council-manager form of government with a seven-member council. As of January 1, 2019, the population of the City was estimated to be 328,101. See Appendix A for further information about the City.

The Electric System provides service throughout the City to domestic, commercial, industrial, agricultural, municipal and other customers. In Fiscal Year 2018-19, the Electric System had 110,480 metered customers. The Electric System’s power supply requirements are met through City-owned generation

facilities, long-term power purchase agreements and participation in projects which are owned and operated by joint powers agencies and other power suppliers. During fiscal year 2018-19, the Electric System generated and purchased a total of 2,261,700 megawatt hours of electricity for delivery to customers throughout the City. See the caption “THE ELECTRIC SYSTEM” for a detailed discussion of the Electric System and the City’s power supply sources.

Security for the 2011A Bonds; Rate Covenant

Nature of Pledge. Pursuant to the Law, the 2011A Bonds are special limited obligations of the City and are secured by a pledge of and lien upon, and payable solely from, Net Operating Revenues of the Electric System and other funds, assets and security described under the Resolution. The term Net Operating Revenues is defined under the caption “SECURITY AND SOURCES OF PAYMENTS FOR THE 2011A BONDS—Net Operating Revenues.”

Rate Covenant. The City is obligated by the Resolution to prescribe, revise and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year in an amount that is at least sufficient to pay the Operating and Maintenance Expenses of the Electric System, to pay debt service on all Bonds (including the 2011A Bonds) and any Parity Debt and to pay all other obligations that are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant.”

Electric rates are established by the City of Riverside Board of Public Utilities (the “**Board**”), subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission or any other State agency.

Limited Obligation. The City’s General Fund is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2011A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2011A Bonds. No 2011A 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 and redemption premium (if any) on the 2011A Bonds are neither a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets that are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2011A Bonds.

Letter of Credit

The regularly scheduled payment of the principal of and interest on the 2011A Bonds will be supported by an irrevocable, direct-pay letter of credit (the “**Letter of Credit**”) provided by Bank of America, N.A. (“**BANA**”) pursuant to a Reimbursement Agreement, dated as of April 1, 2020 (the “**Reimbursement Agreement**”), by and between the City and BANA.

The Fiscal Agent may also draw funds under the Letter of Credit on and subject to the terms and conditions thereof to pay the purchase price of 2011A Bonds which are tendered for purchase and not remarketed to the extent that other moneys are not available therefor. The Letter of Credit issued by BANA has a scheduled termination date of May 31, 2023, subject to earlier termination under conditions described herein, and may be extended or replaced by an alternate letter of credit or other security at or prior to termination.

See the caption “THE LETTER OF CREDIT” and Appendix G for further information with respect to the Letter of Credit, the Reimbursement Agreement and BANA.

Joint Powers Agency Obligations

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

Outstanding Prior Debt

The 2011A Bonds are secured by and payable from Net Operating Revenues on a parity with Prior Parity Bonds (as such term is defined under the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt and Swap Agreement”) which were outstanding in the aggregate principal amount of \$524,430,000 as of June 30, 2019.

Additional Bonds and Parity Debt

The City is authorized under the Resolution to issue additional bonds (the “**Additional Bonds**”) that are secured by a pledge of and lien upon, and payable from, Net Operating Revenues and other funds, assets and security described under the Resolution on a parity with the 2011A Bonds and the Prior Parity Bonds. The 2011A Bonds, together with the Prior Parity Bonds and any Additional Bonds, are referred to in this Remarketing Statement as the “**Bonds**.”

The City is authorized to issue and incur additional obligations that do not constitute Bonds which are secured by and payable from Net Operating Revenues on a parity with the Bonds. Any such obligations are referred to in this Remarketing Statement as “**Parity Debt**.” The City currently has no outstanding Parity Debt.

See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Additional Bonds and Parity Debt.”

2011A Reserve Account Not Funded

The City has established a debt service reserve account for the 2011A Bonds, but the 2011A Bond Reserve Requirement is \$0. Consequently, no amounts will be deposited into such debt service reserve account.

Subordinate Obligations

The City has incurred certain obligations and has the right to issue additional obligations that are secured by and payable from Net Operating Revenues on a subordinate basis to the Bonds and any Parity Debt. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations.”

Interest Rate Period

In the Weekly Interest Rate Period, the 2011A Bonds will bear interest at a Weekly Interest Rate which will be determined by the Remarketing Agent by 5:00 p.m., New York City time, on Tuesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day.

Each Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the 2011A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the 2011A Bonds, would enable the Remarketing Agent to sell all of the 2011A Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

See the caption “DESCRIPTION OF THE 2011A BONDS.”

Redemption of the 2011A Bonds

While the 2011A Bonds bear interest in the Weekly Interest Rate Period, they are subject to optional and mandatory sinking fund redemption as described under the caption “DESCRIPTION OF THE 2011A BONDS—Redemption Provisions.”

Continuing Disclosure

In connection with the commencement of the Weekly Interest Rate Period on April 16, 2020, the City will execute a Continuing Disclosure Certificate in which it covenants for the benefit of the owners and Beneficial Owners of the 2011A Bonds to provide certain financial information and operating data relating to the Electric System and notices of the occurrence of certain enumerated significant events. See the caption “CONTINUING DISCLOSURE” and Appendix D.

Summaries and References to Documents

Brief descriptions of the 2011A Bonds, the security and sources of payment for the 2011A Bonds and the Electric System and summaries of the Resolution and certain other documents are included in this Remarketing Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references in this Remarketing Statement to the 2011A 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 Electric System may be obtained from the Utilities Assistant General Manager, Finance and Administration of the City of Riverside Public Utilities Department, at the same address. Financial and statistical information set forth in this Remarketing Statement, except for the audited financial statements included in Appendix B or as otherwise indicated, is unaudited.

All capitalized terms which are used in this Remarketing Statement and not otherwise defined have the meanings set forth in the Resolution.

PRIOR DEBT AND DEBT SERVICE

Outstanding Prior Debt and Swap Agreement

The 2011A Bonds are secured by and payable from Net Operating Revenues on a parity with the following outstanding bonds (collectively, the “**Prior Parity Bonds**”):

**TABLE 1
OUTSTANDING PARITY DEBT**

<i>Name of Issue</i>	<i>Outstanding Principal Amount</i> ⁽¹⁾
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A ⁽²⁾ (the “ 2008A Bonds ”)	\$ 34,465,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C ⁽³⁾ (the “ 2008C Bonds ”)	32,150,000
Electric Revenue Bonds, Issue of 2010A (Federally Taxable Build America Bonds – Direct Payment) ⁽⁴⁾ (the “ 2010A Bonds ”)	133,290,000
Electric Revenue Bonds, Issue of 2010B (Tax-Exempt Bank Qualified) ⁽⁴⁾ (the “ 2010B Bonds ”)	2,210,000
Refunding Electric Revenue Bonds, Issue of 2013A ⁽⁵⁾ (the “ 2013A Bonds ”)	38,990,000
Refunding Electric Revenue Bonds, Issue of 2019A ⁽⁶⁾ (the “ 2019A Bonds ”)	<u>283,325,000</u>
Total	\$524,430,000

⁽¹⁾ As of June 30, 2019.

⁽²⁾ Issued pursuant to the Master Resolution and Resolution No. 21611 adopted on April 22, 2008.

⁽³⁾ Issued pursuant to the Master Resolution and Resolution No. 21613 adopted on April 22, 2008.

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

⁽⁵⁾ Issued pursuant to the Master Resolution and Resolution No. 22357 adopted on June 18, 2013.

⁽⁶⁾ Issued pursuant to the Master Resolution and Resolution No. 23409 adopted on January 22, 2019.

Source: City.

Debt Service Requirements

The following table sets forth the estimated debt service on the Prior Parity Bonds and the 2011A Bonds, assuming no optional redemptions.

TABLE 2
DEBT SERVICE REQUIREMENTS⁽¹⁾

<i>Fiscal Year Ending June 30</i>	<i>Prior Parity Bonds Principal</i>	<i>Prior Parity Bonds Interest⁽²⁾</i>	<i>2011A Bonds Principal</i>	<i>2011A Bonds Interest⁽³⁾</i>	<i>Total Bonds Debt Service⁽²⁾</i>	<i>Less Treasury Credits⁽⁴⁾⁽⁵⁾</i>	<i>Total Bonds Debt Service Net of Treasury Credits⁽⁴⁾⁽⁵⁾</i>
2020	\$ 8,185,000	\$ 28,053,511	\$ 1,750,000	\$ 1,278,222	\$ 39,266,733	\$ (3,283,103)	\$ 35,983,630
2021	13,530,000	27,502,302	1,825,000	1,216,049	44,073,351	(3,283,103)	40,790,248
2022	14,135,000	26,787,744	1,900,000	1,158,284	43,981,028	(3,237,539)	40,743,489
2023	14,810,000	26,030,140	1,950,000	1,096,400	43,886,540	(3,188,224)	40,698,315
2024	16,790,000	25,205,289	725,000	1,062,016	43,782,305	(3,134,796)	40,647,509
2025	17,610,000	24,290,430	725,000	1,034,970	43,660,400	(3,074,841)	40,585,559
2026	18,580,000	23,367,560	725,000	1,013,671	43,686,232	(3,012,230)	40,674,002
2027	19,360,000	22,488,412	725,000	990,464	43,563,876	(2,946,615)	40,617,261
2028	20,235,000	21,567,933	725,000	969,016	43,496,949	(2,873,815)	40,623,134
2029	21,105,000	20,598,997	725,000	942,311	43,371,308	(2,797,578)	40,573,730
2030	22,035,000	19,591,438	725,000	920,842	43,272,280	(2,717,658)	40,554,623
2031	19,380,000	18,609,916	4,350,000	820,383	43,160,299	(2,633,809)	40,526,490
2032	20,230,000	17,607,962	4,525,000	678,564	43,041,526	(2,545,909)	40,495,617
2033	21,175,000	16,553,238	4,650,000	528,885	42,907,123	(2,451,857)	40,455,266
2034	22,120,000	15,451,894	4,825,000	377,326	42,774,220	(2,353,172)	40,421,048
2035	21,120,000	14,347,807	5,000,000	219,148	40,686,954	(2,249,602)	38,437,352
2036	22,075,000	13,242,608	5,175,000	55,369	40,547,977	(2,140,898)	38,407,078
2037	28,420,000	11,932,957	-	-	40,352,957	(2,026,809)	38,326,148
2038	29,835,000	10,349,002	-	-	40,184,002	(1,907,084)	38,276,918
2039	31,325,000	8,686,105	-	-	40,011,105	(1,781,473)	38,229,632
2040	37,840,000	6,469,845	-	-	44,309,845	(1,649,600)	42,660,245
2041	39,710,000	3,673,268	-	-	43,383,268	(844,712)	42,538,556
2042	6,290,000	2,084,000	-	-	8,374,000	-	8,374,000
2043	6,605,000	1,761,625	-	-	8,366,625	-	8,366,625
2044	6,935,000	1,423,125	-	-	8,358,125	-	8,358,125
2045	4,525,000	1,136,625	-	-	5,661,625	-	5,661,625
2046	4,750,000	904,750	-	-	5,654,750	-	5,654,750
2047	4,985,000	661,375	-	-	5,646,375	-	5,646,375
2048	5,235,000	405,875	-	-	5,640,875	-	5,640,875
2049	5,500,000	137,500	-	-	5,637,500	-	5,637,500
Total	\$524,430,000	\$410,923,232	\$41,025,000	\$14,361,919	\$990,740,151	\$(56,134,428)	\$934,605,723

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Reflects an assumed annual interest rate of 3.111% on the hedged portion of the 2008A Bonds and 3.204% on the 2008C Bonds, reflecting the anticipated effect of the swap agreements described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations—Existing Subordinate Obligations." Also assumes an interest rate of 3.500% on the unhedged portion of the 2008A Bonds.

⁽³⁾ Reflects an assumed annual interest rate of 3.201% on the 2011A Bonds, reflecting the anticipated effect of a swap agreement described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations—Existing Subordinate Obligations."

⁽⁴⁾ Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986 (the "Code"), which the City will elect to receive under Section 54AA(g)(1) of the Code. These amounts are currently included in Gross Operating Revenues for purposes of the rate covenant under the Resolution. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant—Future Change in Rate Covenant."

⁽⁵⁾ On March 1, 2013, automatic spending cuts within the federal government known as the "sequester" took effect. For the period from October 1, 2019, through and including September 30, 2020, the cuts included a 5.9% reduction in amounts payable by the federal government to issuers of Build America Bonds (and other direct pay bonds) under Section 6431 of the Code, as determined by the Office of Management and Budget (the "2019-20 Sequestration Rate"). Because the 2010A Bonds were issued as Build America Bonds and will be affected by the reduction in credits (absent future Congressional action), more Net Operating Revenues will be needed to pay debt service on the 2009B Bonds than previously scheduled in order to offset the impact of the sequester. Under a federal budget bill enacted in 2019, the reduction of sequester will continue through September 30, 2029. The sequestration rate for federal fiscal years 2021 through 2029 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage; however, this table assumes that the 2019-20 Sequestration Rate remains in effect through the final maturity of the 2010A Bonds on October 1, 2040.

DESCRIPTION OF THE 2011A BONDS

This Remarketing Statement describes the 2011A Bonds only while bearing interest in the Weekly Interest Rate Period. It is not intended to describe the terms of the 2011A Bonds after conversion to another Interest Rate Period. The City anticipates that if it elects to change the 2011A Bonds to any of such other Interest Rate Periods, a separate offering document will be distributed describing such new Interest Rate Period. Investors purchasing the 2011A Bonds in connection with a conversion to a different Interest Rate Period should look to the offering document prepared in connection with such conversion.

The following is a summary of certain provisions of the 2011A Bonds while in the Weekly Interest Rate Period. Reference is made to the 2011A Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion in this Remarketing Statement is qualified by such reference. See Appendix C.

General

The 2011A Bonds may bear interest from time to time in an Index Interest Rate Period, a Daily Interest Rate Period, a Weekly Interest Rate Period, a Short-Term Interest Rate Period or a Long-Term Interest Rate Period (each an “**Interest Rate Period**”) until the 2011A Bonds are converted to another Interest Rate Period.

Upon the remarketing of the 2011A Bonds on April 16, 2020, the 2011A Bonds will be Converted to a Weekly Interest Rate Period and will bear interest at a Weekly Interest Rate. While bearing interest at a Weekly Interest Rate, the 2011A Bonds will be delivered in denominations of \$100,000 or any integral multiples of \$5,000 in excess of \$100,000.

The 2011A Bonds are subject to mandatory tender for purchase and redemption prior to maturity, as described in greater detail below.

The 2011A Bonds will be prepared as one fully registered bond and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”). DTC will act as securities depository for the 2011A Bonds. Principal, premium, if any, and interest on the 2011A Bonds are payable by the Fiscal Agent to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2011A Bonds. See Appendix F.

Interest Rate Provisions

Weekly Interest Rate; Bank Bonds. During the Weekly Interest Rate Period, the 2011A Bonds will bear interest at the Weekly Interest Rate. Notwithstanding anything in the Sixteenth Supplemental Resolution to the contrary, however, the Bank Bonds will bear interest calculated at the rates (and on the basis) applicable from time to time under the applicable Credit Support Instrument and/or Credit Support Agreement and such interest will accrue and be payable on the dates as specified in the applicable Credit Support Instrument and/or Credit Support Agreement; provided that no Bank Bond will ever bear interest in excess of the Maximum Bank Bond Interest Rate. Promptly upon being notified of any date of remarketing of Bank Bonds, but not later than 12:30 p.m., New York City time, on the remarketing date, the Credit Provider will notify the Fiscal Agent of the Differential Interest Amount resulting from the remarketing of such Bank Bonds. The Fiscal Agent is directed to pay the Differential Interest Amount to the Credit Provider with amounts deposited with the Fiscal Agent by the City in the Interest Account on the date of remarketing. See the caption “THE LETTER OF CREDIT.”

Determination of the Weekly Interest Rate. During each Weekly Interest Rate Period for 2011A Bonds, the 2011A Bonds will bear interest at the Weekly Interest Rate, which will be determined by the Remarketing Agent by 5:00 p.m., New York City time, on Tuesday of each week during the Weekly Interest

Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly interest Rate for each Weekly Interest Rate Period will be determined on or prior to the first day of such Weekly Interest Rate Period and will apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on and including the next succeeding Tuesday. Thereafter, each Weekly Interest Rate will apply to the period commencing on and including Wednesday and ending on and including the next succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period will apply to the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period.

Each Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the 2011A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the 2011A Bonds, would enable the Remarketing Agent to sell all of the 2011A Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If the Remarketing Agent fails to establish a Weekly Interest Rate for any week with respect to the 2011A Bonds bearing interest at such rate, then the Weekly Interest Rate for such week will be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week will be equal to 100% of the SIFMA Municipal Swap Index, or if such index is no longer available, 70% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in The Wall Street Journal on the day that such Weekly Interest Rate would otherwise be determined as provided herein for such Weekly Interest Rate Period.

The determination of the Weekly Interest Rate by the Remarketing Agent will be conclusive and binding upon the City, the Fiscal Agent, the Tender Agent, the Remarketing Agent, the Credit Provider and the 2011A Bondowners.

Interest Payment Date. During the Weekly Interest Rate Period, interest on the 2011A Bonds will be payable on the first Business Day of each month (each, an “**Interest Payment Date**”) for the period commencing on the immediately preceding Interest Accrual Date (the first Business Day of the prior month) and ending on the day immediately preceding such Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period).

While in a Weekly Interest Rate Period, interest on the 2011A Bonds will accrue on the basis of the actual number of days elapsed during the Interest Rate Period and on a year of 365 days (366 days in a leap year).

Conversion of Interest Rate Period

Conversion to Daily Interest Rate Period. Subject to the Sixteenth Supplemental Resolution, the City may, from time to time, by written direction to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any), and the Remarketing Agent (if any) for the 2011A Bonds, elect that the 2011A Bonds will bear interest at a Daily Interest Rate. The direction of the City will specify: (A) the proposed effective date of such Conversion to a Daily Interest Rate, which will be a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; and (B) the Purchase Date for the 2011A Bonds to be purchased, which will be the proposed effective date of the Conversion to a Daily Interest Rate.

In addition, the direction of the City will be accompanied by a form of notice to be mailed to the Owners of the 2011A Bonds by the Fiscal Agent as provided in the Sixteenth Supplemental Resolution. The Fiscal Agent will give notice by first-class mail of a Conversion to a Daily Interest Rate Period to the Owners of the 2011A Bonds being Converted not less than 30 days prior to the proposed effective date of such Daily Interest Rate Period. A copy of such notice will be sent to the Rating Agencies. Such notice will state: (A) that the interest rate will be Converted to a Daily Interest Rate unless the City rescinds its election to Convert the interest rate to a Daily Interest Rate as provided in the Sixteenth Supplemental Resolution; (B) the proposed effective date of the Daily Interest Rate Period; (C) that the 2011A Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2011A Bonds; and (D) the information set forth under the caption “—Purchase of 2011A Bonds—Notice of Mandatory Tender for Purchase.”

Conversion to Long-Term Interest Rate Period. Subject to Sixteenth Supplemental Resolution, at any time, the City, by written direction to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any) and the Remarketing Agent (if any) for the 2011A Bonds, may elect that the 2011A Bonds will bear interest at a Long-Term Interest Rate. The direction of the City: (A) will specify the duration of the Long-Term Interest Rate Period; (B) will specify the proposed effective date of the Long-Term Interest Rate Period, which date will be a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; (C) will specify the last day of the Long-Term Interest Rate Period (which last day will be either the day immediately prior to the Maturity Date of the 2011A Bonds (in which event, the 2011A Bonds will not thereafter be subject to subsequent Conversion), or a day which both immediately precedes a Business Day and is at least 181 days after the effective date thereof); (D) will specify a Purchase Date on or prior to which Owners of the 2011A Bonds are required to deliver their 2011A Bonds to be purchased; and (E) may specify redemption prices and periods (subject to the requirement of a Favorable Opinion of Bond Counsel as provided in the Sixteenth Supplemental Resolution) different than those set forth in the Sixteenth Supplemental Resolution, and, in connection with a Conversion to a Long-Term Interest Rate Period extending to the day immediately prior to the Maturity Date of the 2011A Bonds, will provide for the 2011A Bonds to mature and/or be subject to annual mandatory sinking fund redemption as provided in the Sixteenth Supplemental Resolution.

The direction of the City will be accompanied by a form of the notice to be mailed by the Fiscal Agent to the Owners of the 2011A Bonds being Converted as provided in the Sixteenth Supplemental Resolution. During the Long-Term Interest Rate Period, the interest rate(s) on the 2011A Bonds will be Long-Term Interest Rate(s).

The Fiscal Agent will give notice by first-class mail of a Conversion to a Long-Term Interest Rate Period to the Owners of the 2011A Bonds being Converted not less than 30 days prior to the effective date of the Long-Term Interest Rate Period. A copy of such notice will be sent to the Rating Agencies. Such notice will state: (A) that the interest rate will be Converted to, or continue to be, a Long-Term Interest Rate unless: (1) the City rescinds its election to Convert the interest rate to a Long-Term Interest Rate as provided in the Sixteenth Supplemental Resolution; or (2) all of the 2011A Bonds are not remarketed at a Long-Term Interest Rate; (B) the proposed effective date, duration and last day of the Long-Term Interest Rate Period; (C) that the 2011A Bonds are subject to mandatory tender for purchase on such proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2011A Bonds; and (D) the information set forth under the caption “—Purchase of 2011A Bonds—Notice of Mandatory Tender for Purchase.”

Conversion to Bond Interest Term Rates. Subject to the Sixteenth Supplemental Resolution, the City may, from time to time, by written direction to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any) and the Remarketing Agent (if any), elect that the 2011A Bonds will bear interest at Bond Interest Term Rates. The direction of the City will specify: (A) the proposed effective date of the Short-Term Interest Rate Period (during which the 2011A Bonds will bear interest at Bond Interest Term Rates), which will be a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; and (B) the Purchase Date for the 2011A Bonds to be purchased, which will be the proposed

effective date of the Short-Term Interest Rate Period. In addition, the direction of the City will be accompanied by a form of the notice to be mailed by the Fiscal Agent to the Owners of the 2011A Bonds as provided in the Sixteenth Supplemental Resolution. During each Short-Term Interest Rate Period commencing on the date specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, each 2011A Bond will bear interest at a Bond Interest Term Rate during each Bond Interest Term for that 2011A Bond.

The Fiscal Agent will give notice by first-class mail of a Conversion to a Short-Term Interest Rate Period to the Owners of the 2011A Bonds being Converted not less than 30 days prior to the proposed effective date of such Short-Term Interest Rate Period. A copy of such notice will be sent to the Rating Agencies. Such notice will state: (A) that the 2011A Bonds will bear interest at Bond Interest Term Rates unless the City rescinds its election to Convert the interest rate to Bond Interest Term Rates as provided in the Sixteenth Supplemental Resolution; (B) the proposed effective date of the Short-Term Interest Rate Period; (C) that the 2011A Bonds are subject to mandatory tender for purchase on the proposed effective date of the Short-Term Interest Rate Period and setting forth the applicable Purchase Price and the place of delivery for purchase of the 2011A Bonds; and (D) the information set forth under the caption “—Purchase of 2011A Bonds—Notice of Mandatory Tender for Purchase.”

Conversion to Index Interest Rate Period. Subject to the Sixteenth Supplemental Resolution, the City may, from time to time, by written direction to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any), the Remarketing Agent (if any), and the Calculation Agent (if any) for the 2011A Bonds, elect that the 2011A Bonds will bear interest at an Index Interest Rate. The direction of the City will specify: (A) the proposed effective date of the Conversion to the Index Interest Rate, which will be a Business Day not earlier than the 30th day following the second Business Day after notifying the Fiscal Agent of such direction; (B) the Purchase Date for the 2011A Bonds to be purchased, which will be the proposed effective date of the adjustment to an Index Interest Rate, as set forth in the Sixteenth Supplemental Resolution; and (C) the Applicable Index Spread, the Index Rate Scheduled Purchase Date and the Call Protection Date with respect to the new Index Interest Rate Period, as described in the Sixteenth Supplemental Resolution. In addition, the direction of the City will be accompanied by a form of notice to be mailed to the Owners of the 2011A Bonds being Converted by the Fiscal Agent as provided in the Sixteenth Supplemental Resolution. During each Index Interest Rate Period for the 2011A Bonds commencing on a date so specified and ending on the day immediately preceding the Index Rate Purchase Date, which will also be an effective date of the next succeeding Interest Rate Period, the interest rate borne by the 2011A Bonds will be at an Index Interest Rate.

The Fiscal Agent will give notice by first-class mail of the Conversion to an Index Interest Rate Period to the Owners of the 2011A Bonds being Converted not less than 30 days prior to the proposed effective date of such Index Interest Rate Period. A copy of such notice will be sent to the Rating Agencies. Such notice will state: (A) that the interest rate will be adjusted to an Index Interest Rate, unless the City rescinds its election to adjust the interest rate to an Index Interest Rate on an Index Rate Unscheduled Purchase Date as provided in the Sixteenth Supplemental Resolution; (B) the proposed effective date of the Index Interest Rate Period; (C) that the 2011A Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2011A Bonds; and (D) the information set forth under the caption “—Purchase of 2011A Bonds—Notice of Mandatory Tender for Purchase” and otherwise in accordance with the Sixteenth Supplemental Resolution.

Notice of Conversion of Interest Rate Period. If the City elects to Convert the Interest Rate Period on the 2011A Bonds to a Daily Interest Rate, a Long-Term Interest Rate, Bond Interest Term Rates or an Index Interest Rate as provided in the Sixteenth Supplemental Resolution, the written direction furnished by the City to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any), the Calculation Agent (if any), and the Remarketing Agent (if any) for the 2011A Bonds as required by the Sixteenth Supplemental Resolution will be made by registered or certified mail, or by telecopy confirmed by registered or certified mail. That direction will specify whether the 2011A Bonds are to bear interest at the Weekly Interest Rate, Daily Interest Rate, Long-Term Interest Rate(s), Bond Interest Term Rates or an Index Interest Rate and will be accompanied

by: (a) copy of the notice required to be given by the Fiscal Agent pursuant to the Sixteenth Supplemental Resolution, as the case may be; and (b) the following:

(1) With respect to the new Interest Rate Period, the City will have appointed a Remarketing Agent and there will have been executed and delivered a Remarketing Agreement.

(2) With respect to the new Interest Rate Period, there will be in effect a Credit Support Instrument if and as required under the Sixteenth Supplemental Resolution.

(3) The Fiscal Agent will have received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(4) Except as provided in the Sixteenth Supplemental Resolution, in the case of any Conversion with respect to which there is no Credit Support Instrument in effect to provide funds for the purchase of 2011A Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date will not be less than the amount required to purchase all of the 2011A Bonds at the Purchase Price (but not including any premium).

(5) The City shall have appointed a Calculation Agent.

In the event that any condition to the Conversion of the 2011A Bonds have not been satisfied as provided in the Sixteenth Supplemental Resolution, then the Interest Rate Period will not be Converted and the 2011A Bonds will continue to bear interest at the Weekly Interest Rate as in effect immediately prior to such proposed Conversion, and the 2011A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Sixteenth Supplemental Resolution.

Rescission of Conversion Election. Notwithstanding anything in the Sixteenth Supplemental Resolution, in connection with any Conversion of the Interest Rate Period for the 2011A Bonds; the City has the right to deliver to the Fiscal Agent, the Remarketing Agent (if any), the Tender Agent (if any), the Calculation Agent (if any) and the Credit Provider (if any) for the 2011A Bonds, on or prior to 10:00 a.m., New York City time, on the second Business Day prior to any such Conversion a notice to the effect that the City elects to rescind its election to make such Conversion. If the City rescinds its election to make such Conversion, then the Interest Rate Period will not be Converted and the 2011A Bonds will continue to bear interest at a Weekly Interest Rate in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the Owners of the 2011A Bonds as provided in the Sixteenth Supplemental Resolution and the City rescinds its election to make such Conversion, then the 2011A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Sixteenth Supplemental Resolution.

Purchase of 2011A Bonds

Purchase During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any 2011A Bond (other than a Bank Bond or a 2011A Bond for which the City is the Owner or the Beneficial Owner) bearing interest at a Weekly Interest Rate will be purchased in an Authorized Denomination (provided that the amount of any such 2011A Bond not to be purchased is also in an Authorized Denomination) from its Owner at the option of the Owner on any Business Day at a purchase price equal to the Purchase Price, payable in immediately available funds, upon delivery to the Remarketing Agent, the Tender Agent at its corporate trust office for delivery of 2011A Bonds and to the Fiscal Agent at its corporate trust office of an irrevocable written notice which states the principal amount of such 2011A Bond, the principal amount thereof to be purchased and the date on which the same will be purchased, which date will be a Business Day not prior to the 7th day after the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, will be deemed to have been received on the next succeeding Business

Day. Bank Bonds may not be tendered for purchase at the option of the Owner thereof and 2011A Bonds for which the City is the Owner or Beneficial Owner may not be tendered for purchase by the City. For payment of the Purchase Price on the Purchase Date, such 2011A Bond must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date to the Tender Agent at its corporate trust office for delivery of 2011A Bonds accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the 2011A Bondowner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

During any Weekly Interest Rate Period for which the Book-Entry System described in the Sixteenth Supplemental Resolution is in effect, any 2011A Bond bearing interest at the Weekly Interest Rate or portion thereof (provided that the principal amount of such 2011A Bond to be purchased and the principal amount to be retained are each an Authorized Denomination) will be purchased on the date specified in the notice referred to below at the Purchase Price. The irrevocable written notice, executed by the Participant, will be delivered on any Business Day by the Participant for such 2011A Bond to the Remarketing Agent, the Tender Agent at its corporate trust office for the delivery of such 2011A Bonds and to the Fiscal Agent at its corporate trust office. That notice will state the principal amount of such 2011A Bond, the portion thereof to be purchased and the date on which the same will be purchased, which date will be a Business Day at least 7 days after the date of delivery of such notice to the Fiscal Agent. Upon confirmation by the Securities Depository to the Fiscal Agent that such Participant has an ownership interest in the 2011A Bonds at least equal to the amount of 2011A Bonds specified in such irrevocable written notice, payment of the Purchase Price of such 2011A Bond will be made by 3:00 p.m., New York City time, or as soon as practicably possible thereafter, upon the receipt by the Fiscal Agent of the Purchase Price as set forth in the Sixteenth Supplemental Resolution on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such 2011A Bond tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 10:00 a.m., New York City time, on the date specified in such notice.

Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Credit Support Instrument Mandatory Standby Tender. If at any time that the Credit Provider is not in default under the Credit Support Instrument, the Fiscal Agent gives notice, in accordance with the Sixteenth Supplemental Resolution, that the 2011A Bonds will, on the date specified in such notice, cease to be subject to purchase pursuant to the Credit Support Instrument then in effect as a result of: (i) the substitution of that Credit Support Instrument with an Alternate Credit Support Instrument or the termination or expiration of the term, as extended, of that Credit Support Instrument, including but not limited to termination at the option of the City in accordance with the terms of such Credit Support Instrument; or (ii) the occurrence of a Mandatory Standby Tender, then: (a) on the effective date of an Alternate Credit Support Instrument (other than an Alternate Credit Support Instrument delivered in substitution for or replacement of a bond insurance policy); or (b) on the 5th Business Day preceding any such termination or expiration of such Credit Support Instrument other than as a result of a Mandatory Standby Tender; or (c) the mandatory purchase date specified by the Tender Agent in the case of a Mandatory Standby Tender, which mandatory purchase date will be a Business Day prior to the termination date of the Credit Support Instrument as a result of such Mandatory Standby Tender, each such 2011A Bond will be purchased or deemed purchased at the Purchase Price.

Payment of the Purchase Price of any such 2011A Bond will be made in immediately available funds by 3:00 p.m., New York City time, on the Purchase Date upon delivery of such 2011A Bond to the Tender Agent at its corporate trust office for delivery of 2011A Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the 2011A Bondowner with the signature of such 2011A Bondowner guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon, New York City time, on the Purchase Date specified in the Sixteenth Supplemental Resolution. If, as a result of any such Mandatory Standby Tender, substitution, expiration or termination of such a Credit Support Instrument, any 2011A Bond is no longer subject to purchase pursuant to a Credit Support Instrument, the Tender Agent will present such 2011A Bond to the Fiscal Agent for notation of such fact thereon.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of 2011A Bonds as described under the subcaption “—Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Credit Support Instrument Mandatory Standby Tender” above, the Fiscal Agent will give the notice required by the Sixteenth Supplemental Resolution. Such notice will state: (i) that the Credit Support Instrument will expire or terminate and that the 2011A Bonds will no longer be payable from the Credit Support Instrument then in effect and that any rating applicable to the 2011A Bonds may be reduced or withdrawn and, in the case of a substitution, the name of the new Credit Provider and that information about such new Credit Provider will be forthcoming; (ii) that the Purchase Price of any 2011A Bond subject to mandatory tender for purchase will be payable only upon surrender of a 2011A Bond to the Tender Agent at its corporate trust office for delivery of 2011A Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the 2011A Bondowner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (iii) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such 2011A Bonds by the Remarketing Agent or through the Credit Support Instrument, all 2011A Bonds subject to mandatory tender for purchase shall be purchased on the mandatory Purchase Date; and (iv) that if any Owner of a 2011A Bond subject to mandatory tender for purchase does not surrender that 2011A Bond to the Tender Agent for purchase on the mandatory Purchase Date, then that 2011A Bond will be deemed to be an Undelivered Bond, that no interest will accrue on that 2011A Bond on and after the mandatory Purchase Date and that the Owner will have no rights under the Sixteenth Supplemental Resolution other than to receive payment of the Purchase Price.

Irrevocable Notice Deemed to be Tender of 2011A Bond; Undelivered Bonds. The giving of notice by an Owner of 2011A Bonds as provided in above will constitute the irrevocable tender for purchase of each 2011A Bond with respect to which such notice is given regardless of whether that 2011A Bond is delivered to the Tender Agent for purchase on the relevant Purchase Date.

The Tender Agent may refuse to accept delivery of any 2011A Bond for which a proper instrument of transfer has not been provided. However, such refusal will not affect the validity of the purchase of such 2011A Bond as described in the Sixteenth Supplemental Resolution. If any Owner of a 2011A Bond who has given notice of tender of purchase as described above under the subcaption “—Purchase During Weekly Interest Rate Period” or any Owner of a 2011A Bond subject to mandatory tender for purchase as described above under the subcaption “—Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Credit Support Instrument Mandatory Standby Tender” fails to deliver that 2011A Bond to the Tender Agent at the place and on the Purchase Date and at the time specified, or fails to deliver that 2011A Bond properly endorsed, that 2011A Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available for payment to the Owner thereof on the Purchase Date and at the time specified, then from and after the Purchase Date and time of that required delivery: (A) the Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Sixteenth Supplemental Resolution; (B) interest will no longer accrue on the Undelivered Bond; and (C) funds in the amount of the Purchase Price of the Undelivered Bond will be held uninvested by the Fiscal Agent for the benefit of the Owner thereof (provided that the Owner has no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its corporate trust office for delivery of 2011A Bonds.

Possible Limitations of Book-Entry System. No representation is made in this Remarketing Statement as to the timely exercise by DTC or any of its participants of any direction with respect to an election to tender beneficial interests in the 2011A Bonds, nor is any representation made in this Remarketing Statement as to the timely payment of principal and interest upon a tender of beneficial interests in the 2011A Bonds under the book-entry system. Tenders of beneficial interests in the 2011A Bonds under the book-entry system will be governed by the procedures of DTC and its participants in effect from time to time. See Appendix F.

Special Considerations Relating to the Remarketing Agent

The Remarketing Agent is Paid by the City. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing 2011A Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Remarketing Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the 2011A Bonds.

The Remarketing Agent Routinely Purchases 2011A Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered 2011A Bonds for its own account and, in its sole discretion, may acquire such tendered 2011A Bonds in order to achieve a successful remarketing of the 2011A Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the 2011A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase 2011A Bonds and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2011A Bonds by purchasing and selling 2011A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the 2011A Bonds. The Remarketing Agent may also sell any 2011A Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2011A Bonds. The purchase of 2011A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the 2011A Bonds in the market than is actually the case. The practices described above may also result in fewer 2011A Bonds being tendered in a remarketing.

2011A Bonds May be Offered at Different Prices on Any Date, Including a Remarketing Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the 2011A Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable remarketing date. The interest rate will reflect, among other factors, the level of market demand for the 2011A Bonds (including whether the Remarketing Agent is willing to purchase 2011A Bonds for its own account). There may or may not be 2011A Bonds tendered and remarketed on a remarketing date, the Remarketing Agent may or may not be able to remarket any 2011A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2011A Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2011A Bonds at the remarketing price. In the event that a Remarketing Agent owns any 2011A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2011A Bonds on any date, including a remarketing date, at a discount to par to some investors.

The Ability to Sell the 2011A Bonds Other than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell 2011A Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their 2011A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2011A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2011A Bonds other than by tendering the 2011A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2011A Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event that there is no Remarketing Agent, the Fiscal Agent may assume such duties as described in the Resolution.

Redemption Provisions

Optional Redemption. While in the Weekly Interest Rate Period, the 2011A Bonds are subject to optional redemption by the City on any Interest Payment Date, in whole or in part in an Authorized Denomination, at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date, without premium.

Mandatory Sinking Account Redemption. The 2011A Bonds are subject to mandatory sinking account redemption, in part, on October 1, 2020, and on each October 1 thereafter, by lot, from Mandatory Sinking Account Payments, at the principal amount thereof plus accrued interest thereon to but not including the date fixed for redemption, without premium, as follows:

<i>Redemption Date (October 1)</i>	<i>Principal Amount</i>
2020	\$1,825,000
2021	1,900,000
2022	1,950,000
2023	725,000
2024	725,000
2025	725,000
2026	725,000
2027	725,000
2028	725,000
2029	725,000
2030	4,350,000
2031	4,525,000
2032	4,650,000
2033	4,825,000
2034	5,000,000
2035 [†]	5,175,000

[†] Final Maturity

Mandatory Redemption of Bank Bonds. Any Bank Bonds from time to time Outstanding will be subject to mandatory redemption in the amounts and at the times and at the redemption prices specified therefor in the Credit Support Agreement with the Credit Provider, upon one Business Day's notice of redemption to the Credit Provider and the Fiscal Agent.

Selection of 2011A Bonds for Redemption. If any 2011A Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such 2011A Bond (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the Resolution, in which case the Fiscal Agent will, without charge to the Owner of such 2011A Bond, authenticate and issue a replacement 2011A Bond or Bonds for the unredeemed portion thereof. Whenever provision is made for the redemption of less than all of the 2011A Bonds, the maturity or maturities of the 2011A Bonds to be redeemed will be specified by the City. In the case of a partial redemption of any maturity of the 2011A Bonds, the Fiscal Agent will select the 2011A Bonds of such maturity to be redeemed by lot at such times as directed by the City in writing at least 30 days prior to the redemption date and if such selection is more than 60 days before a redemption date, will appropriately identify the 2011A Bonds so called for redemption by stamping them at the time any 2011A Bonds so selected for redemption are presented to the Fiscal Agent for stamping or for transfer or exchange, or by such other method of identification as is deemed adequate by the Fiscal Agent, and any 2011A Bond or Bonds issued in exchange for, or to replace, any 2011A Bond so called for prior redemption will likewise be stamped or otherwise identified. The Fiscal Agent will not select the 2011A Bonds for mandatory sinking account redemption pursuant to the Resolution more than 60 days prior to the redemption date.

Notwithstanding anything in the Resolution to the contrary, any Bank Bonds will be selected for redemption pursuant to the Resolution prior to the selection of any other 2011A Bonds.

Notice of Redemption. The City will notify the Fiscal Agent, the Remarketing Agent (if any), the Credit Provider (if any) and the Calculation Agent (if any), at least 45 days prior to the redemption date for 2011A Bonds pursuant to the Sixteenth Supplemental Resolution. Notice of redemption will be mailed by the Fiscal Agent, not less than 30 nor more than 60 days prior to the redemption date: (i) to the respective Owners of any 2011A Bonds designated for redemption at their addresses appearing on the bond registration books of the Fiscal Agent by first class mail; (ii) to the Securities Depository by facsimile and by first-class mail; and (iii) to the Information Services by first class mail. Notice of redemption will be given in the form and in accordance with the terms of the Sixteenth Supplemental Resolution by first class mail. Notice of the redemption of Bank Bonds will be made in the manner provided in the applicable Credit Support Instrument and/or Credit Support Agreement.

Each notice of redemption will state the date of such notice, the distinguishing designation of the 2011A Bonds, the date of issue of the 2011A Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed; provided, however, in the event of an optional redemption of Bonds of a Series, if the City has not deposited or otherwise made available to the Fiscal Agent the money required for the payment of the Redemption Price of the 2011A Bonds to be redeemed at the time of such mailing, such notice of redemption will state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefor with the Fiscal Agent. Each such notice will also state that on said date there will become due and payable on each of said 2011A Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2011A Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither the City nor the Fiscal Agent have any responsibility for any defect in the CUSIP number that appears on any 2011A Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Fiscal Agent are liable for any inaccuracy in such numbers. Failure by the Fiscal Agent to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice or any defect in any such notice will not affect the sufficiency of the proceedings for redemption.

Payment of Redeemed Bonds. Notice having been given in the manner provided above under the subcaption “—Notice of Redemption,” the 2011A Bonds or portions thereof so called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the office specified in such notice, such 2011A Bonds, or portions thereof, will be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there is drawn for redemption a portion of a 2011A Bond, the City will execute and the Fiscal Agent will authenticate and deliver, upon surrender of such 2011A Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2011A Bond so surrendered, a 2011A Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all of the 2011A Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, will be available therefor on said date and if notice of redemption has been given as aforesaid, then from and after the redemption date, interest on the 2011A Bonds or portion thereof of such Series and maturity so called for redemption will cease to accrue and become payable. If said moneys are not so available on the redemption date, such 2011A Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Partial Redemption of 2011A Bonds. Upon surrender of any 2011A Bond redeemed in part only, the City will execute and the Fiscal Agent will authenticate and deliver to the Owner thereof, at the expense of the City, a new 2011A Bond of Authorized Denominations, and of the same Maturity Date and interest rate, equal in aggregate principal amount to the unredeemed portion of the 2011A Bond surrendered.

SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS

Net Operating Revenues

Pursuant to the Law, the 2011A Bonds are special limited obligations of the City, secured by a pledge of, a charge upon and payable, as to the principal thereof, the interest thereon and any premium upon redemption thereof, solely from the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the Prior Parity Bonds and any Additional Bonds or Parity Debt issued in the future.

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

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

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

Limited Obligation

The General Fund of the City is not liable for the payment of the principal of or interest and redemption premium on the 2011A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2011A Bonds. No Owner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. None of the principal of or interest or redemption premium on the 2011A Bonds constitutes a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of its property, or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets that are, under the terms of the Resolution, pledged to the payment of the principal of or interest and redemption premium (if any) on the 2011A Bonds.

Resolution Flow of Funds

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

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

The City did not fund debt service reserve accounts for the 2010 Bonds, 2011A Bonds, 2013A Bonds or 2019A Bonds. See the caption “—Debt Service Account Not Funded.”

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

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

Bond Service Account. Following the required transfers for the payment of the Operating and Maintenance Expenses of the Electric System for that month, the City will set aside and transfer within the Electric Revenue Fund to the Bond Service Account for transfer to the Interest Account and to the Principal Account, as applicable, the following amounts at the following times:

Interest Account. The Treasurer will set aside in the Interest Account as soon as practicable in each month an amount equal to: (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such fund; (b) with respect to Outstanding Paired Obligations, such amount as will be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations; (c) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; *provided, however,* that the amount of the deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of the deposit into the Interest Account for any month will be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness; and (d) only after all deposits have been made for such month in the Principal Account and the Bond Reserve Accounts as provided in the subcaptions “—Principal Account” and “—Reserve Accounts; Supplemental Deposit” below, respectively, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of the Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate

Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to: (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates); and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (d) above. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt will rank and be made pari passu with the payments required to be placed in the Interest Account.

Principal Account. The Treasurer will deposit in the Principal Account as soon as practicable in each month an amount equal to at least: (i) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months; plus (ii) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds having annual maturity dates or annual Mandatory Sinking Account Payments due within the next 12 months, provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside towards such principal to be so refunded or paid. If, during the twelve-month period 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 cancellation, or Term Bonds of such Series and maturity were at any time purchased, 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 will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Account will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City.

No deposit need be made into the Principal Account so long as there is in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt will rank and be made pari passu with the payments required to be placed in the Principal Account.

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

The Treasurer will, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount described in clause (d) under the subcaption “—Bond Service Account—Interest Account” above.

Excess Earnings and Certain Other Amounts. Following the transfers described above as required by the Resolution, the Treasurer will deposit into the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the Prior Parity Bonds, the 2011A Bonds, and any other Bonds or Parity Debt the amount, if any, at such times as will be required pursuant to the Supplemental Resolution or other document creating such account.

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

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

Application of Funds in the Bond Service Account

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

Principal Account. All amounts in the Principal Account will be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the Bonds when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers. Notwithstanding the foregoing, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund redemption: (i) within the next six months in the case of Bonds subject to semiannual maturity dates or semiannual Mandatory Sinking Account Payments; or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to the foregoing provisions will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Rate Covenant

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

- (a) Operating and Maintenance Expenses;
- (b) the interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;
- (c) all other payments required for compliance with the Resolution or any Supplemental Resolutions; and
- (d) all other payments required to meet any other obligations of the City that are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under the Subordinate Obligations).

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

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

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

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

The latest final maturity date of the 2008A Bonds and 2008C Bonds is October 1, 2035, although such Bonds could be redeemed earlier.

Debt Service Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. Although a separate reserve account has been established for the 2011A Bonds, the City is not funding such account and has no

obligation to fund the account in the future. The owners of the 2011A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Additional Bonds and Parity Debt

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

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

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

- (i) the City is not in default under the terms of the Resolution;
- (ii) either:
 - (a) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest fiscal year, or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City; or
 - (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt are in operation as estimated by and set forth in a Certificate of the City;

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

- (iii) on the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt will be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

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

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

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

For definitions of the term “Maximum Annual Debt Service” and other capitalized terms used in this Remarketing Statement, see Appendix C. See also the caption “—Rate Covenant” above for a change to the calculation methodology for debt service that will become effective when the 2008A Bonds and 2008C Bonds are no longer outstanding.

Subordinate Obligations

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

Existing Subordinate Obligations

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

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

The current notional amount of the 2004 Swap Agreement associated with the 2008A Bonds is \$32,450,000.

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

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

The current notional amount of the 2005 Swap Agreement associated with the 2008C Bonds is \$32,150,000. The current notional amount of the 2005 Swap Agreement associated with the 2011A Bonds is \$39,275,000.

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

Both the City and the Swap Providers have the right to terminate the Swap Agreements prior to their respective stated termination dates under certain circumstances, including a default or the occurrence of certain termination events, and the City may be required to make a substantial termination payment to the applicable Swap Provider. In the event of early termination of any Swap Agreement, there can be no assurance that the City will: (i) receive any termination payment payable to the City by the applicable Swap Provider; (ii) have sufficient amounts to pay any termination payment payable by the City to the applicable Swap Provider; or (iii) be able to obtain replacement Swap Agreements with comparable terms.

In connection with the Swap Agreements, the City has entered into certain protocols, including amendments or supplements to the Swap Agreements, to comply with ISDA’s Dodd-Frank Documentation Initiative and other requirements, including responses to regulatory requirements binding others, imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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

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

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

LIBOR Phaseout. The periodic payments due to the City from counterparties under the City’s outstanding Swap Agreements and the amounts payable by the City under the Revolving Credit Facility are calculated by reference to LIBOR. On July 27, 2017, the Financial Conduct Authority (the “**FCA**”), the U.K.

regulatory body that is currently responsible for the regulation and supervision of LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the “**FCA Announcement**”), which is prior to the scheduled termination date of the Swap Agreements. It is not possible to predict the effects of the FCA Announcement or how any prospective phaseout of LIBOR as a reference rate and transition to an alternate benchmark rate will be implemented, but increased volatility in the reported LIBOR rates may occur and the level of such LIBOR-based swap and interest payments may be affected.

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

THE LETTER OF CREDIT

*The following summarizes certain provisions of the Irrevocable Transferable Letter of Credit to be issued by the Credit Provider and the Reimbursement Agreement, to which documents reference is made for the complete provisions thereof. Such summary does not purport to be a complete description or restatement of the material provisions of the Reimbursement Agreement and the Letter of Credit. The provisions of any substitute letter of credit and related reimbursement agreement may be different from those summarized below. Investors should obtain and review a copy of the Reimbursement Agreement and the Letter of Credit in order to understand all terms of the documents. Except for the terms “**Credit Provider**” and “**Parity Debt**,” capitalized terms used in the following summary are defined in the Reimbursement Agreement and reference thereto is made for full understanding of their import.*

Letter of Credit

The Letter of Credit is an irrevocable obligation of the Credit Provider. The Letter of Credit will be issued in an amount (which amount may from time to time be reduced and reinstated, the “**Stated Amount**”) equal to the aggregate principal amount of the 2011A Bonds outstanding as of the Substitution Date, plus 57 days’ accrued interest thereon, at the rate of 12% per annum and assuming a year of 365 days, subject to adjustment in accordance with the Letter of Credit.

The Tender Agent, upon compliance with the terms of the Letter of Credit, and subject to the last sentence of this paragraph, is authorized to draw a maximum aggregate amount not exceeding the Stated Amount, sufficient: (i) to pay accrued interest on the 2011A Bonds; (ii) to pay the principal amount of and accrued interest on the 2011A Bonds in respect of any optional redemption of the 2011A Bonds (subject to certain provisions of the Reimbursement Agreement) or Mandatory Sinking Account Redemption of the 2011A Bonds; (iii) to pay the principal amount of and accrued interest on the 2011A Bonds delivered for purchase in accordance with the Sixteenth Supplemental Resolution (a “**Liquidity Drawing**”); and (iv) to pay

the principal amount of the 2011A Bonds maturing on May 31, 2023. Any 2011A Bond deemed to have been purchased by the Credit Provider pursuant to the terms of the Reimbursement Agreement will thereupon become a 2011A Bank Bond. No drawing under the Letter of Credit may be made with respect to Bank Bonds, 2011A Bonds bearing interest at a rate other than the Weekly Interest Rate or the Daily Interest Rate, or 2011A Bonds owned by or on behalf of the City.

The amount available under the Letter of Credit will be reduced automatically by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Tender Agent solely to pay interest on the 2011A Bonds on an interest payment date, the amount available under the Letter of Credit will be automatically reinstated effective at 9:00 a.m. New York time on the seventh (7th) calendar day following the date of payment by the Credit Provider of such drawing if the Tender Agent has not received notice from the Credit Provider in the form attached to the Letter of Credit by facsimile (or other communication) prior to 5:00 p.m. New York time on the sixth (6th) calendar day following the date of payment by the Credit Provider that the Credit Provider has not been reimbursed in full for such interest drawing or that any other Event of Default under the Reimbursement Agreement has occurred and, as a result thereof, the Letter of Credit will not be reinstated. With respect to a Liquidity Drawing upon a remarketing of such 2011A Bonds (or portions thereof) purchased with the proceeds of such Liquidity Drawing and upon notice to the Credit Provider by the Tender Agent in the form required by the Letter of Credit and receipt by the Credit Provider of funds, the Available Amount of the Letter of Credit will be automatically reinstated in the amount indicated in such certificate from the Tender Agent.

The Letter of Credit will terminate on the earliest of the Credit Provider's close of business on: (a) the stated expiration date (May 31, 2023, as extended from time to time); (b) the earlier of: (i) the date which is five (5) days following the date on which all of the 2011A Bonds bear interest at a rate other than the Weekly Interest Rate or the Daily Interest Rate, as such date is specified in a certificate in the form attached to the Letter of Credit (the "**Conversion Date**"); or (ii) the date on which the Credit Provider honors a drawing under the Letter of Credit on or after the Conversion Date; (c) the date on which the Credit Provider receives written notice from the Tender Agent that: (i) no 2011A Bonds remain Outstanding within the meaning of the Resolution; (ii) all drawings required to be made under the Sixteenth Supplemental Resolution and available under the Letter of Credit have been made and honored; or (iii) a letter of credit has been issued in substitution for the Letter of Credit in accordance with the terms of the Resolution; (d) the date on which a Stated Maturity Drawing is honored by the Credit Provider; and (e) the date which is fifteen (15) days following the date the Tender Agent receives a written notice from the Credit Provider specifying the occurrence of a Reimbursement Agreement Event of Default (as defined below) and directing the Tender Agent to cause a mandatory tender of the 2011A Bonds.

Reimbursement Agreement Events of Default

Pursuant to the Reimbursement Agreement, the occurrence of any of the following events will constitute an event of default thereunder (each, a "**Reimbursement Agreement Event of Default**"):

- (a) the City fails to pay, or cause to be paid, as and when due any Obligation; or
- (b) the City fails to pay, or cause to be paid, when due any Parity Debt; or
- (c) any representation or warranty made by or on behalf of the City to the Credit Provider in the Reimbursement Agreement, a Related Document or in any certificate or statement delivered under the Reimbursement Agreement will be incorrect or untrue in any material respect when made or deemed to have been made; or
- (d) any "*event of default*" under any Related Document which is not cured within any applicable cure period shall occur; or

(e) default in the due observance or performance of certain covenants set forth in the Reimbursement Agreement; or

(f) default in the due observance or performance of any other term, covenant or agreement set forth in the Reimbursement Agreement or any other Related Document and the continuance of such default for thirty (30) days after knowledge by the City or notice from the Credit Provider; or

(g) any provision of the Reimbursement Agreement or any material provision of the Related Documents will cease to be valid and binding, or a senior officer of the City or the City contests any such provision, or a senior officer of the City, or any agent or trustee on its behalf: (A) denies that it has any or further liability: (y) under the Reimbursement Agreement or any of the Related Documents to which it is a party; or (z) with respect to its obligations to pay any Parity Debt (as defined in the Reimbursement Agreement); or (B) claims that any of the Related Documents are invalid; or

(h) an Event of Insolvency will have occurred with respect to the City; or

(i) dissolution or termination of the existence of the City; or

(j) the City or any governmental agency or authority with jurisdiction over the City initiates any legal proceedings to seek an adjudication that the Reimbursement Agreement, the 2011A Bonds, or any Related Document or its obligation to pay any Parity Debt is not valid or not binding on the City; or

(k) any court of competent jurisdiction or other governmental entity with jurisdiction to rule on the validity of the Reimbursement Agreement, the 2011A Bonds or any of the Related Documents, announces, finds or rules that the Reimbursement Agreement, the 2011A Bonds or any of the Related Documents is not valid or not binding on City; or

(l) the City (i) defaults in any payment of any Debt payable from Net Operating Revenues which, individually or in the aggregate, exceeds \$10,000,000 (“**Material Debt**”) beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Material Debt was created; or (ii) defaults in the observance or performance of any agreement or condition relating to any Material Debt contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of any Material Debt (or a Tender Agent or agent on behalf of such holder or holders) to cause, with the giving of notice if required, such Material Debt to become due prior to its stated maturity; or (iii) any Material Debt is declared to be due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof; or

(m) (i) the withdrawal or suspension for credit-related reasons by any Rating Agency that is at the time rating any long-term unenhanced Debt of the City payable from Net Operating Revenues that is senior in right of payment to, or on a parity with, the 2011A Bonds of its long-term rating with respect to such Debt; or (ii) the downgrade by any such Rating Agency of its long-term rating with respect to any such Debt to a level below “BBB-” (or its equivalent) in the case of Fitch, “BBB-” (or its equivalent) in the case of S&P or “Baa3” (or its equivalent) in the case of Moody’s; or

(n) there is appointed or designated with respect to the City or the Electric System, an entity such as an organization, board, commission, authority, agency or body to monitor or declare a financial emergency or similar state of financial distress with respect to it or there is declared by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it; or

(o) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service is rendered to the effect that interest on the 2011A Bonds is includable in the gross income of the holder(s) or

owner(s) of such 2011A Bonds and either: (i) the City, after it has been notified by the Internal Revenue Service, will not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted; or (ii) the City challenges such ruling, assessment, notice or advice and a court of law makes a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(p) (i) default under any mortgage, agreement or other instrument under or pursuant to which Parity Debt is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto; or (ii) the City fails to perform any other agreement, term or condition contained in any agreement under which any such obligation is created or secured which results in such Parity Debt becoming, or being capable of becoming, immediately due and payable, or, with respect to any Parity Debt that is a Swap Contract, which results in such Swap Contract being terminated early or being capable of being terminated early; or

(q) any of the funds or accounts established pursuant to the Resolution or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process is not released, vacated or stayed within fifteen (15) days after its issue or levy; or

(r) any pledge or security interest created by the Reimbursement Agreement or any Related Document to secure any amount due by the City under the Reimbursement Agreement or with respect to the 2011A Bonds fails to be fully enforceable with the priority required under the Reimbursement Agreement or thereunder; or

(s) a judgment or order for the payment of money in excess of \$5,000,000 and for which insurance proceeds will not be available is rendered against the City and such judgment or order continues unstayed, unbonded or unsatisfied for a period of 60 days.

Reimbursement Agreement Remedies

Upon the occurrence of any of the above described Reimbursement Agreement Events of Default, the Credit Provider may exercise any one or more of the following rights and remedies in addition to any other remedies provided in the Reimbursement Agreement or by law provided:

(a) by notice to the City declare all Obligations to be and such amounts will thereupon become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; and/or

(b) give written notice to the Tender Agent with a copy to the City specifying that an Event of Default has occurred and is continuing, and that the Tender Agent is to give notice of mandatory tender of the 2011A Bonds thereby causing the Letter of Credit to expire fifteen (15) days thereafter, whereupon all amounts drawn under the Letter of Credit, all Liquidity Advances, all interest thereon and all other amounts payable under the Reimbursement Agreement or in respect of the Reimbursement Agreement will automatically be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which have been expressly waived by the City; and/or

(c) exercise any and all other rights and remedies provided in the Reimbursement Agreement or under the Related Documents; and/or

(d) pursue any other action available at law or in equity.

THE CITY

General information about the City, its location and its demographics is set forth in Appendix A.

COVID-19 OUTBREAK

The spread of the novel strain of coronavirus called COVID-19 (“**COVID-19**”) is having significant negative impacts throughout the world, including within the City. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the City, the County, the State and the United States. The purpose of these declarations is to coordinate and formalize emergency actions across federal, State and local governmental agencies and to proactively prepare for a wider spread of COVID-19.

To date there have been a number of confirmed cases of COVID-19 in the City and the County and health officials are expecting the number of confirmed cases to grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including within the City). The United States is also restricting certain non-citizens and permanent residents from entering the country. In addition, stock markets in the United States and globally have been volatile, with significant declines attributed to COVID-19 concerns.

In response to the COVID-19 outbreak, the City has declared the Electric System to be an essential service and has staggered employee shifts, enabled certain employees to telecommute and moved employees to multiple locations in order to prevent large gatherings of Electric System personnel at any one time. The City does not currently foresee an impact on Electric System operations at this time.

However, potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public events and disruption of the regional and local economy with corresponding decreases in Electric System demand (and, consequently, revenues) and potential declines in property values which may affect the ability or willingness of homeowners to pay property taxes.

In addition, as part of the City’s response to the COVID-19 outbreak, the City Council on March 17, 2020 moved to suspend utility service shutoffs (including for the Electric System) through the end of April 2020, and the City will not seek to collect late fees or penalties. Although no service charges are being forgiven, the City expects its accounts receivable amount to increase as a result of the foregoing policy. See the caption “**HISTORICAL FINANCIAL OPERATIONS—Operating Revenue—Collection Procedures.**”

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the Electric System and the City is likely to be adverse. However, the City does not believe that the outbreak of COVID-19 will have a material adverse effect on the City’s ability to pay the 2011A 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 the electric and water utilities for its citizens. The City’s Public Utilities Department (the “**Department**”) exercises jurisdiction over the electric and water utilities which are owned, controlled and operated by the City. The Department is under the management and control of the City Manager, subject to the powers and duties vested in the Board and in the City Council, and is supervised by the Utilities General

Manager, who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. Todd Corbin, Utilities General Manager, holds a Certified Public Accountant license, a Bachelor of Science in Business Administration/Accounting from Indiana University of Pennsylvania and a Master of Public Administration from California State University, San Bernardino. He joined the City in November 2018 with 28 years of California utility experience, including serving as General Manager of the Jurupa Community Services District for six years. Prior to that, he served in various management roles including Assistant General Manager of the Cucamonga Valley Water District in Rancho Cucamonga.

Mr. Todd L. Jorgenson, Utilities Assistant General Manager/Water, holds a Bachelor of Science and a Master of Science in Civil Engineering from Brigham Young University and a Master of Business Administration from California State University, San Bernardino. He has been with the City since 2004 and served in various management roles including Interim Utilities General Manager, Engineering Manager, Operations Manager and Senior Engineer. He has over 22 years of experience in the utility industry.

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

Mr. George R. Hanson, Utilities Assistant General Manager/Energy Delivery, holds a Bachelor of Science degree from University of California, Irvine and a Master of Science degree from California State University, Long Beach in Civil Engineering and is a registered Professional Engineer in the State of California. He has been with the Department since 2010 and has served in various management roles, including Engineering Manager and Electric Field Manager. He has been involved in the electric utility industry for 29 years.

Board of Public Utilities

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

The voters in the City passed Measure MM (the “**Measure**”) on November 2, 2004, which became fully effective upon approval of the City Council on May 17, 2005. The Measure amended the City Charter

provisions and granted the authority to award bids and authorize procurement contracts to the Board. It streamlines the process for procurement approvals by eliminating the need for City Council approval, assuming funding authority exists in the Department's budget, as adopted or amended by the City Council. Contracts that are subject to the Measure are public works, goods, and non-professional and professional services. Contracts related to property acquisitions/dispositions, power and transmission and other negotiated agreements are not affected by the Measure, and remain subject to prior approval requirements established by the City Council.

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

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

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

David R. Austin – Appointed to the Board in 2013, current term expires March 1, 2021. Mr. Austin is retired from the City's Fire Department.

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

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

Ana Miramontes – Appointed to the Board in 2019, current term expires March 1, 2020. Ms. Miramontes is a vice president for small business banking at a national bank located in the City.

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

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

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

Employment Matters

Employee Relations. As of January 14, 2020, 227 City employees were assigned specifically to the Electric System. Substantially all the non-administrative City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers (“**IBEW**”). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2021. Portions of the administrative staff are represented by the Service Employees International Union (“**SEIU**”). The City and SEIU are parties to a Memorandum of Understanding that expires on June 30, 2020. While not under a memorandum of understanding, all unrepresented employees have compensation and benefit packages approved by the City Council. On December 13, 2016, the City Council approved changes for unrepresented employees through January 2021.

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

Employee Retirement Systems. Accounting and financial reporting by state and local government employers for defined benefit pension plans is governed by Governmental Accounting Standards Board (“GASB”) Statement No. 68 (“GASB 68”). GASB 68 governs the accounting treatment of defined benefit pension plans, including how expenses and liabilities are calculated and reported by state and local government employers in their financial statements. GASB 68 includes the following components: (i) unfunded pension liabilities are included on the employer’s balance sheet; (ii) pension expense incorporates rapid recognition of actuarial experience and investment returns and is not based on the employer’s actual contribution amounts; (iii) lower actuarial discount rates are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. GASB 68 affects the City’s accounting and reporting requirements, but it does not change the City’s pension plan funding obligations.

Retirement benefits to City employees, including those assigned to the Electric System, are provided through the City’s participation in the Public Employees Retirement System of California (“CalPERS”), an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State. CalPERS issues a separate, publicly available financial report that includes financial statements and required supplemental information of participating public entities within the State.

The City has a multiple tier retirement plan with benefits varying by plan. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee’s age, years of service and salary. All of the bargaining units included in the Miscellaneous CalPERS Plan, including Management, SEIU and IBEW employees of the Electric System and the City’s water utility, agreed to change the calculation of the CalPERS retirement benefit for new employees from an amount derived from the highest year of salary to an amount derived from the average of the highest three years of salary, which addressed concerns associated with salary increases in the year immediately prior to retirement. This change was effective for employees hired on or after December 9, 2011.

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

- 1st Tier -
 - The retirement formula is 2.7% at age 55 for unrepresented employees hired before October 19, 2011. Effective January 1, 2018, the employees are required to pay 2% of the employee contribution of their pensionable income, with the City contributing the other 6%. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion increases over three years by 2% in 2019, 2% in 2020 and 2% in 2021. By 2021, employees will be contributing the entire 8% of their pensionable income.
 - The retirement formula is 2.7% at age 55 for SEIU employees hired before June 7, 2011. The employees are required to pay 6% of their pensionable income, with the City contributing the other 2%. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion increases over two years by 1% in 2019 and 1% in 2020. By 2020, employees will be contributing the entire 8% of their pensionable income.

- The retirement formula is 2.7% at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees are required to contribute 2% of their total pensionable income, with the City paying the remaining 6%. Effective November 1, 2018, employees are required to pay an additional portion of their pensionable income. This portion increases over three years by 2% in 2018, 2% in 2019 and 2% in 2020. By 2020, employees will be contributing the entire 8% of their pensionable income.
- 2nd Tier - The retirement formula is 2.7% at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8%) of contributions.
 - All other Miscellaneous Plan employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier - The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7% to 8% based on bargaining group classification. Classic members (employees who were CalPERS members prior to December 31, 2012) hired on or after January 1, 2013 may be placed in a different tier.

City employees who were hired on and after January 1, 2013 and who were not previously CalPERS members receive benefits based on a 2% at age 62 formula; such employees are required to make the full amount of required employee contributions themselves under the California Public Employees’ Pension Reform Act of 2013 (“**AB 340**”), which was signed by the State Governor on September 12, 2012. AB 340 established a new pension tier: the 2% at age 62 formula, with a maximum benefit formula of 2.5% at age 67. Benefits for such participants are calculated on the highest average annual compensation over a consecutive 36 month period. Employees are required to pay at least 50% of the total normal cost rate. AB 340 also caps pensionable income for 2020 as noted below. Amounts are set annually, subject to Consumer Price Index increases, and retroactive benefits increases are prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

**PENSIONABLE INCOME CAPS FOR CALENDAR YEAR 2019
(AB 340 AND NON-AB 340 EMPLOYEES)**

	<i>Employees Hired Before January 1, 2013 (Non-AB 340 Employees)</i>	<i>Employees Hired On and After January 1, 2013 (AB 340 Employees)</i>
Maximum Pensionable Income	\$280,000	\$149,016
Maximum Pensionable Income if also Participating in Social Security	N/A	\$124,180

Source: City.

Additional employee contributions, limits on pensionable compensation and higher retirement ages for new members as a result of the passage of AB 340 are expected to reduce the City’s unfunded pension liability and potentially reduce City contribution levels in the long term.

CalPERS estimates savings for local agency plans as a result of AB 340 of approximately \$1.653 billion to \$2.355 billion over the 30-year period after its adoption, primarily due to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the City have not been quantified.

The City is also required to contribute the actuarially determined remaining amounts necessary to fund benefits for its members. Required employer normal cost rates for fiscal year 2018-19 were 12.314% for the 1st Tier benefit level, 12.314% for the 2nd Tier benefit level and 12.314% for the 3rd Tier benefit level, and the required employer payment of the unfunded accrued liability was \$19,422,351. Required employer normal cost rates for fiscal year 2019-20 are 12.866% for the 1st Tier benefit level, 12.866% for the 2nd Tier benefit level and 12.866% for the 3rd Tier benefit level, and the required employer payment of the unfunded accrued liability is \$22,752,102.

Employer contribution rates for all public employers are determined on an annual basis by the CalPERS actuary and are effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The total minimum required employer contribution is the sum of the plan’s employer normal cost rate (expressed as a percentage of payroll) plus the employer unfunded accrued liability contribution amount (billed monthly). The normal cost rate is the annual cost of service accrual for the upcoming fiscal year of active employees.

The City’s Miscellaneous plan had a total net pension liability of approximately \$339.89 million for fiscal year 2017-18 and approximately \$278.60 million for fiscal year 2018-19. The net pension liability is the difference between the total pension liability and the fair market value of pension assets. The City’s total pension assets include funds that are held by CalPERS, and its net pension asset or liability is based on such amounts.

For fiscal year 2018-19, the City incurred Miscellaneous plan pension expenses of \$0, with a credit of \$4,365,000 due to changes in actuarial assumptions resulting from GASB 68. The City’s Miscellaneous plan contributions for fiscal years 2017-18 and 2018-19 were \$29,948,000 and \$34,486,000, respectively. The City currently expects its annual required contribution for the Miscellaneous plan’s unfunded accrued liability in fiscal year 2019-20 to be approximately \$21,970,000. The share of such contributions which is attributable to the Electric System is expected to be approximately 31% for fiscal year 2019-20.

In addition, the Electric System is obligated to pay its share of the City’s pension obligation bonds, which the City issued in 2005 and of which the City refinanced a portion in May 2017 (the “**Pension Obligation Bonds**”). The Electric System’s total proportional share of the outstanding principal amount of the Pension Obligation Bonds was \$8.4 million as of June 30, 2019. That share will amortize based on the amortization schedule of the Pension Obligation Bonds (which extends to 2027). See also Note 4 to the audited financial statements of the Electric System attached as Appendix B to this Official Statement for further information.

A summary of principal assumptions and methods used to determine the total pension liability for fiscal year 2018-19 is shown below.

ACTUARIAL ASSUMPTIONS FOR CALPERS MISCELLANEOUS PENSION PLAN

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
<i>Actuarial Assumptions:</i>	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.75%
Mortality Rate Table ⁽¹⁾	Derived using CalPERS’ membership data for all funds

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Source: City.

On December 21, 2016, the CalPERS Board of Directors voted to lower its discount rate from the current rate of 7.50% to 7.00%. Effective with its June 2017 Comprehensive Annual Financial Report, CalPERS reduced its discount rate to 7.15% and its investment rate of return to 7.15%. The discount rate for Fiscal Year 2020 is 7.00%.

For public agencies such as the City, the new discount rate took effect July 1, 2017. Lowering the discount rate means that employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 will also see their contribution rates rise under AB 340. The reduction of the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most Miscellaneous retirement plans such as the City’s plan. Additionally, employers such as the City could face a 30% to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long-term.

Portions of the above information are primarily derived from information that has been produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified such information and neither makes any representations nor expresses any opinion as to the accuracy of the information that has been provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on CalPERS’ Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS’ most recent actuarial valuation reports and other information that concerns benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

Changes in the net pension liability for the City’s Miscellaneous plan in the most recent Fiscal Year for which information is available were as follows:

**CHANGES IN CALPERS MISCELLANEOUS PENSION PLAN NET PENSION LIABILITY
(Dollars in Thousands)**

	<i>Increase / (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position⁽¹⁾</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2017	\$ 1,371,914	\$ 1,032,027	\$ 339,887
Balance at June 30, 2018	<u>1,368,453</u>	<u>1,089,855</u>	<u>278,597</u>
Net Changes for period from July 1, 2017 through June 30, 2018	\$ (3,461)	\$ 57,828	\$ (61,290)

Source: City.

The table below presents the net pension liability of the City’s Miscellaneous plan, calculated using the discount rate applicable to fiscal year 2018-19 (7.15%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

**SENSITIVITY OF CALPERS MISCELLANEOUS PENSION PLAN NET PENSION LIABILITY TO
CHANGES IN THE DISCOUNT RATE
(Dollars in Thousands)**

	<i>Discount Rate – 1%</i> <i>(6.15%)</i>	<i>Current Discount Rate</i> <i>(7.15%)</i>	<i>Discount Rate + 1%</i> <i>(8.15%)</i>
Plan’s Net Pension Liability/(Asset)	\$464,887	\$278,597	\$125,412

Source: City.

CalPERS earnings reports for fiscal years 2009-10 through 2018-19 report investment gains of approximately 13.0%, 21.7%, 1.0%, 12.5%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6% and 6.7%, respectively. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City.

The City expects its pension obligations to increase in future years as a result of CalPERS investment losses in the wake of stock market declines as a result of the COVID-19 outbreak. See the caption “COVID-19 OUTBREAK.” The City does not expect that any increased funding of pension benefits will have a material adverse effect on the ability of the City to pay the 2020A Bonds.

For additional information relating to the City’s CalPERS Miscellaneous pension plan, see Note 14 to the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019, which may be obtained on the City’s website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet website is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet website.*

Other Post-Employment Benefits. The Electric System contributes to two single-employer defined benefit healthcare plans: the Stipend Plan and the Implied Subsidy Plan. These plans provide other post-employment health care benefits (“**OPEB**”) for eligible retirees and beneficiaries.

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

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

Effective for the fiscal year ended June 30, 2018, GASB issued its Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“**GASB 75**”). GASB 75 requires a net OPEB liability to be reported on the balance sheet of the financial statements, similar to the net pension liability. GASB 75 requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For the fiscal years ended June 30, 2019 and 2018, the OPEB expense recorded for the

Electric System was approximately \$645,000 and \$697,000, respectively. The Electric System's net OPEB liability as of June 30, 2019 and 2018 was \$8,572,000 and \$8,283,000, respectively.

Changes in the net liability for the City's post-employment benefit plan were as follows.

**CHANGES IN OPEB PLAN LIABILITY
(Dollars in Thousands)**

	<i>Increase / (Decrease)</i>		
	<i>Total Post-Employment Benefit Plan Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Post-Employment Benefit Plan Liability / (Asset)</i>
Balance at June 30, 2017	\$36,786	\$0	\$36,786
Balance at June 30, 2018	<u>38,338</u>	<u>0</u>	<u>38,338</u>
Net Changes for period from July 1, 2017 through June 30, 2018	\$ 1,552	\$0	\$ 1,552

Source: City.

The following table presents the net liability of the City's OPEB plan, calculated using the discount rate applicable to fiscal year 2018-19 (3.50%), as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate:

SENSITIVITY OF OPEB PLAN NET LIABILITY TO CHANGES IN THE DISCOUNT RATE

	<i>Discount Rate – 1% (2.50%)</i>	<i>Current Discount Rate (3.50%)</i>	<i>Discount Rate + 1% (4.50%)</i>
Plan's Net Liability/(Asset)	\$41,534	\$38,338	\$35,431

Source: City.

The City does not currently expect unusual increases in OPEB funding expenses in the future. However, future changes in funding policies and assumptions, including those related to assumed rates of investment return and healthcare cost inflation, could trigger increases in the City's annual required contributions, and such increases could be material to the finances of the City. No assurance can be provided that such expenses will not increase significantly in the future. The City does not expect that any increased funding of OPEB will have a material adverse effect on the ability of the City to pay the 2020A Bonds.

For additional information relating to the City's OPEB plan, see Note 13 to the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019, which may be obtained on the City's website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

Investment Policy and Controls

Unexpended revenues from the operation of the Electric System, including amounts held in the Electric Revenue Fund prior to expenditure as described in this Official Statement, are invested under the direction of the City Treasurer, who is charged to pursue the primary objective of safety, and, thereafter, the

objectives of liquidity and yield. The City’s investment portfolio is managed to provide the necessary liquidity to fund daily operations. Cash flow is continually reviewed, and the City manages 100% of its own funds.

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

The City’s portfolio is currently comprised of fixed rate United States Government Agency Bonds, federal agency securities, corporate notes that are rated at least “A”, certificates of deposit and money market funds, including the State of California Local Agency Investment Fund. The City entered into certain interest rate swap agreements in connection with previously issued Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS—Subordinate Obligations.”

The City’s investment policy requires the investment of City funds to be made in accordance with Section 53600 *et seq.* of the California Government Code and the City’s Investment Policy approved by the City Council on December 15, 2015. In the past, in connection with its budget-adoption process, the City Council has annually delegated authority to the City’s Treasurer for responsibility over investments. See Note 2 to the audited financial statements of the Electric System attached as Appendix B and Note 3 to the City’s basic financial statements in the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019, which may be obtained on the City’s website at <https://www.riversideca.gov/finance/cafr>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

THE ELECTRIC SYSTEM

General

The Electric System operates as a vertically integrated utility providing service to virtually all electric consumers within the city limits of the City, which encompasses 81.5 square miles. The Electric System provides service throughout the City to domestic, commercial, industrial, agricultural, municipal and other customers. In fiscal year 2018-19, the number of metered customers of the Electric System was 110,480.

Power Supply

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

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

For fiscal year 2018-19, the overall average net cost of generation and transmission was 8.4 cents per kilowatt-hour (“kWh”).

During fiscal year 2018-19, the Electric System generated and purchased a total of 2,261,700 megawatt hours (“MWhs”) of electricity for delivery to customers throughout the City. The following table sets forth the amounts in MWh and percentages of electricity obtained by the City during fiscal year 2018-19.

**TABLE 3
ANNUAL ELECTRICITY SUPPLY⁽¹⁾
FISCAL YEAR 2018-19**

<i>Resources</i>	<i>MWh</i>	<i>Percentage</i>
Renewable Resources.....	835,500	37%
Firm Contracts and Market Purchases.....	511,500	23
IPP Generating Station.....	677,900	30
Springs, RERC and Clearwater.....	108,000	5
PVNGS.....	100,200	4
Hoover Power Plant	<u>28,600</u>	<u>1</u>
Total	2,261,700	100%

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

The system peak for the fiscal year ended June 30, 2019 of 610.9 megawatts (“MWs”) was set on July 24, 2018. The following table sets forth, in MWh of electricity, the total purchases of power and Electric System peak demand during the periods shown.

**TABLE 4
TOTAL ENERGY GENERATED AND PURCHASED AND PEAK DEMAND**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
From City’s Own Generation (MWh).....	65,000	76,400	119,000	122,700	108,200
From Other Sources (MWh).....	<u>2,252,100</u>	<u>2,251,000</u>	<u>2,190,500</u>	<u>2,182,500</u>	<u>2,153,500</u>
System Total (MWh) ⁽¹⁾	<u>2,317,100</u>	<u>2,327,400</u>	<u>2,309,500</u>	<u>2,305,200</u>	<u>2,261,700</u>
System Peak Demand (MW)	604.4 ⁽²⁾	598.6	581.7	640.3 ⁽²⁾	610.9
System Native Load (MWh).....	2,165,000	2,169,000	2,197,000	2,195,000	2,150,000

⁽¹⁾ Before system losses.

⁽²⁾ Increase primarily due to warmer weather patterns.

Source: City.

City-Owned Generating Facilities

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

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

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

Clearwater. Clearwater consists of a single, General Electric LM 2500 combustion turbine generator operating in combined cycle with one RENTECH heat recovery steam generator and one SHIN NIPPON steam turbine generator. The gross plant output of Clearwater is 29.5 MW. The City acquired Clearwater from the City of Corona, California, effective September 1, 2010. Clearwater has been included in the City's resource portfolio and the necessary air quality permits to operate Clearwater up to a baseload configuration are in place. Clearwater is also utilized by the City to meet the local resource adequacy requirements of the CAISO. See the caption "—California Independent System Operator."

Decommissioning of SONGS. The City has a 1.79% undivided ownership interest in Units 2 and 3 of San Onofre Nuclear Generating Station ("SONGS"); however, on June 7, 2013, Southern California Edison Company ("SCE"), as principal owner and operating agent, announced its plan to retire Units 2 and 3 of SONGS permanently, triggering the start of decommissioning. Consequently, SONGS is no longer a power resource for the Electric System. The process of decommissioning the nuclear power plant is expected to take many years and is governed by Nuclear Regulatory Commission (the "NRC") regulations. According to the 2017 Decommissioning Cost Estimate provided by SCE, the total decommissioning costs for Units 2 and 3 are estimated at \$4.7 billion, of which the Electric System's Share is approximately \$84 million. The Electric System has established trust accounts and an unrestricted designated decommissioning reserve to accumulate resources for the decommissioning process. As of June 30, 2019, the Electric System has paid \$27.1 million for its share of the decommissioning costs from the trust accounts. The remaining estimated costs of \$60.6 million are expected to be fully covered by the trust accounts and the unrestricted designated decommissioning reserve, which at June 30, 2019, had values of \$55.5 million and \$9 million, respectively; however, due to the uncertainty of future unknown costs, the Electric System will continue to set aside funds in the unrestricted designated decommissioning reserve of \$1.6 million annually, as approved by the Board and City Council. On October 1, 2018, the City applied \$11,005,000 received in settlements and refunds in connection with the decommissioning of SONGS to the defeasance of a portion the City's then-outstanding Electric Revenue Bonds, Issue of 2008D in the same amount.

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

Entitlements

IPP Generating Station. The City has a 7.617% (approximately 137.1 MW) entitlement in the coal-fired IPP Generating Station Units 1 and 2 located near Lynndyl, Utah, which were declared to be commercially operational in June 1986 and May 1987, respectively. The City has entered into a power sales

agreement with the IPA, as the owner of IPP, which obligates the City to purchase its share of capacity and energy of IPP on a take-or-pay basis (the “**IPP Contract**”). The IPP Contract expires in 2027. See the caption “—Joint Powers Agency Obligations.”

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

There are 35 utilities that purchase the output of IPP, consisting of the City, and the California cities of Los Angeles, Anaheim, Burbank, Glendale and Pasadena, 23 members of the IPA and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada and Wyoming. IPP is operated by the City of Los Angeles, through its Department of Water and Power (“**LADWP**”).

The IPP Generating Station’s annual coal requirement is approximately 3.6 million tons. LADWP, in its role as the operating agent of IPP, buys coal under contracts to fulfill this supply requirement of the IPP. Coal is purchased under a portfolio of fixed price contracts that are of short and long-term in duration. LADWP has reported that from now through 2021, coal presently under contract is sufficient, with the exercise of available options, to meet IPP’s annual coal requirements, with lesser amounts of coal under contract thereafter through 2024. IPA attempts to maintain a coal stockpile at IPP that is sufficient to operate the plant at current plant capacity factors for about 60 days in the event of a disruption in coal supply.

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

Under Senate Bill 1368, the City is precluded from renewing the IPP Contract at the end of its term in June 2027. See the captions “FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—State Legislation Affecting the Power Supply—Senate Bill 1368 – Emission Performance Standard” and “—Electric System Strategic Plan—Power Resource Portfolio Management.”

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

Under provisions of the Renewal Power Sales Contract, certain California participants, including the City, had the right to exit completely from the IPP Repower Project or any Alternative Repowering by providing a written notice of termination to IPA at least 90 days prior to November 1, 2019. On May 7, 2019, the City Council authorized termination of the Renewal Power Sales Contract between the IPA and the Electric

Utility effective November 1, 2019 and the Electric Utility's exit from the IPP Repower Project upon the expiration date of the current Power Sales Contract on June 15, 2027.

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

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

The City renegotiated and executed new agreements with the Bureau and Western which became effective on October 1, 2017 and expire on September 30, 2067. The City's entitlement is approximately 30 MW (1.461% of the total project); however due to low lake levels resulting from prolonged drought conditions, the City's available capacity entitlement has been reduced to approximately 23.5 MW as of June 30, 2019.

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

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

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

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. SCPPA's records indicate that the aggregate balance of the external accounts for decommissioning was approximately \$181.4 million at June 30, 2019. Based on the most recent 2016 estimate of decommissioning costs prepared by TLG Engineering, SCPPA has advised the City that it estimates that the City's share of the amount required for decommissioning of PVNGS is overfunded. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs at license expiration and commencement of decommissioning activities. SCPPA has advised the City that it anticipates receiving a new estimate of decommissioning costs every three years. The next study is scheduled to begin in April 2020.

APS currently stores spent nuclear fuel in on-site pools near the generating units. The pools have reached capacity, and additional on-site spent fuel storage has been used until a permanent repository for high-level nuclear waste developed by the federal government becomes available. The additional onsite spent fuel storage has been provided by an independent spent fuel storage installation. The installation uses dry cask storage similar to that being used at other nuclear plants, such as SONGS, and is designed to accept all spent fuel generated by PVNGS during its lifetime. As of June 30, 2019, over 152 casks, each containing 24 spent fuel assemblies, have been put into storage using the installation.

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

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

Renewable Resources

In an effort to increase the share of renewable energy sources in the City's power portfolio, the City entered into power purchase agreements (each, a "PPA") with various entities described below on primarily a "take-and-pay" basis.

For a discussion of State law relating to renewable portfolio standards, the adoption of a plan by the City with respect to such standards and the City's compliance with its plan, see the caption "FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—State Legislation Affecting the Power Supply."

**TABLE 5
LONG-TERM RENEWABLE PPAS IN OPERATION**

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

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

⁽²⁾ Increases to 86 MW in 2020. See the subcaption “—Salton Sea.”
Source: City.

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

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

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

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

SunEdison - AP North Lake. On October 16, 2012, the City entered into a 25-year PPA with AP North Lake, LLC (“**AP North**”) for 20 MW of capacity and approximately 55,000 MWh of associated

renewable solar photovoltaic energy per year generated by a new facility located in the City of Hemet, California at a levelized cost of \$95 per MWh for the term of the PPA. The AP North project became fully operational in August 2015.

Dominion Columbia II. On September 19, 2013, the City entered into two 20-year power sale agreements (each, a “PSA”) with SCPPA for a combined 26 MW of solar photovoltaic energy generated by two facilities to be built by Recurrent Energy in Kern County, California. The two projects which were initially intended to be developed are referred to as the Clearwater and Columbia II Solar Photovoltaic Projects, with a nameplate capacity of 20 MW and 15 MW, respectively. Unanticipated permitting challenges for Clearwater stalled and eventually terminated construction plans for the facility in 2014. As a result, the City received liquidated damages in the amount of \$1.3 million from the Clearwater project in fiscal year 2015-16. The liquidated damages were reported as other non-operating revenues on the City’s Statement of Revenues, Expenses and Changes in Net Position. On March 14, 2014, a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia II project from Recurrent Energy to Dominion Resources. The Columbia II project achieved commercial operation in December 2014. The City has a 74.29% share (11.1 MW) of the output from the Columbia II project through SCPPA, which has a 15 MW PPA with Dominion Resources. The City’s share of Columbia II is approximately 33,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$69.98 per MWh over the term of the agreements.

GlidePath Power Solutions – GPS Cabazon Wind LLC. On December 6, 2013, the City and FPL Energy Cabazon Wind, LLC (“Cabazon Wind”) entered into a 10-year PPA for 39 MW of capacity and approximately 71,200 MWh of associated renewable wind energy per year with an all-in price for energy, capacity and environmental attributes of \$59.30 per MWh over the term of the agreement from the Cabazon Wind Energy Center near Cabazon, California. Cabazon Wind is an existing renewable resource that has been in commercial operation since 1999. Delivery under the PPA commenced on January 1, 2015. In 2018, after it was acquired by GlidePath Power Solutions, FPL Energy Cabazon Wind, LLC changed its name to GPS Cabazon Wind, LLC.

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

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

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

output from the project through SCPPA, which has a 50 MW PPA with sPower. The project became commercially operational on December 20, 2016.

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

American Renewable Power – Loyalton. On November 16, 2017, the City entered into a 5-year PSA with SCPPA for 0.8 MW of biomass energy generated by the American Renewable Power (“**ARP**”)-Loyalton Biomass Project. The City has a 4.48% share of the output of the project through SCPPA, which has an 18 MW PPA with ARP-Loyalton. The project became commercially operational on April 20, 2018. The City’s share of ARP-Loyalton is approximately 6,358 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$97.50 per MWh over the term of the agreement. Such share satisfies a portion of the City’s obligations under Senate Bill 859, as discussed under the heading “FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—State Legislation Affecting the Power Supply—Senate Bill 859 – “Budget Trailer Bill” – Biomass Mandate.”

Firm Contracts and Market Purchases

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

In fiscal year 2018-19, the City purchased 511,500 MWh of firm energy (approximately 22.6% of its total energy supply) through short-term contracts. The purchases consisted of 275,700 MWh purchased through the CAISO IFM and 25,800 MWh purchased from WSPP counterparties. The cost of obtaining the necessary energy depends upon contract requirements and the current market price for energy. Spot market prices are dependent upon such factors as natural gas prices, the availability of generating resources in the region, fuel type and weather conditions such as ambient temperatures and the amount of rainfall or snowfall. Generating unit outages, dry weather, hot or cold temperatures, time of year, transmission constraints and other factors can all affect the supply and price of energy. See the caption “FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY.”

Wholesale Power Trading Policies and Risk Management

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

The policies have been updated to incorporate changes in regulatory and legislative requirements, including an amendment to authorized transactions, organizational structure and reporting requirements. The comprehensive updated policies were approved by the Board and City Council on February 1, 2013 and March 5, 2013, respectively, and include an Energy Risk Management Policy, a Wholesale Counterparty Risk

Management Policy and an Authorized Transactions Policy. The Wholesale Counterparty Risk Management Policy was amended for non-substantive changes on April 29, 2014.

California Independent System Operator

The City serves as its own Scheduling Coordinator with the CAISO and serves as the scheduling agent, under separate Utility Service Agreements, for the Cities of Banning and Rancho Cucamonga. In addition, the City serves as the scheduling agent for SCPPA's Columbia II Solar, Kingbird B Solar, Summer Solar, Antelope DSR 1 Solar, and ARP-Loyalton Biomass projects under various Scheduling Coordinator Agreements. Services under the referenced agreements include day-ahead and real time scheduling of power from various sources, after-the-fact validation and settlement of transactions and billing and payments.

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

Certain of the City's CAISO-Transferred Entitlements relate to transmission facilities, including the Southern Transmission System, which were financed by SCPPA utilizing tax-exempt bonds. The City executed certain transmission service contracts with SCPPA that prohibit the City from taking any action that would adversely affect the tax-exempt status of the SCPPA bonds. If the City were to be found to have breached such contractual obligation, the City could be subjected to significant financial liability. The TCA executed by the City and submitted by the CAISO on November 19, 2002 for approval by FERC contained certain withdrawal provisions that the City believes will protect the tax-exempt status of the SCPPA bonds and satisfy the City's contractual obligation to SCPPA under its transmission service contracts. To date, SCPPA has received no notices affecting the tax-exempt status of SCPPA bonds issued for projects in which the City is a participant.

On January 1, 2003, the City became a PTO with the CAISO, entitling the City to receive compensation for the use of its transmission entitlements committed to the CAISO's operational control. The amount of compensation to which the City is entitled is based upon the City's TRR as approved by FERC. Included in the City's TRR are all costs associated with the City's participation in SCPPA's transmission projects (as described under the caption "—Transmission and Distribution Facilities"). The City obtains all of its transmission entitlements from the CAISO.

Since becoming a PTO with the CAISO, the City has filed three TRRs with FERC. The City's base TRR is adjusted annually for (among other things) automatic pass-throughs of certain costs approved by FERC. For fiscal year 2018-19, the City collected \$35.73 in TRR revenue.

Transmission and Distribution Facilities

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

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

The STS consists of the following: (a) the AC/DC Intermountain Converter Station adjacent to the IPP Generating Station's AC switchyard in Utah; (b) the ± 500 kV DC bi-pole transmission line (the "**HVDC transmission line**"), which is 488 miles in length, from the Intermountain Converter Station to the City of Adelanto, California; (c) the AC / DC Adelanto Converter Station, where the STS connects to the switching and transmission facilities of LADWP; and (d) related microwave communication system facilities. The HVDC transmission line is capable of transmitting an amount of power that exceeds the aggregate output of the IPP Generating Station to be delivered to the SCPPA participants. The AC/DC converter stations each consist of two solid state converter valve groups and have a combined rating of 2,400 MW (upgraded from 1,920 MW in 2010, increasing the City's total entitlement in the STS from 195 MW to 244 MW). The microwave communication facilities are used for IPP Generating Station dispatch, communication and control and protection of the STS. The microwave facilities are located along two routes between the IPP Generating Station and the Adelanto Switching Station, forming a looped network.

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

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

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

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

to operation and maintenance. See the caption “—Joint Powers Agency Obligations.” The project entered commercial operation on May 15, 1996, which coincided with the completion of Mead-Phoenix.

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

As of July 1, 2019, the City had 99.2 circuit miles of sub-transmission and 1,348 circuit miles of distribution lines, of which approximately 831 circuit miles are underground. There are 14 substations, with a combined capacity of 1,012 million volt-amperes (“MVA”). The City is currently undertaking the Riverside Transmission Reliability Project (“RTRP”), a joint City-SCE project which includes the construction of a 230-69 kV transmission substation. RTRP will provide a second point of interconnection to the California transmission grid and the addition of new 69 kV transmission lines to transmit power from the new substation and distribute energy to the City’s local distribution substations. The costs of RTRP have been partially financed by Bonds issued in 2008 and 2010. On December 4, 2007, the City added a reliability charge to its electric rates to assist with funding the City’s portion of the costs of RTRP. In April 2015, SCE applied for a Certificate of Public Convenience and Necessity from the California Public Utilities Commission (the “CPUC”) for its portion of the project. The CPUC prepared a Draft Subsequent Environmental Impact Report (the “SEIR”) to address changes to the project. The draft SEIR was circulated for public comment on April 2, 2018. The CPUC issued the final SEIR on October 2, 2018, marking the completion of the CPUC’s California Environmental Quality Act review process. On January 17, 2020, the CPUC issued a proposed decision granting SCE a certificate of public convenience and necessity for RTRP. The City anticipates that the CPUC commissioners will consider the proposed decision at the CPUC’s February 27 meeting. The commissioners’ decision will become final if an application for rehearing is not filed within 30 days after such meeting.

Capital Improvement Program

As part of its budget and planning process, the City prepared a five-year Electric System Capital Improvement Program (the “CIP”) for fiscal years 2018-19, through 2022-23, totaling approximately \$177.5 million:

**FIVE-YEAR CIP
FISCAL YEARS 2018-19 – 2022-23
(DOLLARS IN THOUSANDS)**

Overhead	\$ 31,919
Underground	34,440
Substation	25,222
Recurring/Obligation to Serve	51,435
System Automation	<u>34,510</u>
Total	<u>\$177,526</u>

Source: City.

The five-year CIP is supported by the Electric System’s rate plan (as described under the caption “—Electric Rates and Charges”) and addresses the need to replace and modernize the most vital portions of the City’s aging electric infrastructure. Overhead and underground projects include the rehabilitation and replacement of overhead equipment, such as poles, wires, transformers and streetlights, and underground equipment, such as conduits and cables, in order to improve the safety, efficiency and reliability of the electric system. Substation projects include improvements to neighborhood power stations to efficiently distribute power throughout the service area. Recurring projects relate to the Electric System’s obligation to serve new

incoming load. System automation projects include projects for technology, security and system automation tools and applications to improve cyber security and overall efficiency. The majority of the five-year CIP through fiscal year 2022-23, approximately \$146 million, is expected to be funded from proceeds of the 2019A Bonds (as described under the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt and Swap Agreement”), as well as an Additional Bond issuance in or about fiscal year 2021-22 (the “**2022 Bonds**”), with the balance to be funded by a combination of rates, reserves and other resources.

Currently, the City anticipates that the 2022 Bonds will be issued in the aggregate principal amount of approximately \$105 million (including funding for the current five-year CIP through fiscal year 2022-23 and funding for additional capital projects to be undertaken after fiscal year 2022-23). The actual principal amount and timing of the issuance of the 2022 Bonds has not yet been determined and will be subject to capital needs and market conditions at the time of sale.

Customers and Energy Sales

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

**TABLE 6
NUMBER OF METERS**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Domestic	96,664	96,934	97,372	97,531	98,322
Commercial	10,757	10,898	11,016	11,181	11,219
Industrial	888	891	833	854	888
Other	<u>79</u>	<u>53</u>	<u>53</u>	<u>53</u>	<u>51</u>
Total – all classes	<u>108,388</u>	<u>108,776</u>	<u>109,274</u>	<u>109,619</u>	<u>110,480</u>

Source: City.

**TABLE 7
ENERGY SOLD
(MILLIONS OF KWH)**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Domestic	711	726	730	727	722
Commercial	428	438	448	447	434
Industrial	995	982	996	999	973
Other	31	23	23	22	22
Wholesale Sales ⁽¹⁾	<u>2</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>-</u>
Total kWh Sold ⁽²⁾	<u>2,167</u>	<u>2,169</u>	<u>2,198</u>	<u>2,195</u>	<u>2,150</u>

⁽¹⁾ For fiscal years 2015-16 and 2017-18, wholesale kWh was less than 1 million kWh.

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

Source: City.

Customer Concentration

The following table lists the Electric System’s top 10 customers for fiscal year 2018-19, by type of business.

TABLE 8
TOP 10 ELECTRIC SYSTEM CUSTOMERS
FISCAL YEAR 2018-19
(DOLLARS IN THOUSANDS)

<i>Electric System Customer</i>	<i>Electric Charges</i>	<i>Percent of Electric System Retail Revenues</i>
Local University	\$12,521,897	4.10%
Local Government	8,096,896	2.65
Local Government	7,927,628	2.60
Local School District	4,757,101	1.56
Corporation	4,358,346	1.42
Corporation	3,976,748	1.30
Corporation	3,502,843	1.15
Corporation	2,884,234	0.95
Hospital	2,867,398	0.94
Corporation	<u>2,809,523</u>	<u>0.92</u>
Total	\$53,702,614	17.60%

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

The City has a strong and diverse customer base with minimal exposure to customer concentration. Many of the Electric System’s industrial customers have loads under 500 kW. As shown above, the top ten customers of the Electric System collectively accounted for approximately 17.60% of the Electric System’s retail revenues of \$305,083,100 in fiscal year 2018-19.

Electric Rates and Charges

The City is obligated by its City Charter and by the resolutions under which it has issued its Electric System Revenue Bonds to establish rates and collect charges in an amount sufficient to meet its operation and maintenance expenses and debt service requirements, with specified requirements as to priority and coverage. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS—Rate Covenant.” Electric rates are established by the Board and approved by the City Council. Electric rates are not subject to the general regulatory jurisdiction of the CPUC or any other state agency. The California Public Utilities Code contains certain provisions affecting all municipal utilities such as the Electric System, including provisions for a public benefits charge. At this time, neither the CPUC nor any regulatory authority of the State nor FERC approves the City’s retail electric rates, although FERC does approve the City’s TRR included in the Transmission Access Charge collected from users of the CAISO transmission grid.

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

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

As of January 1, 2020, the Electric System has 18 rate schedules in effect. The City provides no free electric service.

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

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

Historically, electric rates for the City’s customers have been lower than rates for SCE customers. Based on the City’s rates effective January 1, 2020, the City’s single family residential customers with annual monthly average consumption of 600 kWh would pay an average of 24% higher rates if served by SCE. The City cannot predict future rate actions with respect to SCE or other utilities.

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

TABLE 9
AVERAGE BILLING PRICE (CENTS) PER KILOWATT-HOUR⁽¹⁾
(RETAIL SALES)

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Residential	16.05	16.12	16.12	15.91	16.11
Commercial	16.02	15.92	15.96	15.90	16.09
Industrial	11.28	11.58	11.59	11.52	11.72
Other	18.29	20.91	21.29	21.29	23.45
System Averages	13.88	14.07	14.08	13.97	14.19

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

Billings and Collections

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

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

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

See the caption “COVID-19 OUTBREAK” for a discussion of the suspension of certain aspects of the City’s collection policies in the wake of the COVID-19 outbreak.

Uncollectible Accounts

Based on the average annual amount of billable revenues reflected in the table below (approximately \$303.3 million), the City experienced an annual average of approximately 0.2%, or approximately \$572,000, of uncollectible accounts for the past five years. The City believes that its management of its collection activities is effective, as reflected by write-offs below the industry average. The following table shows the historical results of the Electric System’s accounts receivable and collection efforts.

**TABLE 10
HISTORY OF BILLINGS AND COLLECTIONS
AS OF JUNE 30,
(DOLLARS IN THOUSANDS)**

<i>Fiscal Year</i>	<i>Billings</i>	<i>Payments</i>	<i>Write-Off as % of Billing⁽¹⁾</i>	<i>Write-Off</i>	<i>Ending Accounts Receivable Balance⁽²⁾</i>
2015	\$303,116	\$304,190	0.182%	\$551	\$31,135
2016	308,304	307,845	0.212	654	30,940
2017	308,017	306,847	0.220	677	31,433
2018	304,445	306,166	0.162	495	29,217
2019	302,733	303,428	1.160	483	28,039

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

⁽²⁾ The ending accounts receivable balance of any fiscal year is equal to the ending balance of the previous fiscal year plus billings minus payments minus write-offs.

Source: City.

Transfers to the General Fund of the City

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

In anticipation of deregulation, the City reduced the General Fund transfer level to 9% from 10.5% in 1996. It is the City Council's policy to review this transfer annually, and as a result, the City Council increased it by \$3.0 million beginning in fiscal year 2004-05 and an additional \$2.0 million beginning in fiscal year 2006-07. As of fiscal year 2009-10, the City increased the General Fund transfer from 9% to 11.5%, the maximum amount authorized by the City Charter, where it remains currently. The General Fund transfer is funded through the existing rate plan, thus requiring no additional rate adjustments.

The transfers to the General Fund of the City for 2017-18 and 2018-19 were \$40,072,600 and \$39,886,400, respectively (approximately 11.5% and 11.5%, respectively, of the applicable prior fiscal year's Gross Operating Revenues). The budgeted transfer to the General Fund of the City for fiscal year 2019-20 is \$40,200,700 (approximately 11.5% of the prior fiscal year's Gross Operating Revenues).

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

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

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

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

See also “CONSTITUTIONAL LIMITATIONS—Proposition 26” for a discussion of requirements imposed on local government taxes pursuant to Proposition 26.

Unrestricted Cash Reserves

On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy, which provided a defined level of unrestricted, undesignated and designated cash reserves in the Electric System for strategic purposes. On July 24, 2018, the Cash Reserve Policy was updated and approved by City Council reflecting the establishment of an additional designated reserve, the use of a line of credit as available reserves and other minor revisions to bring it current. This policy sets target minimum and maximum levels

for the undesignated reserve to mitigate risk in the following categories: operations and maintenance, rate stabilization, capital expenditures and debt service. The undesignated reserve can be used for any lawful purpose and has not been designated for specific capital and operating purposes. As of June 30, 2019, the balance was \$198.6 million for the unrestricted undesignated Electric System reserve and was within the minimum and maximum guidelines as set forth in the policy. On February 1, 2019, the City entered into the Revolving Credit Facility, which will provide additional flexibility and operating liquidity for the Electric System. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations—Existing Subordinate Obligations—Revolving Credit Facility” for additional information on the Revolving Credit Facility.”

Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board and City Council. Designated reserves may be held for capital or operating purposes. Unrestricted designated cash reserve balances as of June 30, 2019, are as follows (in thousands of dollars):

Additional Decommissioning Liability Reserve	\$ 9,935
Customer Deposits	4,582
Capital Repair and Replacement Reserve	3,219
Electric Reliability Reserve	72,694
Mission Square Improvement Reserve	1,483
Dark Fiber Reserve	<u>2,942</u>
Total ⁽¹⁾	\$94,855

⁽¹⁾ Included as a component of unrestricted cash and cash equivalents in the Statements of Net Position in the Electric System’s audited financial statements for fiscal year 2018-19.

Source: City.

Joint Powers Agency Obligations

As previously discussed, the City participates in certain contracts with IPA and SCPPA. Obligations of the City under the agreements with IPA and SCPPA constitute Operating and Maintenance Expenses of the City payable prior to any of the payments required to be made on the Bonds and any Parity Debt. Agreements between the City and IPA and the City and SCPPA are on a “take-or-pay” basis, which requires payments to be made whether or not applicable projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. All of these agreements contain “step-up” provisions obligating the City to pay a share of the obligations of a defaulting participant. Any “step-up” obligation relating to the City’s participation in transmission projects that it would be responsible for would be included in the City’s TRR (which would require filing a new TRR with FERC) and would be recovered from all CAISO grid users. The City’s participation and share of principal obligation (without giving effect to any “step-up” provisions) for each of the joint powers agency projects in which it participates are shown in the following table. As of December 31, 2019, the City’s total debt service obligations with respect to joint powers agency bonds were approximately \$83,822,000. In certain cases, the City could become responsible for a greater share of debt service on joint powers agency bonds if other participants were to default on their respective obligations with respect to such bonds.

**TABLE 11
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
AS OF DECEMBER 31, 2019
(DOLLARS IN THOUSANDS)**

<i>Joint Powers Authority Obligation</i>	<i>Principal Amount of Outstanding Debt</i>	<i>City's Participation⁽¹⁾</i>	<i>City's Share of Principal Amount of Outstanding Debt</i>
Intermountain Power Agency			
Intermountain Power Project ⁽²⁾	\$566,897	7.617%	\$43,198
Southern California Public Power Authority			
Southern Transmission System	377,315	10.164	38,350
Mead-Phoenix Transmission	4,615	4.000	185
Mead-Adelanto Transmission	<u>15,480</u>	13.500	<u>2,089</u>
Total	\$964,307		\$83,822

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

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

Sources: IPA; City.

Insurance

The City's Risk Management Division manages the insurance needs of the City's Electric System. The City's Self-Insurance Trust Fund Reserve Policy requires that both the Liability and Worker's Compensation funds maintain cash on hand in the minimum amount equal to 50% of all outstanding claims. The fund balance amounts are based on annual actuarial studies on the City's automobile, general, and worker's compensation liability and internal claim data. The actuarial reports are issued by an outside firm.

The City carries two General Liability policies: a primary and an excess General Liability policy. The primary General Liability policy provides the City with an aggregate limit of \$20,000,000 and the excess General Liability policy provides the City with an additional \$10,000,000 of coverage. Both the primary and excess General Liability policies cover general and automobile liability claims, including but not limited to Law Enforcement Liability and Public Official's Errors and Omissions coverage. The City also purchases an excess Worker's Compensation policy with an aggregate limit of \$25,000,000. Both the General Liability and Worker's Compensation programs have self-insured retentions of \$3,000,000 per occurrence. A self-insured retention is the dollar amount that the City must pay before an insurance policy responds to a loss.

The City also participates in an "All Risk" property insurance program which includes equipment breakdown protection and affords an aggregate shared limit of \$1 billion among participating members. The City's property deductibles vary depending on the peril, and range between \$100,000 and \$250,000 depending on the time of loss. The deductible of \$250,000 for electric generating facilities. At the time of loss, valuation will be on a replacement cost basis, with actual loss sustained for time element coverages and an actual cash value for all City-owned equipment.

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

Litigation

CAISO. On May 11, 2004, the CAISO filed Amendment No. 60 to its tariff to modify the CAISO's process for dispatching generation and allocating associated costs. Numerous parties, including the City as a

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

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

Olquin. On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric System from the CAISO to the Electric System revenue transfer to the City’s General Fund was a violation of Proposition 26. See the caption “—Transfers to the General Fund” for a description of the Electric System’s transfers to the General Fund and the caption “CONSTITUTIONAL LIMITATIONS—Proposition 26” for a discussion of Proposition 26.

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

Parada I. On October 19, 2017, a writ of mandate entitled *Parada v. City of Riverside* (Parada I) was filed against the City seeking to enjoin the City from levying its electric utility users tax on the portion of electric rates that are attributable to the General Fund transfer. On September 21, 2018, the trial court ruled in favor of the City, and on November 7, 2018, the court entered judgment in favor of the City. No appeal has been filed to that decision, and the time within which to file the appeal has expired.

Parada II. On September 12, 2018, a petition for writ of mandate entitled *Parada v. City of Riverside* (Parada II) was filed against the City seeking to invalidate, rescind and void under Proposition 26 the Electric System’s rates approved by City Council on May 22, 2018, which took effect on January 1, 2019, challenging the portion of the electric rates that are attributable to the General Fund Transfer. See the caption “—Electric Rates and Charges.” The City has responded to the complaint and a trial date of May 15, 2020 has been set.

Pending lawsuits and other claims against the City with respect to the Electric System are incidental to the ordinary course of operations of the Electric System and are largely covered by the City’s self-insurance

program. In the opinion of the Electric System's management and the City Attorney, such lawsuits (including the lawsuits discussed above) and claims will not have a materially adverse effect upon the financial position of the Electric System.

Significant Accounting Policies

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

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

Investments are stated at fair value. Utility plant assets are valued at historic cost or, if actual historical cost is not available, estimated historical cost. Costs include labor, materials, interest during construction, allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits and administrative expenses. Contributed plant assets are valued at their estimated fair market value on the date of contribution. For accounting policies specifically relating to the Electric System, see the notes to the financial statements in Appendix B. See also the caption "FINANCIAL STATEMENTS."

Summary of Operations

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

TABLE 12
SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE
(DOLLARS IN THOUSANDS)

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Operating Revenues ⁽¹⁾ :					
Residential	\$114,112	\$116,997	\$117,662	\$115,630	\$116,303
Commercial, Industrial and Other	186,509	188,252	191,670	191,026	188,780
Wholesale Sales	60	3	9	2	344 ⁽⁷⁾
Transmission Revenues	30,587	32,924	35,497	37,484	35,730
Other	7,654	7,425	12,899	11,514	13,121
Total Operating Revenues Before (Reserve)/Recovery	338,922	345,601	357,737	355,656	354,278
Reserve for Uncollectible, Net of (Reserve)/Recovery.....	(1,014)	(763)	(551)	(687)	(911)
Total Operating Revenues, Net of (Reserve)/Recovery	337,908	344,838	357,186	354,969	353,367
Interest Income	3,821	5,143	1,809	2,567	13,372
Capital Contributions	2,139	2,434	2,367	3,170	3,496
Non-Operating Revenues.....	4,376	18,615	7,594	7,408	4,276
Total Revenues.....	<u>\$348,244</u>	<u>\$371,030</u>	<u>\$368,956</u>	<u>\$368,114</u>	<u>\$374,511</u>
Operating and Maintenance Expenses ⁽¹⁾⁽²⁾ :					
Nuclear Production ⁽³⁾	3,992	1,208	(45) ⁽³⁾	720	1,395
Production & Purchased Power ⁽⁴⁾	141,317	135,873	132,394	135,703	153,868
Transmission Expenses ⁽⁵⁾	53,356	58,145	59,497	62,981	64,443
Distribution Expenses	13,832	15,295	16,053	16,532	19,639
Customer Account Expenses	6,834	5,903	6,888	7,091	7,542
Customer Service Expenses.....	2,134	2,332	1,847	1,604	998
Administration & General Expenses ⁽⁶⁾	15,168	15,737	19,210	16,699	13,559
Clearing & Miscellaneous Expenses .	13,948	15,115	16,155	16,454	18,316
Total Operating and Maintenance Expenses	<u>\$250,581</u>	<u>\$249,608</u>	<u>\$251,999</u>	<u>\$257,784</u>	<u>\$279,760</u>
Net Operating Revenues Available for Debt Service and Depreciation	\$97,663	\$121,422	\$116,957	\$110,330	\$94,751
Debt Service Requirements on Bonds	\$42,017	\$42,240	\$39,585	\$40,720	\$42,466
Debt Service Coverage Ratio.....	2.32x	2.87x	2.95x	2.71x	2.23x

⁽¹⁾ Operating Revenues exclude restricted revenues generated from the public benefits charge under AB 1890. See the caption “—Electric Rates and Charges.” Operating and Maintenance expenses exclude expenses incurred from the related program.

⁽²⁾ In accordance with the Resolution, the figures shown exclude contributions to City’s General Fund of \$38,178, \$38,360, \$39,230 and \$40,073 and \$39,886 for fiscal years 2014-15 through 2018-19, respectively. These contributions do not constitute Operating and Maintenance Expenses and are subordinated to debt service on the Bonds. Also excludes depreciation and amortization.

(FOOTNOTES CONTINUED ON FOLLOWING PAGE)

(CONTINUED FROM PREVIOUS PAGE)

- (3) Nuclear Production reflects non-decommissioning expenses and changes to decommissioning liability related to SONGS, which resulted in a credit balance in fiscal year 2016-17. See the caption “—City-Owned Generating Facilities—Decommissioning of SONGS.”
- (4) Includes fuel expense for City-owned generating facilities and payments to IPA and SCPA, other than payments relating to transmission projects with SCPA (STS, Mead-Phoenix, and Mead-Adelanto). See the captions “—City-Owned Generating Facilities—Fuel Supply/Procurement,” and “—Joint Powers Agency Obligations.”
- (5) Includes payments relating to transmission projects with SCPA (STS, Mead-Phoenix and Mead-Adelanto). See the caption “—Transmission and Distribution Facilities.”
- (6) Excludes GASB 68 non-cash adjustments of (\$2,594), (\$5,036), (\$248), \$9,056 and \$1,323 for fiscal years 2014-15 through 2018-19, respectively. Includes GASB 75 adjustments. See the caption “THE PUBLIC UTILITIES DEPARTMENT—Employment Matters.” Increase in Fiscal Year 2016-17 primarily due to the City’s refinancing of pension obligation bonds resulting in an additional obligation of \$2,593 to the Electric System for its share of the bonds.
- (7) Increase in wholesale sales in fiscal year 2018-19 reflects sales of excess resource adequacy capacity.

Source: City.

Electric System Strategic Plan

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

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

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

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

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

In 2015, management engaged the community, the Board and the City Council through a series of meetings and workshops to create a Utility 2.0 Strategic Plan that provides the vision, changes and actions

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

The Thriving Financially Roadmap reviewed the areas of rates, reserves, debt and other related policies to ensure the financial balance of the Department. Rates, cash reserves, debt and other revenue sources were evaluated together with the development of a 10-year pro-forma (financial plan). Several dependent projects were completed during the development of the 10-year pro-forma and rate plan. These projects include the update and approval of the reserve policy, development and approval of an overall fiscal policy, and development and approval of electric and water cost of service studies.

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

Operating Initiatives and Reserves. The City's retail revenues from fiscal years 2014-15 to 2018-19 increased by approximately 4.5% as a result of increased customer consumption. Retail revenues are generally increasing year over year due to an increase in retail load, an expanded customer base and an improving economy. Operating and Maintenance Expenses (excluding depreciation and public benefit programs) from fiscal years 2014-15 to 2018-19 increased by approximately 11.6% due to higher power costs, transmission charges and other miscellaneous operating costs. Positive operating results over time have contributed to improving the City's reserve requirements and the overall goal to continue to be fiscally sound. See the caption "—Unrestricted Cash Reserves."

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

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

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

The City has received numerous recognitions for its sustainability programs and initiatives. In 2009, the California Department of Conservation named the City its first "Emerald City" in recognition of its

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

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

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

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

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

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

Power Resource Portfolio Management. The City manages long-term fuel and power supply risk, renewable resource procurement and compliance with potential state and federal greenhouse gas legislation in an integrated fashion. The 2018 Integrated Resource Plan ("**IRP**") defines the City's risk based, long-term plan for providing stable and predictable rates for customers through the procurement of new energy supply sources at reasonable prices. The City updated its IRP in 2018, and the Board and City Council adopted and approved the plan on November 26, 2018 and December 11, 2018, respectively. The 2018 IRP provides an impact analysis of the City's acquisition of new power resources, specifically towards meeting the State's aggressive carbon reduction goals, and the effect these resources will have on the Department's future

projected cost of service in the 2018-2037 timeframe. Both resource portfolio and energy market issues are examined in the IRP, including: (a) projected capacity and resource adequacy needs; (b) renewable portfolio standard mandates; (c) carbon emission goals and mandates; (d) power resource budgetary objectives and cash-flow risk metrics; (e) cost effectiveness of Energy Efficiency and Demand Side Management programs with respect to both the City and customers; (f) impacts of various emerging technologies on carbon reduction goals and future cost of service metrics; and (g) minimizing localized air pollutants and greenhouse gas emissions in disadvantaged communities within the City.

The IRP provides for a future resource portfolio with a higher reliance on renewable resources, especially geothermal resources, utility-scale solar photovoltaic (“PV”) and wind resources, City-owned, lower-carbon emitting natural gas generation and an increased emphasis on energy efficiency and demand-side management programs. The City currently owns 265.5 MW of natural gas fired generation; this generation allows the City to meet its local capacity requirement imposed by the CAISO while minimizing environmental impacts and cost exposures. This natural gas generation is comprised of the 29.5 MW Clearwater power plant, four 49 MW LM-6000 peaking power plants at RERC, and four 10 MW super-peaking power plants at Springs Generating Project. See the caption “—City-Owned Generating Facilities” for a discussion of these facilities.

Since late 2012, the City has contracted for a diverse portfolio of renewable resources totaling 230.5 MW under medium and long term power purchase agreements and power sales agreements. See the caption “—Renewable Resources.” This portfolio of renewable resources consists of 86 MW of geothermal resources, 46.3 MW of wind resources, 97.4 MW of solar PV resources and 0.8 MW of biomass resources. This portfolio of renewable resources has resulted in the City’s expectation that it will significantly exceed the Renewable Portfolio Standard (“RPS”) mandate of 33% of the retail electricity energy needs by 2020. See the caption “FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—State Legislation Affecting the Power Supply.” The City served 34% of its retail energy needs with renewable energy in calendar year 2017 (the most recent calendar year for which such information is available.) The City has also received approximately 761,000 MWh of Historic Carryover RPS credits from the California Energy Commission (“CEC”); these credits can be used along with the energy from the above mentioned renewable resources to meet the City’s post-2020 RPS mandates at least through 2028. The City is still actively examining potential replacement options for its IPP contract. With the reconstituted power resource portfolio, the City is likely to have a slightly higher reliance on natural gas in the future and will manage such increased price and supply risk over a one to five-year horizon with hedging contracts using various energy suppliers who have at least an investment grade credit rating.

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Federal Policy on Cybersecurity

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

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

Federal Energy Legislation

Energy Policy Act of 2005. Under the federal Energy Policy Act of 2005 (“**EPAct 2005**”), FERC was given refund authority over publicly owned utilities if they sell electrical energy into short-term markets, such as that controlled by the CAISO, and sell eight million MWhs or more of electric energy on an annual basis. In addition, FERC was given authority over the behavior of market participants. Under FERC’s authority, it can impose penalties on any seller for using a manipulative or deceptive device, including market manipulation, in connection with the purchase or sale of energy or of transmission service. The Commodity Futures Trading Commission also has jurisdiction to enforce certain types of market manipulation or deception claims under the Commodity Exchange Act.

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

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

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

Federal Regulation of Transmission Access

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

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

On February 16, 2007, FERC issued Order 890, which concluded that reform of its pro forma OATT was necessary to reduce the potential for undue discrimination and provide clarity in the obligations of transmission providers and customers. Significantly, in Order 890, FERC stated that it will implement its authority under Section 211A of EAct 2005 with respect to unregulated transmitting utilities on a case-by-case basis and retain the current reciprocity provisions.

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

Other Federal Legislation

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

Nuclear Regulatory Commission Initiatives

The Nuclear Regulatory Commission (the "NRC") has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. Events at nuclear facilities or impacting the industry generally may lead the NRC to impose additional requirements and regulations on existing and new facilities. For instance, as a result of the March 2011 earthquake and tsunami that caused significant damage to the Fukushima Daiichi Nuclear Power Plant in Japan, various industry organizations developed action plans for American nuclear power plants and the NRC undertook an independent review of the events at Fukushima Daiichi, including a review of the agency's processes and regulations in order to determine whether the agency should promulgate additional regulations and possibly make more fundamental changes to the NRC's system of regulation.

On March 12, 2012, the NRC issued the first regulatory requirements for all 104 operating nuclear reactors located in the United States (including PVNGS) based on the task force evaluations. The NRC issued three orders that modify operating licenses by requiring the following safety enhancements: (1) mitigation strategies to respond to extreme natural events resulting in the loss of power at plants; (2) ensuring reliable hardened containment vents; and (3) enhancing spent fuel pool instrumentation. On January 4, 2013, the NRC issued guidance to enable American nuclear power plant operators to perform seismic and flooding hazard assessments, which was undertaken at PVNGS in September 2014.

The NRC has required PVNGS to increase the redundancy in its power supply to emergency cooling systems, reinforce its spent fuel pool, accelerate the transfer of spent fuel from the pool to the dry cask storage, and add pipelines and associated equipment necessary for supplying additional cooling water to the reactors. In response to such requirements, PVNGS has purchased additional diesel generators, pumps and fire trucks and has accelerated the movement of its spent fuel casks to the storage facility. In addition to these actions,

PVNGS has allotted approximately \$122 million for initiatives developed in response to the failure at the Fukushima Daiichi Nuclear Power Plant, including, among other things, fuel building modifications, an emergency equipment storage facility, temporary power connections, seismic and flood hazards validation and corresponding mitigating strategies. Additional NRC-mandated requirements are anticipated, but the costs associated with these future projects are unknown at this time.

In the event of noncompliance with its requirements, the NRC has the authority to impose monetary civil penalties or a progressively increased inspection regime that could ultimately result in the shut-down of a unit, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. The increased costs resulting from penalties, a heightened level of scrutiny and implementation of plans to achieve compliance with NRC requirements may adversely affect the Electric System's financial condition, results of operations and cash flows. See the caption "THE ELECTRIC SYSTEM—Entitlements—PVNGS."

Environmental Issues

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

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

Legislation and joint disapproval resolutions were subsequently introduced in the United States Congress seeking to repeal the EPA's endangerment finding or otherwise prevent the EPA from regulating greenhouse gases as air pollutants. The endangerment finding and the Tailoring Rule were also challenged in court, but were upheld on June 26, 2012 in a decision by the United States Court of Appeals for the District of

Columbia Circuit (the “**D.C. Circuit Court**”). On June 23, 2014, the United States Supreme Court (the “**U.S. Supreme Court**”) issued its decision in the *Utility Air Regulatory Group v. EPA* case. In the decision, the U.S. Supreme Court invalidated substantial portions of the Tailoring Rule, which purported to modify the emissions thresholds set forth in the Clean Air Act (governing when PSD and Title V permitting would be triggered) to account for GHGs, while preserving various aspects of the EPA’s ability to regulate GHG emissions from most new major sources. The decision holds that, for facilities that are otherwise subject to PSD permitting obligations (by virtue of their emissions of conventional pollutants), the EPA may regulate GHGs from those facilities through the PSD BACT standards (without approving the EPA’s current approach to BACT regulation of GHGs, or any other approach that may be adopted).

On August 3, 2015, then-President Obama and the EPA announced the final version of the Clean Power Plan (the “**CPP**”) for existing power plants. The CPP established GHG emission guidelines for existing coal and natural gas-fired electric generating units that would have had required significant emission reductions by the year 2030. In July 2019, President Trump and the EPA promulgated the Affordable Clean Energy Rule (the “**ACE Rule**”) as a replacement for the CPP. In comparison to the CPP, the ACE Rule provides that best systems for emissions reduction (“**BSER**”) for existing electric generating units is based on heat rate improvement measures to provide states greater flexibility in tailoring their emissions reduction programs and providing states with a list of “candidate technologies” that could be used to establish performance standards. The ACE Rule also updates EPA’s New Source Review permitting program to incentivize efficiency improvements and existing plants and aligning Section 111(d) of the Clean Air Act with general implementing rules to provide states more time and additional flexibility to develop state plans.

On August 3, 2015, the EPA also released standards to limit carbon dioxide emissions from new, modified and reconstructed power plants. These new final carbon pollution standards would apply to: (i) any newly constructed fossil fuel-fired power plant that commenced construction on or after January 8, 2014; (ii) existing power plants subject to modification, which would include a physical or operational change that increased the source’s maximum achievable hourly rate of emissions, which modification occurred on or after June 18, 2014; and (iii) reconstructed power plants, which would include any unit on which the replacement of components occurred on or after June 18, 2014 and to such an extent that the fixed capital costs of the new components exceeds 50% of the fixed capital costs that would be required to construct a comparable entirely new facility.

In the final standards, the EPA established separate standards for two types of fossil fuel-fired sources: (a) stationary combustion turbines, generally firing natural gas; and (b) electric utility steam generating units, generally firing coal. The new standards reflect the degree of emissions limitation achievable through the application of the “Best System of Emissions Reduction,” that the EPA determined had been adequately demonstrated for each type of unit.

Under the final standards, new and reconstructed baseload natural gas-fired electricity generating units would be required to meet an emissions limit of 1,000 pounds of carbon dioxide per MWh. Non-base load units would need to meet a clean fuels input-based standard. New coal-fired facilities would be required to meet an emissions limit of 1,400 pounds of carbon dioxide per MWh-gross. Coal-fired electricity generating units subject to modifications resulting in an increase of hourly carbon dioxide emissions of more than 10% relative to the emissions of the most recent five years from that unit would be required to meet a unit-specific emission limit consistent with the unit’s best historical annual carbon dioxide emissions rate since 2002. Such standard would be in the form of an emissions limit in pounds of carbon dioxide per MWh on a gross-output basis. Reconstructed coal-fired power plants with a heat input of greater than 2,000 million British thermal units hour would be required to meet an emissions limit of 1,800 pounds of carbon dioxide per MWh-gross. Smaller coal-fired units would be required to meet an emission limit of 2,000 pounds of carbon dioxide per MWh-gross. These emissions limits were based on the use of the most efficient generating technology at the affected source.

On December 20, 2018, the EPA proposed revised New Source Performance Standards for GHG emissions from new, modified and reconstructed fossil fuel-fired power plants. These revisions are in-line with other new source performance standard regulations based on available control technology. The revisions removed carbon capture and sequestration as an available technology for coal-fired units. New and reconstructed gas-fired turbine units were not addressed in these proposed amendments. The proposed revisions have not yet been finalized.

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

Air Quality – National Ambient Air Quality Standards. The Clean Air Act requires that the EPA establish National Ambient Air Quality Standards (“NAAQS”) for certain air pollutants. When a NAAQS has been established, each state must identify areas in its state that do not meet the EPA standard (known as “non-attainment areas”) and develop regulatory measures in its state implementation plan to reduce or control the emissions of that air pollutant in order to meet the applicable standard and become an “attainment area.”

The EPA periodically reviews the NAAQS for various air pollutants and has in recent years increased, or proposed to increase, the stringency of the NAAQS for certain air pollutants. The EPA revised the NAAQS for particulate matter on December 14, 2012, the NAAQS for sulfur dioxide on June 22, 2010 and the NAAQS for nitrogen dioxide on February 9, 2010, and in each case made the NAAQS more stringent. Based on the revised standards for particulate matter, nitrogen dioxide and sulfur dioxide, some areas may be designated as non-attainment.

On December 18, 2014, the EPA issued a final rule making initial area designations for the 2012 NAAQS for fine particulate matter (“**PM_{2.5}**”), designating 14 areas in six states as non-attainment, including areas of California. These PM_{2.5} designations became effective on April 15, 2015. These developments may result in stringent permitting processes for new sources of emissions and additional state restrictions on existing sources of emissions, such as power plants. On September 2, 2011, then-President Obama directed the EPA to withdraw a proposal advanced by the EPA to lower the NAAQS for ozone. As a result of this withdrawal, the EPA resumed the process of issuing non-attainment designations for the ozone NAAQS under the standard set in 2008.

On April 30, 2012, the EPA issued ozone non-attainment designations for certain areas in California. Additional non-attainment areas for ozone have been and may continue to be designated. On May 29, 2013, the EPA proposed a rule to implement the 2008 ozone NAAQS. While implementing the 2008 ozone NAAQS, the EPA continued its review of this standard. In January 2014, the EPA released draft risk and exposure assessment documents and a draft policy assessment document relating to this review. In addition, the U.S. Supreme Court found in its review of *EPA v. EME Homer City Generation, LP* that the EPA has authority to impose a cross-state air pollution rule which curbs air pollution emitted in upwind states to facilitate downwind attainment of three NAAQS.

On November 26, 2014, the EPA proposed to strengthen the stringency of the NAAQS for ozone by lowering the existing ozone standard of 75 parts per billion (“**ppb**”) to between 65 and 70 ppb, although the EPA also sought public comment on a standard as low as 60 ppb. On October 1, 2015, the EPA issued its final rule, lowering the ozone standard to 70 ppb. Legal challenges to the final rule were filed by a number of states and industry groups. In 2019, the D.C. appellate court upheld most of the EPA’s 2015 thresholds for ground level-ozone..

Mercury and Air Toxics Standards. On December 16, 2011, the EPA signed a rule establishing new standards to reduce air pollution from coal- and oil-fired power plants under sections 111 (new source

performance standards) and 112 (toxics program) of the Clean Air Act. The final rule was published in the Federal Register on February 16, 2012. The EPA updated the Mercury and Air Toxics Standards (the “MATS”) emission limits on November 30, 2012 and again on March 28, 2013. Under section 111 of the Clean Air Act, the MATS rule revised the standards that new and modified facilities, including coal- and oil-fired power plants, must meet for particulate matter, sulfur dioxide, and nitrogen oxide. Under section 112, the MATS set new toxics standards limiting emissions of heavy metals, including mercury, arsenic, chromium and nickel; and acid gases, including hydrochloric acid and hydrofluoric acid, from existing and new power plants larger than 25 MW that burn coal or oil. Power plants were to have up to four years to meet these standards. While many plants already meet some or all of these revised standards, some plants would be required to install new equipment to meet the standards.

On November 25, 2014, the U.S. Supreme Court agreed to review the MATS following the filing of petitions for writ of certiorari from 23 states and industry groups. On June 29, 2015, the U.S. Supreme Court issued its decision in the case, finding that the EPA interpreted the Clean Air Act improperly because it did not consider the costs of emissions reductions prior to crafting the MATS and remanded the case back to the D.C. Circuit Court. On December 15, 2015, the D.C. Circuit Court determined to leave the MATS in place while it is being revised on remand as ordered by the U.S. Supreme Court. The EPA issued a final finding on April 14, 2016. In December 2018, the EPA issued a proposed revised supplemental cost finding for MATS wherein the EPA proposed that it was not “appropriate and necessary” to regulate hazardous air pollutants from power plants under Section 112 of the Clean Air Act. However, the emission standards and other requirements of the 2012 MATS rule would remain in place as the EPA did not propose to remove coal and oil-fired plants from the list of regulated sources.

Effluent Limitations Guidelines and Standards. On June 7, 2013, the EPA proposed to set technology-based effluent limitations guidelines and standards for metals and other pollutants in wastewater discharged from steam electric power plants. The proposal would cover wastewater associated with several types of equipment and processes, including flue gas desulfurization, fly ash, bottom ash, flue gas mercury control and gasification of fuels. The EPA considered best management practices for surface impoundments containing coal combustion residuals. The EPA proposed four preferred alternatives for regulating wastewater discharges. The stringency of controls, types of waste streams covered and the costs varied among the four alternatives. On September 30, 2015, the EPA announced its final Steam Electric Effluent Limitation Guidelines to update the federal limits on toxic metals in discharge wastewater.

In November 2019, the EPA proposed to revise the 2015 effluent limitation guidelines as they relate to existing facilities. The proposed new standards apply to flue gas desulfurization wastewater and bottom ash transport water and are meant to achieve greater pollution reductions than the 2015 standards by taking into account new and more affordable pollution control technologies.

Climate Change. Legislative and regulatory responses to climate change and the effects of climate change could impact the future operations and costs of the Electric System or projects. In addition to the matters discussed above, the City may be impacted by future treaties and federal and state laws, rules and regulations that limit carbon dioxide and other greenhouse gas emissions from electric generating facilities. Absent legislative action by the U.S. Congress, the EPA has authority to regulate carbon dioxide and other greenhouse gas emissions under the Clean Air Act, and any future administrations could promulgate new rules or rules that repeal, revise and/or replace the ACE Rule that is currently in effect. Furthermore, changes in temperatures, precipitation and the frequency and severity of extreme weather events (such as tornadoes and flooding) and other impacts of climate change could affect peak demands, the operations of the City’s Electric System and the costs of maintaining these facilities and power transmission lines. The impacts of these weather events on current and future operations cannot be predicted at this time.

Electric and Magnetic Fields. A number of studies have been conducted regarding the potential long-term health effects of exposure to electric and magnetic fields created by high voltage transmission and distribution equipment. Additional studies are being conducted to determine the relationship between electric

and magnetic fields and certain adverse health effects, if any. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which the electric and magnetic fields concerns may have on electric utilities, including the Electric System.

Resource Adequacy

In 2006, the CAISO filed with the Federal Energy Regulatory Commission (“**FERC**”) its Market Redesign and Technology Upgrade (“**MRTU**”) tariff amendment to implement a comprehensive overhaul of the electricity markets administered by the CAISO. The programs under the MRTU initiative were designed to implement market improvements to assure grid reliability and more efficient and cost-effective use of resources and to create technology upgrades that would strengthen the entire CAISO computer system. The California energy market under the MRTU includes the following features, among others, which were not part of CAISO’s previous real-time only market tariff:

- An integrated forward market for energy, ancillary services and congestion management that operates on a day-ahead basis;
- Congestion management which represents all network transmission constraints;
- Congestion Revenue Rights to allow market participants to manage their costs of transmission congestion;
- Local energy prices by price nodes (approximately 3,000 nodes in total), also known as locational marginal pricing; and
- New market rules and penalties to prevent gaming and illegal manipulation of the market as well as modifications to certain existing market rules.

The MRTU became operational on April 1, 2009 and the initial MRTU tariff filed with FERC went into effect at that time. Power is scheduled on a nodal basis, rather than the previous zonal system. Furthermore, the MRTU incorporates the CPUC’s resource adequacy requirements to ensure that there are adequate energy resources in critical areas. The MRTU requires that all scheduling coordinators for all load-serving entities (“**LSEs**”), which include the City, meet standards concerning forward capacity and energy procurements to meet their load requirements.

In September 2005, the Governor signed into law Assembly Bill 380 (“**AB 380**”), which requires publicly-owned utilities to procure adequate resources to meet their peak demands and reserves. In October 2005, the CPUC issued a decision requiring that LSEs under its jurisdiction acquire capacity which is sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. The MRTU tariff incorporates the CPUC’s resource adequacy requirements. The MRTU tariff imposes the CPUC’s resource adequacy requirements on LSEs that are not CPUC jurisdictional entities, such as the City.

The City has historically satisfied this reserve margin requirement through its power supply resources, and the City believes that it will continue to have sufficient power resources to satisfy the system capacity requirements as required by the MRTU and AB 380.

State Legislation Affecting the Power Supply

Senate Bill 350 – Clean Energy and Pollution Reduction Act of 2015. Senate Bill 350 (“**SB 350**”), which the State Governor signed into law in 2015, consists of a multitude of requirements to meet clean energy mandates. The primary elements that affect the City are: (i) the increase in the mandate of the State’s renewable portfolio standard (the “**RPS**”) to 50% by December 31, 2030; (ii) the doubling of energy efficiency savings by January 1, 2030; and (iii) the transformation of the CAISO into a regional organization. In

addition, large municipal electric systems such as the City were required to adopt an IRP on or before January 1, 2019, and to update the plan at least once every five years. See the caption “THE ELECTRIC SYSTEM— Electric System Strategic Plan—Power Resource Portfolio Management” for a description of the City’s IRP.

Senate Bill 100 – 100 Percent Clean Energy Act of 2018. Senate Bill 100 (“**SB 100**”), signed into law on September 10, 2018, increases the State’s RPS goals by modifying the RPS percentage targets for certain compliance periods. The measure maintains the 33% RPS target by December 31, 2020, while the compliance periods following it changed to 44% by December 31, 2024, 52% by December 31, 2027 and 60% by December 31, 2030.

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

Assembly Bill 32 – Global Warming Solutions Act of 2006. Assembly Bill 32 (“**AB 32**”), which the State Governor signed into law in 2006, requires that utilities reduce their GHG emissions to 1990 levels by the year 2020. In addition, Senate Bill 32 (“**SB 32**”), which the Governor signed into law in 2016, requires that Statewide greenhouse gas emissions are reduced to 40% below 1990 levels by 2030.

AB 32 tasked CARB with developing regulations for GHG emissions that became effective January 1, 2012. Emission compliance obligations under the cap-and-trade regulation (the “**Program**”) began on January 1, 2013. The Program was implemented in phases, with the first phase lasting from January 1, 2013 to December 31, 2014. This phase placed an emission cap on electricity generators, importers and large industrial sources emitting more than 25,000 metric tons of carbon dioxide-equivalent greenhouse gases per year. In 2015, the program expanded to cover emissions from transportation fuels, natural gas, propane and other fossil fuels.

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

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

Assembly Bill 398 – GHG Cap-and-Trade Program Extension. Assembly Bill 398 (“**AB 398**”), which the State Governor signed into law in 2017, extended the GHG cap-and-trade program to December 31, 2030. This bill was also a companion bill to Assembly Bill 617 (“**AB 617**”; see the subcaption “—Assembly Bill 617 – Air-Quality Monitoring”). The City’s free allocation of GHG allowances is expected to be sufficient to meet the City’s direct GHG compliance obligations through 2030.

The City is required to consign 100% of its allowances and then purchase allowances to meet its compliance obligation. Other components of the law that require clarification are the banking provisions and

the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. The Electric System will continue to monitor the outcome and impacts of the upcoming regulations on its service territory and ratepayers.

Assembly Bill 617 – Air Quality Monitoring. AB 617, which the State Governor signed into law in 2017, was part of a legislative bill package with AB 398, which authorized the extension of the cap-and-trade Program in the State. See the subcaption “—Assembly Bill 398 – GHG Cap-and-Trade Program Extension.” AB 617 addresses the disproportionate impacts of air pollution in environmental justice communities. Both CARB and local air districts are required to take specific actions to reduce air pollution and toxic air contaminants from commercial and industrial sources, including from electricity-generating facilities. The bill required CARB to prepare a Statewide monitoring plan regarding technologies and reasons for monitoring air quality and, based on that plan, to identify the highest priority locations for the deployment of community level air monitoring systems. Local air districts were required to deploy the air monitoring systems in the specified communities by July 1, 2019. Additional locations for the deployment of the systems will be identified annually by CARB beginning in early 2020. CARB is also required to provide grants to community-based organizations for technical assistance and to support community participation in the programs. In turn, this effort requires local air districts to adopt a community emissions reduction program.

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

AB 617 imposes additional reporting requirements. For the City, the local air district is the Southern California Air Quality Management District (“SCAQMD”). CARB and SCAQMD have held and continue to hold community meetings to implement the required elements of AB 617. The City continues to monitor developments under AB 617.

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

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

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

Assembly Bill 2514 – Energy Storage. Assembly Bill 2514 (“**AB 2514**”), which the State Governor signed into law on September 29, 2010, directs municipal electric utilities to consider setting targets for energy storage procurement but emphasizes that any such targets must be consistent with technological viability and cost effectiveness. The law’s main directives and their respective deadlines are to adopt an energy storage

system procurement target by October 1, 2014, if determined to be appropriate, to be achieved by each utility by December 31, 2016, and a second target to be achieved by December 31, 2020. Municipal electric utilities were required to submit compliance reports to the CEC of their first adopted target by January 1, 2017, which the City did. The second adopted target compliance report is due to the CEC by January 1, 2021.

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

On February 17, 2012, the Board opened a proceeding to investigate the various ES technologies available and determine whether the City should adopt energy storage procurement targets. The City concluded its investigation of energy storage pricing and benefits in September 2014 and adopted a zero megawatt target based on the conclusion that the viable applications of ES technologies and solutions at the time were not cost effective and outweighed the benefits that they might provide to the Electric System.

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

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

On March 3, 2015, City Council approved the Ice Bear Pilot program for 5 MWs. The program is intended to reduce load during peak hours, improve energy efficiency and demonstrate the City’s proactive support of the State’s energy storage goals. As of February 2020, program components in the amount of 3.126 MWs have been deployed. However, in December 2019, the program contractor (Ice Energy) filed a petition for bankruptcy and is expected to liquidate its assets, subject to bankruptcy court approval. The City understands that discussions with potential purchasers of Ice Energy’s assets are in the preliminary stages and there can be no assurance as to the timing of any such sale or the ultimate outcome of the bankruptcy proceeding.

On July 28, 2015, the City Council approved a 20-year power purchase agreement for the City to procure renewable energy from the Antelope DSR Solar Photovoltaic Project, which includes a built-in energy storage option for the buyers to exercise during the first 15 years of operation. See the caption “THE ELECTRIC SYSTEM—Renewable Resources—sPower – Summer Solar, Antelope Big Sky Ranch and DSR 1 Solar.”

Senate Bill 380 – Moratorium on Natural Gas Storage – Aliso Canyon. On October 23, 2015, a significant gas leak was discovered at the Aliso Canyon natural gas storage facility, which makes up 63% of total storage capacity of Southern California Gas Company (“SoCalGas”) and serves 17 gas fired power generation units. On May 10, 2016, the State Governor signed Senate Bill 380 in law, placing a moratorium on Aliso Canyon’s natural gas storage usage until rigorous tests were performed and completed by the Division of Oil, Gas, and Geothermal Resources (“DOGGR”) as to which wells could continue to be in operation. This moratorium caused great concern regarding the reliability of natural gas supplies in the upcoming summer and winter months. An action plan study area was initiated to review the summer and winter assessment that was conducted as a joint effort between the CPUC, CEC, CAISO and LADWP. Although the area of study neither includes nor immediately impacts the City, it is highly plausible that the market for natural gas could be affected by curtailed gas deliveries under certain adverse low-flow gas scenarios.

Beginning June 1, 2016, SoCalGas implemented new Operational Flow Order (“OFO”) tariffs due to limitations surrounding Aliso Canyon storage injections and withdrawals. These tariff changes were put in place to reduce the probability of natural gas curtailments.

These tighter OFO tariff restrictions were scheduled to conclude upon the earlier of the return of Aliso Canyon to at least 450 million cubic feet per day (“MMcfd”) of injection capacity and 1,395 MMcfd of withdrawal capacity, or March 31, 2017. Aliso Canyon has not been able to meet its injection and withdrawal targets, and therefore, these tighter OFO tariff restrictions will continue to remain in effect.

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

On July 2, 2018, the CPUC directed SoCalGas to maintain up to 34 billion cubic feet of inventory due to “unprecedented level of outages on the SoCalGas system,” among other reasons. On July 23, 2019, the CPUC approved new rules governing SoCalGas’ withdrawals of natural gas at the Aliso Canyon natural gas storage facility. In addition to emergency conditions, SoCalGas can now withdraw natural gas from Aliso Canyon based on preliminary Low OFO Stage 2 calculations, the existence of sufficient storage levels at Aliso Canyon and at times when storage levels at SoCalGas’ other storage facilities fall below requirements.

The Electric System has fulfilled its system reliability since the gas leak was discovered at the Aliso Canyon facility. The City will continue to monitor developments in this area, but does not expect limitations on withdrawals from the facility to have a significant effect on the Electric System’s ability to meet customer demand.

Assembly Bill 802 – Building Energy Use Benchmarking and Public Disclosure Program. Assembly Bill 802 (“AB 802”), which the State Governor signed into law in 2015, creates a new Statewide building energy use benchmarking and public disclosure program in the State. AB 802 requires electric utilities to maintain records of energy usage data for all commercial and multifamily buildings with over 50,000 square feet of gross floor area for at least the most recent 12 months. Utilities are required to deliver or provide aggregated energy usage data for a covered building to the owner, owner’s agent or operator upon written request. The Electric System provides consumption data for buildings meeting the statutory requirements upon owners’ written request.

Assembly Bill 1110 – Greenhouse Gas Emissions Intensity Reporting. Assembly Bill 1110 (“AB 1110”), which the State Governor signed into law in 2016, requires GHG emissions intensity data and unbundled renewable energy credits to be included as part of retail suppliers’ power source disclosure reports and power content label (“PCL”) to their customers. GHG emissions intensity factors will need to be provided for all retail electricity products. The inclusion of this new information requirement on the PCL will begin in 2021 for calendar year 2020 data. In addition to being required to post the PCL on the City’s website, AB 1110 also requires that PCL disclosures must be mailed to customers unless customers have opted for electronic notifications. In accordance with this requirement, the City includes printed disclosures of the PCL to its customers. The CEC adopted updated regulations in December 2019 reflecting the change in the required reporting year for including the GHG emissions intensity data on the PCL.

Senate Bill 859 – “Budget Trailer Bill” – Biomass Mandate. Senate Bill 859 (“SB 859”), which the State Governor signed into law on September 14, 2016, amended the State’s cap-and-trade program (as discussed under the subcaptions “—Assembly Bill 32 – Global Warming Solutions Act of 2006” and “—Assembly Bill 398 – GHG Cap-and-Trade Program Extension” to include a biomass procurement mandate for publicly owned utilities that serve more than 100,000 customers. Utilities are required to procure their pro-rata

share of the Statewide obligation of 125 MW based on the ratio of each utility's peak demand to the total Statewide peak demand from existing in-State bioenergy projects for at least a five-year term.

On October 13, 2016, the CPUC adopted Resolution E-4805, which established that publicly owned utilities would be allocated 29 MW of the 125 MW Statewide mandate. The City has determined that its obligated share would be 1.3 MW, although pending CEC direction could change this share.

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

On November 16, 2017, the City entered into a five-year PSA with SCPPA for 0.8 MW from the ARP – Loyalton Biomass Project. See the caption “THE ELECTRIC SYSTEM—Renewable Resources—American Renewable Power – Loyalton.” On April 20, 2018, the facility declared commercial operation.

Legislation Relating to Wildfires. Senate Bill 1028 (“**SB 1028**”), which was signed into law by the State Governor in 2016, requires municipal electric utilities to construct, maintain and operate their electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment. SB 1028 also requires the governing board of each municipal electric utility to make an initial determination as to whether its overhead electric lines and equipment pose a significant risk of catastrophic wildfire based on historical fires and local conditions. While governing boards must make this determination independently based on all relevant information, the CPUC's Fire Threat Map is an important factor in this process. The Fire Threat Map was adopted by the CPUC on January 19, 2018. According to the Fire Threat Map, parts of the Electric System are in an elevated fire threat zone. The Electric System owns transmission assets, including, but not limited to, wires, poles and other needed equipment to safely maintain and deliver power generated from generation assets located outside City limits.

Senate Bill 901 (“**SB 901**”), which was signed into law by the State Governor in 2018, addresses the response to, mitigation of and prevention of wildfires. SB 901 requires municipal electric utilities to prepare before January 1, 2020 and annually thereafter a wildfire mitigation plan, which is to be submitted to a newly created Wildfire Safety Advisory Board (the “**WSAB**”). SB 901 further requires utilities to present their wildfire mitigation plan in an appropriately noticed public meeting, to accept comments on the plan from the public, other local and state agencies and interested parties and to verify that the plan complies with all applicable rules, regulations, and standards, as appropriate. SB 901 also requires the utilities to contract with a qualified independent evaluator to review and assess the comprehensiveness of its plan. The report of the independent evaluator is to be made available on the Internet and to be presented at a public meeting of the utilities' governing boards. The City intends to comply with this requirement when the WSAB identifies qualified independent evaluators in the near future.

The City Council made the wildfire mitigation plan determination on December 17, 2019, determining that certain areas of the City lie within a high fire threat district or an elevated fire risk district. In these areas, there is a high possibility that a wildfire which ignites outside of City limits can subsequently enter the City. The major urban/rural interface areas of high fire risk within the City include Mount Rubidoux, the Santa Ana River Basin, Lake Hills, Mockingbird Canyon/Monroe Hills, Sycamore Canyon, Box Springs Mountain and La Sierra/Norco Hills.

The City's wildfire mitigation plan, which was adopted on December 17, 2019, lays out a number of steps to mitigate such risk, including: (i) identifying circuits that have overhead structures in elevated or extreme fire danger zones; (ii) monitoring weather conditions; (iii) designing and constructing Electric System facilities to meet CPUC General Order 95 and National Electric Safety Code standards; (iv) increasing vegetation clearances and tree evaluations in high fire threat districts; (v) frequent inspections of Electric

System facilities; (vi) staff training; and (vii) reclosing of the Electric System's 4 kV and 12 kV distribution systems.

SB 901 also requires utilities that secure biomass procurement contracts under SB 859 (discussed above under the subcaption “—Senate Bill 859 – “Budget Trailer Bill” – Biomass Mandate”) to seek a five-year extension of the term of such contracts. The City and other SCPPA participants in the ARP-Loyalton Biomass project offered to enter into a five-year extension of the project in late 2019. To date, ARP-Loyalton has not yet accepted the offer. Currently, there is no commitment in place to purchase any additional biomass energy from ARP-Loyalton beyond the current term of the contract. See the caption “THE ELECTRIC SYSTEM—Renewable Resources—American Renewable Power – Loyalton.”

SB 1028 and SB 901 do not address existing legal doctrine relating to utilities' liability for wildfires; however, any future legislation that addresses the State's inverse condemnation and “strict liability” issues for utilities in the context of wildfires in particular could be significant for the electric utility industry, including the City.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors that are discussed above, such factors include, among others: (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above (including those affecting nuclear power plants or potential new energy storage requirements); (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (c) effects on the integration and reliability of power supply from the increased usage of renewables; (d) changes resulting from a national energy policy; (e) effects of competition from other electric utilities (including increased competition resulting from a movement to allow direct access or from mergers, acquisitions and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity; (f) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities; (g) increased competition from independent power producers and marketers, brokers and federal power marketing agencies; (h) “self-generation” or “distributed generation” (such as microturbines, fuel cells and solar installations) by industrial and commercial customers and others; (i) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations; (j) effects of inflation on the operating and maintenance costs of an electric utility and its facilities; (k) changes from projected future load requirements; (l) increases in costs and uncertain availability of capital; (m) shifts in the availability and relative costs of different fuels (including the cost of natural gas and nuclear fuel); (n) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in the past in the State; (o) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity; (p) other legislative changes, voter initiatives, referenda and Statewide propositions; (q) effects of the changes in the economy, population and demand of customers within a utility's service area; (r) effects of possible manipulation of the electric markets; (s) acts of terrorism or cyber-terrorism; (t) natural disasters or other physical calamities, including, but not limited to, earthquakes, floods and wildfires, and potential liabilities of electric utilities in connection therewith; (u) changes to the climate; and (v) the COVID-19 outbreak that is discussed under the caption “COVID-19 OUTBREAK.” Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact the above-described factors will have on the business operations and financial condition of the Electric System, but the impacts could be significant. This Remarketing Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2011A Bonds should obtain and review such information. Such information is not incorporated herein by reference.

The City cannot predict at this time whether any additional legislation or rules will be enacted which will affect its Electric System's operations, including purchased power, and if such laws or rules are enacted, what the costs to the City might be in the future because of such action. The City does not currently expect significant changes to the Electric System's operations or operating costs in the future.

RISK FACTORS

The following information, in addition to the other matters that are described in this Remarketing Statement, should be considered by prospective investors in evaluating the 2011A Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the 2011A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the 2011A Bonds.

The 2011A Bonds Are Limited Obligations

The City's General Fund is not liable for the payment of debt service on the 2011A Bonds, nor is the credit or taxing power of the City pledged for the payment of debt service on the 2011A Bonds. No owner of any 2011A Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on the 2011A Bonds are neither a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security and assets that are pledged to the payment of the 2011A Bonds under the Resolution.

Risks Relating to Credit Facility

General. In connection with the remarketing of the 2011A Bonds, the City has arranged for an irrevocable direct-pay Letter of Credit to be entered into with BANA. See the caption "THE LETTER OF CREDIT."

If the Letter of Credit expires, or in certain cases, if the rating of BANA is withdrawn or lowered, the City must replace the Letter of Credit. If the City is unable to secure a replacement credit or liquidity facility, the 2011A Bonds will be subject to mandatory tender for purchase by the holders thereof upon such expiration. In addition, the related Letter of Credit will be drawn upon to pay the purchase price of such tendered 2011A Bonds. See the subcaption "—Renewal of Letter of Credit" below.

In connection with the Letter of Credit, the City has entered into the Reimbursement Agreement with BANA. Under the Reimbursement Agreement, the County is generally required to reimburse BANA for any amounts paid by BANA under the Letter of Credit on the same day that BANA makes payments on the 2011A Bonds. Amounts owed to BANA bear interest at a specified rate. The City is also required to pay certain fees to BANA, including establishment, facility, drawing and transfer fees, in addition to BANA's costs, expenses and certain taxes.

In the event that there is a drawing on the Letter of Credit to purchase any 2011A Bonds which are tendered for purchase by the holders thereof, the Reimbursement Agreement generally provides that BANA will become the holder of such obligations (which obligations are thereafter referred to as “**Bank Bonds**”). In addition, the City is required to repay such Bank Bonds over a three-year period that is less than the remaining term to maturity of the 2011A Bonds, and at an increased interest rate.

The Reimbursement Agreement contains a number of covenants and representations on the part of the City and specify events of default (which may include failure of the City to maintain credit ratings at specified levels), and remedies. BANA’s remedies generally include the right to cause a mandatory tender of the 2011A Bonds. The obligations of the City pursuant to the Reimbursement Agreement are payable from Net Revenues on a parity with the 2011A Bonds and other Parity Debt.

Renewal of Credit or Liquidity Facilities. As described under the caption “THE LETTER OF CREDIT,” the Letter of Credit expires prior to the maturity of the 2011A Bonds. If the Letter of Credit expires and the City is unable to secure a replacement credit or liquidity facility, the 2011A Bonds will be subject to mandatory tender for purchase by the holders thereof upon such expiration and the Letter of Credit will be drawn upon to pay the purchase price of such tendered 2011A Bonds. In such circumstances, the City is required to repay BANA over a three-year period that is less than the remaining term to maturity of the 2011A Bonds, and at an increased interest rate.

Ratings of BANA. From time to time rating agencies change the ratings of banks that have issued credit or liquidity facilities. In the event that the rating of BANA is reduced, such reduction may result in the 2011A Bonds bearing interest at a higher than projected interest rate or result in the downgrade of the rating of the 2011A Bonds, or both.

There can be no assurance that future rating reductions or other factors that are perceived to have an effect on, or to reflect, the credit quality of BANA will not result in a material increase in interest payments on the 2011A Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant.”

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2011A 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 Constitution of the United States; 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 2011A 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 because the Electric System serves an essential public purpose.

Debt Service Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City has established a debt service reserve account for the 2011A Bonds, but the 2011A Bond Reserve Requirement is \$0. Consequently, no amounts have been deposited into such debt service reserve account. The owners of the 2011A Bonds have no rights to moneys in the reserve accounts established for other series of outstanding Bonds.

Electric System Expenses and Collections

The Electric System's facilities, timely payment of debt service on the 2011A Bonds and the financial condition of the City's Electric System are dependent, in part, upon the payment by customers of the amounts billed to such customers for the energy that they receive. There are multiple factors that might result in increased overall rates charged to such customers and, as a result, potentially have an adverse effect on collections. Many of these factors are not under the influence or control of the City or are factors over which the City has only limited influence or control. These factors include, but are not limited to, the following factors:

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

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

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

Impact of These Factors. The factors discussed above (and other factors) might result in increased rates while the 2011A Bonds remain outstanding. If a combination of one or more such factors lead to increased retail rates for electric energy, such increase could lead to increased delinquencies and non-payments by customers. See the caption "THE ELECTRIC SYSTEM—Uncollectible Accounts" for a discussion of uncollectible accounts.

There can be no assurance that the City's expenses for the Electric System will remain at the levels described in this Remarketing Statement. For example, the City's take-or-pay contracts with IPA and SCPPA contain "step-up" provisions obligating the City to pay a share of the obligations of a defaulting participant. See the caption "THE ELECTRIC SYSTEM—Joint Powers Agency Obligations." Any such default would increase the City's expenses. Also, increases in fuel and energy costs, new environmental regulations or other expenses could reduce the City's Net Operating Revenues and could require substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand for electric services.

Although the City has covenanted to prescribe, revise and collect rates and charges for the Electric System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2011A Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant."

Rate Regulation

The authority of the City to impose and collect rates and charges for Electric sold and delivered is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State 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 regulatory bodies or to other limitations or requirements.

Casualty Risk

Any natural disaster or other physical calamity, without limitation, earthquake, wildfire, drought, high winds, landslide or flood, may have the effect of reducing Net Operating Revenues by causing damage to the Electric System or adversely affecting the economy of the surrounding area. The Resolution requires the City to maintain insurance or self-insurance, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Electric System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities or that specific losses will be covered by insurance. The City does not currently maintain and it has not committed to maintain earthquake or flood insurance on the Electric System's facilities.

Earthquake. The City is located in a seismically active region of Southern California. Major active earthquake faults are located within 20 miles of Electric System facilities. Earthquakes pose potential significant risks to the Electric System, and could potentially result in electricity supply shortages and disruptions to the transmission/distribution systems. Another potential hazard related to earthquakes is soil liquefaction. The seismic vulnerability of the Electric System is mitigated by a geographically diverse Electric supply system and a number of interconnections that allow the City to purchase electricity from other agencies in the event of a local disaster.

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

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2011A Bonds, the City has to comply with the applicable requirements of the Code, and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2011A Bonds thereunder. Interest on the 2011A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2011A Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Resolution. The 2011A Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Resolution.

Parity Obligations

The Resolution permits the City to enter into Additional Bonds and Parity Debt payable from Net Operating Revenues on a parity with the 2011A Bonds, subject to the terms and conditions set forth therein. The entry into of Additional Bonds and Parity Debt could result in reduced Net Operating Revenues available

to pay the 2011A Bonds. The City has covenanted to maintain coverage of debt service on the 2011A Bonds, Additional Bonds and Parity Debt as further described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Additional Bonds and Parity Debt.”

Climate Change

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the Electric System is difficult to predict, but it could be significant and it could have a material adverse effect on the City’s finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of Electric System customers.

Security of the Electric System

The security of the Electric System is maintained through a combination of regular inspections by Department personnel, intrusion and motion alarm systems, video surveillance systems, continuous monitoring and analysis of incident reports. Electric system facilities are secured by controlled entry access systems, fencing, gates, closed circuit television, and 24-hour alarm monitoring.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Electric System. The City continually plans and prepares for emergency situations and immediately responds to ensure that electric services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Electric System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Electric System could require the City to increase expenditures for repairs to the Electric System significantly enough to adversely impact the City’s ability to pay debt service on the 2011A Bonds.

Cyber Security

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore’s 911 system, an attack on the Colorado Department of Transportation’s computers and an attack that resulted in the temporary closure of the Port of Los Angeles’ largest terminal.

The City’s Information Technology Department provides support for the Electric System’s electronic system cyber security. This includes audits and recommended improvements to facility hardware and software to keep systems up to date with the latest cyber treat tools. To date, the City has not experienced an attack on its computer operating systems. However, there can be no assurance that a future attack or attempted attack would not result in disruption of City operations. The City expects that any such disruptions would be temporary in nature.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2011A Bonds or, if a secondary market exists, that any 2011A Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

CONSTITUTIONAL LIMITATIONS

Articles XIII C and XIII D of the State Constitution

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State on November 5, 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution. Article XIII D creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Property-related fees include many utility charges such as water rates but Article XIII D explicitly exempts fees for the provision of electric service from its provisions. Nevertheless, Proposition 218 could indirectly affect some municipally-owned electric utilities. For example, to the extent that Proposition 218 reduces a city’s general fund revenues, that city could seek to increase the transfers from its electric utility to its general fund. For information on the City’s transfer of surplus Electric System revenues to the City’s General Fund, see the caption “THE ELECTRIC SYSTEM—Transfers to the General Fund of the City” and the caption “—Proposition 26” below.

Article XIII C expressly extends the people’s initiative power to reduce or repeal previously-authorized local taxes, assessments and fees and charges. The terms “fees and charges” are not defined in Article XIII C, although the State Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006), that the initiative power described in Article XIII C may apply to a broader category of fees and charges than the property-related fees and charges governed by Article XIII D. Moreover, in the case of *Bock v. City Council of Lompoc*, 109 Cal.App.3d 52 (1980), the Court of Appeal determined that electric rates are subject to the initiative power. Thus, even electric service charges (which are expressly exempted from the provisions of Article XIII D) might be subject to the initiative provisions of Article XIII C, thereby subjecting such fees and charges imposed by the City to reduction by the electorate. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIII C or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2011A Bonds by virtue of the “impairment of contracts clause” of the United States and State Constitutions.

Proposition 26

Proposition 26 was approved by the voters of the State on November 2, 2010. Proposition 26 amended Articles XIII A and XIII C of the State Constitution to impose a two-thirds voter approval requirement for the imposition of certain fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures, such as Proposition 218, through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope “a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.” The City believes that the initiative is not intended to and would not apply to Electric System rates so long as such rates do not exceed the reasonable costs to the City of providing electric service; however, the City is unable to predict how Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the electric service provided by the Electric System.

In *Citizens for Fair REU Rates v. City of Redding*, the California Court of Appeal, Third District, held, in an opinion filed January 20, 2015 and modified February 19, 2015, that a municipal utility’s recurring budget transfer from its electric utility fund to its general fund, referred to therein as a payment in lieu of taxes, constitutes a tax under Proposition 26 unless it can be shown that the transferred amount reflects the reasonable costs borne by the city to provide governmental services to the electric utility. The City of Redding appealed the decision to the State Supreme Court, which reversed the judgment of the Court of Appeal on August 27,

2018. The State Supreme Court determined that the budgetary transfer from the City of Redding electric utility to its general fund is not the type of exaction that is subject to Article XIIC of the State Constitution. The State Supreme Court reasoned that it is only the City of Redding electric utility rate, not the payment in lieu of taxes, that is imposed on customers for electric service. The State Supreme Court concluded that because the total rate revenue of the electric utility was insufficient to cover the electric utility's uncontested operating expenses (other than the payment to the General Fund) in the years at issue, the challenged rate did not exceed the reasonable costs of providing electric service, and therefore did not constitute a tax.

The City annually transfers certain surplus Electric System revenues to the City's General Fund, as discussed under the caption "THE ELECTRIC SYSTEM—Transfers to the General Fund of the City," and sets its rates and its budget with the expectation that such transfers will continue to be made. In the event that General Fund transfers are restricted, the City does not believe that any such restrictions would have a material adverse effect on the financial position of the Electric System. However, any such restrictions on transfers may cause the City to evaluate new strategies to generate revenues to fund services provided by the City.

See the caption "THE ELECTRIC SYSTEM—Litigation" for a discussion of certain litigation challenging the City's transfers of Electric System revenues to the General Fund.

Future Initiatives

Articles XIIC and XIID limited the ability of governmental agencies to increase certain fees and charges. Such articles were adopted pursuant to measures which qualified for the ballot pursuant to the State's Constitutional initiative process. While the City believes that Articles XIIC and XIID do not affect the Electric System's rates and charges so long as the rates do not exceed the reasonable costs to the City of providing the utility services, from time to time other initiative measures could be adopted by State voters. The adoption of any such initiatives might place limitations on the ability of the City and its Electric System to increase revenues.

TAX MATTERS

On April 28, 2011, in connection with the original issuance of the 2011A Bonds, Hawkins Delafield & Wood LLP, as Bond Counsel to the City, rendered an opinion regarding the validity and tax status of the 2011A Bonds. In connection with the Conversion of the 2011A Bonds to a Weekly Interest Rate Period, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, is opining that, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2011A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2011A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2011A Bonds to assure that interest on the 2011A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2011A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2011A Bonds. The City has covenanted to comply with all such requirements.

The amount by which a 2011A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2011A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the

Code; such amortizable bond premium reduces the 2011A Bond Owner's basis in the applicable 2011A Bond (and the amount of tax-exempt interest received with respect to the 2011A Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2011A Bond Owner realizing a taxable gain when a 2011A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2011A Bond to the Owner. Purchasers of the 2011A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2011A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2011A Bonds might be affected as a result of such an audit of the 2011A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2011A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2011A Bonds or their market value.

SUBSEQUENT TO THE REMARKETING OF THE 2011A BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2011A BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2011A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2011A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2011A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2011A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2011A BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the initial issuance of the 2011A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2011A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2011A Bonds is excluded from gross income for federal income tax purposes provided that the City continue to comply with certain requirements of the Code, the ownership of the 2011A Bonds and the accrual or receipt of interest on the 2011A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2011A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2011A Bonds.

Should interest on the 2011A Bonds become includable in gross income for federal income tax purposes, the 2011A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Resolution.

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

CERTAIN LEGAL MATTERS

The 2011A Bonds are being remarketed subject to the approval of certain matters by Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is acting as Disclosure Counsel to the City, and Nixon Peabody LLP, Los Angeles, California, is acting as counsel to Bank of America, N.A., as Credit Provider, and BofA Securities, Inc., as Remarketing Agent.

The payment of the fees and expenses of the Remarketing Agent, Bond Counsel, Disclosure Counsel and Credit Provider and Remarketing Agent's Counsel is contingent on the successful remarketing of the 2011A Bonds.

LITIGATION

At the time of the remarketing of the 2011A Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the actual 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 2011A Bonds or the power and authority of the City to issue the 2011A Bonds; (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2011A Bonds; or (iii) that, if determined adversely to the City, would affect the ability of the City to pay debt service on the 2011A Bonds when due.

For information about certain lawsuits affecting the Electric System, see the caption "THE ELECTRIC SYSTEM—Litigation." The City's management and its City Attorney are of the opinion that no pending actions are likely to have a material adverse effect on the City's ability to perform its obligations under the Resolution and the 2011A Bonds.

FINANCIAL STATEMENTS

The financial statements of the City's Electric System for the fiscal year ended June 30, 2019 (the "**Financial Statements**") included in Appendix B to this Remarketing Statement have been audited by Lance, Soll & Lunghard, LLP, Brea, California, independent accountants (the "**Auditor**"), as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to including its report in Appendix B. The Auditor's review in connection with the Financial Statements included in Appendix B included events only as of June 30, 2019, and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the Financial Statements.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), is expected to assign the ratings of "A+" and "A-1" to the 2011A Bonds based on the delivery of the Letter of Credit by BANA. S&P's ratings reflect the short-term and long-term counterparty credit ratings of BANA, respectively.

Fitch Ratings, Inc. ("**Fitch**" and, together with S&P, the "**Rating Agencies**" or, individually, a "**Rating Agency**") has assigned the ratings of "AA+", "F1+" and "AA-" to the 2011A Bonds based on the delivery of the Letter of Credit by BANA. Fitch's ratings reflect the long-term jointly supported rating of the combined credit of the City's Electric System and BANA, the short-term counterparty credit rating of BANA and the underlying unenhanced long-term rating of the City's Electric System, respectively.

There is no assurance that the credit rating given to the 2011A Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by a Rating Agency, if in the judgment of such Rating Agency, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011A Bonds. Such ratings reflect only the views

of the respective Rating Agencies, and an explanation of the significance of such ratings may be obtained from the applicable Rating Agency. Generally, rating agencies base their ratings on information and materials that is furnished to them (which may include information and material from the City that is not included in this Remarketing Statement) and on investigations, studies and assumptions by the rating agencies.

The City has covenanted in the Continuing Disclosure Certificate to file notices of any rating changes on the 2011A Bonds with EMMA. See the caption “CONTINUING DISCLOSURE” and Appendix D. Notwithstanding such covenant, information relating to rating changes on the 2011A Bonds may be publicly available from the Rating Agencies prior to such information being provided to the City and prior to the date by which the City is obligated to file a notice of rating change. Purchasers of the 2011A Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current rating with respect to the 2011A Bonds.

In providing a rating on the 2011A Bonds, the Rating Agencies may have performed independent calculations of coverage ratios using its own internal formulas and methodology, which may not reflect the provisions of the Resolution. The City makes no representations as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

REMARKETING AGENT

BofA Securities, Inc., has been appointed to serve as Remarketing Agent for the 2011A Bonds. The Remarketing Agent will carry out the duties and obligations provided for the Remarketing Agent under and in accordance with the provisions of the Resolution and a Remarketing Agreement for the 2011A Bonds, dated as of April 1, 2020, by and between the City and the Remarketing Agent.

The Remarketing Agent has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, the Remarketing Agent may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, the Remarketing Agent may compensate MLPF&S as a dealer for their selling efforts with respect to the 2011A Bonds.

The Remarketing Agent and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Remarketing Agent and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

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

The Remarketing Agent and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, Los Angeles, California, as municipal advisor (the “**Municipal Advisor**”) in connection with remarketing of the 2011A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Remarketing Statement. The Municipal 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.

CONTINUING DISCLOSURE

The City has executed a Continuing Disclosure Certificate in which it has covenanted for the benefit of Owners and beneficial owners of the 2011A Bonds to provide certain financial information and operating data relating to the Electric System (the “**Annual Report**”) by not later than 270 days following the end of the City’s fiscal year (which fiscal year currently ends on June 30), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system, which can be accessed on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth in Appendix D. These covenants were made in order to assist the Remarketing Agent in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended.

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

In the past, to assist the City and its related governmental entities in meeting their continuing disclosure obligations, the City retained certain corporate trust banks to act as dissemination agent. The City and its related governmental entities have not, on a handful of occasions during the past five years, fully complied, in all material respects, with their disclosure undertakings because on certain occasions in the last five years, the City did not timely file: (1) notice of rating changes to bond insurers and other credit and/or liquidity providers for City debt obligations; (2) certain financial information or operating data for Fiscal Year 2014-15 required to be filed with respect to debt obligations of the City or its related government entities; (3) a notice of successor trustee for a prior City debt obligation; and (4) notice of defeasances of certain previously outstanding Electric System obligations. In addition, the City did not link certain Fiscal Year 2017-18 information with respect to bonds of its Electric System to all applicable CUSIPs.

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

RELATED PARTIES

BofA Securities, Inc., the Remarketing Agent for the 2011A Bonds, and Bank of America, N.A, the letter of credit provider for the 2011A Bonds, are both wholly-owned, indirect subsidiaries of Bank of America Corporation.

APPENDIX A

CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION

The 2011A Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues, but will be payable solely from the Net Operating Revenues of the City's Electric System. The information set forth below is included in the Remarketing Statement for background purposes only.

General

The City is the county seat of Riverside County (the “County”) and is located in the western portion of the County, approximately 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the County and the County of San Bernardino and comprise the Riverside-San Bernardino Primary Metropolitan Statistical Area (the “PMSA”). The PMSA represents an important economic area of the State and of Southern California. It lies to the west and south, respectively, of the strategic San 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.

The County and the County of San Bernardino cover 27,400 square miles, a land area larger than the State of Virginia. As of 2019, the County had a population estimated at 2,440,124 and San Bernardino County had a population estimated at 2,192,203. With a population of over 4.6 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“MSAs”) in the United States. The County alone is larger in area than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties’ population.

Municipal Government

The City was incorporated in 1883 and covers 81.5 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council.

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

Services and Facilities

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

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

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

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

Population

As of January 1, 2019, the population of the City was estimated to be 328,101. The following table presents population data for both the City and County.

POPULATION		
<i>Year</i>	<i>City of Riverside</i>	<i>Riverside County</i>
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2010	302,597	2,179,692
2011	308,124	2,217,946
2012	311,622	2,246,951
2013	314,701	2,272,031
2014	316,400	2,295,798
2015	318,914	2,321,837
2016	321,723	2,350,992
2017	323,934	2,384,660
2018	326,270	2,412,536
2019	328,101	2,440,124

Sources: 1950-2010 U.S. Census; 2011-2019 California Department of Finance (Demographic Research Unit).

Income

The following tables show the personal income and per capita personal income for the County, State of California and United States from 2012 through 2018.

PERSONAL INCOME
County of Riverside, State of California, and United States
2012-2018
(Dollars in Thousands)

<i>Year</i>	<i>County of Riverside</i>	<i>California</i>	<i>United States</i>
2012	\$74,050,799	\$1,852,397,500	\$13,998,383,000
2013	76,511,910	1,886,379,100	14,175,503,000
2014	80,555,648	2,021,038,500	14,982,715,000
2015	86,033,655	2,171,947,400	15,709,242,000
2016	90,385,180	2,263,889,800	16,111,636,000
2017	94,210,345	2,370,112,400	16,870,106,000
2018	99,591,680	2,514,129,300	17,813,035,000

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME⁽¹⁾
County of Riverside, State of California, and United States
2012-2018

<i>Year</i>	<i>County of Riverside</i>	<i>California</i>	<i>United States</i>
2012	\$32,737	\$48,813	\$44,605
2013	33,440	49,303	44,860
2014	34,753	52,363	47,071
2015	36,642	55,808	48,994
2016	37,936	57,801	48,890
2017	38,975	60,219	51,910
2018	40,637	63,711	54,526

⁽¹⁾ Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvard Unified School District, which also serves the County area southwest of the City. These two districts include 65 elementary and middle schools and high schools. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are California School for the Deaf and Sherman Indian High School, a federally-run school for Native Americans.

Employment

The City is included in the PMSA. The unemployment rate in the PMSA was 4.0 percent in February 2020. This compares with an unadjusted unemployment rate of 4.3 percent for California and 3.8 percent for the nation during the same period. The unemployment rate was 4.1 percent in the County and 3.8 percent in San Bernardino County during the same period.

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

**RIVERSIDE-SAN BERNARDINO PRIMARY MSA
CIVILIAN LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT (ANNUAL AVERAGES)
(For Calendar Years 2015 Through 2019)**

	2015	2016	2017	2018	2019
Civilian Labor Force ⁽¹⁾	1,952,500	1,981,500	2,015,300	2,047,500	2,071,800
Employment	1,824,100	1,863,600	1,912,500	1,959,400	1,988,600
Unemployment	128,400	118,000	102,800	88,100	83,200
Unemployment Rate	6.6%	6.0%	5.1%	4.3%	4.0%
<u>Wage and Salary Employment:</u> ⁽¹⁾					
Agriculture	14,800	14,600	14,500	14,500	15,100
Mining and Logging	1,300	900	1,000	1,200	1,200
Construction	85,700	92,000	97,400	105,200	105,900
Manufacturing	96,200	98,700	99,200	101,100	101,200
Wholesale Trade	60,500	61,600	62,600	65,500	66,700
Retail Trade	174,400	178,300	180,900	181,200	181,300
Transportation, Warehousing and Utilities	98,100	108,000	122,100	132,900	142,800
Information	11,700	11,800	11,600	11,400	11,500
Finance and Insurance	26,600	26,400	25,600	24,600	24,000
Real Estate and Rental and Leasing	17,000	17,900	18,400	19,300	20,200
Professional and Business Services	147,400	144,900	146,900	151,400	155,500
Educational and Health Services	206,300	215,700	226,700	239,500	250,100
Leisure and Hospitality	151,700	160,200	166,300	170,600	175,200
Other Services	44,000	44,600	45,400	45,800	45,800
Federal Government	20,300	20,400	20,600	20,700	21,100
State Government	28,700	29,700	30,400	30,600	31,200
Local Government	184,400	192,200	200,100	205,900	208,200
Total All Industries	1,369,100	1,417,900	1,469,400	1,521,200	1,556,900

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

Source: State of California Employment Development Department.

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

**CITY OF RIVERSIDE – LARGEST EMPLOYERS
As of June 30, 2019**

<i>Employer Name</i>	<i>Number of Employees</i>	<i>% of Total City-wide Employment</i>
County of Riverside	22,000	17.5%
University of California	8,735	6.9
March Air Force Reserve	7,000	5.6
Kaiser	4,346	3.5
Riverside Unified School District	4,313	3.4
City of Riverside	2,485	2.0
Riverside Community Hospital	2,200	1.8
Riverside Community College District	2,100	1.7
Alvord Unified School District	1,898	1.5
California Baptist University	<u>1,442</u>	<u>1.1</u>
Total	56,519	45.0%

Source: City of Riverside (as presented in the City's 2019 Comprehensive Annual Financial Report).

**COUNTY OF RIVERSIDE – LARGEST EMPLOYERS
(LISTED ALPHABETICALLY)
As of March 2020**

<i>Employer Name</i>	<i>Location</i>	<i>Industry</i>
Abbott Vascular Inc	Temecula	Physicians & Surgeons Equip & Supls-Whls
Abbott Vascular Inc	Temecula	Hospital Equipment & Supplies – Mfrs
Agua Caliente Casino Resrt Spa	Rancho Mirage	Casinos
Amazon Fulfillment Ctr	Moreno Valley	Mail Order Fulfillment Service
Collins Aero Space	Riverside	Aircraft Components-Manufacturers
Corona City Hall	Corona	Government Offices- City/Village & Twp
Department-Corrections-Rehab	Norco	Government Offices-State
Desert Regional Medical Ctr	Palm Springs	Hospitals
Eisenhower Medical Ctr	Rancho Mirage	Hospitals
Fantasy Springs Resort Casino	Indio	Casinos
J Ginger Masonry LP	Riverside	Masonry Contractors
Kleinfelder Construction SVC	Riverside	Engineers-Structural
La Quinta Golf Course	La Quinta	Golf Courses
Parkview Community Hospital	Riverside	Hospitals
Pechanga Resort & Casino	Temecula	Casinos
Riverside Community Hospital	Riverside	Hospitals
Riverside County Public Health	Riverside	Government Offices-County
Riverside University Health	Moreno Valley	Hospitals
Southwest Healthcare System	Murrieta	Health Care Management
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products	Perris	E-Commerce
Sun World Intl LLC	Coachella	Fruits & Vegetables-Wholesale
Universal Protection Svc	Palm Desert	Security Control Equip & Systems-Mfrs
US Air Force Dept	March Arb	Military Bases
Wachter Inc	Riverside	Electric Contractors

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

Construction Activity

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

CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2014 Through 2018 (Valuation in Thousands of Dollars)

	2014	2015	2016	2017	2018
<u>Permit Valuation</u>					
New Single-family	\$ 61,311	\$ 53,858	\$ 48,459	\$ 46,666	\$ 42,412
New Multi-family	9,418	41,207	19,428	53,944	57,047
Res. Alterations/Additions	<u>10,291</u>	<u>11,870</u>	<u>12,335</u>	<u>19,471</u>	<u>10,426</u>
Total Residential	\$ 81,020	\$ 106,935	\$ 80,222	\$ 120,080	\$ 109,885
New Commercial/Industrial	\$ 14,206	\$ 19,856	\$ 23,804	\$ 97,799	\$ 96,668
New Other	2,914	11,334	78,523	14,861	13,056
Com. Alterations/Additions	<u>45,548</u>	<u>51,812</u>	<u>67,779</u>	<u>49,539</u>	<u>63,581</u>
Total Nonresidential	\$ 62,668	\$ 83,002	\$ 170,106	\$ 162,198	\$ 173,305
<u>New Dwelling Units</u>					
Single Family	144	223	219	172	171
Multiple Family	<u>155</u>	<u>411</u>	<u>254</u>	<u>535</u>	<u>504</u>
TOTAL	299	634	473	707	675

Source: City of Riverside Community Development Department.

COUNTY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2014 Through 2018 (Valuation in Thousands of Dollars)

	2014	2015	2016	2017	2018
<u>Permit Valuation</u>					
New Single-family	\$ 1,296,553	\$ 1,313,085	\$ 1,526,768	\$ 1,670,542	\$ 2,200,021
New Multi-family	178,117	110,459	106,292	109,309	232,707
Res. Alterations/Additions	<u>147,082</u>	<u>113,200</u>	<u>126,475</u>	<u>123,567</u>	<u>125,353</u>
Total Residential	\$ 1,621,751	\$ 1,536,743	\$ 1,759,535	\$ 1,903,418	\$ 2,558,081
New Commercial/Industrial	\$ 358,997	\$ 392,308	\$ 642,463	\$ 965,629	\$ 1,233,303
New Other	128,667	204,555	583,003	104,352	416,606
Com. Alterations/Additions	<u>197,675</u>	<u>314,605</u>	<u>371,217</u>	<u>363,712</u>	<u>315,771</u>
Total Nonresidential	\$ 685,338	\$ 911,645	\$ 1,596,682	\$ 1,433,691	\$ 1,959,680
<u>New Dwelling Units</u>					
Single Family	5,007	5,007	5,662	6,265	7,540
Multiple Family	<u>1,931</u>	<u>1,189</u>	<u>1,039</u>	<u>1,070</u>	<u>1,628</u>
TOTAL	6,938	6,196	6,701	7,335	9,168

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

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

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

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

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

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

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

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2019

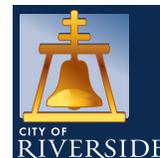
FINANCIAL REPORT



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

RiversidePublicUtilities.com

WATER | ENERGY | LIFE



PUBLIC UTILITIES

OVERVIEW

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

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

SERVICE AREA POPULATION

328,042

RECORD PEAK DEMAND

Energy: 640 megawatts

8/31/2017

Water: 118,782,000 million gallons

8/9/2005

TOTAL OPERATING REVENUE

Energy: \$362.7 million

Water: \$65.1 million

CUSTOMERS

Energy: 110,480

Water: 68,640

CREDIT RATING

Energy: AA- Fitch

AA- S&P Global

Water: AA+ Fitch

AAA

Aa2 Moody's

WATER | ENERGY | LIFE



PUBLIC UTILITIES

RiversidePublicUtilities.com

Cover artwork by
Madeleine Chaffin, Woodcrest Christian High School



OUR MISSION

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

OUR TEN-YEAR VISION

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

OUR CORE VALUES

- | | |
|-----------------------|----------------------------------|
| Safety | Creativity and Innovation |
| Honesty and Integrity | Community Involvement |
| Teamwork | Environmental Stewardship |
| Professionalism | Inclusiveness and Mutual Respect |
| Quality Service | |

OUR FOCUS AREAS

RELIABILITY & RESILIENCY

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

AFFORDABILITY

Thriving financially while balancing affordable rates for our customers.

SUSTAINABILITY

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

CUSTOMER EXPERIENCE

Continuing to provide reliable customer-centered service every day.

OPERATIONAL EXCELLENCE

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

STRONG WORKFORCE

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

OUR THREE-YEAR GOALS

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

OUR TEN-YEAR GOALS

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

RiversidePublicUtilities.com



CITY COUNCIL

Rusty Bailey
Mayor

■ Erin Edwards
Ward 1

■ Andy Melendrez
Ward 2

■ Ronaldo Fierro
Ward 3

■ Chuck Conder
Ward 4

■ Gaby Plascencia
Ward 5

■ Jim Perry
Ward 6

■ Steve Hemenway
Ward 7

BOARD OF PUBLIC UTILITIES

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

David Crohn
Citywide / Ward 1

■ Jennifer O'Farrell
Ward 1

■ Ana Miramontes
Ward 2

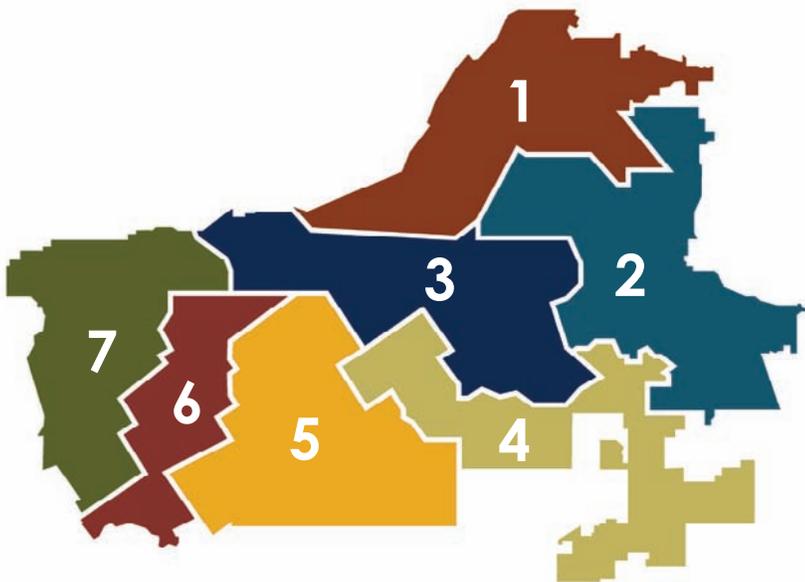
■ Elizabeth Sanchez-Monville
(Board Vice Chair)
Ward 3

■ David Austin
Ward 4

■ Andrew Walcker
Ward 5

■ Jeanette Hernandez
Ward 6

■ Gil Ocegueda
Ward 7



EXECUTIVE MANAGEMENT

Al Zelinka
City Manager

Todd Corbin
Utilities General Manager

Daniel E. Garcia
Utilities Deputy General
Manager

George Hanson
Assistant General Manager
Energy Delivery

Todd Jorgenson
Assistant General Manager
Water

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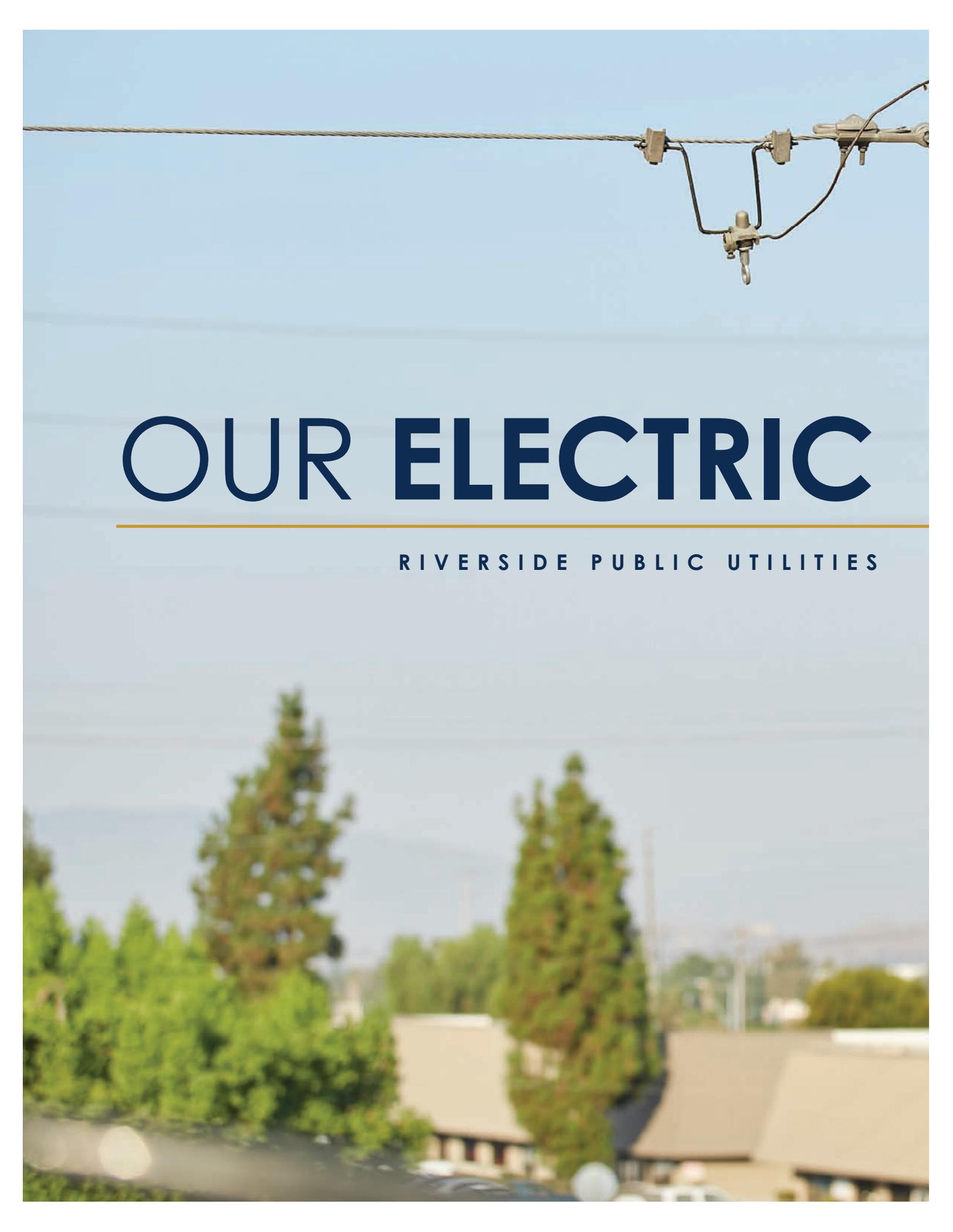
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OUR ELECTRIC

RIVERSIDE PUBLIC UTILITIES





CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric Utility Enterprise Fund (Electric Utility) of the City of Riverside, California, (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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





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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric Utility of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Electric Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Prior Year Comparative Financial Statements

The financial statements of the Electric Utility as of June 30, 2018, were audited by other auditors whose report dated October 31, 2018, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary Electric Utility information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Brea, California
November 7, 2019

ELECTRIC UTILITY: MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2018-19 financial report for the periods ended June 30, 2019 and 2018 for Riverside's Electric Utility (Electric Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 30 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2019, the Electric Utility implemented Governmental Accounting Standards Board Statement No. 88 (GASB 88), Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. For further details, refer to Note 4.
- Operating expense reflects a non-cash pension accounting standard adjustment, which will continue to fluctuate based on yearly actuarial information provided by the California Public Employees' Retirement System. The adjustment was (\$1,323) and 9,056 in June 30, 2019 and 2018, respectively.
- Retail sales, net of uncollectibles/recovery were \$304,172 and \$305,969 for years ended June 30, 2019 and 2018, respectively. The decrease in sales was primarily due to reduced consumption.
- Utility plant assets as of June 30, 2019 increased by \$13,458 primarily due to the completion of significant capital projects such as substation improvements, cable replacements, and major 4-12 kV conversions, as well as donated easements received for access to electrical systems, offset by current year depreciation.
- Total net position as of June 30, 2019 increased by \$5,320 primarily due to a prior period adjustment to net position for costs related to pension and positive operating results.
- During the fiscal year ended June 30, 2018, the Electric Utility implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits other than Pensions – a replacement of GASB Statements No. 45 as amended, and No. 57, and establishes new accounting and financial reporting requirements for OPEB plans. For more information, refer to the Other Post-Employment Benefits (OPEB) section below, Note 7 of the accompanying financial statements. As of July 1, 2017, the Electric Utility restated beginning net position in the amount of \$328 to record adjustments to the OPEB liability. The Electric Utility did not restate the financial statements for the fiscal year ended June 30, 2017 because the necessary actuarial information was not provided for the prior year presented.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 34 to 72 of this report.

ELECTRIC UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2019	2018	2017
Current and other assets	\$ 525,587	\$ 450,808	\$ 464,254
Capital assets	794,712	781,254	768,792
Deferred outflows of resources	46,663	50,285	65,176
Total assets and deferred outflows of resources	<u>1,366,962</u>	<u>1,282,347</u>	<u>1,298,222</u>
Long-term debt outstanding	616,130	531,567	557,540
Other liabilities	224,007	238,675	238,796
Deferred inflows of resources	16,093	6,692	17,685
Total liabilities and deferred inflows of resources	<u>856,230</u>	<u>776,935</u>	<u>814,021</u>
Net investment in capital assets	255,893	267,230	229,432
Restricted	47,876	48,906	47,727
Unrestricted	206,963	189,276	207,042
Total net position	<u>\$ 510,732 ⁽¹⁾</u>	<u>\$ 505,412</u>	<u>\$ 484,201</u>

⁽¹⁾ Restated July 1, 2018, see Note 13 of the Financial Statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2019 compared to 2018 The Electric Utility's total assets and deferred outflows of resources were \$1,366,962, reflecting an increase of \$84,615 (6.6%), primarily due to the following:

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of \$74,779, primarily due to the \$283,325 issuance of the 2019 Electric Revenue Series A Bonds, which partially refunded the 2008 Electric Revenue Series A and C Bonds, fully refunded the 2008 Electric Revenue Series D Bonds, and finance capital projects for the Electric Utility. The net increase was also due to an increase of \$18,762 in unrestricted cash and cash equivalents, offset by the use of bond proceeds to fund capital projects.
- Capital assets increased by \$13,458 primarily due to an increase of \$10,832 in additions and improvements to the Electric distribution infrastructure system to improve service and reliability to Electric Utility's customers, along with a slight increase in donated land rights and easement for general access to electrical system assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- Deferred outflows of resources decreased by \$3,622 primarily due to pension related adjustments which included the changes in assumptions and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary. The decrease was offset by an increase in the fair market value of interest rate swaps. Additional information can be found in the "Interest Rate Swaps on Revenue Bonds" section of Note 4 Long-term Obligation.

2018 compared to 2017 Total assets and deferred outflows of resources were \$1,282,347, a net decrease of \$15,875 (1.2%). Current and other assets had a net decrease of \$13,446 primarily due to a decrease of \$12,714 in restricted assets due to a decrease of \$13,894 in cash and investments at fiscal agent for payment of decommissioning costs related to San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. This was offset by a slight increase in cash and cash equivalents related to proceeds on the sale of greenhouse gas (GHG) allowances. Capital assets increased by \$12,462 primarily due to the receipt of \$13,637 in donated land rights and easements for general access to electrical system assets, and capital projects for additions and improvements to the Electric distribution infrastructure system to improve service to the Electric Utility's customers. Deferred outflows of resources decreased by \$14,891 primarily due to pension related adjustments which included the changes in assumptions and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2019 compared to 2018 The Electric Utility's total liabilities and deferred inflows of resources were \$856,230, an increase of \$79,295 (10.2%), due to the following:

- Long-term debt outstanding increased by \$84,562 primarily due to the issuance of the 2019 Electric Revenue Series A Bonds, which was partially offset by the partial refunding of the 2008 Electric Revenue Series A and C Bonds and the full refunding of the 2008 Electric Revenue Series D Bonds. Additional debt information can be found in the "Capital Assets and Debt Administration" section.
- Other liabilities decreased by \$14,668 primarily due to a decrease of \$24,418 in net pension liability offset by an increase of \$7,410 in accounts payable and other accruals.
- Deferred inflows of resources increased by \$9,401 primarily due to pension related adjustments, which included the changes in assumptions, the differences between expected and actual experience and the change in projected versus actual earnings on pension plan investments as determined by the plan actuary.

2018 compared to 2017 Total liabilities and deferred inflows of resources were \$776,935, a decrease of \$37,086 (4.6%). Long-term debt outstanding decreased by \$25,972 primarily due to the principal payments on revenue bonds and the amortization of bond premiums, along with a bond defeasance of \$11,005. Other liabilities decreased by \$121, primarily due to an increase of \$12,693 in net pension liability and an increase of \$769 in accounts payable and other accruals, offset by a decrease of \$7,297 in the fair value of derivative instruments, and a decrease of \$4,097 in nuclear decommissioning liabilities. Deferred inflows of resources decreased by \$10,993 primarily due to pension related adjustments, which included the changes in

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

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

NET POSITION

2019 compared to 2018 The Electric Utility's net position, which represents the difference between the Electric Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$510,732, an increase of \$5,320 (1.1%) which is primarily attributed to pension related adjustments. The following represents the changes in components of Net Position:

- The largest portion of the Electric Utility's total net position, \$255,893 (50.1%), reflects its investment in capital assets less any related outstanding debt used to acquire those assets. This portion decreased by \$11,337 primarily due to an increase in long-term debt, offset by an increase in bond proceeds and utility plant. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$47,876 (9.4%), a decrease of \$1,030, and represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt payments, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion of net position totaled \$206,963 (40.5%) an increase of \$17,687 from prior year, primarily attributable to the use of bond proceeds to fund capital projects and positive operating results. Unrestricted net position may be used to meet the Electric Utility's ongoing operational needs and obligations to customers and creditors.

2018 compared to 2017 Total net position, increased by \$21,211 (4.4%), to a total of \$505,412. Net investment in capital assets increased by \$37,798 primarily due to an increase in capital assets constructed or purchased during the year, net of related debt, and donated capital assets received. Restricted net position increased by \$1,179 and the unrestricted portion decreased by \$17,766 primarily due to the payment on bond defeasance and the use of unrestricted cash and cash equivalents to fund capital projects.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

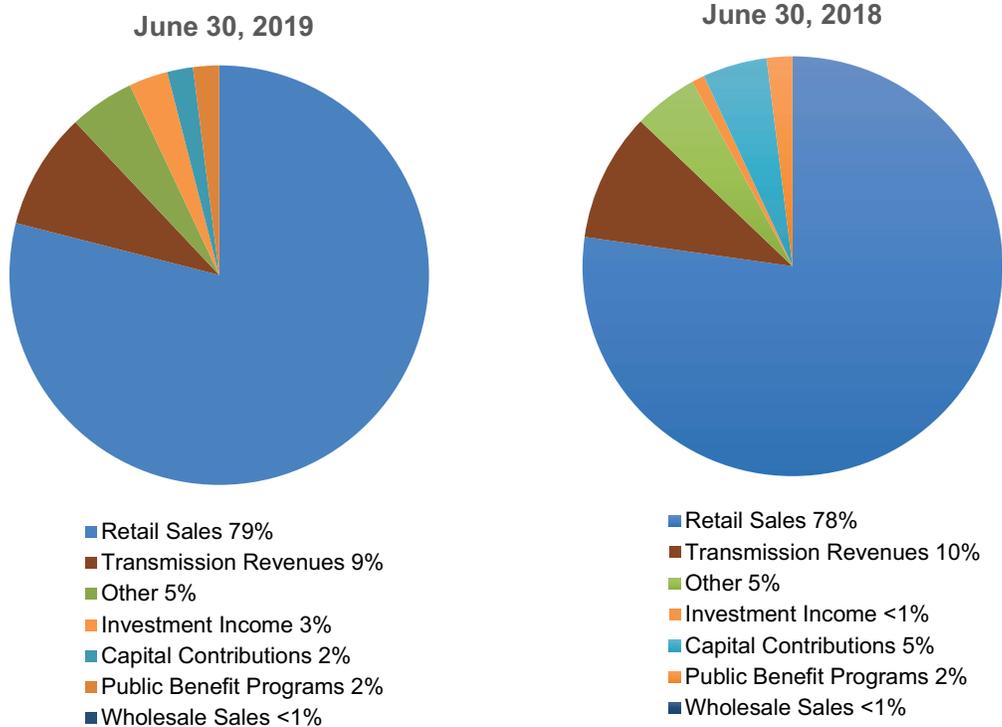
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2019	2018	2017
Revenues:			
Retail sales, net	\$ 304,172	\$ 305,969	\$ 308,781
Wholesale sales	344	2	9
Transmission revenues	35,730	37,484	35,497
Investment income	13,372	2,567	1,809
Other revenues	17,397	18,922	20,493
Public Benefit Programs	9,292	8,860	8,880
Capital contributions	6,383	20,182	19,684
Total revenues	<u>386,690</u>	<u>393,986</u>	<u>395,153</u>
Expenses:			
Production and purchased power	155,264	136,423	132,349
Transmission	64,443	62,981	59,497
Distribution	58,729	67,436	59,906
Public Benefit Programs	8,933	7,820	7,602
Depreciation	34,471	33,585	32,642
Interest expenses and fiscal charges	25,053	24,129	25,340
Total expenses	<u>346,893</u>	<u>332,374</u>	<u>317,336</u>
Transfers to the City's general fund	<u>(39,886)</u>	<u>(40,073)</u>	<u>(39,230)</u>
Changes in net position	(89)	21,539	38,587
Net position, July 1, as previously reported	<u>505,412</u>	<u>484,201</u>	<u>445,614</u>
Less: Cumulative effect of change in accounting principle ⁽¹⁾	<u>5,409</u>	<u>(328)</u>	<u>-</u>
Net position, July 1, as restated	<u>510,821</u>	<u>483,873</u>	<u>445,614</u>
Net position, June 30	<u>\$ 510,732</u>	<u>\$ 505,412</u>	<u>\$ 484,201</u>

⁽¹⁾ For the implementation of postemployment benefits other than pensions, GASB Statement No. 75, for the year ended June 30, 2018, and restatement of pension allocation, GASB Statement No. 68, for the year ended June 30, 2019.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES



2019 compared to 2018 The Electric Utility's total revenues of \$386,690 decreased by \$7,296 (1.9%) with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$304,172, a \$1,797 (0.6%) decrease. Retail sales continue to be the primary revenue source for the Electric Utility. The decrease in sales was primarily due a slight decrease in consumption.
- Transmission revenues of \$35,730 decreased by \$1,754 (4.7%), primarily due to a slight decrease in the load requirements as a result of a decrease in consumption.
- Investment income of \$13,372 increased by \$10,805 (420.9%) due to an increase in cash balances as a result of the 2019 Electric Revenue Series A Bonds and a higher overall interest rate in the current fiscal year.
- Other revenues of \$17,397 decreased by \$1,525 (8.1%), primarily due to a decrease settlement recoveries and refunds and reimbursements, offset by an increase in proceeds from sale of renewable energy credits.

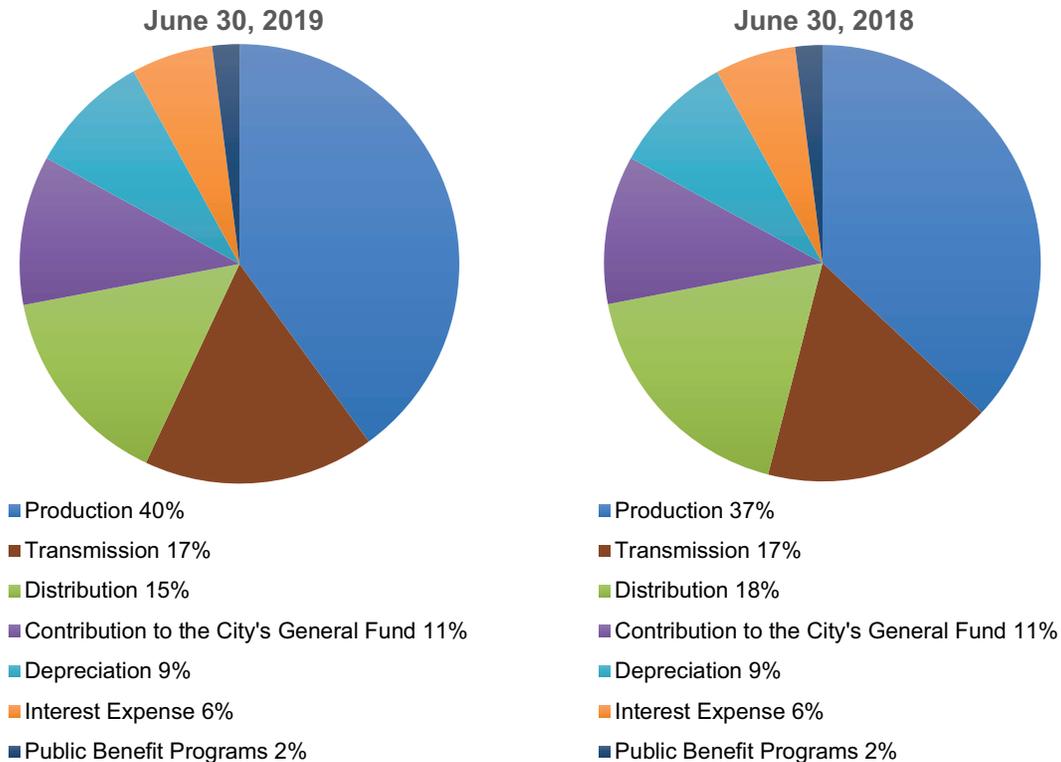
2018 compared to 2017 The Electric Utility's total revenues of \$393,986 decreased by \$1,167 (0.3%) with changes in the following:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$305,969, a \$2,812 (0.9%) decrease. The decrease in sales was primarily due to a slight decrease in customer consumption.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

- Transmission revenues of \$37,484 increased by \$1,987 (5.6%), primarily due to an increase in the high voltage utility specific rate per the annual filing with Federal Energy Regulatory Commission.
- Other revenues of \$18,922 decreased by \$1,571 (7.7%), primarily due to a decrease in proceeds from the sale of renewable energy credits and settlement recoveries, offset by an increase in proceeds from the sale of GHG allowances.

EXPENSES BY SOURCES



2019 compared to 2018 The Electric Utility's total expenses, excluding general fund transfer, were \$346,893, an increase of \$14,519 (4.4%). The increase was primarily due to the following:

- Production and purchased power expenses of \$155,264 increased by \$18,841 (13.8%) primarily due to an increase in power supply costs related to elevated market energy and natural gas prices during the summer season.
- Transmission expenses of \$64,443 increased by \$1,462 (2.3%), mainly due to increased maintenance costs related to the Southern Transmission System.
- Distribution expenses of \$58,729 decreased by \$8,707 (12.9%), mainly due to a non-cash pension credit adjustment of \$1,323 compared to prior year non-cash pension adjustment of \$9,056 as a result of pension accounting standards, offset by an overall increase in general operating expenses.
- Depreciation expense of \$34,471 increased by \$886 (2.6%), reflecting the completion of capital projects and their current year depreciation.

ELECTRIC UTILITY FINANCIAL ANALYSIS (CONTINUED)

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

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

TRANSFERS

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Electric Utility transferred \$39,886 and \$40,073 for 2019 and 2018, respectively based on the gross operating revenue provisions in the City's Charter.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2019		2018		2017
Production	\$ 170,209	\$	178,597	\$	187,543
Transmission	25,440		26,237		27,068
Distribution	389,552		375,143		363,986
General	67,250		68,674		72,923
Intangibles	13,274		15,366		17,140
Land	53,029		52,111		37,845
Intangibles, non-amortizable	10,651		10,651		10,651
Construction in progress	65,307		54,475		51,636
Total capital assets	\$ 794,712	\$	781,254	\$	768,792

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

2019 compared to 2018 The Electric Utility's investment in capital assets, net of accumulated depreciation, was \$794,712, an increase of \$13,458 (1.7%). The increase resulted primarily from the following significant capital projects offset by current year depreciation:

- \$31,731 in additions and improvements to the Electric system, such as substations, transformers, underground conduit and conductors, neighborhood streetlights, and distribution line extensions and replacements to serve customers.
- \$6,396 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid.
- \$3,086 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV) to reduce system losses, increase capacity for necessary system growth, and improve system reliability.
- \$1,736 in donated underground electrical conduit and \$899 in donated land rights and easement for general access to electrical system assets.

2018 compared to 2017 Investment in capital assets, net of accumulated depreciation, was \$781,254, an increase of \$12,462 (1.6%). The increase resulted from \$22,474 in additions and improvements to the Electric system, \$13,637 in donated land rights and easements for general access to electrical system assets, \$2,197 in upgrades of lower voltage (4kV) electric distribution facilities to higher distribution voltage (12kV), and \$3,207 for the Riverside Transmission Reliability Project for additional generation import capability for a second point of interconnection with the State's high voltage transmission grid.

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

DEBT ADMINISTRATION

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

	2019	2018	2017
Revenue bonds (including private placement revenue bonds)	\$ 565,455	\$ 528,715	\$ 553,515
Unamortized premium	52,484	6,624	7,402
Capital leases	1,444	2,274	3,098
Pension obligation bonds	8,400	10,418	12,312
Less: Current portion of revenue and pension obligation bonds	(11,653)	(16,463)	(15,689)
Total	\$ 616,130	\$ 531,568	\$ 560,638

The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.23, 2.71, and 2.95 at June 30, 2019, 2018 and 2017, respectively. This debt is backed by the revenues of the Electric Utility. The prior years' debt service coverage ratio has been restated to exclude the non-cash pension related adjustment for required pension accounting standards. For additional information, see Note 4 of the accompanying financial statements and Key Historical Operating Data section.

2019 compared to 2018 The Electric Utility's long-term debt increased by \$84,562 (15.9%) to \$616,130 as a result of issuance of the 2019 Electric Revenue Series A Bonds, which partially refunded the 2008 Electric Revenue Series A and C Bonds, fully refunded the 2008 Electric Revenue Series D Bonds, and finance capital projects for the Electric Utility. This is offset by current year principal payments and amortization of bond premiums.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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

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

CREDIT RATINGS

The Electric Utility maintains a credit rating of "AA-" from S&P Global Ratings (S&P) and "AA-" from Fitch Ratings (Fitch).

In January 2019, S&P assigned its "AA-" rating on the Electric Utility's 2019A Refunding Electric System revenue bonds and affirmed its "AA-" long-term rating on the Electric Utility's outstanding fixed rate bonds. The rating reflects the Electric Utility's strong enterprise and financial risk profiles and the Electric Utility's diverse and low-cost resource portfolio, including an emphasis on renewable energy resources.

In January 2019, Fitch also assigned its "AA-" rating on the Electric Utility's Refunding Electric System revenue bonds and affirmed its "AA-" long-term rating on the Electric Utility's outstanding fixed rate bonds. This rating is a result of the Electric Utility's evolving power resource portfolio, which is well positioned to meet California's increasing environmental regulations, stable financial performance and strong liquidity levels.

The Electric Utility has maintained these credit ratings since 2008.

REGULATORY, LEGISLATIVE FACTORS, AND RATES

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

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

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

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

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

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

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

SENATE BILL (SB) 1368 - EMISSION PERFORMANCE STANDARD

The state legislature passed SB 1368 in 2006, which mandates that electric utilities are prohibited from making long term financial commitments (commitments greater than five years in duration) for generating resources with capacity factors greater than 60 percent that exceed a GHG emission factor of 1,100 lbs./megawatt hour (MWh). SB 1368 essentially prohibits any long-term investments in generating resources based on coal. Thus, SB 1368 initially disproportionately impacted Southern California POU's as these utilities had heavily invested in coal technology. Now with the changing landscape of legislation and regulations that are constantly increasing renewable goals and continually decreasing GHG emissions via bills such as SBX1-2, SB 350, SB 100, and SB 32 have led to a gradual decrease in the generation of existing coal resources to serve load.

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

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

ASSEMBLY BILL (AB) 2514 - ENERGY STORAGE

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

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

On February 17, 2012, as per the statute, the City of Riverside's Board of Public Utilities opened a proceeding to investigate the various energy storage technologies available and determine if the City should adopt energy storage procurement targets. The City finished its investigation of energy storage pricing and benefits in September 2014 and adopted a zero megawatts target based on the conclusion that the viable applications of energy storage technologies and solutions at the time were not cost effective and

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

outweighed the benefits that it might provide to our electrical system. The City must reevaluate its assessment not less than every three years or by October 1, 2017, and report to the CEC any modifications to its initial target resulting from this reevaluation.

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

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

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

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

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

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

On July 19, 2017, DOGGR issued a press release on their determination, in concurrence with the CPUC, that Aliso Canyon was safe to resume injections up to 28% of the facility's maximum capacity. On that same day, the CEC issued a different press release with a recommendation urging closure of Aliso Canyon in the long-term. On July 31, 2017, SoCalGas resumed injections. Effective July 23, 2019, the CPUC approved new protocols that enable SoCalGas to withdraw from Aliso Canyon natural gas storage facility

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

when specific conditions are met related to Low Operational Flow Order (OFO) calculations, Southern California natural gas inventory levels, and/or emergency conditions.

The Electric Utility fulfilled its system reliability without any issues during multiple heat waves in 2016, 2017, and 2018. Going forward, the Electric Utility will continue to monitor workshops and new legislation and regulations that impact the status of Aliso Canyon and its effect on the reliability of our service territory. Senate Bill 380 added Section 715 to the Public Utilities Code, which requires the CPUC to determine the range of Aliso inventory necessary to ensure safety, reliability, and just and reasonable rates. In the most recent 715 Report, the Energy Division recommended that the maximum allowable Aliso inventory be increased from 24.6 to 34 billion cubic feet for summer 2018 due to continuing pipeline outages on the SoCalGas system. As of October 07, 2019, the results of the 114 injection well tests are as follows: 66 wells have completed all required tests and have received final DOGGR approval; 27 wells are in the process of restoration; and 21 wells have been plugged and abandoned.

SENATE BILL (SB) 859 - "BUDGET TRAILER BILL" - BIOMASS MANDATE

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

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

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

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

On September 21, 2018, the Governor signed into law SB 901, which primarily focuses on strengthening California's ability to prevent and recover from catastrophic wildfires such as via forest management activities, updating requirements for maintenance and operations of utility infrastructure, assessing GHG emissions impact, and protecting ratepayers. The bill also included a clause for certain biomass contracts that were procured or operating in 2018 and set to expire on or before December 31, 2023 to be offered a contract extension. The Electric Utility is required to "seek to amend the contract to include, or seek approval for a new contract that includes, an expiration date 5 years later than the expiration in the contract". Although there is no enforcement mechanism, the ARP-Loyalton biomass project meets the above criteria and feedstock requirement referenced in SB 901 and SB 859. The Electric Utility is currently working with ARP-Loyalton to comply with SB 901.

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

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

SB 350, enacted in 2015, consists of a multitude of requirements to meet the Clean Energy and Pollution Reduction Act of 2015. The primary components that affect the Electric Utility are: 1) the increased mandate of the California RPS to 50% by December 31, 2030, 2) doubling of energy efficiency savings by January 1, 2030, and 3) providing for the transformation of the CAISO into a regional organization. In addition, there is a specific integrated resource planning mandate embedded in the bill that applies to the 16 POU's that have an annual electrical demand exceeding 700 GWh over a 3-year average, which includes the Electric Utility.

The bill also requires that an updated RPS Procurement Policy must be approved and adopted before January 1, 2019 and be incorporated into the Electric Utility's Integrated Resource Plan (IRP). An Updated 2018 Renewable Energy Procurement Policy was adopted by the Board and City Council on September 10, 2018 and October 9, 2018, respectively. In parallel, on or before January 1, 2019, the governing board of the Electric Utility must adopt an IRP and a process for updating the plan at least once every 5 years. The IRP must address specific topics such as energy efficiency and demand response resources, transportation electrification, GHG emissions, energy storage resources, enhance distribution systems and demand-side management, etc. The IRP must be submitted to the CEC for review, of which the CEC will check if the statutory requirements have been met and will adopt guidelines to govern the submission of the IRP information. On August 9, 2017, the CEC adopted the POU IRP Submission and Review Guidelines.

Shortly thereafter, on September 30, 2017, the Governor signed SB 338, which requires that the governing board of local POU's consider as part of the IRP process the role of existing renewable generation, grid operational efficiencies, energy storage, energy efficiency, and distributed energy resources in meeting the energy and reliability needs of each utility during the hours of peak demand. On August 1, 2018, the CEC adopted a Second Edition of the POU IRP Submission and Review Guidelines to include the requirements of SB 338. On October 3, 2018, the CEC adopted an amendment to the second edition guidelines to include the CARB's GHG emission reduction planning targets for IRPs.

On November 26, 2018 and December 11, 2018, the Board of Public Utilities and City Council, respectively, adopted the Electric Utility's 2018 Integrated Resource Plan. The IRP and additional submittal requirements were submitted to the CEC on December 18, 2018. In April 2019, the CEC issued their Staff Paper Review of the Electric Utility's IRP and the CEC Executive Director's Determination Letter finding the Electric Utility to be consistent with the requirements of SB 350. The adoption of this determination occurred at the CEC Business meeting on August 14, 2019.

The CEC continues to host various workshops on different components of the SB 350 requirement and the Electric Utility has been monitoring its outcome.

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

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

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

In 2017, the CEC began hosting workshops on the GHG emissions disclosure requirements and initiated the rulemaking process of updating their PSD regulations. A pre-rulemaking phase also began that included an implementation proposal on AB 1110. The legislation requires the CEC to adopt guidelines by January 1, 2018. In early 2018, the CEC provided an update to their 2017 pre-rulemaking activities and proposed changes to the regulations and reports, but additional workshops were needed. In March 2019, the last pre-rulemaking workshop was held by the CEC, with the intent to begin the formal rulemaking in May, but was delayed until September 2019. The adoption of the updated PSD regulations and how the additional GHG emissions intensity information will be conveyed to customers in the PSD report and PCL is expected to occur in November 2019. The most notable changes to the report and label is the addition of the GHG emission intensity and how certain energy resources will be conveyed to the customers to meet the AB 1110 requirement. Riverside continues to monitor the workshops and draft regulations for any impacts to the utility's reporting and resources in meeting this requirement.

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

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

Initially, it was unclear under AB 398 whether the Electric Utility would be required to consign 100% of their allowances to the market and then purchase allowances to fulfill its compliance obligations. POUs receive a sufficient amount of allowances each year to cover their compliance. Since the start of the Cap and Trade program in 2012, POUs have been able to use those received allowances for compliance. However, in 2017, the CARB announced they were reconsidering that provision. In early 2018, after much discussion and collaboration with the CARB in which the POUs demonstrated that they are including the price of GHG emissions in the cost of energy, it was agreed that the POUs would not be forced to consign their allocated allowances and the structure would remain the same as it has and currently functions. Other unknown components of the law are the banking provisions and the specific GHG revenue spending requirement for revenues generated from the sale of excess allowances. CARB will be hosting more workshops and issuing the next iteration of regulation changes in 2019 and 2020. The Electric Utility will continue to monitor the outcome and impacts of the upcoming regulations on its service territory and ratepayers.

ASSEMBLY BILL (AB) 617 - AIR QUALITY MONITORING

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

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

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

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

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

On October 8, 2015, AB 802 was signed into law creating a new statewide building energy use benchmarking and public disclosure program for the State of California. The bill requires California utilities to maintain records of energy usage data for all buildings (i.e., commercial and multifamily buildings over 50,000 square feet gross floor area) for at least the most recent 12 months. Beginning January 1, 2017, utilities are required to deliver or provide aggregated energy usage data for a covered building, as defined, to the owner, owner’s agent or operator upon written request. The Electric Utility provides consumption data for buildings meeting the legislative requirement upon owners’ written request. The CEC adopted regulations on October 11, 2017 and approved the regulation action to be effective on March 1, 2018. Building owners are required to report annually with the first report due by June 1, 2018.

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

On September 10, 2018, the Governor signed into law the 100 Percent Clean Energy Act of 2018 (SB 100). This bill further increases the RPS goals of SBX1-2 and SB 350, while maintaining the 33% RPS target by December 31, 2020, but modifying the future RPS percentages to be 44% by December 31, 2024, 52% by December 31, 2027, and 60% by December 31, 2030. The current end goal of SB 100 is to have 100% of the state's retail electricity supply generated from a mix of RPS-eligible and zero-carbon resources by December 31, 2045.

The CEC is required to establish appropriate multiyear compliance periods for all subsequent years after 2030 that will require POUs to procure not less than 60% of retail sales from renewable resources. In September 2019, the CEC began conducting pre-rulemaking workshops to discuss potential amendments to the RPS Enforcement Procedures for POUs that would incorporate the SB 100 mandates. In addition, POUs will need to include the increased requirements in their future IRP. It is expected that additional workshops and the formal rulemaking process to adopt revised regulations will occur throughout the year in 2020. Riverside will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

SENATE BILL (SB) 1028, SB 901 AND ASSEMBLY BILL (AB) 1054 - LEGISLATION RELATING TO WILDFIRES

On September 24, 2016, Governor Brown signed into law SB 1028, which requires each POU, IOU and electric cooperative to construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment.

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

SB 901, which was passed at the end of the 2017-2018 biennium session of the California State Legislature and signed by the Governor on September 21, 2018, is meant to address the Governor's and legislative leaders' desire to address response, mitigation, and prevention of wildfires. The bill requires, among other things, the Electric Utility to prepare before January 1, 2020 and annually thereafter, a wildfire mitigation plan (WMP) that includes specified information and elements. The Electric Utility must present its WMP in an appropriately noticed public meeting and accept comments on the plan from the public, other local and state agencies, and interested parties, and to verify that the plan complies with all applicable rules, regulations, and standards, as appropriate. In addition, the Electric Utility must contract with a qualified independent evaluator to review and assess the comprehensiveness of its plan. The report of the independent evaluator must be made available on the Electric Utility's website and will present it at the local governing board's public meeting.

On July 12, 2019, the Governor signed into law AB 1054, which establishes the California Wildfire Safety Advisory Board, adds an additional process requirement for review of wildfire mitigation plans, and establishes a wildfire fund. In addition to the Electric Utility presenting its WMP to its local governing board by January 1, 2020, the Electric Utility must submit it to the new advisory board by July 1, 2020 and provide annual updates each year thereafter, and is required to submit a comprehensive WMP at least once every three years. The Electric Utility plans to bring its WMP to the Public Utilities Board for adoption by the end of 2019. For the wildfire fund, only voluntary participating IOUs are eligible for claims arising from a covered wildfire. The POUs are not required nor able to join due to concerns and issues over complications of funding as a public entity.

The bills do not address existing legal doctrine relating to utilities' liability for wildfires. However, any future legislation that addresses California's inverse condemnation and strict liability issues for utilities in the context of wildfires in particular could be significant for the Electric Utility. Riverside will continue to monitor the outcome and impacts of any upcoming legislation and regulations on its service territory and ratepayers.

FIVE-YEAR ELECTRIC RATE PLAN

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

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES

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

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

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES (CONTINUED)

In 2012, the City hosted the first of three community-wide Green Riverside Leadership Summits. Subsequent summits were held in 2014, 2016, and 2019. Events in 2012 and 2019 were in partnership with the University of California Riverside. Events in 2014 and 2016 were conducted as part of the community-led Riverside Green Festival and Summit.

In 2015, the City earned a 3-STAR Community Rating designation from Sustainability Tools for Assessing and Rating (STAR) Communities, an organization that works to evaluate, improve and certify sustainable communities. The STAR Community Rating system has since ended and the City, along with RPU, is evaluating several sustainability ratings systems to select the system under which the City will report.

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

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

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

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

Beyond rate incentives, the Electric Utility also offers local businesses a comprehensive assortment of water and energy efficiency programs to improve building efficiency and reduce customer electric consumption. These programs include the Small Business Direct Installation Program, which, in fiscal year 2019, helped 618 customers conserve over 2 million kilowatt hours (kWh).

The City initiated an ambitious LED streetlight replacement program in 2016. The program will eventually replace all city-owned streetlights by the end of 2021, resulting in approximately 10 million kWh saved annually along with substantially reduced maintenance costs. Additionally, the Electric Utility's grant

ECONOMIC DEVELOPMENT AND GREEN INITIATIVES (CONTINUED)

program continues to provide assistance to local universities by providing funding for important research projects that explore new ways to advance energy technology and water conservation techniques.

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

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

REQUESTS FOR INFORMATION

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

ELECTRIC UTILITY: FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	June 30, 2019	June 30, 2018
	(in thousands)	
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Notes 3)	\$ 794,712	\$ 781,254
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	125,372	69,047
Other non-current assets:		
Advances to other funds of the City	3,803	4,227
Unamortized purchased power (Note 11)	12,683	10,913
Regulatory assets	1,939	1,949
Total other non-current assets	18,425	17,089
Total non-current assets	938,509	867,390
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	293,449	274,687
Accounts receivable, less allowance for doubtful accounts 2019 \$890; 2018 \$629	31,222	32,799
Advances to other funds of the City	325	305
Accrued interest receivable	976	1,016
Inventory	971	1,097
Prepaid expenses	5,839	5,310
Unamortized purchased power (Note 11)	329	218
Total unrestricted current assets	333,111	315,432
Restricted assets:		
Cash and cash equivalents (Note 2)	31,399	32,784
Public Benefit Programs - cash and cash equivalents (Note 2)	16,439	15,575
Public Benefit Programs receivable	841	881
Total restricted current assets	48,679	49,240
Total current assets	381,790	364,672
Total assets	1,320,299	1,232,062
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 6)	22,300	30,596
Changes in derivative values	14,740	10,692
Loss on refunding	9,623	8,997
Total deferred outflows of resources	46,663	50,285
Total assets and deferred outflows of resources	\$ 1,366,962	\$ 1,282,347

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

	June 30, 2019	June 30, 2018
NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
(in thousands)		
NET POSITION:		
Net investment in capital assets	\$ 255,893	\$ 267,230
Restricted for:		
Regulatory requirements (Note 8)	18,004	16,093
Debt service (Note 6)	13,396	16,691
Public Benefit Programs	16,476	16,122
Unrestricted	206,963	189,276
Total net position	<u>510,732</u>	<u>505,412</u>
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	<u>616,130</u>	<u>531,568</u>
OTHER NON-CURRENT LIABILITIES:		
Compensated absences (Note 5)	750	521
Net pension liability (Note 6)	84,468	108,886
Nuclear decommissioning liability (Note 10)	52,864	55,120
Net other postemployment benefits liability (Note 7)	8,572	8,283
Derivative instruments (Note 4)	19,037	15,228
Regulatory liability	2,904	-
Total non-current liabilities	<u>168,595</u>	<u>188,038</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	5,854	4,846
Public Benefit Programs payable	643	235
Nuclear decommissioning liability (Note 10)	5,335	5,457
Current portion of long-term obligations (Note 4)	11,653	16,463
Total current liabilities payable from restricted assets	<u>23,485</u>	<u>27,001</u>
CURRENT LIABILITIES:		
Accounts payable and other accruals	19,217	11,807
Compensated absences (Note 5)	4,563	4,547
Customer deposits	7,255	6,397
Unearned revenue	62	61
Current portion of long-term obligations (Note 4)	830	824
Total current liabilities	<u>31,927</u>	<u>23,636</u>
Total liabilities	<u>840,137</u>	<u>770,243</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 6)	15,786	6,396
Deferred inflows related to other postemployment benefits (Note 7)	307	296
Total deferred inflows of resources	<u>16,093</u>	<u>6,692</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 1,366,962</u>	<u>\$ 1,282,347</u>

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Years Ended June 30,	
	2019	2018
	(in thousands)	
OPERATING REVENUES:		
Residential sales	\$ 116,303	\$ 115,630
Commercial sales	69,878	71,128
Industrial sales	114,078	115,106
Other sales	4,824	4,792
Wholesale sales	344	2
Transmission revenue	35,730	37,484
Other operating revenue	13,121	11,514
Public Benefit Programs	9,292	8,860
Total operating revenues before uncollectibles	<u>363,570</u>	<u>364,516</u>
Estimated uncollectibles, net of bad debt recovery	(911)	(687)
Total operating revenues, net of uncollectibles	<u>362,659</u>	<u>363,829</u>
OPERATING EXPENSES:		
Production and purchased power	155,264	136,423
Transmission	64,443	62,981
Distribution	58,729	67,436
Public Benefit Programs	8,933	7,820
Depreciation	34,471	33,585
Total operating expenses	<u>321,840</u>	<u>308,245</u>
Operating income	<u>40,819</u>	<u>55,584</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment income	13,372	2,567
Interest expense and fiscal charges	(25,053)	(24,129)
Gain on sale of assets	287	579
Other	3,989	6,829
Total non-operating revenues (expenses)	<u>(7,405)</u>	<u>(14,154)</u>
Income before capital contributions and transfers out	<u>33,414</u>	<u>41,430</u>
Capital contributions	6,383	20,182
Transfers out - contributions to the City's general fund	(39,886)	(40,073)
Total capital contributions and transfers out	<u>(33,503)</u>	<u>(19,891)</u>
Increase in net position	<u>(89)</u>	<u>21,539</u>
NET POSITION, BEGINNING OF YEAR	<u>505,412</u>	<u>484,201</u>
RESTATEMENT OF NET POSITION (Note 13)	<u>5,409</u>	<u>(328)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>510,821</u>	<u>483,873</u>
NET POSITION, END OF YEAR	<u>\$ 510,732</u>	<u>\$ 505,412</u>

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Years	
	Ended June 30,	
	2019	2018
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 365,134	\$ 366,925
Cash paid to suppliers and employees	(284,991)	(270,224)
Net cash provided by operating activities	<u>80,143</u>	<u>96,701</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(39,886)	(40,073)
Payment on pension obligation bonds	(2,018)	(1,894)
Other receipts from non-operating activities	3,989	6,829
Cash received on advances to other funds of the City	404	316
Net cash used by non-capital financing activities	<u>(37,511)</u>	<u>(34,822)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(43,160)	(27,460)
Proceeds from the sale of utility plant	369	671
Proceeds from revenue bonds, including premium	103,303	-
Revenue bond refunding cost	(2,323)	-
Payment on bond defeasance	-	(11,005)
Principal paid on long-term obligations	(15,269)	(14,602)
Interest paid on long-term obligations	(27,149)	(25,894)
Capital contributions	3,497	3,154
Bond issuance costs	(746)	-
Net cash provided (used) by capital and related financing activities	<u>18,522</u>	<u>(75,136)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	2,707	13,895
Income from investments	13,412	2,442
Net cash provided by investing activities	<u>16,119</u>	<u>16,337</u>
Net increase in cash and cash equivalents	77,273	3,080
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$48,359 and \$47,133 at June 30, 2018 and June 30, 2017, respectively, reported in restricted accounts)		
	323,046	319,966
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$106,870 and \$48,359 at June 30, 2019 and June 30, 2018, respectively, reported in restricted accounts)		
	<u>\$ 400,319</u>	<u>\$ 323,046</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 40,819	\$ 55,584
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	34,471	33,585
Increase in allowance for uncollectible accounts	261	120
Decrease in accounts receivable	1,356	2,575
Decrease in inventory	126	-
(Increase) decrease in prepaid expenses	(530)	735
(Increase) in unamortized purchased power	(1,881)	(2,080)
Increase in accounts payable and other accruals	7,364	329
Increase in compensated absences	245	83
Increase in Public Benefit Programs payable	454	55
Increase in unearned revenue	1	10
Increase in customer deposits	858	401
(Decrease) in decommissioning liability	(2,378)	(4,097)
Changes in net pension liability and related deferred outflows and inflows of resources	(1,323)	9,055
Changes in postemployment benefits liability and related deferred outflows and inflows of resources	300	346
Net cash provided by operating activities	<u>\$ 80,143</u>	<u>\$ 96,701</u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	2,887	17,012
Increase (decrease) in fair value of investments	935	(79)
Principal balance of revenue bonds refunded	195,090	-

See accompanying notes to the financial statements

ELECTRIC UTILITY:

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

The Electric Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Electric Utility are charges to customers for electric sales and services. Operating expenses for the Electric Utility include the cost of electric sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for (1) determining the timing and pattern of liability recognition and a corresponding deferred outflow, (2) requires liability recognition when it is incurred and reasonably estimable, and (3) requires ARO measurement to be based on the best estimate of the current value of outlays expected to be incurred. If an ARO has been incurred but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement is effective for reporting period beginning after June 15, 2018.

According to *Clearwater Power Plant Asset Purchase and Sale Agreement* dated March 3, 2010, the City of Riverside purchased the Clearwater Power Plant (the "Plant") from the City of Corona to own, operate, pay all costs related to the Plant and the assets, as set forth in the agreement. In August 26, 2010, Temporary Right of Entry Agreement was made and entered between the City of Riverside ("Riverside") and the City of Corona ("Corona") in which Corona leased the Corona Clearwater Cogeneration Facility (the "Property") to Riverside for its operation and maintenance of the Property. Riverside is responsible for plant decommissioning and site restoration related to the Plant. As of June 30, 2019, the ARO is not

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reasonably estimable; as such, it is not yet recognized. Once the ARO evaluation study to measure the obligation is complete and the life of the plant is determined, a liability and deferred outflow will be recorded.

In March of 2018, the GASB issued Statement No. 88, *Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements* (GASB 88). The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This Statement is effective for reporting period beginning after June 15, 2018. For further details, refer to Note 4.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Department is evaluating the impact of this standard.

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. Accordingly, actual results could differ from those estimates.

REVENUE RECOGNITION

The Electric Utility customers are billed monthly. Unbilled electric service charges, including Public Benefit Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$13,594 at June 30, 2019, and \$15,270 at June 30, 2018.

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

ELECTRIC UTILITY PLANT AND DEPRECIATION

The Electric Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Electric Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. For fiscal years ended June 30, 2019 and 2018, the Electric Utility capitalized net interest costs of \$1,964

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and \$1,667, respectively. Total interest expense incurred by the Electric Utility was \$27,691 and \$25,120, respectively.

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

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

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

The Electric Utility's cash and investments, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies, are invested in the cash and investment pool of the City. At June 30, 2019, \$15,754 reported as cash and investments in the Electric Utility, is held at and administered by Southern California Public Power Authority (SCPPA) as part of a project stabilization fund used to pay for power, transmission, capital and operating cost relating to projects in which the Electric Utility is a participant, or other expenditures owed to SCPPA. Cash and investments administered by SCPPA shall be invested in investment securities and managed in accordance with all applicable laws (including, but not limited, to California Code §53600.3, 53600.5 and 53601). The maturity of an investment security (or, if applicable, the remaining maturity of an investment security) shall not exceed five years.

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

City-wide information concerning cash and investments as of June 30, 2019, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

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

UNRESTRICTED DESIGNATED CASH RESERVES

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

Unrestricted designated cash reserve balances as of June 30, 2019 and 2018 were as follows: Additional Decommissioning Liability Reserve \$9,935 and \$8,245, Customers Deposits \$4,582 and \$4,562, Capital Repair and Replacement Reserve \$3,219 and \$4,865, Electric Reliability Reserve \$72,694 and \$62,800, and Mission Square Improvement Reserve \$1,483 and \$1,244 and Dark Fiber Reserve \$2,942 and \$2,303. In June 2017, the Board of Public Utilities and City Council approved the establishment of a bond defeasance designated cash reserve account and authorized the transfer of settlements and cost recoveries in the amount of \$11,244 to the designated reserve for bond defeasance. In fiscal year June 30, 2018, bond defeasance reserve has been fully utilized to partially defease existing revenue bonds. The combined total for these reserves was \$94,855 and \$ 84,019 at June 30, 2019 and 2018, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Electric Utility and the City. The balances as of June 30, 2019 and 2018 are \$4,128 and \$4,532, respectively.

DERIVATIVES

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

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

Various transactions permitted in the Electric Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights (CRR). GASB 53 allows an exception for the Statements of Net Position deferral hedges that meet the normal purchases and normal sales exception. The Electric Utility has determined that all of its contracts including CRRs fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BOND PREMIUMS AND GAINS/LOSSES ON REFUNDING

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and design fee deposits for future construction of electrical facilities. The Electric Utility's portion of these deposits as of June 30, 2018 and 2017 was \$7,255 and \$6,397, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2019 and 2018. The Electric Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$5,313 at June 30, 2019 and \$5,068 at June 30, 2018.

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

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

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2019, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2019 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility including the Public Benefit Programs, were \$1,098 and \$627 for the years ended June 30, 2019 and 2018, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further details of employee retirement plan can be found in Note 6.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB liability is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the Electric Utility has implemented GASB 75, which is explained in details in Note 7.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Deferred outflows of resources consist of changes in derivative values, loss on refunding and deferred outflows related to pension which include pension contributions subsequent to measurement date, difference between actual and actuarial determined contribution, changes in assumptions and net differences between projected and actual earnings on pension plan investments.

Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of deferred inflows related to pension which include changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS

In accordance with regulatory accounting criteria set forth in GASB Codification (GASB Statement No. 62), enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the Electric Utility is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets relating to debt issuance costs have been recognized in the Statements of Net Position.

NET POSITION

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

CONTRIBUTIONS TO THE CITY’S GENERAL FUND

Pursuant to the City of Riverside Charter, the Electric Utility may transfer up to 11.5 percent of its prior year’s gross operating revenues, including adjustments, to the City’s general fund. In fiscal years ended June 30, 2019 and 2018, \$39,886 and \$40,073, respectively was transferred representing 11.5 percent.

CASH AND CASH EQUIVALENTS

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

BUDGET AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2019 and 2018, consist of the following (in thousands):

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 341,287	\$ 323,046
Cash and investments at fiscal agent	125,372	69,047
Total cash and investments	<u>\$ 466,659</u>	<u>\$ 392,093</u>

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Unrestricted cash and cash equivalents	\$ 293,449	\$ 274,687
Restricted cash and cash equivalents	47,838	48,359
Restricted cash and investments at fiscal agent	125,372	69,047
Total cash and investments	<u>\$ 466,659</u>	<u>\$ 392,093</u>

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

The Electric Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Electric Utility has the following recurring fair value measurements as of June 30, 2019 and 2018:

Investment Type	June 30, 2019 Fair Value	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Held by fiscal agent					
Money market funds	\$ 68,993	\$ -	\$ 68,993	\$ -	\$ -
US Treasury notes/bonds	39,179	-	39,179	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	6,439	-	6,439	-	-
City Treasurer's investment pool ¹					
Money market funds	2,660	-	2,660	-	-
Joint powers authority pools	63,644	-	63,644	-	-
Mortgage/Asset backed securities	8,822	-	8,822	-	-
US Treasury notes/bonds	149,734	-	149,734	-	-
Federal agency securities	6,831	-	6,831	-	-
Federal agency discount notes	6,712	-	6,712	-	-
Corp medium term notes	32,810	-	32,810	-	-
Supranational securities	872	-	872	-	-
Neg certificate of deposit	2,556	-	2,556	-	-
State investment pool	66,646	-	-	-	66,646
Total	\$ 466,659	\$ -	\$ 389,252	\$ -	\$ 77,407

Investment Type	June 30, 2018 Fair Value	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Held by fiscal agent					
Money market funds	\$ 2,745	\$ -	\$ 2,745	\$ -	\$ -
Federal agency securities	46,314	-	46,314	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	-	9,227	-	-
City Treasurer's investment pool ¹					
Money market funds	72,397	-	72,397	-	-
Federal agency securities	18,022	-	18,022	-	-
Federal agency discount notes	2,997	-	2,997	-	-
US Treasury notes/bonds	145,973	-	145,973	-	-
Corp medium term notes	17,371	-	17,371	-	-
State investment pool	62,702	-	-	-	62,702
Neg certificate of deposit	3,584	-	3,584	-	-
Total	\$ 392,093	\$ -	\$ 318,630	\$ -	\$ 73,463

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2019 and 2018, are as follows:

Investment Type	June 30, 2019 Fair Value	Remaining Maturity (In Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 68,993	\$ 68,993	\$ -	\$ -	\$ -
US Treasury notes/bonds	39,179	11,980	9,049	18,150	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	6,439	3,408	3,031	-	-
City Treasurer's investment pool ¹					
Money market funds	2,660	2,660	-	-	-
Joint powers authority pools	63,644	63,644	-	-	-
State investment pool	66,646	66,646	-	-	-
Mortgage/asset backed securities	8,822	3,597	-	5,225	-
US Treasury notes/bonds	149,734	48,792	45,766	55,176	-
Federal agency securities	6,831	513	4,155	2,163	-
Federal agency discount notes	6,712	6,712	-	-	-
Corp medium term notes	32,810	9,867	2,731	20,212	-
Supranational securities	872	872	-	-	-
Negotiable certificate of deposit	2,556	510	1,021	1,025	-
Total	\$ 466,659	\$ 288,194	\$ 65,753	\$ 101,951	\$ 10,761

Investment Type	June 30, 2018 Fair Value	Remaining Maturity (In Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 2,745	\$ 2,745	\$ -	\$ -	\$ -
US Treasury notes/bonds	46,314	10,962	8,890	26,462	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	2,880	3,379	2,968	-
City Treasurer's investment pool ¹					
Money market funds	72,397	72,397	-	-	-
Federal agency securities	18,022	14,175	-	3,847	-
Federal agency discount notes	2,997	2,997	-	-	-
US Treasury notes/bonds	145,973	19,723	68,207	58,043	-
Corp medium term notes	17,371	4,114	7,207	6,050	-
State investment pool	62,702	62,702	-	-	-
Negotiable certificate of deposit	3,584	2,162	477	945	-
Total	\$ 392,093	\$ 194,857	\$ 88,160	\$ 98,315	\$ 10,761

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2019 and 2018 for each investment type:

Investment Type	Rating as of Year End				
	June 30, 2019 Fair Value	AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	\$ 68,993	\$ 9,900	\$ -	\$ 59,055	\$ 38
US Treasury notes/bonds	39,179	39,179	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	6,439	-	3,031	3,408	-
City Treasurer's investment pool ¹					
Money market funds	2,660	-	-	2,644	16
State investment pool	66,646	-	-	-	66,646
Joint powers authority pools	63,644	-	63,644	-	-
Mortgage/asset backed securities	8,822	8,822	-	-	-
US Treasury notes/bonds	149,734	149,734	-	-	-
Federal agency securities	6,831	6,318	513	-	-
Federal agency discount notes	6,712	-	-	-	6,712
Corp medium term notes	32,810	-	27,766	5,044	-
Supranational securities	872	872	-	-	-
Neg certificate of deposit	2,556	-	-	-	2,556
Total	\$ 466,659	\$ 214,825	\$ 94,954	\$ 70,151	\$ 86,729

Investment Type	Rating as of Year End				
	June 30, 2018 Fair Value	AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	\$ 2,745	\$ 1,506	\$ -	\$ 1,239	\$ -
Federal agency securities	46,314	46,314	-	-	-
Investment contracts	10,761	-	-	-	10,761
Corp medium term notes	9,227	2,880	2,968	3,379	-
City Treasurer's investment pool ¹					
Money market funds	72,397	-	69,557	2,480	360
Federal agency securities	18,022	3,847	14,175	-	-
Federal agency discount notes	2,997	-	-	-	2,997
US Treasury notes/bonds	145,973	145,973	-	-	-
Corp medium term notes	17,371	-	17,371	-	-
State investment pool	62,702	-	-	-	62,702
Neg certificate of deposit	3,584	-	-	-	3,584
Total	\$ 392,093	\$ 200,520	\$ 104,071	\$ 7,098	\$ 80,404

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

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2019 and 2018 (in thousands):

	Balance			Balance			Balance
	As of		Retirements/	As of		Retirements/	As of
	6/30/2017	Additions	Transfers	6/30/2018	Additions	Transfers	6/30/2019
Production	\$ 267,312	\$ -	\$ -	\$ 267,312	\$ 561	\$ -	\$ 267,873
Transmission	44,968	83	(44)	45,007	102	-	45,109
Distribution	601,306	27,721	(1,136)	627,891	31,746	(2,713)	656,924
General	109,899	709	(216)	110,392	3,567	(1,491)	112,468
Intangibles	20,951	521	-	21,472	285	-	21,757
Depreciable utility plant	1,044,436	29,034	(1,396)	1,072,074	36,261	(4,204)	1,104,131
Less accumulated depreciation:							
Production	(79,769)	(8,946)	-	(88,715)	(8,949)	-	(97,664)
Transmission	(17,900)	(914)	44	(18,770)	(899)	-	(19,669)
Distribution	(237,321)	(16,471)	1,044	(252,748)	(17,257)	2,633	(267,372)
General	(36,975)	(4,959)	216	(41,718)	(4,989)	1,489	(45,218)
Intangibles	(3,811)	(2,295)	-	(6,106)	(2,377)	-	(8,483)
Accumulated depreciation	(375,776)	(33,585)	1,304	(408,057)	(34,471)	4,122	(438,406)
Net depreciable utility plant	668,660	(4,551)	(92)	664,017	1,790	(82)	665,725
Land	37,845	14,266	-	52,111	918	-	53,029
Intangibles, non-amortizable	10,651	-	-	10,651	-	-	10,651
Construction in progress	51,636	28,834	(25,995)	54,475	44,553	(33,721)	65,307
Nondepreciable utility plant	100,132	43,100	(25,995)	117,237	45,471	(33,721)	128,987
Total utility plant	\$ 768,792	\$ 38,549	\$ (26,087)	\$ 781,254	\$ 47,261	\$ (33,803)	\$ 794,712

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017			Balance As of 6/30/2018			Balance As of 6/30/2019	Due Within One Year
	Additions	Reductions	Additions	Reductions	Additions	Reductions		
Revenue bonds		\$ (25,578)	\$493,414	\$333,120	\$ (249,620)	\$ 576,914	\$ 8,185	
Pension obligation bonds	12,312	(1,894)	10,418	-	(2,018)	8,400	1,718	
Direct Borrowings:								
Private placement revenue bonds	41,925	-	41,925	-	(900)	41,025	1,750	
Leased purchase	3,905	(807)	3,098	-	(824)	2,274	830	
Total long-term obligations	\$577,134	\$ -	\$ (28,279)	\$548,855	\$333,120	\$ (253,362)	\$ 628,613	\$12,483

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

PENSION OBLIGATION BONDS PAYABLE

	June 30, 2019	June 30, 2018
\$30,000 2005 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$630 to \$3,860 through June 2020, interest from 3.9 to 4.8 percent. The Electric Utility's proportional share of the outstanding debt is 29.6 percent.	789	1,933
\$31,960 2017 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$2,910 to \$3,580 through June 2027, interest from 1.3 to 3.1 percent. The Electric Utility's proportional share of the outstanding debt is 29.6 percent.	7,611	8,485
Total pension obligation bonds payable	8,400	10,418

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

REVENUE BONDS PAYABLE

	June 30, 2019	June 30, 2018
\$141,840 2008 Electric Refunding/Revenue Bonds:		
A - \$84,515 2008 Series A Bonds - variable rate bonds due in annual principal installments from \$4,575 to \$7,835 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2018 was 3.0 percent). Partially refunded \$13,975 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds. Partially refunded \$31,500 on April 1, 2019 with 2019A Electric Refunding Bonds.	34,465	70,540
C - \$57,325 2008 Series C Bonds - variable rate bonds due in annual principal installments from \$700 to \$5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2018 was 3.1 percent). Partially refunded \$11,775 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds. Partially refunded \$8,925 on April 1, 2019 with 2019A Electric Refunding Bonds.	32,150	41,975
\$209,740 2008 Electric Revenue Series D Bonds - all outstanding bonds were refinanced with the 2019 series A Revenue/Refunding Bonds on February 26, 2019.	-	195,275
\$34,920 2009 Electric Refunding/Revenue Series A Bonds: fixed rate bonds due in final principal installment of \$1,275 on October 1, 2018, interest of 4.0 percent.	-	1,275
\$140,380 2010 Electric Revenue Bonds:		
A - \$133,290 2010 Electric Revenue Series A Bonds: fixed rate, federally taxable Build America Bonds due in annual principal installments from \$2,300 to \$33,725, from October 1, 2020 through October 1, 2040, interest from 3.9 to 4.9 percent	133,290	133,290
B - \$7,090 2010 Electric Revenue Series B Bonds: fixed rate bonds due in final principal installment of \$2,210 on October 1, 2019, interest of 4.0 percent	2,210	4,650
\$79,080 2013 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from \$795 to \$2,625 through October 1, 2043, interest from 3.5 to 5.3 percent	38,990	39,785
\$283,325 2019 Electric Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from \$3,545 to \$24,005 through October 1, 2048, interest of 5.0 percent	283,325	-
Total electric revenue bonds payable	524,430	486,790
Total electric revenue and pension obligation bonds payable	532,830	497,208
Unamortized bond premium	52,484	6,624
Total electric revenue and pension obligation bonds payable, including bond premium	585,314	503,832
Less current portion of revenue and pension obligation bonds payable	(9,903)	(15,563)
Total long-term electric revenue and pension obligation bonds payable	\$ 575,411	\$ 488,269

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

For fiscal year ended June 30, 2018, the City restructured the presentation of the long term pension obligation bonds from advances from other funds to long term obligations. The Electric Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Electric Utility's proportional share of the outstanding principal amount of the bonds was \$8,400 and \$10,418 as of June 30, 2019 and 2018, respectively. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bond issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2019.

Remaining pension obligation bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 1,718	\$ 246	\$ 1,964
2021	907	188	1,095
2022	926	169	1,095
2023	949	145	1,094
2024	974	121	1,095
2025-2029	2,926	191	3,117
Total	\$ 8,400	\$ 1,060	\$ 9,460

All electric revenue bonds are covenanted per the Amended and Restated Resolution No. 17662 (Electric) Master Resolution that upon the occurrence and continuation of an event of default, 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 should the City fail to pay its debts as they become due or upon the entry of any decree or order of bankruptcy of the City.

In May 2018, the Electric Utility defeased \$11,005 of the total outstanding \$206,280 of Electric Revenue Bonds, Issue 2008D with monies received from settlements and cost recoveries associated with the early closure of the SONGS Units 2 and 3. The partial defeasance related to bond proceeds that funded part of the Steam Generator Replacement Project and other SONGS capital costs. The partial bond defeasance reduced debt and realized interest savings of \$10,233 over the remaining 20-year life of the bonds. On April 1, 2019, the Electric Utility fully refunded the remaining balance of \$191,715 with the issuance of the 2019 Electric Revenue Refunding Series A Bonds.

\$283,325 2019 Electric Revenue/Refunding Bonds; Series A. The bonds were issued in February 2019 to fund short-term and long-term capital projects, refund the 2008 Electric Revenue Bonds; Series D, and partially refund and partially unwind the swap on the 2008 Electric Revenue Bonds; Series A and C. The refunding transactions resulted in a total net present value savings of \$36,810. 5% due in annual installments from \$3,545 to \$24,005 through 10/1/2048.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Remaining revenue bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 8,185	\$ 24,963	\$ 33,148
2021	13,530	24,256	37,786
2022	14,135	23,585	37,720
2023	14,810	22,879	37,689
2024	16,790	22,107	38,897
2025-2029	96,890	97,759	194,649
2030-2034	104,940	75,314	180,254
2035-2039	132,775	48,756	181,531
2040-2044	97,380	13,748	111,128
2045-2049	24,995	3,246	28,241
Premium	52,484	-	52,484
Total	\$ 576,914	\$ 356,613	\$ 933,527

The Electric Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of electric revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Electric Utility capital improvement projects. For June 30, 2019 and 2018, debt service payments as a percentage of the pledged gross revenue, net of certain expenses where so required by the debt agreement, are indicated in the table below. The debt service coverage ratios also approximate the relationship of the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses) (1)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2019	Electric revenues	\$ 94,751	\$ 42,466	2.23
June 30, 2018	Electric revenues	\$ 110,331	\$ 40,720	2.71

¹ Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of (1,323) and \$9,055 as expenses for June 30, 2019 and 2018 respectively.

LINE OF CREDIT

On February 1, 2019, the City entered into a subordinate line of credit agreement with U.S. Bank, National Association. The Subordinate Line of Credit is a tool approved through the Electric and Water Utility Five-Year Rate Plan to manage rate increases by enabling the Electric Utility to reduce cash levels while maintaining compliance with the Riverside Public Utilities Cash Reserve Policy. Under the terms and conditions of the agreement, the City may borrow up to \$35,000 for purposes of the capital or operating financial needs of the Electric System. There were no borrowings against the line as of June 30, 2019.

LETTERS OF CREDIT

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

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

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

Liquidity advances drawn against the LOC that are not repaid will be converted to an installment loan with principal to be paid quarterly not to exceed a 5-year period. The Electric Utility would be required to pay annual interest equal to the highest of 8 percent, the Prime Rate plus 2.5 percent, the Federal Funds Rate plus 2.5 percent and 150 percent of the yield on the 30-year U.S. Treasury Bond. No amounts have ever been drawn against the two LOCs due to a failed remarketing.

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

DIRECT BORROWINGS

PRIVATE PLACEMENT REVENUE BONDS PAYABLE

	June 30, 2019	June 30, 2018
\$56,450 2011 Electric Revenue/Refunding Series A Bonds: the bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements, see below. Bonds are due in annual principal installments from \$725 to \$5,175 through October 1, 2035. Partially refunded \$11,825 on July 25, 2013 with the 2013 Electric Revenue Refunding Bonds.	41,025	41,925
Total private placement revenue bonds payable	41,025	41,925

Remaining private placement bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 1,750	\$ 1,528	\$ 3,278
2021	1,825	1,458	3,283
2022	1,900	1,386	3,286
2023	1,950	1,311	3,261
2024	725	1,272	1,997
2025-2029	3,625	5,941	9,566
2030-2034	19,075	3,936	23,011
2035-2039	10,175	297	10,472
Total	\$ 41,025	\$ 17,129	\$ 58,154

Upon event of default, the bank may declare the outstanding amount of the obligations payable to be due immediately.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for each swap is included as part of the deferred loss on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2019 is as follows:

	Notional Amount	Fair Value as of 6/30/2019	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	\$ 34,465	\$ (4,702)	\$ 75
2008 Electric Refunding/Revenue Bonds Series C	\$ 32,150	\$ (6,969)	\$ (1,735)
2011 Electric Refunding/Revenue Bonds Series A	\$ 41,025	\$ (7,365)	\$ (2,149)

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Electric Utility entered into interest rate swap agreements in connection with its \$141,840 2008 Electric Refunding/Revenue Bonds (Series A and C) and \$56,450 2011(Series A).

Terms: Per the existing swap agreements, the Electric Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by \$6,000 to \$7,835 (2008 Series A), \$700 to \$5,200 (2008 Series C) and \$725 to \$5,175 (2011 Series A) until the debt is completely retired in fiscal years 2030 (2008 Series A) and 2036 (2008 Series C and 2011 Series A).

The bonds and the related swap agreements for the Electric Refunding/Revenue 2008 (Series A) Bonds mature on October 1, 2029 and the 2008 (Series C) and 2011 (Series A) Bonds mature on October 1, 2035. As of June 30, 2019, rates were as follows:

	Terms	2008 Electric	2008 Electric	2011 Electric
		Refunding/Revenue Series A Bonds	Refunding/Revenue Series C Bonds	Refunding/Revenue Series A Bonds
Interest rate swap:		Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.57485%)	(0.57539%)	(0.60247%)
Net interest rate swap payments		2.53615%	2.62861%	2.59853%
Variable-rate bond coupon payments		0.47429%	0.47541%	0.53013%
Synthetic interest on bonds		3.01044%	3.10402%	3.12866%

Fair value: As of June 30, 2019, in connection with all swap agreements, the transactions had a total negative fair value of (\$19,037). Because the coupons on the Electric Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Credit risk: As of June 30, 2019, the Electric Utility was not exposed to credit risk because the swaps had a negative fair value. The swaps counterparties, J.P. Morgan Chase & Co. and Bank of America Corp., were rated A- and BBB+ respectively by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreements require the fair value of the swaps to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2019, there is no requirement for collateral posting for any of the outstanding swaps.

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

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

Swap payments and associated debt: As of June 30, 2019, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized in the table below. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Variable-Rate Bonds				
	Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2020		\$ 1,750	\$ 614	\$ 3,202	\$ 5,566
2021		1,825	574	2,987	5,386
2022		1,900	562	2,926	5,388
2023		1,950	549	2,865	5,364
2024		725	543	2,831	4,099
2025-2029		33,130	2,326	12,126	47,582
2030-2034		45,985	1,180	6,100	53,265
2035-2039		20,375	88	457	20,920
Total		\$ 107,640	\$ 6,436	\$ 33,494	\$ 147,570

LEASE PURCHASE FINANCING

The Electric Utility has entered into sixteen purchase lease agreements as a lessee for financing sixteen compressed natural gas heavy duty service trucks. All leases have seven year terms of monthly payments with interest rates ranging from 2.0 percent to 2.5 percent. The total gross value of all existing leases is \$5,715 with depreciation over the seven year terms of the leases using the straight-line method. As of June 30, 2019 and 2018, the total liability was \$2,274 and \$3,098, respectively, with the current portion included in accounts payable and other accruals. The remaining annual lease payments for the life of the leases is \$868 in fiscal year ended June 30, 2020, \$559 annually in fiscal years ended June 30, 2021 and 2022, and \$366 in fiscal year ended June 30, 2023. Total outstanding lease payments are \$2,352, with \$2,272 representing the present value of the net minimum lease payments and \$80 representing interest.

NOTE 5. COMPENSATED ABSENCES

A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time-off or payments upon termination or retirement.

Below is a summary of changes in Compensated absences for the Electric Utility during the fiscal year.

	Balance As of 6/30/2017			Balance As of 6/30/2018			Balance As of 6/30/2019		Due Within One Year
	Additions	Reductions		Additions	Reductions				
Compensated absences	4,985	4,556	(4,473)	5,068	4,597	(4,352)	5,313	4,563	

NOTE 6. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

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

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Under the Plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier –
 - The retirement formula is 2.7 percent at age 55 for employees hired before October 19, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units), the employees were required to pay 2 percent of the employee contribution of their pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.
 - The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employee is required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a two year increase

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.

- The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.
- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

The contribution requirements of plan members and the City are established and may be amended by CalPERS.

BENEFITS PROVIDED

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

EMPLOYEES COVERED

As of measurement date June 30, 2018 and 2017, the following employees, City-wide, were covered by the benefit terms of the Plan:

	Measurement Date	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Inactive employees or beneficiaries		
currently receiving benefits	2,184	2,114
Inactive employees entitled to but		
not yet receiving benefits	1,375	1,325
Active employees	1,607	1,599

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CONTRIBUTIONS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year ended June 30, 2019, the net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. For fiscal year ended June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous - Current Year</u>	<u>Miscellaneous - Prior Year</u>
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.75%
Projected salary increase	(1)	(1)
Mortality	(2)	(2)

(1) Depending on age, service and type of employment.

(2) The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

CHANGES IN ASSUMPTIONS

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.15 percent measurement date as of June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LONG-TERM DISCOUNT RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a building-block method in expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as follows:

Asset Class ⁽¹⁾	June 30, 2018 Measurement Date		
	Current Target Allocation	Real Return Years 1 - 10 ⁽²⁾	Real Return Years 11 + ⁽³⁾
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

⁽¹⁾ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾ An expected inflation of 2.00% used for this period.

⁽³⁾ An expected inflation of 2.92% used for this period.

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Asset Class ⁽¹⁾	June 30, 2017 Measurement Date		
	Current Target Allocation	Real Return Years 1 - 10 ⁽²⁾	Real Return Years 11 + ⁽³⁾
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Assets	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

⁽¹⁾ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾ An expected inflation of 2.50% used for this period.

⁽³⁾ An expected inflation of 3.00% used for this period.

CHANGES IN THE NET PENSION LIABILITY

The changes in the Electric Utility's proportionate share of the net pension liability as of June 30, 2019 (measurement date June 30, 2018) and 2018 (measurement date June 30, 2017) for the Plan are as follows:

	Net Pension Liability	Proportion of the Plan
June 30, 2019		
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	\$ 84,468	30.32%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	108,886	31.08%
Change - Increase / (Decrease)	(24,418)	(0.76%)
June 30, 2018		
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	108,886	32.04%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	96,193	31.08%
Change - Increase / (Decrease)	12,693	0.96%

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Electric Utility's proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.15 percent, as well as what the Electric Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Measurement Date					
	June 30, 2018			June 30, 2017		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
The Electric Utility's proportionate share of the Plan's net pension liability	\$ 140,951	\$ 84,468	\$ 38,024	\$ 170,418	\$ 108,886	\$ 58,484

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSION

For the fiscal years ended June 30, 2019 and 2018, the Electric Utility recognized pension expense of \$9,133 and \$18,169, respectively. At June 30, 2019 and 2018, the Electric Utility reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,456	\$ -	\$ 9,073	\$ -
Changes in assumptions	10,650	(8,006)	17,082	-
Differences between expected and actual experience	-	(7,780)	-	(6,396)
Net differences between projected and actual earnings on plan investments	1,194	-	4,441	-
Total	\$ 22,300	\$ (15,786)	\$ 30,596	\$ (6,396)

\$10,456 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2019	3,217
2020	(1,614)
2021	(4,713)
2022	(832)
2023	-
Total	<u>\$ (3,942)</u>

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

BENEFITS PROVIDED

Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. The City is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

As of measurement date June 30, 2018 and 2017, the following employees, City-wide, were covered by the benefit terms:

	Measurement Date	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Inactive employees or beneficiaries		
currently receiving benefits	304	304
Inactive employees entitled to but		
not yet receiving benefits	-	-
Active employees	2,121	2,121

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

ACTUARIAL ASSUMPTIONS

The total OPEB liability was determined by actuarial valuation as of June 30, 2018 and 2017 using the following actuarial assumptions:

	<u>Current Year</u>	<u>Prior Year</u>
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Funding Policy	Pay-as-you-go for implicit rate subsidy	Pay-as-you-go for implicit rate subsidy
Actuarial Assumptions:		
Discount rate ⁽¹⁾	3.50%	3.40%
Inflation rate	2.75%	2.75%
Salary inflation	3.00%	3.00%
Salary increases ⁽²⁾	--	--
Mortality	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study

⁽¹⁾ The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

⁽²⁾ The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used.

CHANGES OF ASSUMPTIONS

In 2018, the discount rate was changed from 3.4 percent to 3.5 percent.

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The following presents the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability, calculating using the healthcare trend rate of 6.00%/HMO and 6.50%/PPO for the measurement date as of June 30, 2018 and 2017, as well as what the Electric Utility's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	Current healthcare			Current healthcare		
	1% Decrease	cost trend rates	1% Increase	1% Decrease	cost trend rates	1% Increase
The Electric Utility's proportionate share of the City's total OPEB liability	\$ 7,641	\$ 8,572	\$ 9,666	\$ 7,445	\$ 8,283	\$ 9,262

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATES

The following presents the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability, calculating using the discount rate of 3.50% and 3.40% for measurement date of June 30, 2018 and 2017 respectively, as well as what the Electric Utility's total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower (2.40%) or 1-percentage-point higher (4.40%) than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	Current Discount			Current Discount		
	1% Decrease (2.50%)	Rate (3.50%)	1% Increase (4.50%)	1% Decrease (2.40%)	Rate (3.40%)	1% Increase (4.40%)
The Electric Utility's proportionate share of the City's total OPEB liability	\$ 9,287	\$ 8,572	\$ 7,922	\$ 8,981	\$ 8,283	\$ 7,648

CHANGE IN TOTAL OPEB LIABILITY

For fiscal year ended June 30, 2019 and 2018, the Electric Utility's, including Public Benefits, recognized total OPEB expense of \$645 and \$697 respectively. The following table shows the change in the Electric Utility's, including Public Benefits, proportionate share of the City's total OPEB liability for the year ended June 30, 2019 (measurement date June 30, 2018):

	Total OPEB Liability	Proportion to the City
June 30, 2019		
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	\$ 8,572	22.36%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	8,283	22.52%
Change - Increase / (Decrease)	289	-0.16%
June 30, 2018		
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 8,283	22.52%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	8,233	22.53%
Change - Increase / (Decrease)	50	-0.01%

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2019, the Electric Utility, including Public Benefits, reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ -	\$ (307)
Total	<u>\$ -</u>	<u>\$ (307)</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Inflows of Resources</u>
2019	\$ (50)
2020	(50)
2021	(50)
2022	(50)
2023	(50)
Thereafter	(57)
Total	<u>\$ (307)</u>

NOTE 8. RESTRICTED NET POSITION

The California Code of Regulations establishes a restriction on the use of proceeds obtained from the sale of greenhouse gas allowances at auctions held pursuant to California's Cap-and-Trade Program. The proceeds are to be used exclusively for the benefit of retail ratepayers of each electrical distribution utility, and may not be used for the benefit of entities or persons other than such ratepayers. Accordingly, a reserve for regulatory requirements has been established by restricting assets and reserving a portion of net position. See Note 11 for additional information regarding the Cap-and-Trade Program.

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Electric Utility's electric revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110 percent of the monthly accrued interest to be included in the reserve. Active electric revenue bonds requiring reserves are issues 2008A & C and certain issues have no debt service reserve requirements (2009A, 2010A & B, 2011A, 2013A and 2019A).

NOTE 9. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the City of Cerritos was admitted as an additional member of SCPPA. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During fiscal years ended June 30, 2019 and 2018, the Electric Utility paid approximately \$25,999 and \$26,631, respectively, to SCPPA under various take-or-pay and renewable contracts that are described in greater detail in Note 11. These payments are reflected as a component of production and purchased power and transmission expenses in the financial statements.

POWER AGENCY OF CALIFORNIA

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

NOTE 10. JOINTLY-OWNED UTILITY PROJECT – SONGS

The City has a 1.79 percent undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County. Both Units 2 and 3 of SONGS were permanently retired in June 2013. Consequently, the units are no longer a source of supply for the Electric Utility, but remain associated with certain of its costs, including those associated with the units' shutdown and decommissioning (see Note 1 for nuclear decommissioning liability).

The other owners are SCE, with a 78.21 percent interest (including the 3.16 percent interest it acquired from the City of Anaheim in 2006), and San Diego Gas & Electric Company (SDG&E), with a 20.00 percent interest.

SONGS was operated and maintained by SCE, under an agreement with the City and SDG&E, which expires upon termination of the easement for the plant in 2024. In 2005, the California Public Utilities Commission (CPUC) authorized a project to install four new steam generators in Units 2 and 3 at SONGS and remove and dispose of the predecessor generators. SCE completed the installation of these steam generators in 2010 and 2011 for Units 2 and 3, respectively. The Electric Utility's share of the cost to replace the steam generators was approximately \$13.4 million. Replacement of the steam generators was expected to enable plant operations to continue through at least 2022, and perhaps beyond, subject to the approval of the NRC.

In January 2012, a water leak occurred in one of the heat transfer tubes of Unit 3's steam generators, causing it to be shut down. At that time, Unit 2 was off-line for a planned outage when unexpected wear in areas of tube-to-support structure were found. Units 2 and 3 remained off-line for extensive inspections,

NOTE 10. JOINTLY-OWNED UTILITY PROJECT – SONGS (CONTINUED)

testing and analysis of their steam generators. On June 7, 2013, SCE unilaterally announced its plan to retire Units 2 and 3 permanently.

Nuclear Decommissioning. As a result of SCE’s decision to permanently retire SONGS Units 2 and 3, the decommissioning phase of the plant began in June 2013. The process of decommissioning the nuclear power plant is expected to take many years and is governed by NRC regulations. According to the SCE’s decommissioning cost estimate document as of March 2018, total decommissioning costs for Units 2 and 3 are estimated at \$4.7 billion of which the Electric Utility’s share is \$84 million.

Nuclear Decommissioning Funding and Liability. As of June 30, 2019, the Electric Utility has set aside \$55,519 in cash investments with the trustee and \$9,935 in an unrestricted designated decommissioning reserve for the Electric Utility’s estimated share of the decommissioning costs. Increases to the funds held for decommissioning liability are from investment earnings. The investment earnings are included in investment income in the Electric Utility’s financial statements. An equivalent amount is reflected as decommissioning expense which is considered part of production and purchased power. Decreases to the funds held for decommissioning liability are from actual funds drawn from the trust for decommissioning costs invoiced by SCE.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. The Electric Utility began drawing decommissioning trust funds to pay for decommissioning costs in the fiscal year ended June 30, 2017. As of June 30, 2019, the Electric Utility has paid to date \$27,117 in decommissioning obligations, which have been reimbursed by the trust funds.

As of June 30, 2019 and 2018, decommissioning liability balance was \$58,199 and \$60,577, respectively, with a portion reflected as current liabilities payable from restricted assets. Due to adequate funding in the liability, the Electric Utility no longer provides additional funding to the trustee. However, since the decommissioning cost estimate is subject to a number of uncertainties including the cost of disposal of nuclear waste, site remediation costs, as well as a number of other assumptions and estimates, the Electric Utility will continue to set aside funds in the unrestricted designated decommissioning reserve of \$1,581 per year, as approved by the Board of Public Utilities and City Council.

	Balance			Balance			Balance	Due
	As of	Additions	Reductions	As of	Additions	Reductions	As of	Within
	6/30/2017			6/30/2018			6/30/2019	One Year
Nuclear decommissioning liability	64,673	529	(4,625)	60,577	1,227	(3,605)	58,199	5,335

Contractual Matters. The replacement steam generators for Units 2 and 3 were designed and manufactured by Mitsubishi Heavy Industries (MHI) and were warranted for an initial period of 20 years from acceptance. MHI was contractually obligated to repair or replace defective items and to pay specified damages for certain repairs. MHI’s liability under the purchase agreement is limited to \$138,000 and excludes consequential damages, defined to include “the cost of replacement power.” The limitations are subject to certain exceptions.

According to a news release issued by SCE on July 18, 2013, SCE served a formal Notice of Dispute on MHI and Mitsubishi Nuclear Energy Systems and an arbitration hearing for such dispute was set for March and April of 2016. The SCE/MHI arbitration hearings concluded on April 29, 2016. On March 13, 2017, the arbitration tribunal awarded the owners of SONGS \$125,000 for the defective steam generators supplied by MHI. In addition, the tribunal ordered SONGS owners to pay MHI \$58,000 in legal costs but rejected MHI’s counterclaims. The Electric Utility was awarded an amount of \$1,078, which was reported as other non-operating revenues on the Statements of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2017.

NOTE 11. COMMITMENTS

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station, known as Intermountain Power Project (IPP), located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

On September 29, 2006, Senate Bill 1368 (SB 1368) was enacted into law. The bill requires electric service providers to limit financial investments in power plants to those that adhere to greenhouse gas performance standards as determined by the Public Utilities Commission. Pursuant to this legislation, the Electric Utility is prohibited from renewing its participation in IPP if it remains a coal fueled generating resource.

In order to facilitate the continued participation in the IPP, the IPA Board issued the Second Amendatory Power Sales Contract, which amended the IPP Contract allowing the plant to replace the coal units with combined cycle natural gas units by July 1, 2025. On June 16, 2015, the City Council approved the Intermountain Power Project renewal agreements, including the Second Amendatory Power Sales Contract and the Renewal Power Sales Contract, and authorized participation in the IPP Repower Project for up to 5 percent in generation capacity or 60 MW. The Second Amendatory Power Sales Contract became effective March 16, 2016.

On January 5, 2017, the Electric Utility executed the Renewal Power Sales Contract and the Electric Utility accepted an offer of 4.167 percent entitlement or 50 MW generation capacity in the IPP Repower Project based on the 1,200 MW designed capacity, which is within the maximum participation level approved by the City Council. The Electric Utility's corresponding Southern Transmission System allocation is 5.278 percent or approximately 127 MW. Further, under the Renewal Power Sales Contract, the Electric Utility has the right to exit from the Repower Project by no later than November 1, 2019, if it is determined that the Repower Project is not cost beneficial to its customers.

On September 11, 2018, the City Council approved "Alternative Repowering" of the IPP Repower Project, which reduced the design capacity of the future plant from 1,200 MW to 840 MW.

On May 7, 2019, the City Council authorized termination of the Renewal Power Sales Contract between the IPA and the Electric Utility effective November 1, 2019, and the Electric Utility's exit from the IPP Repower Project upon the expiration date of the current Power Sales Contract on June 15, 2027, due to numerous uncertainties surrounding the IPP Repower Project.

The Electric Utility is a member of SCPPA, a joint powers agency (see Note 9). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in take-or-pay projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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

NOTE 11. COMMITMENTS (CONTINUED)

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.40%	12.3 MW	2017	2030
Southern Transmission System	10.20%	244.0 MW	2027	2027
Mead-Phoenix Transmission	4.00%	18.0 MW	2020	2030
Mead-Adelanto Transmission	13.50%	118.0 MW	2020	2030

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

The outstanding debts associated with the take-or-pay obligations have fixed interest rates which range from 1.829 percent to 5.00 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

Debt Service Payment (in thousands) Year Ending June 30,	IPA	SCPPA			TOTAL
	Intermountain Power Project	Southern Transmission System	Mead- Phoenix Transmission	Mead- Adelanto Transmission	All Projects
2020	\$ 15,081	\$ 6,850	\$ 254	\$ 2,859	\$ 25,044
2021	15,881	7,758	189	2,135	25,963
2022	10,835	9,369	-	-	20,204
2023	8,059	7,083	-	-	15,142
2024	840	7,124	-	-	7,964
2025-2029	-	13,026	-	-	13,026
Total	\$ 50,696	\$ 51,210	\$ 443	\$ 4,994	\$ 107,343

In addition to debt service, the Electric Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2019 and 2018, are as follows (in thousands):

FISCAL YEAR	Palo Verde						
	Intermountain Power Project	Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead- Phoenix Transmission	Mead- Adelanto Transmission	All Projects
2019	\$ 19,375	\$ 3,588	\$ 4,622	\$ -	\$ 46	\$ 500	\$ 28,131
2018	\$ 20,755	\$ 3,653	\$ 3,529	\$ 14	\$ 58	\$ 302	\$ 28,311

These costs are included in production and purchased power or transmission expense on the Statements of Revenues, Expenses and Changes in Net Position.

The Electric Utility has become a Participating Transmission Owner with the California Independent System Operator (CAISO) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return, users of the California's high voltage transmission grid are charged for, and the Electric Utility receives reimbursement for, transmission revenue requirements, including the costs associated with these three transmission projects.

NOTE 11. COMMITMENTS (CONTINUED)

HOOVER UPRATING PROJECT

The Electric Utility's entitlement in the Hoover project through SCPPA terminated on September 30, 2017. Through SCPPA in March 2014, the Electric Utility prepaid its share of outstanding debt incurred by the Bureau of Reclamation in connection with the acquisition and construction of the Hoover Power Project Visitors Center and Air Slots. The payment of principal and interest on the debt was a component of the cost of power and energy payable by Hoover contractors, which included SCPPA participants that received power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt had interest at rates that were substantially higher than current market interest rates, the Electric Utility elected to prepay the debt in order to realize savings on power costs in the future. The Electric Utility's share of the prepaid debt was recorded on the Statements of Net Position as unamortized purchased power to be amortized over the remaining term of the project through 2017. The prepaid debt was fully amortized as of June 30, 2018.

On August 23, 2016, the City Council approved a 50-year Electric Service Contract (ESC) and an Amended and Restated Implementation Agreement (IA) with the Western Area Power Administration (Western), Bureau of Reclamation for 30 MW of hydroelectric power. The contract with Western is effective as of October 1, 2017. The ESC extends the Electric Utility's 30 MW entitlement in the Hoover project an additional 50 years. The IA is a supplemental agreement to the ESC that establishes administrative, budgetary and project oversight by creating project committees and process for decision making plant operations.

NUCLEAR INSURANCE

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available (\$450 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective June 30, 2019, the Act limits liability from third-party claims to approximately \$13.9 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to \$137.6 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to \$20.5 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde, the Electric Utility would be responsible for a maximum assessment of \$1.3 million, limited to payments of \$0.2 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

RENEWABLE PORTFOLIO STANDARD (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was signed into law by the Governor, which officially created the first set of tiered RPS targets of 20% by 2013, 25% by 2016 and 33% by 2020. SBX1-2 specified that publicly owned utilities must meet these defined targets via interim Compliance Period (CP) targets to achieve the end goal of 33% RPS by December 31, 2020 as follows: CP1 - an average of 20 percent of retail sales during the 3-year period from 2011-2013; CP2 - no less than 25 percent of retail sales by December 31, 2016; and CP3 - no less than 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the RPS Enforcement Program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Electric Utility's RPS Procurement Plan (a.k.a. Procurement Policy) implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility has met the procurement requirements of SBX1-2 for CP1 (2011-2013) and CP2 (2014-2016). The additional future mandates are expected to be met with resource procurement actions as outlined in the Electric Utility's

NOTE 11. COMMITMENTS (CONTINUED)

RPS Procurement Plan. For calendar year 2018, renewable resources provided 34 percent of retail sales requirements.

On October 7, 2015, the Governor signed into law Senate Bill 350 (SB 350) increasing the RPS mandate from 33 percent by 2020 to 50 percent by December 31, 2030. In addition, SB 350 required that an updated RPS Procurement Policy must be approved and adopted before January 1, 2019 and be incorporated into the Electric Utility's Integrated Resource Plan. An Updated 2018 Renewable Energy Procurement Policy was adopted by the Board and City Council on September 10, 2018 and October 9, 2018, respectively. The Electric Utility expects to be able to substantially meet the increased RPS mandates imposed by SB 350 with the actions described in the updated procurement policy and the portfolio of renewable resources outlined below.

On September 10, 2018, the 100 Percent Clean Energy Act of 2018 (Senate Bill 100) was signed into law by the California Governor. This bill further increases the RPS goals of SBX1-2 and SB 350 while maintaining the 33 percent RPS target by December 31, 2020, but modifying the RPS percentages to be 44 percent by December 31, 2024, 52 percent by December 31, 2027, 60 percent by December 31, 2030, with an end goal of 100 percent of total retail sales of electricity in California generated from eligible renewable energy resources and zero-carbon resources by December 31, 2045. It is expected that the California Energy Commission will have further guidance and enforcement procedures for publicly owned utilities to meet these increased mandates. The Electric Utility will continue to monitor the outcome and impacts of any upcoming workshops and regulations in meeting the new requirements.

In an effort to increase the share of renewables in the Electric Utility's power portfolio, the Electric Utility entered into power purchase agreements (PPA) and power sales agreements (PSA) with various entities described below in general on a "take-and-pay" basis. The contracts in the following tables were executed as part of compliance with RPS mandates.

Long-term renewable PPAs and PSAs in operation (dollars in thousands):

Supplier	Type	Maximum Contract ¹	Contract Expiration	Estimated Annual Cost For 2019
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	\$ 27,219
Wintec Energy, Ltd.	Wind	1.3 MW	2/19/2024	151
WKN Wagner	Wind	6.0 MW	12/22/2032	1,319
SunEdison - AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,705
Dominion - Columbia II	Photovoltaic	11.1 MW	12/22/2034	2,320
GlidePath Power Solutions - GPS Cabazon Wind LLC	Wind	39.0 MW	1/1/2025	4,311
Capital Dynamics - Kingbird Solar B, LLC	Photovoltaic	14.0 MW	12/31/2036	2,875
FTP Solar				
sPower - Summer Solar	Photovoltaic	10.0 MW	12/31/2041	1,752
sPower - Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041	1,752
sPower - Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/19/2036	3,836
Capital Dynamics - Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040	1,365
American Renewable Power-Loyalton	Biomass	0.8 MW	4/19/2023	617
CalEnergy - Salton Sea Portfolio Phase 1 and 2	Geothermal	40.0 MW	12/31/2039	18,619
	Total	230.5 MW		\$ 70,841

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

NOTE 11. COMMITMENTS (CONTINUED)

Long-term renewable PPAs with expected delivery:

Supplier	Type	Maximum Contract ¹	Expected Delivery	Energy Delivery No Later Than	Contract Term In Years
CalEnergy - Salton Sea Portfolio Phase 3	Geothermal	46.0 MW	6/1/2020	6/1/2020	20
	Total	<u>46.0 MW</u>			

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

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

On May 14, 2013, the City Council approved a new 25-year PPA with CalEnergy, the parent of Salton Sea, for additional renewable geothermal power. The PPA provides power from a portfolio of ten geothermal generating units, instead of a single generating unit, with an increasing amount of delivery that started with 20 MW in 2016 increasing to 40 MW in 2019 and 86 MW in 2020. The initial price under the agreement was \$72.85 per megawatt-hour (MWh) in calendar year 2016 which will escalate at 1.5 percent annually for the remaining term of the agreement. Similar to other renewable PPAs, the Electric Utility is only obligated for purchases of energy delivered to the City.

Concurrently, the pricing under the Salton Sea PPA has been amended to conform to pricing in the new PPA with CalEnergy through the remaining term of the Salton Sea PPA. The pricing under the Salton Sea PPA increased by approximately \$7.57 per MWh, commencing July 1, 2013 to \$69.66 per MWh, with an escalation of 1.5 percent annually thereafter, reflecting the exchange of benefits for a substantially lower pricing under the new PPA. The cost increase under the Salton Sea PPA is approximately \$2,500 per year for the agreement's remaining term. As of June 30, 2019 and 2018, the Electric Utility's prepayment of future contractual obligations was \$13,013 and \$11,131, respectively. This prepayment is recorded on the Statements of Net Position as unamortized purchased power, to be amortized over the term of the CalEnergy PPA. The CalEnergy PPA commenced in February 2016. As of June 30, 2019 and 2018, the Electric Utility has recorded \$186 and \$141, respectively, in amortization related to the unamortized purchased power.

On January 28, 2003, the Electric Utility entered into a 15-year renewable PPA with Wintec Energy, Ltd (Wintec) to purchase all of the energy output generated by Wintec's wind powered electric generating units with capacity up to 5 MW. Due to unforeseen circumstances, Wintec was only able to generate capacity totaling 1.3 MW. On November 15, 2005, the City Council approved an amendment to the original agreement, reducing the capacity to 1.3 MW. The amended contract with Wintec terminated in December 2018, however, on February 12, 2019, the City Council approved an extension to the amended agreement for an additional five years for a reduced price of \$35.77 per MWh.

On October 16, 2012, the Electric Utility entered into a 25-year PPA with AP North Lake, LLC (AP North) for 20 MW of solar photovoltaic energy generated by a new facility located in the City of Hemet, California. The AP North Lake Project became fully operational in August 2015. The project is expected to generate 55,000 MWh of renewable energy per year at a levelized cost of \$95 per MWh for the term of the PPA.

On December 20, 2012, the Electric Utility entered into a 20-year PPA with WKN Wagner, LLC (WKN) for up to 6 MW of renewable wind energy and renewable energy credits from the WKN Wagner wind project in Palm Springs, California. WKN is expected to generate 21,000 MWh of renewable energy annually at a levelized cost of \$73 per MWh.

On January 17, 2013, the Electric Utility entered into two 25-year PSAs with SCPA for a combined total of 20 MW of solar photovoltaic energy generated by two facilities to be built in the City of Lancaster by

NOTE 11. COMMITMENTS (CONTINUED)

Silverado Power, which later changed its name to sPower after a series of ownership changes. The two projects are referred to as Antelope Big Sky Ranch and Summer Solar, each rated at 20 MW. The Electric Utility has a 50 percent share of the output from each project through SCPPA, which has two 20 MW PPAs with sPower. Summer Solar became commercially operational on July 25, 2016, and Antelope Big Sky Ranch became commercially operational on August 19, 2016. The Electric Utility's share from the two projects is 55,000 MWh of renewable energy per year. The price under the agreements is \$71.25 per MWh over the term of the agreements.

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

On September 19, 2013, the Electric Utility entered into a 20-year PSAs with SCPPA for an 11.1 MW of solar photovoltaic energy generated by a facility to be built by Recurrent Energy in Kern County, California. The project referred to as Columbia Two Solar Photovoltaic Projects, with a nameplate capacity of 15 MW. On March 14, 2014 a Consent and Agreement was entered into by SCPPA consenting to the transfer of ownership of the Columbia Two project from Recurrent Energy to Dominion Resources. The Columbia Two Project completed construction and achieved commercial operation in December 2014. The Electric Utility has a 74.3 percent share (11.1 MW) of the output from the Columbia Two Project through SCPPA, which has a 15 MW PPA with Dominion Resources. The Electric Utility's share of Columbia Two is approximately 33,000 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$69.98 per MWh over the term of the agreement.

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

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

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

On November 16, 2017, the Electric Utility entered into a 5-year PSA with SCPPA for 0.8 MW of biomass energy generated by American Renewable Power (ARP) - Loyaltan Biomass Project. The Electric Utility has a 4.48% share of the output of the project through SCPPA, along with Imperial Irrigation District,

NOTE 11. COMMITMENTS (CONTINUED)

Modesto Irrigation District, Sacramento Municipal Utility District, and Turlock Irrigation District, has an 18 MW PPA with ARP-Loyalton. The project became commercially operational on April 20, 2018. The Electric Utility's share of ARP Loyalton is expected to generate 6,358 MWh of renewable energy per year with an all-in price for energy, capacity and environmental attributes of \$97.50 per MWh over the term of the agreement.

CAP-AND-TRADE PROGRAM

Assembly Bill (AB) 32, enacted in 2006, mandated that the California Air Resources Board (CARB) develop regulations for the reduction of greenhouse gas (GHG) emissions to the 1990 levels by the year 2020. In January 2013, emission compliance obligations developed by CARB began under the Cap-and-Trade Program (Program). This Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. To ease the transition and mitigate the rate impacts to retail customers, CARB will allocate certain amounts of GHG allowances at no cost to electrical distribution utilities. The Electric Utility's free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's direct GHG compliance obligations.

At times, the Electric Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. In fiscal years ended June 30, 2019 and 2018, the Electric Utility received \$7,303 and \$8,131, respectively, in proceeds related to the sale of the GHG allowances which are included on the Statements of Revenues, Expenses and Changes in Net Position as other operating revenue. The Electric Utility has established a restricted Regulatory Requirement reserve to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. The available funds are to be utilized for qualifying projects, consistent with the goals of AB 32 to benefit the retail ratepayers. The balance in the Regulatory Requirement reserve was \$18,004 and \$16,093 as of June 30, 2019 and 2018, respectively.

The Electric Utility also purchases GHG allowances which can be used in future periods for GHG compliance regulations. The balance of purchased GHG allowances was \$971 and \$1,097 as of June 30, 2019 and 2018, respectively, and is recorded as inventory in the Statements of Net Position.

CONSTRUCTION COMMITMENTS

As of June 30, 2019, the Electric Utility had major commitments (encumbrances) of approximately \$16,425 with respect to unfinished capital projects, of which \$1,561 is expected to be funded by restricted cash reserves, \$5,506 to be funded by unrestricted cash reserves, and \$9,358 to be funded by bonds.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Electric Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2019, the Electric Utility has net commitments for fiscal year 2020 and thereafter, of approximately \$14,618, with a market value of \$12,307.

NOTE 12. LITIGATION

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the Electric Utility. Contractual and litigation matters of the Electric Utility relating to SONGS are contained in Note 9.

NOTE 12. LITIGATION (CONTINUED)

OLQUIN LAWSUIT

On April 28, 2016, a writ of mandate lawsuit entitled *Richard Olquin v. City of Riverside* was filed against the City asserting that adding certain funds received by the Electric Utility from the CAISO to the Electric revenue transfer to the City's general fund was a violation of Proposition 26. Plaintiff sought a court order compelling the City to return to the Electric Utility approximately \$115 million, which represents all Electric revenue transfer paid to the City's general fund since May 1, 2013, as well as a permanent injunction prohibiting future Electric revenue transfers.

In April of 2017, the trial court entered judgment in favor of the City, on the grounds that (1) Olquin had failed to allege a rate increase, because the contested transfer did not require the Electric Utility to raise its rates; and (2) even if such a rate increase could be alleged, Olquin's lawsuit was untimely under the statute of limitations in Public Utilities Code Section 10004.5. Mr. Olquin subsequently passed away and Alysia Webb substituted in as plaintiff. In May of 2017, Olquin/Webb filed an appeal to that judgment. On May 4, 2018, the appellate court ruled in favor of the City in a published decision, *Alysia Webb v. City of Riverside* (2018) 23 Cal.App.5th 244. No appeal has been filed to that decision, and the time within which to file the appeal has expired.

PARADA I LAWSUIT

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

PARADA II CLASS ACTION LAWSUIT

On September 12, 2018, a class action petition for writ of mandate entitled *Parada v. City of Riverside* (Parada II) was filed against the City seeking to invalidate, rescind and void under Proposition 26 the Electric Utility's rates, approved by City Council on May 22, 2018, which took effect on January 1, 2019, challenging the portion of the electric rates that are attributable to the General Fund Transfer. The trial has been set for December 6, 2019.

NOTE 13. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$5,409 was made to increase the Electric Utility's, including Public Benefits, net position. The adjustment was made to reflect the prior period costs related to pension. The restatement of beginning net position is as follows:

Net position at July 1, 2018, as previously stated	\$	505,412
Pension related adjustments		5,409
Net position at July 1, 2018, as restated	\$	<u>510,821</u>

ELECTRIC UTILITY: KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2018/19	2017/18	2016/17	2015/16	2014/15
POWER SUPPLY MEGAWATT-HOURS (MWH)					
Nuclear					
Palo Verde	100,200	102,900	102,400	103,300	103,900
Coal					
Intermountain Power	677,900	627,100	619,500	560,000	744,200
Hoover (Hydro)	28,600	29,000	28,400	30,900	30,900
Gas					
Springs	400	700	500	500	950
RERC	93,900	89,600	84,300	51,600	39,500
Clearwater	13,700	24,200	25,900	15,500	16,100
Renewable Resources ¹	835,500	790,100	669,900	577,200	388,700
Market Purchases	511,500	633,500	770,500	1,084,700	1,029,350
Exchanges In	0	0	0	28,600	87,000
Exchanges Out	0	0	0	(133,500)	(131,800)
Total	2,261,700	2,297,100	2,301,400	2,318,800	2,308,800
System peak megawatt (MW)	610.9	640.3	581.7	598.6	604.4
ELECTRIC USE					
Number of meters as of year end					
Residential	98,322	97,531	97,372	96,934	96,664
Commercial	11,219	11,181	11,016	10,898	10,757
Industrial	888	854	833	891	888
Other ²	51	53	53	53	79
Total	110,480	109,619	109,274	108,776	108,388
Millions of kilowatt-hours (kWh) sales					
Residential	722	727	730	726	711
Commercial	434	447	448	438	428
Industrial	973	999	996	982	995
Other	21	22	23	23	31
Subtotal	2,150	2,195	2,197	2,169	2,165
Wholesale ³	0	0	1	0	2
Total	2,150	2,195	2,198	2,169	2,167

¹As of June 30, 2019, Solar PV included in the Renewable Resources has been restated to include only CEC certified renewables. Fiscal years 17/18, 16/17, 15/16, and 14/15 have been reduced by 8,100, 8,100, 8,600, and 8,300 mWh respectively.

²Decrease in Other meters in fiscal year 15/16 was a result of customers transitioning to Commercial and Industrial classes.

³For fiscal years 15/16, 17/18, and 18/19, wholesale kWh was less than 1 million kWh.

ELECTRIC FACTS

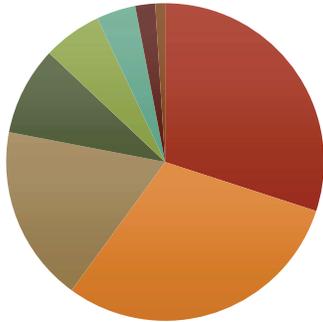
Average annual kWh per residential customer	7,375	7,455	7,519	7,528	7,334
Average price (cents/kWh) per residential customer	\$16.11	\$15.91	\$16.12	\$16.12	\$16.05
Debt service coverage ratio (DSC) ^{4,5}	2.23	2.71	2.95	2.87	2.32
Operating income as a percent of operating revenues	11.4%	15.3%	20.2%	20.2%	18.0%
Employees ⁶	475	489	472	465	465

⁴Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

⁵Does not include GASB 68 - Accounting and Financial Reporting for Pension non-cash adjustments of (\$1,323), \$9,056, (\$248), (\$5,036), and (\$2,594) for fiscal years 18/19 through FY 14/15, respectively.

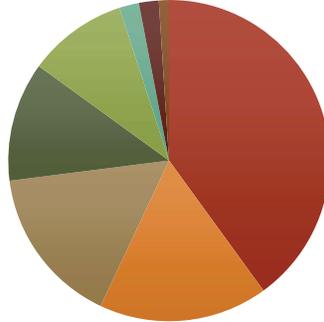
2018/2019 ELECTRIC REVENUE AND RESOURCES

SOURCE OF REVENUE



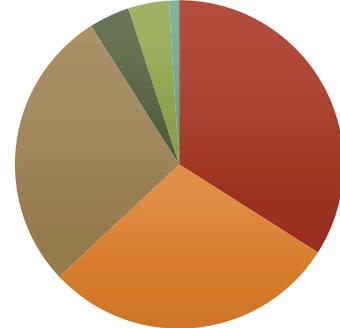
- Industrial Sales 30¢
- Residential Sales 30¢
- Commercial Sales 18¢
- Transmission Revenue 9¢
- Other Revenue 6¢
- Investment Income 4¢
- Public Benefit Programs 2¢
- Other Sales 1¢
- Wholesale Sales (less than 1¢)

DISTRIBUTION OF REVENUE



- Production 40¢
- Transmission 17¢
- Distribution 16¢
- Debt Service 12¢
- Transfers to the City's General Fund* 10¢
- Additions & Replacements to the System 2¢
- Public Benefit Programs 2¢
- Unamortized Purchased Power 1¢

ENERGY RESOURCES*

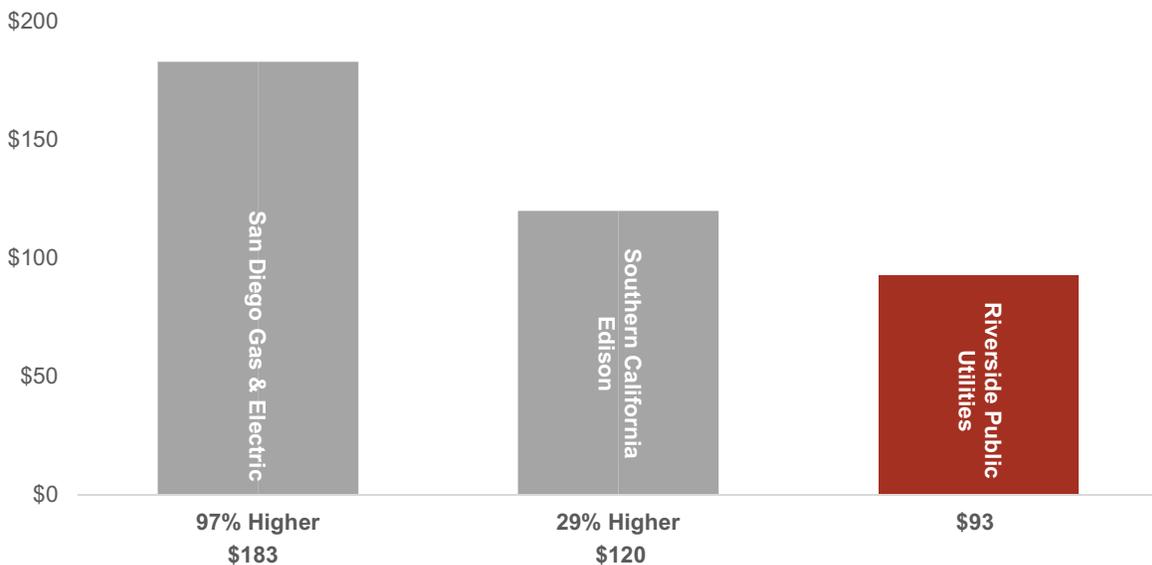


- Renewables 34%
- Coal 29%
- Market Purchases 28%
- Nuclear 4%
- Gas 4%
- Hydropower 1%

*Based on transfer of 11.5% of fiscal year 2017/2018 gross operating revenues including adjustments.

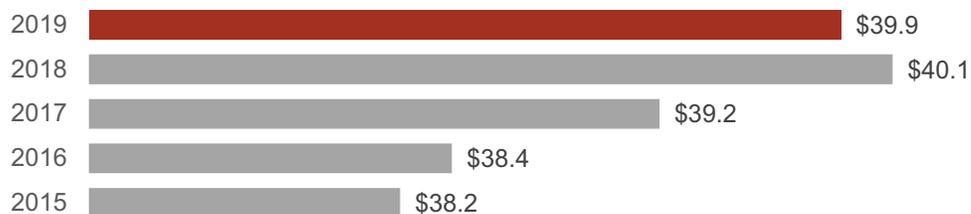
*Energy Resources are based on calendar year 2018 as filed with the California Energy Commission

ELECTRIC RATE COMPARISON - 600 KWH PER MONTH (AS OF JUNE 30, 2019)

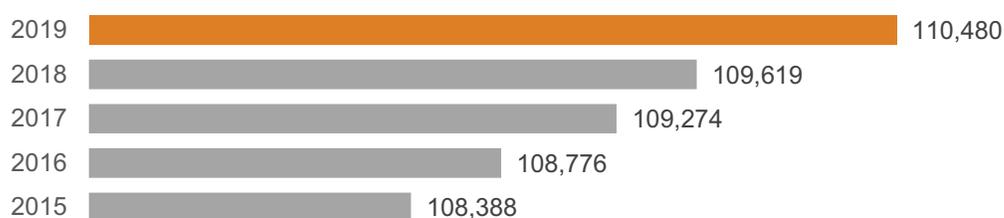


ELECTRIC KEY OPERATING INDICATORS

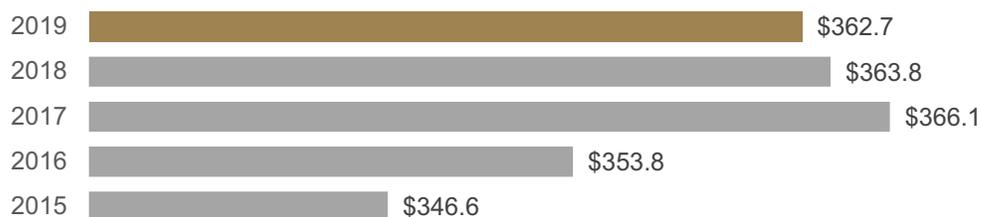
General Fund Transfer (In Millions)



Number of Meters At Year End



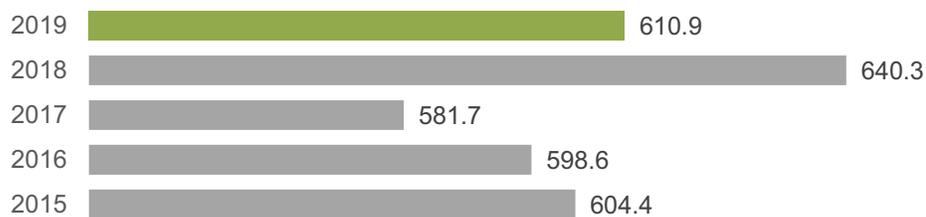
Total Operating Revenue (In Millions)



Production (In Million Kilowatt-Hours)¹



Peak Day Demand (In Megawatts)



¹ As of June 30, 2019, Solar PV included in the Renewable Resources has been restated to include only CFC certified renewables.

ELECTRIC FACTS AND SYSTEM DATA

Established..... 1895

Service Area Population..... 328,042

City Service Area Size (square miles)..... 81.5

System Data

Transmission Lines (circuit miles)..... 99.2

Distribution Lines (circuit miles)..... 1,348

Number of Substations 14

2018-19 Peak Day (megawatts) 611

Highest Single Hourly Use:

07/24/2018, 5pm, 104 degrees

Historical Peak (megawatts) 640

Highest Single Hourly Use:

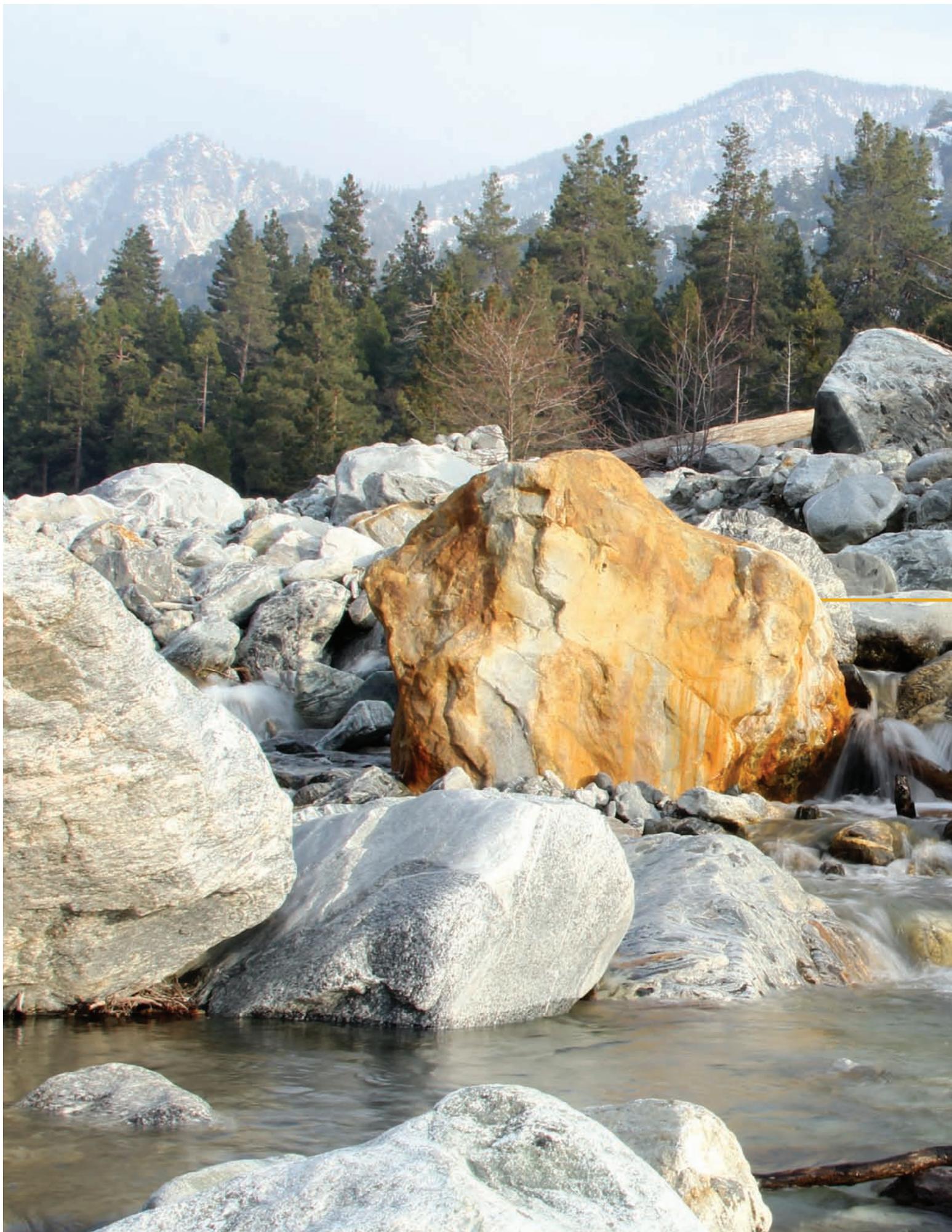
08/31/2017, 3pm, 89.9 degrees

Bond Ratings

Fitch Ratings..... AA-

Standard & Poor's AA-







OUR WATER

RIVERSIDE PUBLIC UTILITIES



CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Utility Enterprise Fund (Water Utility) of the City of Riverside, California, (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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





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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Utility of the City, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Water Utility and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Prior Year Comparative Financial Statements

The financial statements of the Water Utility as of June 30, 2018, were audited by other auditors whose report dated October 31, 2018, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary Water Utility information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Brea, California
November 7, 2019

WATER UTILITY: MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Riverside Public Utilities, a department of the City of Riverside (the City), we offer the readers this narrative overview and analysis of the 2018-19 financial report for the period ended June 30, 2019 and 2018 for Riverside's Water Utility (Water Utility), an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 93 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- During the fiscal year ended June 30, 2019, the Water Utility implemented Governmental Accounting Standards Board Statement No. 88 (GASB 88), Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. For further details, refer to Note 4.
- Operating expense reflects a non-cash pension accounting standard adjustment, which will continue to fluctuate based on yearly actuarial information provided by the California Public Employees' Retirement System. The adjustment was (\$482) and \$3,149 in June 30, 2019 and 2018, respectively.
- Retail sales, net of uncollectibles/recovery, were \$57,605 and \$58,216 for the fiscal years ended June 30, 2019 and 2018, respectively. The decrease in sales was primarily due to reduced consumption.
- Utility plant assets as of June 30, 2019 increased by \$8,884 due to continued investment in water infrastructure system to provide safe, reliable water to Water Utility's customers.
- During the fiscal year ended June 30, 2018, the Water Utility implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* – a replacement of GASB Statements No. 45 as amended, and No. 57, and establishes new accounting and financial reporting requirements for Other Post-Employment Benefits (OPEB) plans. For more information, refer to the OPEB section below, Note 7 of the accompanying financial statements. As of July 1, 2017, the Water Utility restated beginning net position in the amount of \$125 to record adjustments to the OPEB liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The Notes to the Financial Statements can be found on pages 97 to 124 of this report.

WATER UTILITY FINANCIAL ANALYSIS

CONDENSED STATEMENTS OF NET POSITION

	2019	2018	2017
Current and other assets	\$ 105,623	\$ 73,599	\$ 84,801
Capital assets	495,351	486,465	467,973
Deferred outflows of resources	16,786	18,913	24,097
Total assets and deferred outflows of resources	<u>617,760</u>	<u>578,977</u>	<u>576,871</u>
Long-term debt outstanding	250,026	205,020	204,514
Other liabilities	59,172	66,182	60,318
Deferred inflows of resources	5,861	2,697	6,621
Total liabilities and deferred inflows of resources	<u>315,059</u>	<u>273,899</u>	<u>271,453</u>
Net investment in capital assets	292,394	291,562	271,087
Restricted	8,949	8,167	8,079
Unrestricted	1,358	5,349	26,252
Total net position	<u>\$ 302,701⁽¹⁾</u>	<u>\$ 305,078</u>	<u>\$ 305,418</u>

⁽¹⁾ Restated July 1, 2018, see Note 11 of the financial statements.

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

2019 compared to 2018 The Water Utility's total assets and deferred outflows of resources were \$617,760, reflecting an increase of \$38,783 (6.7%) primarily due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, increased by \$32,024. This change reflects an increase of \$40,474 in restricted assets primarily due the \$114,215 issuance of the 2019 Water Revenue Series A Bonds, which fully refunded the 2008 Water Revenue Series B Bonds, partially refunded the 2011 Water Revenue Series A Bonds, and finance capital projects for the Water Utility. The increase is offset by a decrease of \$6,426 in unrestricted cash and cash equivalent due to a decrease in cash provided by operating activities, offset by use of bond proceeds to fund capital projects and a decrease of \$1,218 in restricted cash and cash equivalents for the use of restricted reserves to purchase equipment.
- Capital assets increased by \$8,886 primarily due to an increase of \$13,462 for completed transmission and distribution system assets, net of current year depreciation, offset by a decrease of \$4,577 in construction in progress. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- Deferred outflows of resources decreased by \$2,127 primarily due to a decrease of \$2,766 in deferred outflows related to pension for contributions made in the current year subsequent to the measurement date of the net pension liability and the difference between project and actual earnings on pension plan investments. The decrease is primarily offset by an increase of \$884 in deferred changes in derivative values.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

2018 compared to 2017 Total assets and deferred outflows of resources were \$578,977, reflecting an increase of \$2,107 (0.4%) over prior year. Current and other assets, comprised of restricted and unrestricted assets, decreased by \$11,202, primarily due to the decrease in unrestricted cash and cash equivalents to fund on-going capital projects. Capital assets increased by \$18,492 primarily due to an increase of \$9,996 in construction in progress and an increase of \$8,496 for completed transmission and distribution system assets, net of current year depreciation. Deferred outflows of resources decreased by \$5,184 primarily due to a decrease in deferred outflows related to pension and a decrease in deferred changes in derivative values, offset by an increase in deferred outflows related to note payable.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

2019 compared to 2018 The Water Utility's total liabilities and deferred inflows of resources were \$315,059, an increase of \$41,161 (15.0%) primarily due to the following:

- Long-term debt outstanding increased by \$45,006 primarily due to the issuance of the 2019 Water Revenue Series A Bonds, which was offset by fully refunding of the 2008 Water Revenue Series B Bonds and partially refunding of the 2011 Water Revenue Series A Bonds.
- Other liabilities decreased by \$7,009 primarily due to a decrease of \$8,143 in net pension liability. Additional information on note payable can be found in Note 4 of the accompanying financial statements.
- Deferred inflows of resources increased by \$4,384 primarily due to an increase of \$3,160 in deferred inflows related to pension and increase of \$1,221 in the regulatory liability.

2018 compared to 2017 Total liabilities and deferred inflows of resources were \$273,899, reflecting an increase of \$2,446 (0.9%). The increase is primarily due to an increase of \$7,760 in note payable and an increase of \$1,121 in accounts payable and other accruals. The increase is offset by a decrease of \$6,678 in long-term debt obligations primarily due to principal payments on revenue and pension obligation bonds.

NET POSITION

2019 compared to 2018 The Water Utility's total net position, which represents the difference between the Water Utility's total assets and deferred outflows of resources less total liabilities and deferred inflows of resources, totaled \$302,701, a decrease of \$2,377 (0.8%).

- The largest portion of the Water Utility's total net position, which is its investment in capital assets of \$292,394 (96.6%), had an increase of \$832 from prior year. Investment in capital assets reflects the Water Utility's investment in treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire these assets. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion of net position totaled \$8,949 (3%), reflecting an increase of \$782 primarily due to an increase in restricted debt service reserve related to the 2019A Water Revenue Refunding Bonds issue. Restricted net position is subject to external restrictions on its use and is reserved for items such as debt repayment and funds collected for Water Conservation Programs.
- The unrestricted portion of net position totaled \$1,358 (0.4%), a decrease of \$3,991 from prior year, primarily attributable to a decrease in cash provided by operating activities, offset by use of bond proceeds to fund capital projects. Unrestricted net position may be used to meet the Water Utility's ongoing operational needs and obligations to customers and creditors.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

2018 compared to 2017 Total net position decreased by \$340 (0.1%) to \$305,078. The decrease was primarily due to a decrease of \$20,903 in the unrestricted portion of net position mainly resulting from the use of unrestricted cash and cash equivalent to fund capital projects. This was offset by an increase of \$20,475 in net investment in capital assets.

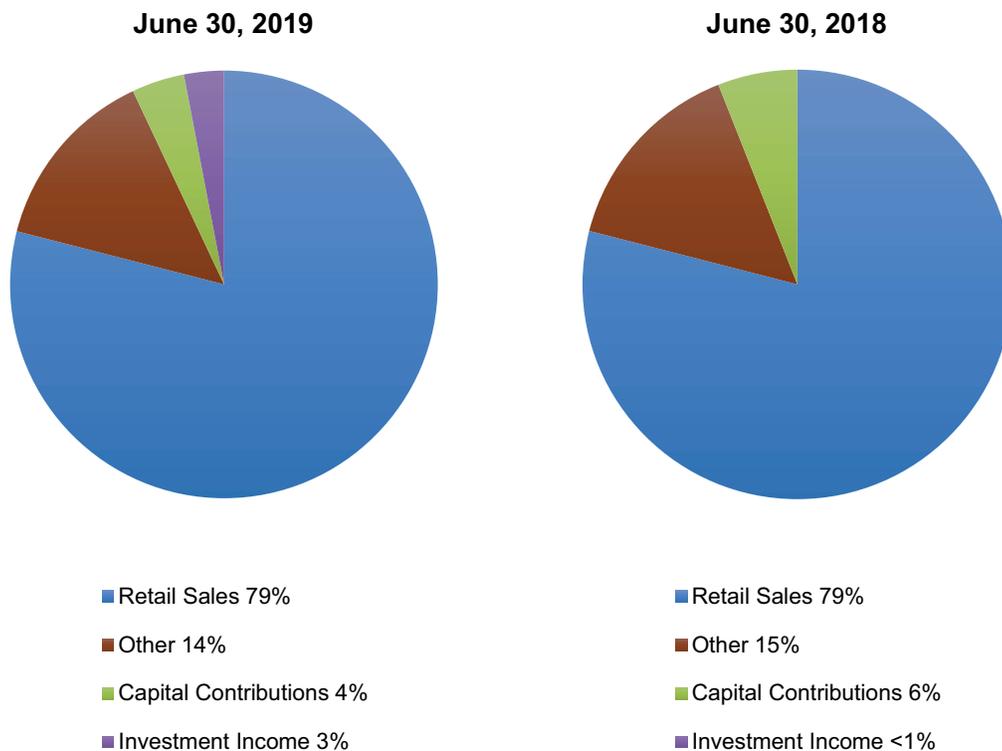
CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	2019	2018	2017
Revenues:			
Retail sales, net	\$ 57,605	\$ 58,216	\$ 54,596
Other revenues	10,530	11,463	9,930
Investment income	2,044	250	17
Capital contributions	3,119	4,181	3,525
Total revenues	73,298	74,110	68,068
Expenses:			
Operations and maintenance	39,217	38,976	34,070
Purchased energy	5,748	5,827	5,136
Depreciation	15,450	14,914	14,320
Interest expenses and fiscal charges	10,412	8,435	8,663
Total expenses	70,827	68,152	62,189
Transfers:			
Transfers to the City's general fund	(6,584)	(6,173)	(5,673)
Total transfers	(6,584)	(6,173)	(5,673)
Changes in net position	(4,113)	(215)	206
Net position, July 1, as previously reported	305,078	305,418	305,212
Less: Cumulative effect of change in accounting principle ⁽¹⁾	1,736	(125)	-
Net position, July 1, as restated	306,814	305,293	305,212
Net position, June 30	\$ 302,701	\$ 305,078	\$ 305,418

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

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

REVENUES BY SOURCES



2019 compared to 2018 The Water Utility's total revenues of \$73,298 decreased by \$812 (1.1%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$57,605, a decrease of \$611 (1.0%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility. The decrease was due to a 7.24% decrease in consumption.
- Other revenues of \$10,530 decreased by \$933 (8.1%) due to a decrease in water conveyance revenue from WMWD, which resulted from major repairs, two pipeline shutdowns, and significantly higher precipitation than the previous year.
- Capital contribution of \$3,119 decreased by \$1,062 (25.4%), primarily due to a decrease in contribution in aid of \$477 and completion of water system expansion project for Riverwalk Vista Improvement project of \$274.
- Investment income of \$2,044 increased by \$1,794 (718%) due to a fair value investment adjustment.

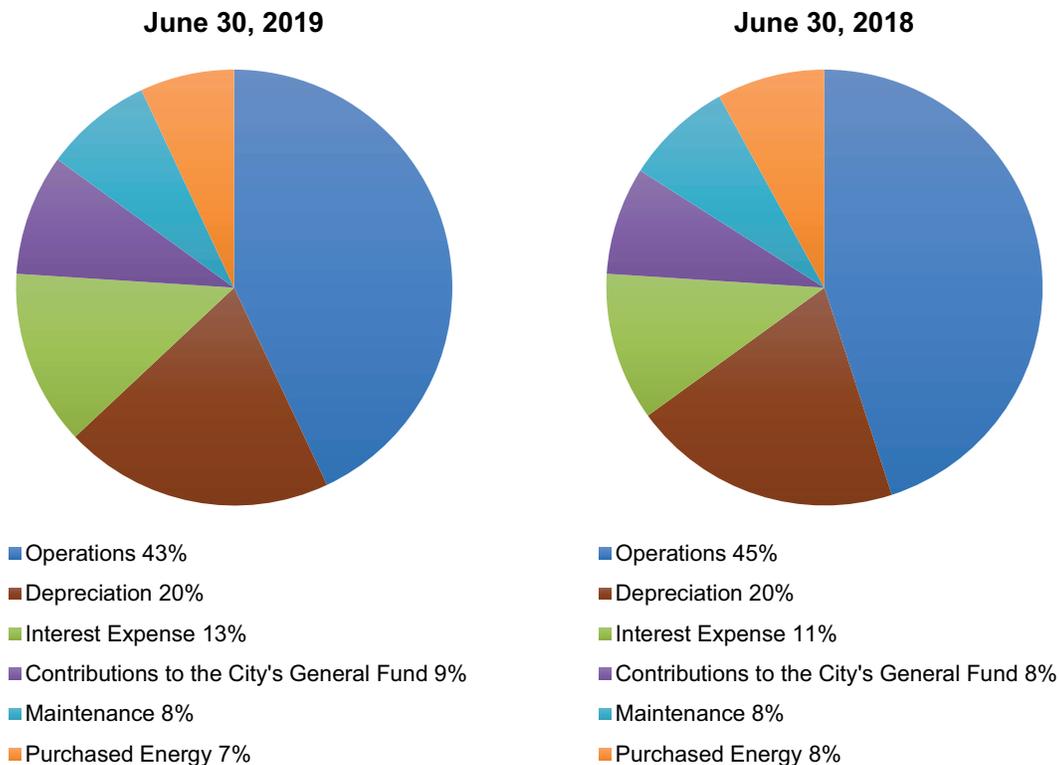
2018 compared to 2017 The Water Utility's total revenues of \$74,110 increased by \$6,042 (8.9%) primarily due to the following changes:

- Retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$58,216, an increase of \$3,620 (6.6%) from prior fiscal year. The increase was primarily due to a 9.7% increase in retail consumption as result of the lifting water conservation mandates.

WATER UTILITY FINANCIAL ANALYSIS (CONTINUED)

- Other revenues of \$11,463 increased by \$1,533 (15.4%) primarily due to an increase of water conveyance revenue due to new contracts and liquidated damages from construction delays on certain water well projects.
- Capital contribution of \$4,181 increased by \$656 (18.6%) primarily from non-cash contribution for donated assets received.

EXPENSES BY SOURCES



2019 compared to 2018 The Water Utility's total expenses, excluding general fund transfer, were \$70,827, an increase of \$2,675 (3.9%). The increase was primarily due to an increase of \$1,975 in interest and fiscal charges as a result of the 2019A Water Revenue Refunding Bonds issue, an increase in depreciation and an increase in general operations and maintenance costs.

2018 compared to 2017 The Water Utility's total expenses, excluding general fund transfer, were \$68,152, an increase of \$5,963 (9.6%). The increase was mainly due to non-cash pension expense adjustment of \$3,149 as a result of pension accounting standards, an increase in production costs resulting from higher consumption and an increase in general operations and maintenance costs.

TRANSFERS

Pursuant to the City's Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits. The Water Utility transferred \$6,584 and \$6,173 for 2019 and 2018, respectively based on the gross operating revenue provisions in the City's Charter.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2019	2018	2017
Source of supply	\$ 48,434	\$ 46,565	\$ 45,671
Pumping	19,213	19,690	19,814
Treatment	29,523	30,683	30,679
Transmission and distribution	341,198	328,656	320,660
General	3,944	2,664	3,145
Land	20,840	20,840	20,484
Intangible	12,807	13,398	13,547
Construction in progress	19,392	23,969	13,973
Total capital assets	\$ 495,351	\$ 486,465	\$ 467,973

2019 compared to 2018 The Water Utility's investment in capital assets, net of accumulated depreciation, is \$495,351 an increase of \$8,886 (1.8%). The increase resulted mainly from an increase of \$12,542 in system expansion and improvements, transmission mains replacement, distribution and meter replacements. The increase was offset by a decrease of \$4,577 in the construction in progress.

2018 compared to 2017 Investment in capital assets, net of accumulated depreciation, increased by \$18,492 (4.0%) to \$486,465. Major projects included \$14,476 for system expansion and improvements, meter replacements, and facilities rehabilitation and \$10,813 for continued pipeline replacement programs.

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

DEBT ADMINISTRATION

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

	2019	2018	2017
Revenue bonds	\$ 210,685	\$ 182,885	\$ 188,300
Unamortized bond premium	20,954	1,749	2,064
Pension obligation bonds	3,028	3,756	4,439
Contracts payable	937	937	937
Leased purchases	1,667	1,884	2,095
Note payable	19,044	20,322	12,927
Less: Current portion of revenue and pension obligation bonds	(6,289)	(6,513)	(6,248)
Total	\$ 250,026	\$ 205,020	\$ 204,514

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Water Utility's bond indentures require a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 1.67, 2.14, and 2.04 at June 30, 2019, 2018, and 2017, respectively. The debt is backed by the revenues of the Water Utility. The prior years' debt service coverage ratio has been restated to exclude the non-cash pension related adjustment for required pension accounting standards. For additional information, see Note 4 of the accompanying financial statements and the Key Historical Operating Data section.

The Water Utility's long-term debt increased by \$45,006 (22.0%) for 2019 primarily due the 2019A Water Revenue Refunding Bonds issue and increased by \$506 (0.2%) for 2018.

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

CREDIT RATINGS

The Water Utility maintains credit ratings of "AAA", "AA+" and "Aa2" from S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's, respectively.

In January 2019, S&P assigned its "AAA" long-term rating on the 2019A Water Revenue Refunding Bonds and affirmed the "AAA" long-term rating on the existing Water revenue bonds.

In January 2019, Fitch assigned its "AA+" long-term rating on the 2019A Water Revenue Refunding Bonds and affirmed the AA+ rating on the outstanding Water revenue bonds.

In July 2019, Moody's affirmed its "Aa2" long-term rating on the Water Utility's outstanding revenue bonds.

These affirmations and ratings reflect the Water Utility's strong financial performance, advantageous water supply, investments in infrastructure and rate competitiveness, among many other factors. The Water Utility has maintained these credit ratings since 2011.

REGULATORY, LEGISLATIVE FACTORS, AND RATES

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

The State of California has experienced unprecedented drought conditions in recent years resulting in severe impacts to California's water supplies and its ability to meet all of the demands for water in the State. The Water Utility is very fortunate as a water provider in California in that the Water Utility owns, operates and maintains its own water supply and is not typically dependent on imported water from outside sources. The Water Utility currently has sufficient water supplies to meet customer needs even during severe drought conditions; however, the aquifers the Water Utility draws from are experiencing historic low levels. The Water Utility has responded by continuing to offer a wide variety of water conservation programs for its customers in an effort to conserve its water resources.

The Water Utility continues to offer customers a wide variety of water conservation programs that help reduce their water usage and utility costs, and help the City meet State mandates and be more sustainable. These programs provide rebates for residents and businesses to help them save money by conserving water. In an effort to streamline and automate the rebate process, the City formed a partnership with Metropolitan Water District of Southern California to administer and process rebates for high-efficiency toilets, clothes washers, irrigation controllers and many other water-saving devices.

To further provide comprehensive resources and guidance as to how to implement water efficiency practices at residents and businesses, the Water Utility, in partnership with the City created the Street Park Turf Conversion and Demonstration Garden at the Janet Goeske Center. The Demonstration Garden

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

allows residents and businesses to interact with water conservation materials and techniques that conserve water, elevate customer awareness, increase incentive program participation, provide educational opportunities and demonstrate water conservation best practices.

In addition, the Water Utility creates marketing campaigns to promote efficient water use and management for residents and businesses. These campaigns provide resources to explore water rebates, information on water quality, water efficiency tips and resources to assist individuals to create a water-efficient property.

The Water Utility's water conservation and efficiency programs have assisted the residents and business to save 53,259,096 gallons of water for the period of July 2018 and June 2019.

The Water Utility's long range water supply planning includes significant contributions of both conservation and recycled water. The behavioral changes instituted through conservation and water use efficiency should have some permanent impact. Changes in landscape patterns and uses will have permanent and on-going impacts to water use. Continuing conservation measures could negatively impact the Water Utility revenues and has been addressed in the recent cost of service analysis conducted by the Water Utility.

WATER CONSERVATION

On November 10, 2009, the Governor signed SBX7-7, which requires the State of California to achieve a (i) 10% reduction in urban per capita water use by December 31, 2015, and (ii) 20% reduction in urban per capita water use by December 31, 2020. Additionally, in May 31, 2018, the Governor signed long-term water-use efficiency bills AB 1668 and SB 606 into law to provide standards for indoor residential water use of 55 gallons per capita per day (GPCD) until 2025, 52.5 GPCD from 2025 to 2030, and 50 GPCD beginning in 2030. AB 1668 and SB 606 also provide for an outdoor allocation to be determined based on an analysis of the irrigable area within a water utilities service area, coupled with a water system loss component.

The City established its urban water use targets for 2015 and 2020, respectively, in accordance with the above law and bills. The 2015 and 2020 urban water use targets for the Water System's service area were recalculated in the 2015 Urban Water Management Plan to reflect the use of DWR Population Tool. They are 239 GPCD and 213 GPCD, respectively. The City intends to meet the conservation requirements of SBX7-7, AB 1668, and SB 606 through increased use of recycled water and implementation of additional conservation measures.

WATER STANDARDS

The development of new and increasingly stringent drinking water regulations by the California Environmental Protection Agency (CalEPA) and the U.S. Environmental Protection Agency (USEPA) are significantly impacting water supply costs throughout the state and the nation. New chemical and biological contaminants are being discovered through more sophisticated research techniques and improved analytical methods. In addition, public health and environmental agencies are now evaluating how anthropogenic factors are impacting our water supplies. Pesticides, pharmaceuticals, and personal care products are being evaluated at trace levels, which can be orders of magnitude lower than what was achievable 20 years ago. As a result, water treatment costs are increasing as federal and state legislators and regulators try to balance public health risk with affordable water supply costs.

In 2011, the United States Environmental Protection Agency ("**USEPA**") announced plans to establish a federal drinking water standard for perchlorate. The timetable for completion of a federal Maximum Contaminant Level ("MCL") for perchlorate is unknown. Presently USEPA is requesting peer review of its draft Biologically Based Dose-Response Model to develop a perchlorate MCL goal. Once a MCL goal is established the USEPA will begin the process of developing an MCL. The State of California MCL for perchlorate is 6 parts per billion ("ppb"). The MCL may be considered for possible revision as a result of the California Environmental Protection Agency's 2015 reduction in the perchlorate Public Health Goal from 6 ppb to 1 ppb. In addition, the California State Division of Drinking Water is currently evaluating lowering

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

the perchlorate detection limit for reporting purposes from 4 pbb to as low as 0.5 pbb. A reduction in the perchlorate standard will impact the Water Utility's water supply costs.

In December 2016, the USEPA completed its third review of existing National Primary Drinking Water Regulations (NPDWR) (i.e., the Six-Year Review 3). The USEPA determined that 68 of the 76 NPDWR remain appropriate (i.e., do not need to be revised) and that eight NPDWRs are candidates for regulatory revision. These eight NPDWRs are included in the Stage 1 and the Stage 2 Disinfectants and Disinfection Byproducts Rules, the Surface Water Treatment Rule, the Interim Enhanced Surface Water Treatment Rule and the Long Term 1 Enhanced Surface Water Treatment Rule. The eight NPDWRs are chlorite, Cryptosporidium, Giardia lamblia, haloacetic acids (HAA5), heterotrophic bacteria, Legionella, total trihalomethanes (TTHM) and viruses. Any revision resulting in the lower of these standards may impact the Water Utility's water supply costs.

On December 14, 2017, the State Water Resources Control Board adopted an MCL for 1,2,3-Trichloropropane ("1,2,3-TCP) of 0.000005 mg/L or 5 parts per trillion (ppt). Water Quality Monitoring was initiated in 2018. To date six of the City's potable wells show detections of 1,2,3-TCP and exceed the MCL. These wells extract water from the same aquifers that are contaminated by other known anthropogenic chemicals and are currently being treated by existing GAC treatment facilities.

In May 2016, the USEPA issued a lifetime health advisory for Perfluorooctanoic acid (PFOA) and perfluorooctane sulfonate (PFOS) in drinking water, advising municipalities that they should notify their customers of the presence of levels over a combined level 70 ppt. CalEPA has adopted this value as a Response Level, in which DDW recommends removing the source from service or providing treatment when concentrations exceed the level. In August 2019, CalEPA established notification levels for PFOA and PFOS to 5.1 ppt and 6.5 ppt respectively. The City has detected PFOS and/or PFOA in 35 of its wells, many of which are already receiving treatment. However all detections have been below the response level, and at the City's compliance point, PFOS and PFOA levels are below the notification levels. The City does not anticipate levels exceeding the Response Level.

The Water Utility will continue to monitor the progress of the proposed standard changes and will advocate for standards that protect human health and are based on the best available science.

CLEAN WATER ACT

On March 25, 2014, USEPA and the Army Corps released a draft proposed rule revising the definition of "Waters of the United States." The proposed rule significantly expanded the scope of Federal jurisdiction in determining the waters of United States. In particular, the rule added jurisdiction over water conveyance systems, groundwater recharge, and recycled water systems. The proposed rule defined tributaries too broadly that it included canals and aqueducts. The inclusion of canals and aqueducts would make the transfer of water much more difficult and would increase permitting costs. The draft rule was made final on August 28, 2015. However on October 9, 2015, the United States Court of Appeals issued a Stay causing the USEPA and the Army Corps to resume using the prior regulations defining the term "Waters of the United States." On February 28, 2017, the President of the United States issued an Executive Order directing the EPA and Department of the Army to review and rescind or revise the 2015 Rule. In December 2018, revised language was issued that provided clarity in defining "waters of the US," in which tributaries are defined as having a perennial source of water, and no longer includes canals or aqueducts, among other things. On September 12, 2019, the EPA signed the repeal into law.

REGULATORY, LEGISLATIVE FACTORS, AND RATES (CONTINUED)

FIVE-YEAR WATER RATE PLAN

On May 22, 2018, the City Council approved a new five-year Water Rate Plan, with rate increases that become effective on July 1, 2018, 2019, 2020, 2021 and 2022 with annual reviews of the adopted rates by City Council. The system average rate increase effective July 1, 2018 was 4.50%, followed by system average rate increases of 5.75% in years two through four, and followed by system average rate increase of 6.50% in the final year of the rate plan. The Water Rate Plan included a redesign of water rates over a five-year period to better align with its cost of serving customers and its revenue requirement. The water rate restructuring was designed to provide financial stability and correct the imbalance of costs versus revenue recovery by increasing fixed cost recovery through monthly service charges to reflect the nature of underlying costs. Pursuant to City Council direction, the first annual review of rates will be conducted in December of 2019.

REQUESTS FOR INFORMATION

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

WATER UTILITY: FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

	June 30, 2019	June 30, 2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
(in thousands)		
NON-CURRENT ASSETS:		
Utility plant:		
Utility plant, net of accumulated depreciation (Note 3)	\$ 495,351	\$ 486,465
Restricted assets:		
Cash and investments at fiscal agent (Note 2)	40,474	-
Other non-current assets:		
Regulatory assets	1,055	1,434
Other long-term assets	3,825	4,125
Total other non-current assets	4,880	5,559
Total non-current assets	540,705	492,024
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	41,038	47,464
Accounts receivable, less allowance for doubtful accounts 2019 \$172; 2018 \$194	8,650	8,841
Accrued interest receivable	138	191
Advances to other funds of the City	139	131
Prepaid expenses	227	238
Other current assets	300	300
Total unrestricted current assets	50,492	57,165
Restricted assets:		
Cash and cash equivalents (Note 2)	7,233	8,451
Water Conservation Programs - cash and cash equivalents (Note 2)	2,442	2,315
Water Conservation Programs receivable	102	109
Total restricted current assets	9,777	10,875
Total current assets	60,269	68,040
Total assets	600,974	560,064
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pension (Note 6)	8,115	10,881
Changes in derivative values	2,753	1,869
Loss on refunding	5,918	6,163
Total deferred outflows of resources	16,786	18,913
Total assets and deferred outflows of resources	\$ 617,760	\$ 578,977

See accompanying notes to the financial statements

STATEMENTS OF NET POSITION

	June 30, 2019	June 30, 2018
(in thousands)		
NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES		
NET POSITION:		
Net investment in capital assets	\$ 292,394	\$ 291,562
Restricted for:		
Debt service (Note 8)	6,710	6,186
Water Conservation Programs	2,239	1,981
Unrestricted	1,358	5,349
Total net position	<u>302,701</u>	<u>305,078</u>
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (Note 4)	<u>250,026</u>	<u>205,020</u>
OTHER NON-CURRENT LIABILITIES:		
Net other postemployment benefits liability (Note 7)	3,524	3,410
Net pension liability (Note 6)	30,737	38,880
Compensated absences (Note 5)	299	344
Derivative instrument (Note 4)	5,257	5,593
Regulatory liability	3,427	2,206
Total other non-current liabilities	<u>43,244</u>	<u>50,433</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,733	1,542
Water Conservation Programs payable	4	71
Current portion of long-term obligations (Note 4)	6,356	6,574
Total current liabilities payable from restricted assets	<u>9,093</u>	<u>8,187</u>
CURRENT LIABILITIES:		
Accounts payable and other accruals	2,850	3,827
Current portion of long-term obligations (Note 4)	1,429	1,352
Unearned revenue	39	64
Customer deposits	789	813
Compensated absences (Note 5)	1,728	1,506
Total current liabilities	<u>6,835</u>	<u>7,562</u>
Total liabilities	<u>309,198</u>	<u>271,202</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pension (Note 6)	5,744	2,585
Deferred inflows related to other postemployment benefits (Note 7)	117	112
Total deferred inflows of resources	<u>5,861</u>	<u>2,697</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 617,760</u>	<u>\$ 578,977</u>

See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Year Ended June 30	
	2019	2018
	(in thousands)	
OPERATING REVENUES:		
Residential sales	\$ 35,408	\$ 37,148
Commercial sales	20,539	19,317
Other sales	1,743	1,880
Water conveyance revenue	1,785	3,162
Water Conservation Programs	943	886
Other operating revenue	4,759	4,435
Total operating revenues before uncollectibles	65,177	66,828
Estimated uncollectibles, net of bad debt recovery	(85)	(129)
Total operating revenues, net of uncollectibles	65,092	66,699
OPERATING EXPENSES:		
Operations	32,616	32,286
Maintenance	5,851	5,775
Purchased energy	5,748	5,827
Water Conservation Programs	750	915
Depreciation	15,450	14,914
Total operating expenses	60,415	59,717
Operating income	4,677	6,982
NON-OPERATING REVENUES (EXPENSES):		
Investment income	2,044	250
Interest expense and fiscal charges	(10,412)	(8,435)
Gain on sale of assets	155	177
Other	2,888	2,803
Total non-operating revenues (expenses)	(5,325)	(5,205)
Income before capital contributions and transfers	(648)	1,777
Capital contributions	3,119	4,181
Transfers out - contributions to the City's general fund	(6,584)	(6,173)
Total capital contributions and transfers	(3,465)	(1,992)
Decrease in net position	(4,113)	(215)
NET POSITION, BEGINNING OF YEAR	305,078	305,418
RESTATEMENT OF NET POSITION (Note 11)	1,736	(125)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	306,814	305,293
NET POSITION, END OF YEAR	\$ 302,701	\$ 305,078

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

	For the Fiscal Year Ended Ended June 30,	
	2019	2018
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 65,239	\$ 67,434
Cash paid to suppliers and employees	(46,190)	(40,520)
Other receipts	1,132	1,566
Net cash provided by operating activities	<u>20,181</u>	<u>28,480</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(6,584)	(6,173)
Payment on pension obligation bonds	(728)	(683)
Cash paid on advances to other funds of the City	(8)	(53)
Net cash used for non-capital financing activities	<u>(7,320)</u>	<u>(6,909)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(21,670)	(27,824)
Proceeds from the sale of utility plant	183	177
Principal paid on long-term obligations	(5,841)	(5,626)
Interest paid on long-term obligations	(9,710)	(8,320)
Proceeds from revenue bonds, including premium	53,566	-
Revenue bond refunding cost	(760)	-
Bond issuance costs	(526)	-
Capital contributions	2,489	3,806
Net cash used provided (used) by capital and related financing activities	<u>17,731</u>	<u>(37,787)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment securities	268	0
Income from investments	2,097	290
Net cash provided by investing activities	<u>2,365</u>	<u>290</u>
Net increase (decrease) in cash and cash equivalents	32,957	(15,926)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$10,766 and \$10,653 at June 30, 2018 and June 30, 2017, respectively, reported in restricted accounts)	<u>58,230</u>	<u>74,156</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$49,881 and \$10,766 at June 30, 2019 and June 30, 2018 respectively, reported in restricted accounts)	<u>\$ 91,187</u>	<u>\$ 58,230</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,677	\$ 6,982
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,450	14,914
(Decrease) increase in allowance for uncollectible accounts	(24)	58
Decrease in accounts receivable	223	607
Decrease (increase) in prepaid expenses	11	(74)
(Decrease) increase in accounts payable and other accruals	(976)	1,015
Increase in compensated absences	176	167
Decrease in unearned revenue	(25)	(121)
(Decrease) increase in Water Conservation Programs payable	(74)	23
(Decrease) Increase in customer deposits	(24)	61
Changes in net pension liability and related deferred outflows and inflows of resources	(480)	3,151
Changes in other postemployment benefits liability and related deferred outflows and inflows of resources	118	131
Other receipts	1,129	1,566
Net cash provided by operating activities	<u>\$ 20,181</u>	<u>\$ 28,480</u>
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	630	932
Reduction of note payable including interest, offset by rent credit	1,756	1,237
Well relocation with note payable	-	4,100
Principal balance of revenue bonds refunded	68,800	-

See accompanying notes to the financial statements

WATER UTILITY: NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Water Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission.

The Water Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Water Utility are charges to customers for water sales and services. Operating expenses for the Water Utility include the cost of water sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for (1) determining the timing and pattern of liability recognition and a corresponding deferred outflow, (2) requires liability recognition when it is incurred and reasonably estimable, and (3) requires ARO measurement to be based on the best estimate of the current value of outlays expected to be incurred. If an ARO has been incurred but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement is effective for reporting period beginning after June 15, 2018.

In March of 2018, the GASB issued Statement No. 88, *Certain Disclosures Related To Debt, Including Direct Borrowings And Direct Placements* (GASB 88). The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

information to understand the effects of debt on a government's future resource flows. This Statement is effective for reporting period beginning after June 15, 2018. For further details, refer to Note 4.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Department is evaluating the impact of this standard.

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. Accordingly, actual results could differ from those estimates.

REVENUE RECOGNITION

The Water Utility customers are billed monthly. Unbilled water service charges, including the Water Conservation Programs, are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$3,050 at June 30, 2019, and \$3,227 at June 30, 2018.

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

WATER UTILITY PLANT AND DEPRECIATION

The Water Utility defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Utility plant assets are valued at historical costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. For fiscal years ended June 30, 2019 and 2018, the Water Utility capitalized net interest costs of \$811 and \$550, respectively. Total interest expense incurred by the Water Utility was \$11,373 and \$8,496, respectively.

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

Supply, pumping and treatment plant.....	20-50 years
Transmission and distribution plant.....	25-50 years
General plant and equipment.....	5-50 years
Intangibles.....	5-15 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Statements of Net Position because their use is limited by applicable bond covenants. Proceeds from lease purchase financing yet to be used for the acquisition of capital equipment are also classified as restricted assets because their use is legally restricted for a specific purposes. Generally, the Water Utility will first apply restricted resources when expenses incurred for which both restricted and unrestricted resources are available.

In June 2004, the Water Utility began collecting a surcharge for Water Conservation Programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5 percent, 1.0 percent and 1.5 percent surcharge effective June 1, 2004, 2005 and 2006, respectively, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. On April 22, 2014, the City Council approved continuation of the 1.5 percent surcharge effective for the next ten years. The programs and services offered include conservation, education, and water use efficiency programs; and research, development and demonstration programs to advance science and technology with respect to water conservation. The activity associated with the surcharge is reflected in the accompanying financial statements on the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

CASH AND INVESTMENTS

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

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

City-wide information concerning cash and investments as of June 30, 2019, including authorized investments, fair value measurement and application, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments can be found in the notes to the City's financial statements in the City's "Comprehensive Annual Financial Report" (CAFR).

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents, if any, are considered restricted by the Water Utility and are used to fund construction of capital assets.

UNRESTRICTED DESIGNATED CASH RESERVES

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted designated cash reserve balances as of June 30, 2019 and 2018 were as follows: Property Reserve \$5,060 and \$5,000, Recycled Water Reserve \$1,554 and \$2,915, Customer Deposits \$626 and \$621, and Capital Repair and Replacement Reserve \$2,276 and \$2,249, respectively. The combined total for these reserves was \$9,516 and \$10,785 at June 30, 2019 and 2018, respectively and is included as a component of unrestricted cash and cash equivalents in the accompanying Statements of Net Position.

ADVANCES TO OTHER FUNDS OF THE CITY

Advances to other funds of the City have been recorded as a result of agreements between the Water Utility and the City. The balances as of June 30, 2019 and 2018 are \$139 and \$131, respectively.

DERIVATIVES

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

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

BOND PREMIUM/DISCOUNTS AND GAINS/LOSSES ON REFUNDING

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills and plan check fee deposits for future water connection. The Water Utility's portion of these deposits as of June 30, 2019 and 2018 was \$789 and \$813, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due to employees at June 30, 2019 and 2018. The Water Utility treats compensated absences due to employees as an expense and a liability of which a current portion is included in accounts payable and other accruals in the accompanying Statements of Net Position. The amount accrued for compensated absences was \$2,027 at June 30, 2019, and \$1,850 at June 30, 2018.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2019, may be found in the notes to the City's financial statements in the City's CAFR.

Although the ultimate amount of losses incurred through June 30, 2019 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 \$527 and \$288 for the years ended June 30, 2019 and 2018, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further details of employee retirement plan can be found in Note 6.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB refers to the benefits, other than pensions, that the City provides as part of an employee's retirement benefits. The net OPEB obligation is defined as the liability of employers contributing to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust. In order to improve the financial reporting of these benefits, the Water Utility has implemented GASB 75, which is explained in detail under New Accounting Pronouncements and in Note 7.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

When applicable, the Statements of Net Position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Deferred outflows of resources consist of changes in derivative values, loss on refunding, note payable and deferred outflows related to pension which include pension contributions subsequent to the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

measurement date, difference between actual and actuarial determined contribution, changes in assumptions and net differences between projected and actual earnings on pension plan investments.

Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of regulatory charges and deferred inflows related to pension which include changes in assumptions, differences between expected and actual experience, and net differences between projected and actual earnings on pension plan investments.

REGULATORY ASSETS AND DEFERRED REGULATORY CHARGES

In accordance with regulatory accounting criteria set forth in GASB Codification (GASB Statement No. 62), enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the Water Utility is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets and/or deferred regulatory charges related to debt issuance costs have been recognized in the Statements of Net Position.

NET POSITION

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City of Riverside Charter, the Water Utility may transfer up to 11.5 percent of prior year's gross operating revenues, including adjustments, to the City's general fund. In fiscal years ended June 30, 2019 and 2018, \$6,584 and \$6,173, respectively was transferred representing 11.5 percent.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2019 and 2018, consist of the following (in thousands):

	June 30, 2019	June 30, 2018
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 50,713	\$ 58,230
Cash and investments at fiscal agent	40,474	-
Total cash and investments	<u>\$ 91,187</u>	<u>\$ 58,230</u>

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

	June 30, 2019	June 30, 2018
Unrestricted cash and cash equivalents	\$ 41,038	\$ 47,464
Restricted cash and cash equivalents	9,675	10,766
Restricted cash and investments at fiscal agent	40,474	-
Total cash and investments	<u>\$ 91,187</u>	<u>\$ 58,230</u>

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

The Water Utility categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Water Utility has the following recurring fair value measurements as of June 30, 2019 and 2018:

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Investment Type	June 30,	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
	2019	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value				
Held by fiscal agent					
Money market funds	\$ 40,474	\$ -	\$ 40,474	\$ -	\$ -
City Treasurer's investment pool ¹					
Money market funds	395	-	395	-	-
Joint powers authority pools	9,457	-	9,457	-	-
Mortgage/Asset backed securities	1,311	-	1,311	-	-
US Treasury notes/bonds	22,251	-	22,251	-	-
Federal agency securities	1,014	-	1,014	-	-
Federal agency discount notes	997	-	997	-	-
Corp medium term notes	4,875	-	4,875	-	-
Supranational securities	130	-	130	-	-
Negotiable certificate of deposit	380	-	380	-	-
State investment pool	9,903	-	-	-	9,903
Total	\$ 91,187	\$ -	\$ 81,284	\$ -	\$ 9,903

Investment Type	June 30,	Quoted Prices in			Investments not Subject to Fair Value Hierarchy
	2018	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value				
City Treasurer's investment pool ¹					
Money market funds	\$ 13,730	\$ -	\$ 13,730	\$ -	-
Federal agency securities	733	-	733	-	-
US Treasury notes/bonds	27,822	-	27,822	-	-
Corp medium term notes	3,311	-	3,311	-	-
State investment pool	11,951	-	-	-	11,951
Negotiable certificate of deposit	683	-	683	-	-
Total	\$ 58,230	\$ -	\$ 46,279	\$ -	\$ 11,951

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Cash and investments distribution by maturities as of June 30, 2019 and 2018, are as follows:

Investment Type	June 30, 2019 Fair Value	Remaining Maturity (In Months)		
		12 Months or less	13 to 24 Months	25 to 60 Months
Held by fiscal agent				
Money market funds	\$ 40,474	\$ 40,474	\$ -	\$ -
City Treasurer's investment pool ¹				
Money market funds	395	395	-	-
Joint powers authority pools	9,457	9,457	-	-
State investment pool	9,903	9,903	-	-
Mortgage/Asset backed securities	1,311	535	-	776
US Treasury notes/bonds	22,251	7,250	6,801	8,200
Federal agency securities	1,014	76	617	321
Federal agency discount notes	997	997	-	-
Corp medium term notes	4,875	1,466	406	3,003
Supranational securities	130	130	-	-
Negotiable certificate of deposit	380	76	152	152
Total	\$ 91,187	\$ 70,759	\$ 7,976	\$ 12,452

Investment Type	June 30, 2018 Fair Value	Remaining Maturity (In Months)		
		12 Months or less	13 to 24 Months	25 to 60 Months
City Treasurer's investment pool ¹				
Money market funds	\$ 13,730	\$ 13,730	\$ -	\$ -
Federal agency securities	733	-	-	733
US Treasury notes/bonds	27,822	3,759	13,000	11,063
Corp medium term notes	3,311	784	1,374	1,153
State investment pool	11,951	11,951	-	-
Negotiable certificate of deposit	683	412	91	180
Total	\$ 58,230	\$ 30,636	\$ 14,465	\$ 13,129

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

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Presented below is the actual rating as of June 30, 2019 and 2018 for each investment type:

Investment Type	Rating as of Year End				
	June 30, 2019				
	Fair Value	AAA	AA	A	Unrated
Held by fiscal agent					
Money market funds	\$ 40,474	\$ -	\$ -	\$ 40,474	\$ -
City Treasurer's investment pool ¹					
Money market funds	395	-	-	393	2
State investment pool	9,903	-	-	-	9,903
Joint powers authority pools	9,457	-	9,457	-	-
Mortgage/Asset backed securities	1,311	1,311	-	-	-
US Treasury notes/bonds	22,251	22,251	-	-	-
Federal agency securities	1,014	938	76	-	-
Federal agency discount notes	997	-	-	-	997
Corp medium term notes	4,875	-	4,126	749	-
Supranational securities	130	130	-	-	-
Negotiable certificate of deposit	380	-	-	-	380
Total	\$ 91,187	\$ 24,630	\$ 13,659	\$ 41,616	\$ 11,282

Investment Type	Rating as of Year End				
	June 30, 2018				
	Fair Value	AAA	AA	A	Unrated
City Treasurer's investment pool ¹					
Money market funds	13,730	-	13,257	473	-
Federal agency securities	733	733	-	-	-
US Treasury notes/bonds	27,822	27,822	-	-	-
Corp medium term notes	3,311	-	3,311	-	-
State investment pool	11,951	-	-	-	11,951
Negotiable certificate of deposit	683	-	-	-	683
Total	\$ 58,230	\$ 28,555	\$ 16,568	\$ 473	\$ 12,634

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

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017	Additions	Retirements/ Transfers	Balance As of 6/30/2018	Additions	Retirements/ Transfers	Balance As of 6/30/2019
Source of supply	\$ 63,060	2,380	-	\$ 65,440	\$ 3,446	\$ -	\$ 68,886
Pumping	32,047	557	-	32,604	213	-	32,817
Treatment	43,939	1,205	(644)	44,500	114	-	44,614
Transmission and distribution	482,453	18,357	(302)	500,508	23,274	(1,374)	522,408
General	15,945	61	(88)	15,918	1,753	(943)	16,728
Intangible	3,528	494	-	4,022	140	-	4,162
Depreciable utility plant	640,972	23,054	(1,034)	662,992	28,940	(2,317)	689,615
Less accumulated depreciation							
Source of supply	(17,389)	(1,486)	-	(18,875)	(1,577)	-	(20,452)
Pumping	(12,233)	(681)	-	(12,914)	(690)	-	(13,604)
Treatment	(13,260)	(1,201)	644	(13,817)	(1,275)	-	(15,092)
Transmission and distribution	(161,793)	(10,361)	302	(171,852)	(10,698)	1,345	(181,205)
General	(12,800)	(542)	88	(13,254)	(476)	943	(12,787)
Intangible	(822)	(643)	-	(1,465)	(733)	-	(2,198)
Accumulated depreciation	(218,297)	(14,914)	1,034	(232,177)	(15,449)	2,288	(245,338)
Net depreciable utility plant	422,675	8,140	-	430,815	13,491	(29)	444,277
Land	20,484	357	-	20,841	-	-	20,841
Intangible, non-amortizable	10,841	-	-	10,841	-	-	10,841
Construction in progress	13,973	32,135	(22,139)	23,969	23,315	(27,892)	19,392
Nondepreciable utility plant	45,298	32,492	(22,139)	55,651	23,315	(27,892)	51,074
Total utility plant	\$ 467,973	\$ 40,632	\$ (22,139)	\$ 486,466	\$ 36,806	\$ (27,921)	\$ 495,351

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2019 and 2018 (in thousands):

	Balance As of 6/30/2017	Additions	Reductions	Balance As of 6/30/2018	Additions	Reductions	Balance As of 6/30/2019	Due Within One Year
Revenue bonds	\$ 190,364	\$ -	\$ (5,730)	\$ 184,634	\$ 135,106	\$ (88,101)	\$ 231,639	\$ 5,520
Pension obligation bonds	4,439	-	(683)	3,756	-	(728)	3,028	619
Direct Borrowings:								
Leased purchases	2,305	-	(210)	2,095	-	(211)	1,884	217
Note payable	13,764	8,600	(840)	21,524	-	(1,201)	20,323	1,279
Contracts payable - Water stock acquisition rights	937	-	-	937	-	-	937	150
Total long-term obligations	\$ 211,809	\$ 8,600	\$ (7,463)	\$ 212,946	\$ 135,106	\$ (90,241)	\$ 257,811	\$ 7,785

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

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

CONTRACTS

	June 30, 2019	June 30, 2018
Water Stock Acquisitions: Payable to various water companies	\$ 937	\$ 937
Total contracts payable	<u>937</u>	<u>937</u>

PENSION OBLIGATION BONDS PAYABLE

\$30,000 2005 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$630 to \$3,860 through June 2020, interest from 3.9 to 4.8 percent. The Water Utility's proportional share of the outstanding debt is 10.7 percent.	284	697
\$31,960 2017 Taxable Pension Obligation Bonds Series A: fixed rate bonds issued by the City due in annual installments from \$2,910 to \$3,580 through June 2027, interest from 1.3 to 3.1 percent. The Water utility's proportional share of the outstanding debt is 10.7 percent.	2,744	3,059
Total pension obligation bonds payable	<u>3,028</u>	<u>3,756</u>

REVENUE BONDS PAYABLE

\$58,235 2008 Water Revenue Series B Bonds: all outstanding bonds were refinanced with the 2019 series A Revenue/Refunding Bonds on February 26, 2019.	-	55,415
\$31,895 2009 Water Refunding/Revenue Series A Bonds: fixed rate bonds due in annual principal installments from \$2,270 to \$2,360 through October 1, 2020, interest from 4.0 to 5.0 percent	4,630	7,255
\$67,790 2009 Water Revenue Series B Bonds: fixed rate, federally taxable, Build America Bonds due in annual principal installments from \$2,475 to \$4,985 from October 1, 2021 through October 1, 2039, interest from 3.3 to 4.1 percent	67,790	67,790
\$59,000 2011 Water Revenue/Refunding Series A Bonds: variable rate bonds due in annual principal installments from \$2,375 to \$3,950 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2019 was 3.1 percent). Partially refunded \$26,900 on April 1, 2019 with 2019A Electric Refunding Bonds.	24,050	52,425
\$114,229 2019 Water Revenue Refunding Series A Bonds: fixed rate bonds due in annual principal installments from \$1,680 to \$8,455 through October 1, 2048, interest of 5.0 percent	114,215	-
Total water revenue bonds payable	<u>210,685</u>	<u>182,885</u>
Total water revenue bonds, pension obligation bonds and contracts payable	214,650	187,578
Unamortized bond premium	20,954	1,749
Total water revenue bonds, pension obligation bonds and contracts payable, including bond premium	<u>235,604</u>	<u>189,327</u>
Less current portion	(6,289)	(6,513)
Total long-term water revenue bonds, pension obligation bonds and contracts payable	<u>\$ 229,315</u>	<u>\$ 182,814</u>

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

For fiscal year ended June 30, 2018, the City restructured the presentation of the long term pension obligation bonds from advances from other funds to long term obligations. The Water Utility is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017. The Water Utility's proportional share of the outstanding principal amount of the bonds was \$3,028 and \$3,756 as of June 30, 2019 and 2018, respectively. The bond proceeds were deposited with CalPERS to fund the unfunded actuarial accrued liability for non-safety employees. For more discussion relating to the City's pension obligation bond issuance, see the notes to the City's financial statements in the City's CAFR for the fiscal year ended June 30, 2019.

Remaining pension obligation bond debt service payments will be made from revenues of the Water Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 619	\$ 113	\$ 732
2021	327	89	416
2022	334	68	402
2023	342	61	403
2024	351	52	403
2025-2029	1,055	112	1,167
Total	\$ 3,028	\$ 495	\$ 3,523

All water revenue bonds are covenanted per the Amended and Restated Resolution No. 17664 (Water) Master Resolution that upon the occurrence and continuation of an event of default, 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 should the City fail to pay its debts as they become due or upon the entry of any decree or order of bankruptcy of the City.

\$114,215 2019 Water Revenue/Refunding Bonds; Series A. The bonds were issued in February 2019 to fund short-term and long-term capital projects, refund the 2008 Water Revenue Bonds; Series B, and partially refund and partially unwind the swap on the 2011 Water Revenue Bonds; Series A. The refunding transactions resulted in a total net present value savings of \$10,759. 5% due in annual installments from \$1,680 to \$8,455 through 10/1/2048.

Remaining revenue bond debt service payments will be made from revenues of the Electric Fund. Annual debt service requirements to maturity as of June 30, 2019 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 5,520	\$ 9,920	\$ 15,440
2021	6,335	9,083	15,418
2022	6,640	8,780	15,420
2023	6,915	8,478	15,393
2024	7,215	8,154	15,369
2025-2029	41,225	35,276	76,501
2030-2034	50,000	25,166	75,166
2035-2039	60,740	13,571	74,311
2040-2044	14,260	4,270	18,530
2045-2049	11,835	1,537	13,372
Premium	20,954	-	20,954
Total	\$ 231,639	\$ 124,235	\$ 355,874

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

The Water Utility has a number of debt issuances (revenue bonds) outstanding that are collateralized by the pledging of water revenues. The amount and term of the remainder of these commitments are indicated in the revenue bonds payable and annual debt service requirements to maturity tables presented within this Note 4. The purpose of the debt issuances was for the financing of various Water Utility capital improvement projects. For June 30, 2019 and 2018, debt service payments as a percentage of the pledged gross revenue, net of certain expenses where so required by the debt agreement, are indicated in the table below. The debt service coverage ratios also approximate the relationship of the debt service to pledged revenue for the remainder of the term of the commitment.

Fiscal Year Ended	Description of Pledged Revenues	Annual Amount of Pledged Revenue (net of expenses) (1)	Annual Debt Service Payments	Debt Service Coverage Ratio
June 30, 2019	Water revenues	\$ 25,269	\$ 15,142	1.67
June 30, 2018	Water revenues	\$ 30,317	\$ 14,147	2.14

¹ Excludes GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of (\$482) and \$3,149 as expenses for June 30, 2019 and 2018 respectively.

LINE OF CREDIT

On February 1, 2019, the City entered into a subordinate line of credit agreement with U.S. Bank, National Association. The Subordinate Line of Credit is a tool approved through the Electric and Water Utility Five-Year Rate Plan to manage rate increases by enabling the Water Utility to reduce cash levels while maintaining compliance with the Riverside Public Utilities Cash Reserve Policy. Under the terms and conditions of the agreement, the City may borrow up to \$25,000 for purposes of the capital or operating financial needs of the Water System. There were no borrowings against the line as of June 30, 2019.

INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was employed as a hedge against debt that was refunded in 2008 and 2011. At the time of the refunding, hedge accounting ceased to be applied. The balance of the deferral account for the swap is included as part of the deferred loss on refunding associated with the new bonds. The swap was also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the Statements of Net Position.

A summary of the derivative activity for the year ended June 30, 2019 is as follows:

	Notional Amount	Fair Value as of 6/30/2019	Change in Fair Value for Fiscal Year
2011 Water Refunding/Revenue Bonds Series A	\$ 24,050	\$ (5,257)	\$ 336

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the Water Utility entered into an interest rate swap agreement in connection with its \$59,000 2011 Water Refunding/Revenue Series A Bonds.

Terms: Per the existing swap agreement, the Water Utility pays the counterparty a fixed payment and receives a variable payment computed as 62.68 percent of the London Interbank Offering Rate ("LIBOR")

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

one-month index plus 12 basis points. The swap has a notional amount equal to the principal amount stated above. The notional value of the swap and principal amount of the associated debt decline by \$1,475 to \$3,950 until the debt is completely retired in fiscal year 2036.

The bonds and the related swap agreement for the 2011 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2019, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.56232%)
Net interest rate swap payments		2.63768%
Variable-rate bond coupon payments		0.47722%
Synthetic interest on bonds		3.11490%

Fair value: As of June 30, 2019, in connection with the swap agreement, the transactions had a total negative fair value of (\$5,257). Because the coupons on the Water Utility's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2019, the Water Utility was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase & Co. was rated A- by Standard & Poor's (S&P). To mitigate the potential for credit risk, the swap agreement requires the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2019, there is no requirement for collateral posting for the outstanding swap.

Basis risk: As noted above, the swap exposes the Water Utility to basis risk should the relationship between LIBOR and the variable interest rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

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

Swap payments and associated debt: As of June 30, 2019, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal Year Ending June 30,	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2020	\$ -	\$ 118	\$ 652	\$ 770
2021	-	118	652	770
2022	-	118	652	770
2023	-	118	652	770
2024	-	118	652	770
2025-2029	-	590	3,258	3,848
2030-2034	16,275	369	2,041	18,685
2035-2039	7,775	29	158	7,962
Total	\$ 24,050	\$ 1,578	\$ 8,717	\$ 34,345

NOTE PAYABLE

Note payable consists of several agreements with Hillwood Enterprises, L.P. and related entities (collectively Hillwood) for their development of logistic centers located in the City of San Bernardino. As a part of these agreements, the Water Utility leases land to Hillwood and also purchased land from Hillwood with a subsequent lease-back to the entity. In addition, the agreements require Hillwood to relocate wells located on the properties as well as terminate an existing lease. In consideration of the cost of the land purchase, well relocations and lease termination, the Water Utility will make payments to Hillwood in the form of a credit with Hillwood's rental payments to the Water Utility for the first 15 years of the leases. These agreements resulted in a total liability to the Water Utility of \$20,323, as of June 30, 2019.

Estimated annual rent credits, which are adjusted annually based on Consumer Price Index (CPI), to be applied to the land purchase and well relocation agreements commencing in 2014 with an effective interest rate of 3.27 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 753	\$ 394	\$ 1,147
2021	821	368	1,189
2022	891	340	1,231
2023	966	310	1,276
2024	1,045	277	1,322
2025-2029	6,561	795	7,356
2030-2034	1,334	20	1,354
Total	\$ 12,371	\$ 2,504	\$ 14,875

NOTE 4. LONG-TERM OBLIGATIONS (CONTINUED)

Estimated annual rent credits, which are adjusted annually based on CPI, to be applied to the well relocation agreement commencing in 2018 with an effective interest rate of 3.00 percent, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 226	\$ 117	\$ 343
2021	233	110	343
2022	241	103	344
2023	248	95	343
2024	256	87	343
2025-2029	1,410	307	1,717
2030-2034	1,213	75	1,288
Total	\$ 3,827	\$ 894	\$ 4,721

Annual rent credits to be applied for the lease termination agreement commencing in 2018, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2020	\$ 300	\$ -	\$ 300
2021	300	-	300
2022	300	-	300
2023	300	-	300
2024	300	-	300
2025-2029	1,500	-	1,500
2030-2034	1,125	-	1,125
Total	\$ 4,125	\$ -	\$ 4,125

LEASE PURCHASE FINANCING

In fiscal year ended June 30, 2017, the Water Utility participated in the City's lease purchase financing program for the acquisition of water system heavy vehicles and equipment. The heavy vehicles and equipment lease financing is for a ten-year term of annual payments with an interest rate of 2.36 percent. Gross proceeds of \$2,305 were received for the financing. Various heavy-duty equipment was purchased for \$1,742 and for \$36 for the years ended June 30, 2019 and 2018, respectively. It is anticipated that the remaining vehicles and equipment will be purchased in fiscal year ending June 30, 2020. The total liability with the current portion included in accounts payable and other accruals as of June 30, 2019 and 2018 was \$1,884 and \$2,095, respectively. The annual lease payments for the life of the lease are \$260 annually through fiscal year ending June 30, 2027. As of June 30, 2019 total outstanding lease payments are \$2,079, with \$1,884 representing principal and \$195 representing interest.

NOTE 5. COMPENSATED ABSENCES

A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time-off or payments upon termination or retirement.

Below is a summary of changes in Compensated absences for the Water Utility during the fiscal year.

	Balance As of 6/30/2017			Balance As of 6/30/2018			Balance As of 6/30/2019	Due Within One Year
	Additions	Reductions		Additions	Reductions			
Compensated absences	1,682	1,538	(1,370)	1,850	1,754	(1,577)	2,027	1,728

NOTE 6. EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

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

FUNDING POLICY

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Under the Plan, the City pays the employees' contribution to CalPERS for employees hired on or before specific dates as follows:

- 1st Tier –
 - The retirement formula is 2.7 percent at age 55 for employees hired before October 19, 2011. Effective January 1, 2018 for unrepresented employees (Sr. Management, Management, Professional, Para-professional, Supervisory, Confidential, and Executive units), the employees were required to pay 2 percent of the employee contribution of their pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.
 - The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employee is required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees will be required to

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

pay an additional portion of their pensionable income. This portion is a two year increase of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income

- The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees will be required to pay an additional portion of their pensionable income. This portion is a three year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.
- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier – The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

The contribution requirements of plan members and the City are established and may be amended by CalPERS.

BENEFITS PROVIDED

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

EMPLOYEES COVERED

As of measurement date June 30, 2018 and 2017, the following employees, City-wide, were covered by the benefit terms of the Plan:

	Measurement Date	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Inactive employees or beneficiaries		
currently receiving benefits	2,184	2,114
Inactive employees entitled to but		
not yet receiving benefits	1,375	1,325
Active employees	1,607	1,599

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

CONTRIBUTIONS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NET PENSION LIABILITY

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For fiscal year ended June 30, 2019, the net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. For fiscal year ended June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

ACTUARIAL ASSUMPTIONS

The total pension liabilities in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous - Current Year</u>	<u>Miscellaneous - Prior Year</u>
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.75%
Projected salary increase	(1)	(1)
Mortality	(2)	(2)

(1) Depending on age, service and type of employment.

(2) The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

CHANGES IN ASSUMPTIONS

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

DISCOUNT RATE

The discount rate used to measure the Plan's total pension liability was 7.15 percent for measurement date as of June 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LONG-TERM DISCOUNT RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as follows:

Asset Class ⁽¹⁾	June 30, 2018 Measurement Date		
	Current Target Allocation	Real Return Years 1 - 10 ⁽²⁾	Real Return Years 11 + ⁽³⁾
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

⁽¹⁾ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾ An expected inflation of 2.00% used for this period.

⁽³⁾ An expected inflation of 2.92% used for this period.

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Asset Class ⁽¹⁾	June 30, 2017 Measurement Date		
	Current Target Allocation	Real Return Years 1 - 10 ⁽²⁾	Real Return Years 11 + ⁽³⁾
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Assets	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

⁽¹⁾ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾ An expected inflation of 2.50% used for this period.

⁽³⁾ An expected inflation of 3.00% used for this period.

CHANGES IN THE NET PENSION LIABILITY

The changes in the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability as of June 30, 2019 (measurement date June 30, 2018) and 2018 (measurement date June 30, 2017) for the Plan are as follows:

	Net Pension Liability	Proportion of the Plan
June 30, 2019		
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	\$ 30,737	11.03%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	38,880	11.44%
Change - Increase / (Decrease)	(8,143)	(0.41%)
June 30, 2018		
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	38,880	11.44%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	34,465	11.14%
Change - Increase / (Decrease)	4,415	0.30%

For fiscal year 2019, the Water Utility net pension liability no longer includes its proportionate share of the City's Safety Plan which explains the percentage decrease.

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the net pension liability of the Plan, calculated using the discount rate of 7.15 percent, as well as what the Water Utility's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Measurement Date					
	June 30, 2018			June 30, 2017		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
The Water Utility's proportionate share of the Plan's net pension liability	\$ 51,290	\$ 30,737	\$ 13,837	\$ 60,851	\$ 38,880	\$ 20,883

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSION

For the fiscal years ended June 30, 2019 and 2018, the Water Utility, including Water Conservation Programs, recognized pension expense of \$3,323 and \$6,319, respectively. At June 30, 2019 and 2018, the Water Utility, including Water Conservation Programs, reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	June 30, 2019		June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,805	\$ -	\$ 3,227	\$ -
Changes in assumptions	3,876	(2,913)	6,075	-
Differences between expected and actual experience	-	(2,831)	-	(2,585)
Net differences between projected and actual earnings on plan investments	434	-	1,579	-
Total	\$ 8,115	\$ (5,744)	\$ 10,881	\$ (2,585)

\$3,805 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

NOTE 6. EMPLOYEE RETIREMENT PLAN (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
2019	1,170
2020	(587)
2021	(1,715)
2022	(303)
2023	-
Total	<u>\$ (1,435)</u>

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City's defined benefit OPEB plan, Retiree Health Plan, provides continuation of medical (including prescription drugs) and dental coverage benefits to retirees and surviving spouses in the form of an implied rate subsidy. The Retiree Health Benefits plan is a single employer defined benefit OPEB plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

BENEFITS PROVIDED

Eligibility for continuation of coverage requires retirement from the City and CalPERS with at least 5 years of City service. The retiree is responsible for 100% of the premium cost for coverage, which is based on the blended experience of both the active and retired employees. The City is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefit to eligible retirees and beneficiaries. Retiree and spousal coverage terminates when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. However, retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

As of measurement date June 30, 2018, the following employees, City-wide, were covered by the benefit terms:

	Measurement Date	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Inactive employees or beneficiaries		
currently receiving benefits	304	304
Inactive employees entitled to but		
not yet receiving benefits	-	-
Active employees	2,121	2,121

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

ACTUARIAL ASSUMPTIONS

The total OPEB liability was determined by actuarial valuation as of June 30, 2018 and 2017, using the following actuarial assumptions:

	<u>Current Year</u>	<u>Prior Year</u>
Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Funding Policy	Pay-as-you-go for implicit rate subsidy	Pay-as-you-go for implicit rate subsidy
Actuarial Assumptions:		
Discount rate ⁽¹⁾	3.50%	3.40%
Inflation rate	2.75%	2.75%
Salary inflation	3.00%	3.00%
Salary increases ⁽²⁾	--	--
Mortality	CalPERS 2014 Experience Study	CalPERS 2014 Experience Study

(1) The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

(2) The benefits are not payroll related but the City's cost for each individual's projected City contribution is allocated over their lifetime as a level-percentage of pay. For cost method purposes the merit increases from the most recent CalPERS pension plan valuation will be used.

CHANGES OF ASSUMPTIONS

In 2018, the discount rate was changed from 3.4 percent to 3.5 percent.

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATES

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability, calculating using the healthcare trend rate of 6.00%/HMO and 6.50%/PPO for measurement date as of June 30, 2018 and June 30, 2017, as well as what the Water Utility's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is 1-percentage-point lower (5.00%/HMO and 5.50%/PPO) or 1-percentage-point higher (7.00%/HMO and 7.50%/PPO) than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	Current healthcare			Current healthcare		
	1% Decrease	cost trend rates	1% Increase	1% Decrease	cost trend rates	1% Increase
The Water Utility's proportionate share of the City's total OPEB liability	\$ 3,141	\$ 3,524	\$ 3,973	\$ 3,065	\$ 3,410	\$ 3,813

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN DISCOUNT RATES

The following presents the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability, calculating using the discount rate of 3.50% and 3.40% for measurement date as of June 30, 2018 and 2017 respectively, as well as what the Water Utility's total OPEB liability would be if it was calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2018 - Measurement Date			June 30, 2017 - Measurement Date		
	Current Discount			Current Discount		
	1% Decrease (2.50%)	Rate (3.50%)	1% Increase (4.50%)	1% Decrease (2.40%)	Rate (3.40%)	1% Increase (4.40%)
The Water Utility's proportionate share of the City's total OPEB liability	\$ 3,817	\$ 3,524	\$ 3,256	\$ 3,697	\$ 3,410	\$ 3,148

CHANGE IN TOTAL OPEB LIABILITY

For fiscal year ended June 30, 2019 and 2018, the Water Utility's, including Water Conservation Programs, recognized total OPEB expense of \$118 and \$265 respectively. The following table shows the change in the Water Utility's, including Water Conservation Programs, proportionate share of the City's total OPEB liability for the year ended June 30, 2019 (measurement date June 30, 2018) and the year ended June 30, 2018 (measurement date June 30, 2017):

<u>June 30, 2019</u>	<u>Total OPEB Liability</u>	<u>Proportion to the City</u>
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	\$ 3,524	9.19%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	3,410	9.30%
Change - Increase / (Decrease)	114	-0.11%
<u>June 30, 2018</u>	<u>Total OPEB Liability</u>	<u>Proportion to the City</u>
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 3,410	9.30%
Proportion - Reporting date June 30, 2017 (measurement date June 30, 2016)	3,391	9.30%
Change - Increase / (Decrease)	19	0.00%

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2019, the Water Utility, including Water Conservation Programs, reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ -	\$ (117)
Total	<u>\$ -</u>	<u>\$ (117)</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Inflows of Resources</u>
2019	\$ (19)
2020	(19)
2021	(19)
2022	(19)
2023	(19)
Thereafter	(22)
Total	<u>\$ (117)</u>

NOTE 8. RESTRICTED NET POSITION

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of net position. Bond indentures for the Water Utility's water revenue and refunding bonds require debt service reserves that equate to the maximum annual debt service required in future years and bond service reserves of three months interest and nine months principal due in the next fiscal year. Variable rate revenue and refunding bonds require 110 percent of the monthly accrued interest to be included in the reserve. Certain issues have no debt service reserve requirements (2009A & B, 2011A and 2019A).

NOTE 9. CONSTRUCTION COMMITMENTS

As of June 30, 2019, the Water Utility had major commitments (encumbrances) of approximately \$949 with respect to unfinished capital projects, of which is \$295 is expected to be funded by unrestricted cash reserves, \$460 to be funded by bonds, and \$194 to be funded by rates.

NOTE 10. LITIGATION

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

The Water Utility is a plaintiff in a lawsuit against several entities that either owned or leased a property site in the City of Colton and City of Rialto that is contaminated by perchlorate. The lawsuit was filed March 31, 2009. On May 24, 2018, the State trial court dismissed the action, with prejudice, for failure to join the federal Department of Defense, with instructions to refile the lawsuit in federal court and include the Department of Defense as a party. The City has appealed such dismissal, and no hearing has been set on the City's appeal.

NOTE 11. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$1,736 was made to increase the Water Utility's, including Water Conservation Programs, net position. The adjustment was made to reflect the prior period costs related to pension. The restatement of beginning net position is as follows:

Net position at July 1, 2018, as previously stated	\$	305,078
Pension related adjustments		1,736
Net position at July 1, 2018, as restated	\$	<u>306,814</u>

WATER UTILITY: KEY HISTORICAL OPERATING DATA

FISCAL YEAR	2018/19	2017/18	2016/17	2015/16	2014/15
WATER SUPPLY (ACRE FEET)					
Potable water production ¹	64,379	69,778	64,407	58,903	59,974
Percentage pumped ²	100.00%	100.00%	100.00%	100.00%	100.00%
System peak day (gallons) ³	90,200,000	83,000,000	81,000,000	75,000,000	74,000,000
WATER USE					
Number of meters as of year end					
Residential	59,456	59,601	59,453	59,137	58,922
Commercial/Industrial	5,045	5,705	5,640	5,619	5,594
Other	1302	334	335	338	355
Total	65,803	65,640	65,428	65,094	64,871
CCF* sales					
Residential	14,157,606	15,564,143	14,219,498	13,125,476	15,424,999
Commercial/Industrial	7,611,943	9,573,518	8,683,382	8,011,884	9,511,177
Other	2,384,761	900,596	844,041	764,125	895,876
Subtotal	24,154,310	26,038,257	23,746,921	21,901,485	25,832,052
Wholesale	1,673,411	1,476,117	1,593,808	627,978	175,438
Total	25,827,721	27,514,374	25,340,729	22,529,463	26,007,490

*(CCF equals 100 cubic feet)

WATER FACTS

Average annual CCF per residential customer	238	261	240	223	262
Average price (\$/CCF) per residential customer	\$2.50	\$2.39	\$2.46	\$2.44	\$2.35
Debt service coverage ratio (DSC) ^{4,5}	1.67	2.14	2.04	1.80	2.15
Employees ⁶	159	159	174	181	181

¹ Water pumping figures have been adjusted to include retail and wholesale potable water production.

² No purchased water.

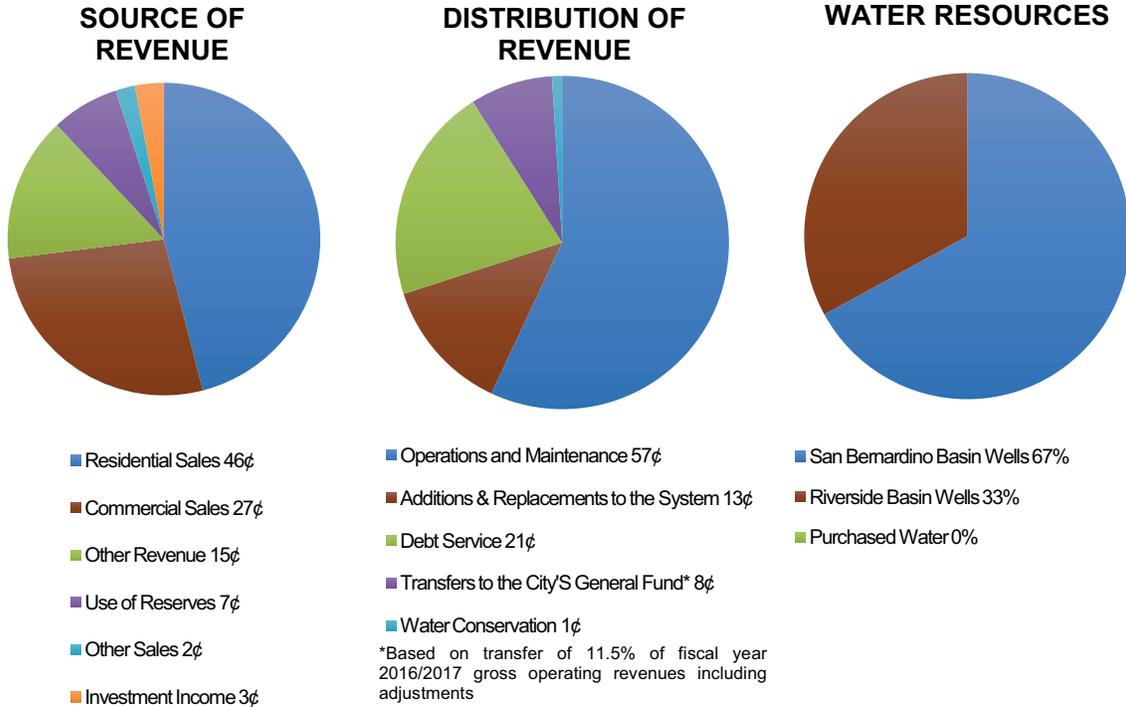
³ System peak day has been adjusted to reflect production for retail customers.

⁴ Interest expense used to calculate DSC is net of federal subsidy on Build America Bonds.

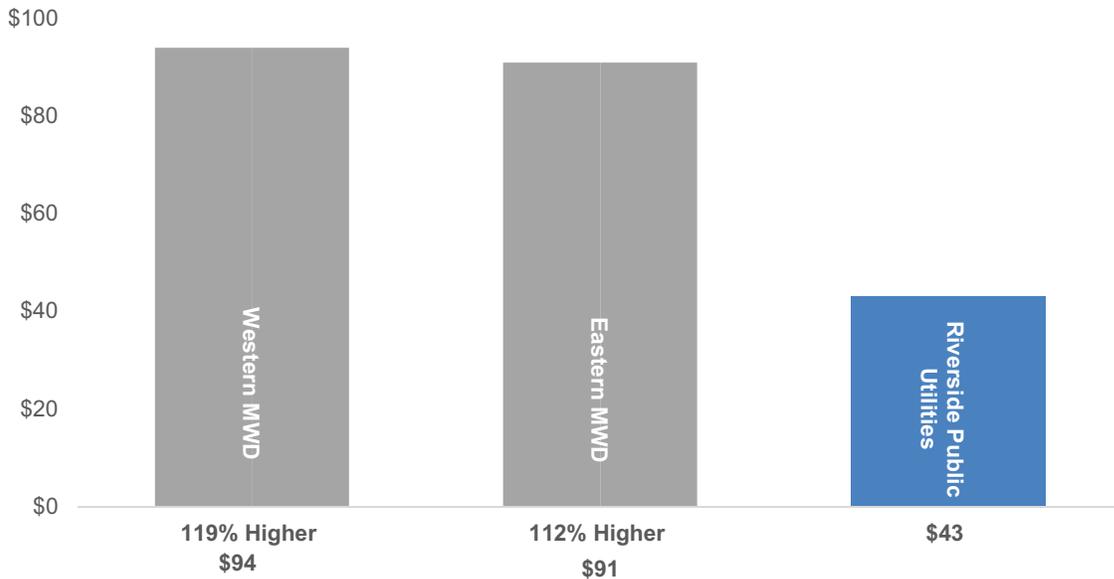
⁵ Does not include GASB 68 Accounting and Financial Reporting for Pension non-cash adjustments of (\$482), \$3,149, (\$85), (\$1,806), and (\$941) for fiscal years 18/19 through FY 14/15, respectively.

⁶ Approved positions.

2018/2019 WATER REVENUE AND RESOURCES

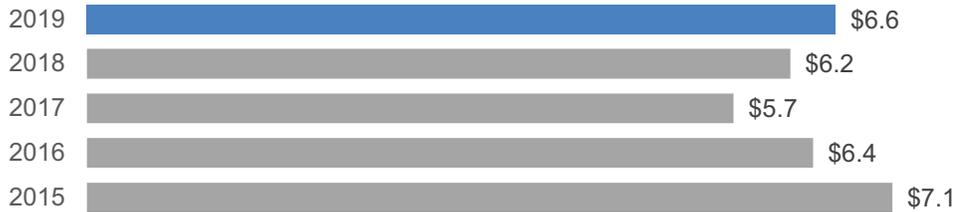


RESIDENTIAL WATER RATE COMPARISON - 20 CCF PER MONTH (AS OF JUNE 30, 2019)

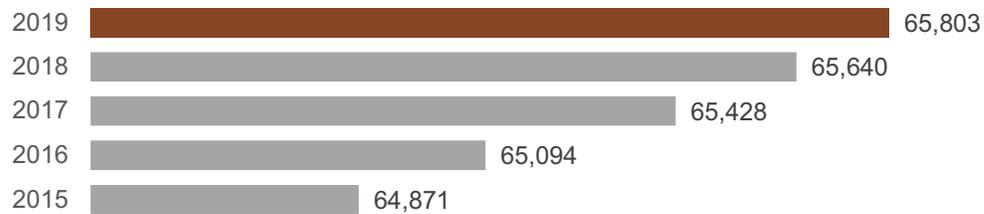


WATER KEY OPERATING INDICATORS

General Fund Transfer (In Millions)



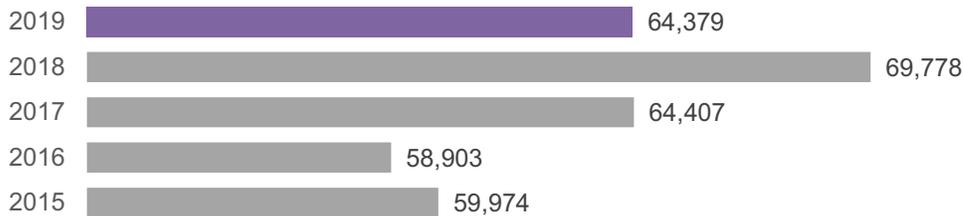
Number of Meters At Year End



Total Operating Revenue (In Millions)



Potable Water Production (In Acre Feet)



Peak Day Demand (In Millions of Gallons)



WATER FACTS AND SYSTEM DATA

Established..... 1913

Service Area Population..... 328,042

Service Area Size (square miles) 74.24

System Data

Smallest Pipeline 2.0"

Largest Pipeline 72.0"

Miles of Pipeline 1,005

Number of Domestic Wells 56

Number of Active Reservoirs 16

Total Reservoir Capacity (gallons)..... 108,500,000

Number of Treatment Plants..... 6

Number of Treatment Vessels 84

Miles of Canal..... 14

Number of Fire Hydrants 8,192

Daily Average Production (gallons) 59,000,000

2018-2019 Peak Day (gallons) 90,200,000

06/07/18, 102 Degrees

Historical Peak (gallons)..... 118,782,000

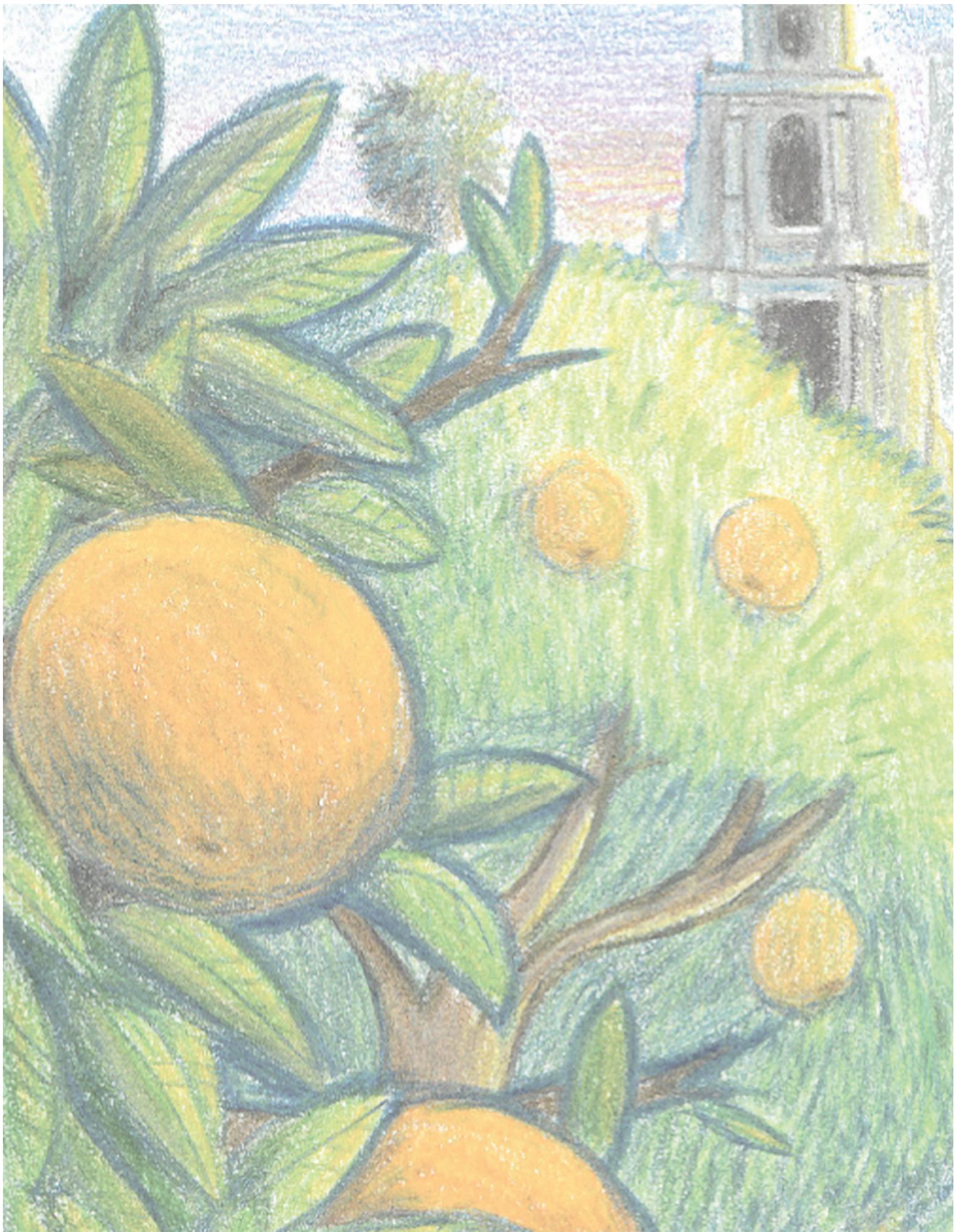
08/9/05, 99 Degrees

Bond Ratings

Fitch Ratings..... AA+

Moody's Aa2

S&P Global Ratings AAA





RIVERSIDE PUBLIC UTILITIES

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution that are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Resolution for a full and complete statement of the provisions thereof.

MASTER RESOLUTION

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Resolution will, for all purposes of the Resolution and of any Supplemental Resolution and of any certificate, opinion or other document mentioned therein, have the meanings specified below, to be equally applicable to both the singular and plural forms of any of the terms defined below. Unless otherwise defined in the Resolution, all terms used therein will have the meanings assigned to such terms in the Law.

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

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

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

“Authorized Investments” means any investments in which the City may legally invest sums subject to its control, as certified to each Fiscal Agent, and includes any Designated Investments.

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

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

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

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

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

“BMA” means the Bond Market Association and its successors and assigns.

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

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

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

“Charter” means the Charter of the City, as it may be amended from time to time.

“City” means the City of Riverside, California.

“City Clerk” means the City Clerk of the City.

“City Council” or “Council” means the City Council of the City.

“Construction Costs” means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Electric System and any facilities related thereto.

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

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

“Designated Investments” means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series.

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

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

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

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

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

“Fiscal Agent” means 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 is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Fitch,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, will 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 electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction; and (ii) all Subordinate Swap Receipts.

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

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

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

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

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

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

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

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

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

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

(e) if the Bonds or Parity Debt are Paired Obligations, the interest rate on such Bonds or Parity Debt will be the collective fixed interest rate to be paid by the City with respect to Paired Obligations;

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

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

(1) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a net variable interest rate with respect to such Bonds and Subordinate Swap by the City, the interest rate on such Bonds for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Subordinate Swap is in effect) to be equal to the sum of: (i) the fixed rate or rates stated in such Bonds; minus (ii) the fixed rate paid by the Subordinate Swap Provider to the City; plus (iii) the lesser of: (A) the interest rate cap, if any, provided by a Subordinate Swap Provider with respect to such Subordinate Swap (but only during the period that such interest rate cap is in effect); and (B) the applicable variable interest rate calculated in accordance with clauses (b) or (c) above, as applicable; and

(2) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a fixed interest rate with respect to such Bonds and Subordinate Swap by the City, the interest on such Bonds will be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap.

Notwithstanding any other paragraph of the definition of “Maximum Annual Debt Service,” except as set forth in clause (g) above, no amounts payable under any Subordinate Swap (including Termination Payments) will be included in the calculation of Maximum Annual Debt Service.

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

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

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

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

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

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

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

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

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

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

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

“Paired Obligations” means any one or more Series (or portion thereof) of Bonds or Parity Debt, designated as Paired Obligations in the Supplemental Resolution or other document authorizing the issuance or incurrence thereof, that are simultaneously issued or incurred: (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts; and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of the City for the term of such Bonds or Parity Debt.

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

“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.

“Prior Resolutions” means Resolution No. 14134 of the City Council, Resolution No. 14135 of the City Council, Resolution No. 15012 of the City Council and Resolution No. 16080 of the City Council, as each may be amended from time to time.

“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 Electric Revenue Fund.

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

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

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

“Resolution” means Resolution No. 17662 as originally adopted by the City Council on January 8, 1991, as amended, modified or supplemented from time to time by any Supplemental Resolution.

“Securities Depository” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered to any Fiscal Agent.

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

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

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Standard & Poor’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, will 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 will provide that payments by the City thereunder will be secured by the subordinate lien on Net Operating Revenues created under the Resolution with respect to Subordinate Swaps (and other Subordinate Obligations).

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

“Subordinate Swap Policy” means any insurance policy or similar agreement insuring payment of the City’s obligations under a particular Subordinate Swap.

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

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

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

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

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

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

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

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

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

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

“1998 Bonds” means the City of Riverside Electric Refunding/Revenue Bonds, Issue of 1998.

“2001 Bonds” means the City of Riverside Electric Revenue Bonds, Issue of 2001.

“2003 Bonds” means the City of Riverside Electric Refunding Revenue Bonds, Issue of 2003.

“2004A Bonds” means the City of Riverside Electric Revenue Bonds, Issue of 2004A.

“2008A Bonds” means the City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A.

“2008B Bonds” means the City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B.

“2008C Bonds” means the City of Riverside Variable Rate Refunding Electric Revenues Bonds, Issue of 2008C.

“2008D Bonds” means the City of Riverside Electric Revenue Bonds, Issue of 2008D.

“2019 Bonds” means City of Riverside Refunding Electric Revenue Bonds, Issue of 2019.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Resolution with respect to compliance with any provision of the Resolution will include: (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions in the Resolution relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement (a) that, in the opinion of such Person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter or (b) that he or she had made or caused to be made his or her examination or investigation with respect to the subject matter in accordance with specified professional standards; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer or employee of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer or employee of the City, unless such counsel, accountant or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such Person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer or employee of the City, or the same counsel or accountant or independent consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

THE BONDS

Execution of Bonds. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series will be executed in the name and on behalf of the City with the facsimile or manual signature of the Mayor and the Treasurer, under seal attested by the facsimile or manual signature of the City Clerk. Such seal may be in the form of a facsimile of the City’s seal and may be reproduced, imprinted or impressed on the Bonds. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series will be delivered to the Fiscal Agent for that Series for authentication by it. In case any of the Persons who signed or attested any of the Bonds ceases to hold their respective offices or positions before the Bonds so signed or attested have been authenticated or delivered by the Fiscal Agent or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the City as though those who signed and attested the same had continued to be such officers or employees, and also any Bond may be signed and attested on behalf of the City by such Persons as at the actual date of execution of such Bond are the proper officers or employees although at the nominal date of such Bond any such Person are not such officer or employee.

Except as provided in the Supplemental Resolution providing for the issuance thereof, only such of the Bonds as bear thereon a certificate of authentication substantially in the form recited in the Supplemental Resolution creating such Series, manually executed by the Fiscal Agent for such Series, will be valid or obligatory for any purpose or entitled to the benefits of the Resolution, and such certificate of authentication when manually executed by such Fiscal Agent will be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered under the Resolution and are entitled to the benefits of the Resolution.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the Person in whose name it is registered, in Person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond.

Whenever any Bond or Bonds of a Series are surrendered for transfer, the City will execute and the Fiscal Agent for that Series will authenticate and deliver a new Bond or Bonds, of the same Series, tenor and maturity and for a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to register a transfer of any Bonds within 15 days before the date of selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. A Fiscal Agent may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bond so selected for redemption. The Fiscal Agent will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Bond Register. The Fiscal Agent for each Series of Bonds will keep or cause to be kept, at its designated office sufficient books for the registration and transfer of the Bonds of that Series, which will at all times be open to inspection during normal business hours by the City; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Resolution.

Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, will be of such denomination as may be determined by the City, will be in registered form and may contain such reference to any of the provisions of the Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond will be executed by the City and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Resolution as definitive Bonds authenticated and delivered thereunder.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the City at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond will be cancelled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and the City and indemnity satisfactory to them is given, the City at the expense of the Owner, will execute, and the Fiscal Agent will thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent for that Series may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Resolution and of the expenses which may be incurred by the City and the Fiscal Agent in the premises. Any Bond issued under the provisions of the Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Resolution with all other Bonds secured by the Resolution. Neither the City nor any Fiscal Agent will be required to treat both the original Bond and any substitute Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Resolution or for the purpose of determining any percentage of Bonds Outstanding thereunder, but both the original and substitute Bond will be treated as one and the same.

REDEMPTION OF BONDS

Redemption at the Direction of the City. In the case of any redemption of Bonds at the direction of the City, the City will select the Series, maturities and principal amounts thereof to be redeemed and the Treasurer will give written notice to the Fiscal Agent for each Series of Bonds to be redeemed specifying the redemption date and the maturities and Bond Obligation amounts of such Series to be redeemed, and directing the Fiscal Agent to give notice of redemption to the Owners of Bonds selected for redemption. The City will give such notice at least 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 for that Series may give notice of redemption to the Owners of the Bonds of that Series.

Redemption Otherwise than at the City's Direction. Whenever by the terms of the Supplemental Resolution pursuant to which any Series of Bonds is issued the Fiscal Agent is required or authorized to redeem Bonds otherwise than at the direction of the City, the Fiscal Agent will, subject to receipt of any notice from the City pursuant to Resolution, select the Bonds to be redeemed and shall give the notice of redemption.

REVENUES

Pledge of Net Operating Revenues for Bonds and for Subordinate Obligations. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and will be a charge upon and will be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City by the Resolution has pledged, placed a charge upon and assigned all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt. There are by the Resolution pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

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

Out of Gross Operating Revenues there will be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, to the following: the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund payments of the Bonds and Parity Debt and any reserve fund with respect thereto; the payment of amounts due under the Subordinate Obligations; and the excess earnings or rebate requirements with respect to the Bonds. All remaining Gross Operating Revenues, after making the foregoing allocations, will be surplus and may be used for

any lawful purpose. The pledges of Net Operating Revenues made in the Resolution will be irrevocable until there are no longer Bonds Outstanding and all amounts due under the Subordinate Obligations have been paid.

Establishment of Funds and Accounts. The Resolution has created, renamed or continued, and the Treasurer will maintain in accordance with the terms of the Resolution, within the Electric Revenue Fund, the following accounts and sub-accounts:

(1) Electric Revenue Bonds, Bond Service Account (sometimes called “Bond Service Account”), in which there are established the following sub-accounts:

(a) Electric Revenue Bonds, Principal Account (sometimes called the “Principal Account”);
and

(b) Electric Revenue Bonds, Interest Account (sometimes called the “Interest Account”);

(2) Electric Revenue Bonds, Renewal and Replacement Account (sometimes called the “Renewal and Replacement Account”); and

(3) Electric Revenue Bonds, Surplus Account (sometimes called the “Surplus Account”).

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

Establishment, Funding and Application of Redemption Account. The Treasurer will establish, maintain and hold in trust a special account within the Electric Revenue Fund designated as the “Redemption Account.” All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds will, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account will be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer will, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Account will be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

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

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

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts

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

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

COVENANTS OF THE CITY

Covenants. The City makes the following covenants with the Owners and the Subordinate Providers (to be performed by the City or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners and the Subordinate Providers; provided, however, that said covenants do not require or obligate the City to use any of its funds other than the Electric Revenue Fund. Said covenants will be in effect subject to certain provisions of the Resolution, so long as any of the Bonds issued under the Resolution are Outstanding and unpaid, so long as any of the Subordinate Obligations are unpaid or so long as provision for the full payment and discharge of the Bonds at maturity or upon redemption thereof prior to maturity through the setting apart in the Bond Service Account or in the Redemption Account or in a special trust fund to insure the payment or redemption thereof (as the case may be) of money sufficient for that purpose has not been made.

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

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

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

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

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

Against Sale; Eminent Domain. The City has covenanted in the Resolution that the Electric System will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Electric Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt and of any amounts due with respect to the Subordinate Obligations, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor will any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City has further covenanted in the Resolution that it will not enter into any agreement which impairs the operation of the Electric System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt and to pay all amounts due under the Subordinate Obligations or which otherwise would impair the rights of the Owners or the Subordinate Providers with respect to the Net Operating Revenues or the operation of the Electric System. If any substantial part of the Electric System is sold, the payment therefor will, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

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

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

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

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

The City will cause the books and accounts of the Electric System to be audited annually by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the

Owners at the office of the City Clerk, and at the office of the Treasurer and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

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

THE FISCAL AGENT

Appointment; Duties of Fiscal Agent.

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

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

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

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

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

of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

Liability of Fiscal Agent.

(A) The recitals of facts in the Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of the City, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Resolution. A Fiscal Agent and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it is proven that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Resolution and perform the duties required of it under the Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

(C) No provision of the Resolution requires a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

(D) A Fiscal Agent is not required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Resolution and to file with such Fiscal Agent when due, such reports and certifications as the City is required to file with each Fiscal Agent under the Resolution.

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent imposes a duty to exercise such power, right or remedy.

(F) A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent determines to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

(G) Whether or not therein expressly so provided, every provision of the Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions described above.

Right of Fiscal Agent to Rely on Documents. A Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to the City, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith unless it is proven that a Fiscal Agent was negligent in ascertaining the pertinent facts.

Whenever in the administration of the duties imposed upon it by the Resolution a Fiscal Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be specifically prescribed in the Resolution) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate will be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of the Resolution in reliance upon such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the City or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Resolution.

MODIFICATION OR AMENDMENT OF THE RESOLUTION

Amendments Permitted.

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

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

expressly provided in the Resolution), without the consent of the Owners of all of the Bonds then Outstanding; (c) extend or reduce the amount payable by the City under any Subordinate Obligation without the consent of the affected Subordinate Swap Provider, affected Subordinate Swap Policy Provider or affected owner of a Subordinate Bond; (d) permit the creation of any lien on the Net Operating Revenues prior to or on a parity with the subordinate lien created by the Resolution for the benefit of the Subordinate Providers, or deprive the Subordinate Providers of such lien created by the Resolution on such Net Operating Revenues (in each case, except as expressly provided in the Resolution), without the consent of the affected Subordinate Swap Providers, affected Subordinate Swap Policy Providers and affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners; or (e) modify any rights or duties of the Fiscal Agent without its consent.

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

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

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

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

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of any of the Bonds;

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

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

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

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

Effect of Supplemental Resolution. From and after the time any Supplemental Resolution becomes effective pursuant to the Resolution, the Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the City, each Fiscal Agent, all Owners of Bonds Outstanding and all Subordinate Providers will thereafter be determined, exercised and enforced

under the Resolution subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Resolution for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Resolution may, and if a Fiscal Agent so determines will, bear a notation by endorsement or otherwise in form approved by the City Council and such Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his or her Bond for such purpose at the Corporate Trust Office of such Fiscal Agent or at such additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation will be made on such Bond. If a Supplemental Resolution so provides, new Bonds so modified as to conform, in the opinion of the Treasurer and the Fiscal Agent for such Series, to any modification or amendment contained in such Supplemental Resolution, will be prepared and executed by the City and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then outstanding will be exchanged at the Corporate Trust Office of such Fiscal Agent, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

Amendment of Particular Bonds. The foregoing provisions will not prevent any Bondholder from accepting any amendment as to the particular Bands held by him or, her, provided that due notation thereof is made on such Bonds.

DEFEASANCE

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by the City in any of the following ways: (a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable; (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem all Bonds Outstanding of the Series; or (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If the City pays all Series for which any Bonds are Outstanding and also pays or causes to be paid all other sums payable to any provider of a Credit Facility under the Resolution by the City and all sums payable to all Subordinate Providers by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds have not been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer will cause an accounting for such period or periods as the City may request to be prepared and filed with the City and will cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

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

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

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

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

(b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will; in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series will have been made for the giving of such notice;

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

Payment of Bonds After Discharge of Resolution. Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, will, upon Request of the City, be released from the trusts created by the Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of the City) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary will not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than the City) for any interest earned on, moneys so held. Any interest earned thereon will belong to the City and will be deposited monthly by the Treasurer into the Bond Service Account.

DEFAULTS AND REMEDIES

Events of Default. Each of the following events is an Event of Default under the Resolution:

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

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

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

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

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

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

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

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

Bondholders' Committee. If an Event of Default has occurred and is continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any

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

Acceleration. Upon the occurrence and continuation of an Event of Default described in clauses (e), (f) or (g) under the caption "—Events of Default", the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds will forthwith become due and payable. Upon any such declaration the City will forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged for such purpose in the Resolution. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequences. No such rescission or annulment will extend to or affect any subsequent default or impair any right consequent thereon.

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 90 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Electric System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates, fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the City itself might do. No bond will be required of such receiver.

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution. No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to any other remedy given to the Bondholders under the Resolution or now or later existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default under the Resolution by the Owners will extend to or affect any subsequent default or Event of Default or impair any rights or remedies consequent thereon.

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

MISCELLANEOUS

Liability of City Limited to Net Operating Revenues. Notwithstanding anything in the Resolution or in the Bonds, the City is not required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Resolution for any of the purposes in the Resolution mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds, the payment of amounts due under the Subordinate Obligations, or for any other purpose of the Resolution.

The general fund of the City is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, or the payment of any Subordinate Obligations, nor is the credit or taxing power of the City pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, or the payment of any Subordinate Obligations. The Owner of any Bond or any Subordinate Provider may not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption. Amounts payable under the Subordinate Obligations are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues (as provided in the Resolution).

Successor Is Deemed Included in All References to Predecessor. Whenever in the Resolution either the City, the Treasurer or any Fiscal Agent is named or referred to, such reference will include the successors or assigns thereof, and all the covenants and agreements in the Resolution contained by or on behalf of the City or any Fiscal Agent will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to City, Fiscal Agents, Bondholders and Subordinate Providers. Nothing in the Resolution or in the Bonds or the Subordinate Obligations expressed or implied is intended or may be construed to give to any Person other than the City, each Fiscal Agent, the Owners of the Bonds and the Subordinate Providers, as applicable, any legal or equitable right, remedy or claim under or in respect of the Resolution or any covenant, condition or provision therein or contained in the Resolution, as applicable; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the City, each Fiscal Agent, the Owners of the Bonds and the Subordinate Providers, as applicable.

Waiver of Notice. Whenever in the Resolution the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Destruction or Delivery of Cancelled Bonds. Whenever in the Resolution provision is made for the cancellation by a Fiscal Agent and the delivery to the Treasurer of any Bonds, such Fiscal Agent may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Treasurer, if the Treasurer so requires), and deliver a certificate of such destruction to the Treasurer.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Resolution or in the Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Resolution, and the Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Resolution. The City Council has declared that it would have adopted the Resolution and each and every other section, paragraph, sentence, clause or phrase of the Resolution and authorized the issuance of the Bonds and the execution and delivery or issuance of the Subordinate Obligations pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Resolution may be held illegal, invalid or unenforceable.

Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by the Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of

substantially similar tenor and will be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, will be sufficient for any purpose of the Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of the City if made in the manner provided in the Resolution.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Fiscal Agent for such Series. The Fiscal Agent of a Series may establish a record date as of which to measure consent of the Bondholders of such Series in order to determine whether the requisite consents are received.

Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any request, consent, or other instrument or writing of the Owner of any Bond of such Series will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or the City in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Resolution, Bonds which are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this section if the pledgee establishes to the satisfaction of the Fiscal Agent for such Series the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent taken upon the advice of counsel will be full protection to such Fiscal Agent.

Money Held for Particular Bonds. The money held by the Treasurer or a Fiscal Agent for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on the City's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to certain provisions of the Resolution.

Accounts and Sub-Accounts. Any accounts required by the Resolution to be established and maintained by the Treasurer or a Fiscal Agent may be established and maintained in the accounting records of the Treasurer or a Fiscal Agent, either as an account or a sub-account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a sub-account; but all such records with respect to all such accounts will at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

Proceedings Constitute Contract. The provisions of the Resolution constitute a contract between the City and the Bondholders of such Bonds, and the provisions thereof will be enforceable by any Bondholder for the equal benefit and protection of all Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction. The provisions of the Resolution also constitute a contract between the City and each Subordinate Provider, and the provisions of the Resolution will be enforceable by any such Provider by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction; provided, however, that

no such action by such a Provider may in any manner adversely affect the benefits, securities or protections granted to Owner of Bonds or owners of Parity Debt under the Resolution.

No remedy conferred by the Resolution upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any subsequent default or breach of duty or contract or impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default will impair any such right or power or be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy will be brought or taken and the Bondholder will prevail, said Bondholder will be entitled to receive from the Electric Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, the City and the Bondholder will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds of any Series, the Resolution will be irrevocable, but will be subject to modification to the extent and in the manner provided in the Resolution, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Resolution will be deemed to restrict or prohibit the City from making contracts or creating bonded or other indebtedness payable from the general fund of the City, as the case may be, or from taxes or any source other than the Gross Operating Revenues, and from and after the sale of the Bonds of any Series, the general fund of the City will not include the Gross Operating Revenues and no contract or other obligation payable from the general fund of the City will be payable from the Gross Operating Revenues, except as provided in the Resolution.

Waiver of Personal Liability. No City Council member, officer, agent or employee of the City or any Fiscal Agent will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or for the payment of amounts due under the Subordinate Obligations or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Resolution will relieve any such City Council member, officer, agent or employee of the City or any Fiscal Agent from the performance of any official duty provided by law or by the Resolution.

Governing Law. The Resolution will be construed and governed in accordance with the laws of the State of California.

Business Day. Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day will become due or be made on the next succeeding Business Day and no interest will accrue for such period.

AMENDMENTS TO THE RESOLUTION

The Resolution has been amended to add Subsection (h) to the definition of "Maximum Annual Debt Service" as follows:

"(h) if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America."

In addition, the following paragraph was added to the end of the provision described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant” in the Official Statement as follows:

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

The above amendments will not take effect while any of the the 1998 Bonds, 2001 Bonds, 2003 Bonds, 2004A Bonds, 2008A Bonds, 2008B Bonds, 2008C Bonds or 2008D Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps).

SIXTEENTH SUPPLEMENTAL RESOLUTION

DEFINITIONS

All terms which are defined in the Master Resolution will, unless otherwise defined herein, have the same meanings, respectively, in the Sixteenth Supplemental Resolution. Unless the context otherwise requires, the terms defined in the Sixteenth Supplemental Resolution will, for all purposes of the Sixteenth Supplemental Resolution and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and the plural forms of any of the terms therein defined. Unless otherwise defined in the Sixteenth Supplemental Resolution, all terms used therein have the meanings assigned to such terms by the Law.

“Alternate Credit Support Instrument” means a Credit Support Instrument issued to replace a Credit Support Instrument to support 2011A Bonds other than 2011A Bonds in a Long-Term Interest Rate Period to the Maturity Date thereof (i.e., Fixed Rate Bonds) or an Index Interest Rate Period.

“Applicable Index Spread” means either the Applicable LIBOR Spread or the Applicable SIFMA Spread, as the case may be, for an Index Interest Rate Period.

“Authorized Denominations” means \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

“Bank Bond Rate” means at the date of determination, the interest rate specified in the Credit Support Agreement as being applicable with respect to draws or advances made under a Credit Support Instrument in effect on such date, but in no event in excess of the Maximum Bank Bond Interest Rate.

“Bank Bonds” mean 2011A Bonds purchased by a Credit Provider or its assignee pursuant to a Credit Support Instrument.

“Bank Bonds Escrow Account” means the account with that name established within the Bond Purchase Fund pursuant to the Sixteenth Supplemental Resolution

“Beneficial Owner” means, while in the Book-Entry System, any Person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2011A Bond (including any Person holding a 2011A Bond through nominees, depositories or other intermediaries); or (b) is treated as the owner of any 2011A Bond for federal income tax purposes.

“Bond Interest Term” means with respect to any 2011A Bond, each period established under the Sixteenth Supplemental Resolution during which such 2011A Bond bears interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means with respect to each 2011A Bond, a non-variable interest rate on such 2011A Bond established periodically in accordance with the Sixteenth Supplemental Resolution.

“Bond Purchase Fund” means the trust fund with that name established with the Tender Agent pursuant to the Sixteenth Supplemental Resolution.

“Bond Year” means each period so identified in the Tax Certificate or, if no such periods are so identified, then each period concluding on June 30 of each year to and including the year in which the last of the 2011A Bonds is scheduled finally to mature.

“Book-Entry System” means the system maintained by the Securities Depository and described in the Sixteenth Supplemental Resolution.

“Business Day” means, for purposes of the 2011A Bonds, any day other than: (i) a Saturday or Sunday; or (ii) a day on which battles located: (A) in the city in which the corporate trust office of the Fiscal Agent is located; (B) with respect to 2011A Bonds for which a Credit Support Instrument is in place, in the city in which drawings under the Credit Support Instrument are to be honored is located; (C) with respect to 2011A Bonds for which a Tender Agent is in place, in the city in which the corporate trust office of the Tender Agent at which the 2011A Bonds may be tendered for purchase by the Owners thereof is located; or (D) with respect to 2011A Bonds for which a Remarketing Agent is in place, in the city in which the principal office of the Remarketing Agent for a 2011A Bond is located, are authorized or required to remain closed; or (iii) a day on which The New York Stock Exchange is closed.

“Calculation Agent” means, while the 2011A Bonds are in an Index Interest Rate Period, a Calculation Agent appointed pursuant to the Sixteenth Supplemental Resolution. The initial Calculation Agent will be U.S. Bank National Association.

“Call Protection Date” means, with respect to an Index Interest Rate Period, the Tender Period Halfway Date from an Index Rate Scheduled Purchase Date.

“Closing Certificate of the City” means a Certificate of the Treasurer of the City (or the Treasurer’s designee) delivered at the time of the initial issuance of the 2011A Bonds, that among other things, provides certain terms of the 2011A Bonds to be issued pursuant to the Sixteenth Supplemental Resolution, all as authorized pursuant to the terms thereof.

“Closing Date” means the date of delivery of the 2011A Bonds against payment therefor.

“Code” means the Internal Revenue Code of 1986.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed and delivered by the City in connection with the issuance of the 2011A Bonds.

“Conversion,” “Convert” or “Converted” means or refers to a conversion of the 2011A Bonds from one Interest Rate Period to another Interest Rate Period as provided in the Sixteenth Supplemental Resolution.

“Conversion Date” means the effective date of a Conversion of the 2011A Bonds.

“Credit Provider” means the provider of a Credit Support Instrument that is performing in all material respects its obligations under such Credit Support Instrument, and its successors and permitted assigns, and, upon the effective date of an Alternate Credit Support Instrument, the bank or banks or other financial institution or financial institutions or other Person or Persons issuing such Alternate Credit Support Instrument, their successors and assigns. If any Alternate Credit Support Instrument is issued by more than one bank, financial institution or other Person, notices required to be given to the Credit Provider may be given to the bank, financial institution or other Person under such Alternate Credit Support Instrument appointed to act as agent for all such banks, financial institutions or other Persons.

“Credit Support Agreement” means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the City and the applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the reimbursement to the Credit Provider for payments under such Credit Support Instrument or for extensions of credit made to the City by the Credit Provider, and the interest thereon, and includes any subsequent agreement pursuant to which an Alternate Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document. A Credit Support Agreement, together with any Credit Support Instrument related thereto, will constitute a Credit Facility for purposes of the Master Resolution.

“Credit Support Instrument” means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit and/or liquidity support with respect to the payment of interest, principal, redemption price or Purchase Price of any Parity Debt, but does not include a line of credit, letter of credit, insurance policy, surety bond or other credit source meeting the requirements of the Sixteenth Supplemental Resolution relating to the 2011A Reserve Account, and any Alternate Credit Support Instrument delivered pursuant to the Sixteenth Supplemental Resolution and with terms that are not inconsistent with the terms of the Sixteenth Supplemental Resolution.

“Credit Support Instrument Costs” means all fees, expenses and other costs, other than Credit Support Instrument Repayment Obligations, required to be paid to a Credit Provider under the terms of the Credit Support Agreement for such Credit Support Instrument.

“Credit Support Instrument Draw Fund” means the fund by that name established pursuant to the Sixteenth Supplemental Resolution

“Credit Support Instrument Purchase Account” means the account with that name established within the Bond Purchase Fund pursuant to the Sixteenth Supplemental Resolution.

“Credit Support Instrument Repayment Obligations” means as of any date of calculation and with respect to a Credit Support Instrument, those outstanding amounts payable by the City under the Credit Support Agreement necessary to repay the Credit Provider for payments previously or concurrently made by it under the Credit Support Instrument to pay the principal of, interest on, redemption price of, or Purchase Price of any Parity Debt. There will not be included in the calculation of the amount of Credit Support Instrument Repayment Obligations any Credit Support Instrument Costs.

“Daily Interest Rate” means a variable interest rate for the 2011A Bonds established in accordance with the Sixteenth Supplemental Resolution.

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the 2011A Bonds.

“Designated Investments” means, with respect to the 2011A Bonds and subject to such further or other parameters as may be specified in the Closing Certificate of the City, the following:

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

(b) repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over-collateralization is at 103% or 104%, computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank has possession of such obligations; (iii) the Fiscal Agent has perfected a

first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

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

(d) the Local Agency Investment Fund (“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.

“Differential Interest Amount” means, with respect to any Bank Bond, the portion of the accrued interest owing to the Credit Provider with respect thereto which exceeds the amount of accrued interest payable by the purchaser of such Bank Bond upon its remarketing by the Remarketing Agent.

“Draw Request” means a request by the Tender Agent under a Credit Support Instrument for the payment of the principal of and interest on or redemption price (not including any premium) or Purchase Price of 2011A Bonds in accordance with the terms of the Sixteenth Supplemental Resolution and such Credit Support Instrument.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Eligible Account” means a depository account that is maintained with a federal chartered depository institution or a state chartered depository institution.

“Favorable Opinion of Bond Counsel” means an Opinion of Bond Counsel addressed to the City, the Fiscal Agent, the Remarketing Agent (if any), and the Credit Provider (if any) to the effect that an action proposed to be taken is not prohibited by the laws of the State or the Sixteenth Supplemental Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds.

“Fixed Rate Bonds” means any 2011A Bonds in a Long-Term Interest Rate Period bearing interest at Long-Term Interest Rates extending to the day immediately preceding the Maturity Date or dates of the 2011A Bonds.

“Index Interest Rate” means a variable interest rate for the 2011A Bonds in an Index Interest Rate Period, either the LIBOR Index Interest Rate or the SIFMA Index Interest Rate, as designated by the City under the Sixteenth Supplemental Resolution.

“Index Interest Rate Period” means, with respect to 2011A Bonds bearing interest at the Index Interest Rate, each period thereafter from the Index Rate Purchase Date of the immediately preceding Index Interest Rate Period to but excluding the first to occur of: (i) the immediately succeeding Index Rate Purchase Date; (ii) the first date on which the 2011A Bonds bear interest in an Interest Rate Period other than the Index Interest Rate; (iii) a conversion to Fixed Rate Bonds; or (iv) a date on which all 2011A Bonds are redeemed in accordance with the terms of the Sixteenth Supplemental Resolution or all principal and accrued interest on all 2011A Bonds are otherwise paid in full; provided, however, during any Purchase Default Period of the 2011A Bonds, there will be no Index Interest Rate Period in effect with respect to such 2011A Bonds.

“Index Rate Conversion Date” means: (a) the date on which the 2011A Bonds begin to bear interest at the Index Interest Rate or; (b) if the 2011A Bonds have previously borne interest at the Index Interest Rate during an Index Interest Rate Period, then ending on the Index Rate Purchase Date of the immediately preceding Index Interest Rate Period.

“Index Rate Purchase Date” means the earlier of: (i) the Index Rate Scheduled Purchase Date; or (ii) upon exercise of the City to require that the 2011A Bonds be tendered for purchase and upon actual purchase of such 2011A bonds, the Index Rate Unscheduled Purchase Date.

“Index Rate Scheduled Purchase Date” means the date on which the 2011A Bonds will be subject to scheduled mandatory tender for purchase as specified by the City to the Remarketing Agent on or before the first day of such Index Interest Rate Period and used to determine the Applicable LIBOR Factor and Applicable LIBOR Spread or the Applicable SIFMA Spread, as the case may be, which will result in the 2011A Bonds bearing interest during such Index Interest Rate Period at the minimum interest rate per annum that would enable the Remarketing Agent on the first day of such Index Interest Rate Period at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

“Index Rate Unscheduled Purchase Date” means, during an Index Interest Rate Period, any Business Day from and after the Call Protection Date designated by the City to require that the Owners of the 2011A Bonds tender their 2011A Bonds for purchase

“Interest Accrual Date” means with respect to the 2011A Bonds, for any Weekly Interest Rate Period, the first day thereof, and thereafter, the first Business Day of each calendar month during such Weekly Interest Rate Period.

“Interest Component on the Credit Support Instrument Repayment Obligations” means any Credit Support Instrument Repayment Obligations that arise out of: (a) the payment of interest on the 2011A Bonds, including repayment of tender interest drawings and the amount of any special mandatory tender drawing drawn for the payment of interest on the 2011A Bonds; or (b) the payment of interest on any Principal Installments on the Credit Support Instrument Repayment Obligations, including the payment of interest on any advances or term loans made in accordance with the terms of the Credit Support Instrument and/or Credit Support Agreement.

“Interest Payment Date” mean: (i) for any Weekly Interest Rate Period, the first Business Day of each calendar month; (ii) for each Interest Rate Period, the day next succeeding the last day thereof; and (iii) for Bank Bonds, the days on which interest is due pursuant to the Credit Support Instrument or any Credit Support Agreement providing therefor.

“Interest Period” means the period from and including each Interest Payment Date to and including the day next preceding the next Interest Payment Date; provided, however, that the final Interest Period will end the day next preceding the Maturity Date of such 2011A Bond.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or Index Interest Rate Period.

“Long-Term Interest Rate” means a term, non-variable interest rate established in accordance with the Sixteenth Supplemental Resolution.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect for the 2011A Bonds.

“Mandatory Standby Tender” means the mandatory tender of 2011A Bonds pursuant to the Sixteenth Supplemental Resolution upon receipt by the Tender Agent of written notice from the Credit Provider that an event with respect to the Credit Support Instrument has occurred which requires or gives the Credit Provider the option to terminate the Credit Support Instrument upon notice and requires that all Outstanding 2011A Bonds secured by such Credit Support Instrument be tendered for purchase.

“Master Resolution” means Resolution No. 17662 adopted by the City Council on January 8, 1991, as amended and supplemented from time to time, including as amended and supplemented by the Sixteenth Supplemental Resolution.

“Maturity Date” means October 1, 2035.

“Maximum Bank Bond Interest Rate” means the lesser of: (a) the rate of 15% per annum (or such lesser rate as may be provided in the Credit Support Instrument or the Credit Support Agreement, as appropriate); and (b) the Maximum Lawful Rate.

“Maximum Bond Interest Rate” means: the lesser of: (i) the rate of 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the 2011A Bonds (other than Bank Bonds); and (ii) the Maximum Lawful Rate.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Nominee” means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant hereto.

“Participant” means with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

“Person” means natural persons, corporations, partnerships, associations, trusts, firms, public bodies and other entities.

“Principal Installments on the Credit Support Instrument Repayment Obligations” means any Credit Support Instrument Repayment Obligations that arise out of the payment of the principal of the 2011A Bonds, including repayment of tender drawings and the amount of any special mandatory tender drawing drawn for the payment of principal of the 2011A Bonds and repayment of the principal amount of any advances or term loans made in accordance with the terms of the Credit Support Instrument and/or Credit Support Agreement.

“Principal Payment Date” means each October 1.

“Purchase Date” means the date on which 2011A Bonds are required to be purchased pursuant to the Sixteenth Supplemental Resolution.

“Purchase Default Period” means, upon a failure to purchase tendered 2011A Bonds on an Index Rate Scheduled Purchase Date and so long as the conditions to the commencement of a Purchase Default Period set forth in the Sixteenth Supplemental Resolution have been satisfied on such Index Rate Scheduled Purchase Date, the period commencing on such Index Rate Scheduled Purchase Date and ending on the 5th or the 3rd anniversary of such Index Rate Scheduled Purchase Date, as the case may be.

“Purchase Price” means the purchase price to be paid to the Owners of 2011A Bonds

purchased pursuant to the Sixteenth Supplemental Resolution, which is equal to the principal amount thereof tendered for purchase, plus accrued interest from the immediately preceding Interest Payment Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date), plus, in the case of a Conversion from a Long-Term Interest Rate, if applicable, on an optional redemption date, any applicable premium.

“Record Date” means: (i) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period, the Business Day immediately preceding such Interest Payment Date.

“Remarketing Account” means the account with that name established within the Bond Purchase Fund pursuant to the Sixteenth Supplemental Resolution

“Remarketing Agent” means each Person qualified under the Sixteenth Supplemental Resolution to act a Remarketing Agent for 2011A Bonds and appointed by the City from time to time under the Remarketing Agreement.

“Remarketing Agreement” means the Remarketing Agreement between the City and a Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of a Remarketing Agent with respect to the 2011A Bonds under the Sixteenth Supplemental Resolution, as amended from time to time.

“Representation Letter” means the Letter of Representations from the City to DTC relating to the 2011A Bonds.

“Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms; during which 2011A Bonds bear interest at one or more Bond Interest Term Rates.

“SIFMA Municipal Swap Index” means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by Securities Industry and Financial Markets Association (formerly known as the Bond Market Association), its successors and assigns (the “Association”), or any person acting in cooperation with or under the sponsorship of the Association and acceptable to the Remarketing Agent and effective from such date.

“Sixteenth Supplemental Resolution” means the resolution of the City Council, and any amendments, modifications or supplements thereto.

“Special Mandatory Redemption Payments” mean such amounts designated as Mandatory Sinking Account Payment under the Master Resolution and deposited in the Principal Account of the Bond Service Account of the Electric Revenue Fund for special mandatory redemptions contemplated under the Sixteenth Supplemental Resolution.

“Tax Certificate” means the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Code concerning certain matters pertaining to the use and investment of proceeds of the 2011A Bonds, executed and delivered by the City on the occasion of the delivery of the first to be delivered of the 2011A Bonds, as the same may be supplemented or amended, including any and all exhibits attached thereto.

“Taxable Date” means the date as of which interest on the 2011A Bonds is first includable in the gross income of any Owner of the 2011A Bonds (including, without limitation, any previous Owner of the 2011A Bonds) as determined pursuant to either: (i) an opinion of an attorney, or firm of attorneys, nationally recognized and experienced in legal work relating to the financing of facilities through the issuance of tax-exempt bonds; or (ii) a final decree or judgment of any federal court or a final action by the United States Internal Revenue Service that is delivered to the Fiscal Agent and/or the City.

“Tender Agent” means each Person qualified under the Sixteenth Supplemental Resolution to act as Tender Agent with respect to the 2011A Bonds and so appointed by the City and so acting from time to time, and its successors.

“Undelivered Bond” means any 2011A Bond which constitutes an Undelivered Bond under the provisions of the Sixteenth Supplemental Resolution.

“Weekly Interest Rate” means a variable interest rate for the 2011A Bonds established in accordance with the Sixteenth Supplemental Resolution.

“Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect for the 2011A Bonds.

“2011A Bond Reserve Requirement” means \$0.

“2011A Bonds” means the City of Riverside, California Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A.

“2011A Rebate Account” means the Electric Revenue Bonds, Issue of 2011A, Rebate Account established pursuant to the Sixteenth Supplemental Resolution.

“2011A Reserve Account” means the Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A, Reserve Account established pursuant to the Sixteenth Supplemental Resolution.

THE 2011A BONDS

Interest on the 2011A Bonds. Interest will be paid on the 2011A Bonds on each Interest Payment Date therefor. If, as shown by the records of the Fiscal Agent, interest on the 2011A Bonds is in default, 2011A Bonds issued in exchange for 2011A Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the 2011A Bonds so surrendered or, if no interest has been paid on the 2011A Bonds, from the date thereof.

Method and Place of Payment. The principal and Purchase Price of and premium, if any, and interest on the 2011A Bonds will be payable in lawful money of the United States of America. Such amounts will be paid by the Fiscal Agent on the applicable payment dates by wire transfer of immediately available funds on the applicable Record Date to an account specified by the Owner thereof in writing delivered to the Fiscal Agent, except that in the case of Bank Bonds, such payments will be made by wire transfer of immediately available funds on the applicable payment date following such Record Date. When a Book-Entry System is in effect, interest may be paid by wire transfer in accordance with mutually satisfactory arrangements between the Fiscal Agent and the Securities Depository. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money.

Negotiability. Subject to the provisions which are set forth under the caption “—Book-Entry System” and to the registration and payment provisions provided in the Sixteenth Supplemental Resolution, the 2011A Bonds will be fully negotiable within the meaning of and for the purposes of the Uniform Commercial Code – Investment Securities, and each registered Owner will possess all rights enjoyed by registered Owners of negotiable instruments under the Uniform Commercial Code – Investment Securities.

Book-Entry System. The 2011A Bonds will be issued registered in the name of “Cede & Co.,” as nominee for DTC and registered Owner of the 2011A Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository for each maturity of the 2011A Bonds, and the beneficial owners will not receive physical delivery of 2011A Bond certificates except as provided in the Sixteenth Supplemental Resolution. For so long as the Securities Depository continues to serve as securities depository for the 2011A Bonds as provided in the Sixteenth Supplemental Resolution, all transfers of beneficial ownership interests will be made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of 2011A Bonds to receive, hold or deliver any 2011A Bond certificate.

At the written direction of the City, with notice to the Fiscal Agent, any Tender Agent (if any), any Credit Provider (if any), and any Remarketing Agent (if any), but without the consent of the Owners of the 2011A Bonds, the Fiscal Agent, any Credit Provider, and the Tender Agent, and with the consent of any Remarketing Agent, the City, may appoint a successor Securities Depository and enter into an agreement with the successor Securities Depository, to establish procedures with respect to a Book-Entry System for the 2011A Bonds not inconsistent with the provisions of the Sixteenth Supplemental Resolution. Any successor Securities Depository must be a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended.

The City, the Fiscal Agent, the Tender Agent and any Remarketing Agent may rely conclusively upon: (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry System with respect to the 2011A Bonds; and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of the 2011A Bonds beneficially owned by, the beneficial owners.

Whenever, during the term of the 2011A Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in the Sixteenth Supplemental Resolution of holding, delivering or transferring the 2011A Bonds will be deemed modified to require the appropriate person to meet the requirements

of the Securities Depository as to registering or transferring the book-entry to produce the same effect. Any provision of the Sixteenth Supplemental Resolution permitting or requiring delivery of the 2011A Bonds will, while the 2011A Bonds are in the Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable state law.

Except as otherwise specifically provided in the Sixteenth Supplemental Resolution and the 2011A Bonds with respect to the rights of Participants and beneficial owners, when a Book-Entry System is in effect, the City, the Fiscal Agent, the Tender Agent and any Remarketing Agent may treat the Securities Depository (or its nominee) as the sole and exclusive Owner of the 2011A Bonds registered in its name for the purposes of payment of the principal of and interest on the 2011A Bonds or portion thereof to be redeemed or purchased, and of giving any notice permitted or required to be given to the Owners of 2011A Bonds under the Sixteenth Supplemental Resolution, and none of the City, the Fiscal Agent, the Tender Agent or any Remarketing Agent will be affected by any notice to the contrary. None of the City, the Fiscal Agent, the Tender Agent or any Remarketing Agent will have any responsibility or obligations to the Securities Depository, any Participant, any beneficial owner or any other Person which is not shown on the registration books required to be maintained by the Fiscal Agent, with respect to: (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any beneficial owner in respect of the principal amount or redemption or purchase price of, or interest on, any 2011A Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the beneficial owners to receive payment in the event of any partial redemption of the 2011A Bonds; or (v) any other action taken by the Securities Depository or any Participant. The Fiscal Agent will pay all principal of and interest on the 2011A Bonds registered in the name of Cede & Co. only to or “upon the order of the Securities Depository, and all such payments shall be valid and effective to fully satisfy and discharge the City’s obligations with respect to the principal of and interest on such 2011A Bonds to the extent of the sum or sums so paid.

When a Book-Entry System is in effect and 2011A Bonds are held by or on behalf of any Credit Provider by any Credit Provider’s designee, the City will provide certificated 2011A Bonds if and as required under the Credit Support Instrument and/or Credit Support Agreement or a separate CUSIP number to be used exclusively for Bank Bonds.

The Book-Entry System may be discontinued by the Fiscal Agent and the City, at the direction and expense of the City, and the City and the Fiscal Agent will cause the delivery of 2011A Bond certificates to such beneficial owners of the 2011A Bonds and registered in the names of such beneficial owners as specified to the Fiscal Agent by the Securities Depository in writing, under the following circumstances:

(1) The Securities Depository determines to discontinue providing its service with respect to the 2011A Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days’ notice to the City, the Tender Agent and the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law; or

(2) The City determines not to continue the Book-Entry System through a Securities Depository, upon not less than 45 days’ prior written notice to the Fiscal Agent, the Tender Agent and any Remarketing Agent.

When the Book-Entry System is not in effect, all references in the Sixteenth Supplemental Resolution to the Securities Depository will be of no further force or effect.

So long as any 2011A Bond is registered in the name of Cede, as nominee of DTC, all payments with respect to principal of and interest on such 2011A Bond and all notices with respect to such 2011A Bond will be made and given, respectively, in the manner provided in the Representation Letter.

In the event of a redemption or any other transaction necessitating a reduction in aggregate principal amount of 2011A Bonds Outstanding, DTC in its discretion: (a) may request the City and the Fiscal Agent to issue and authenticate a new 2011A Bond certificate; or (b) will make an appropriate notation on the 2011A Bond certificate indicating the date and amounts of such reduction in principal, except in the case of final maturity, in which case the certificate must be presented to the Fiscal Agent prior to payment.

Credit Support Instrument.

(A) Credit Support Instrument Draw Fund; Draws Under Credit Support Instrument to Pay Debt Service.

(1) There has been established a fund known as the “Credit Support Instrument Draw Fund,” to be held by the Fiscal Agent. All moneys drawn under the Credit Support Instrument, except for any amounts required to be deposited in the Bond Purchase Fund, will be deposited in the Credit Support Instrument Draw Fund upon receipt by the Fiscal Agent for application as provided in the Sixteenth Supplemental Resolution.

(2) So long as the Credit Support Instrument is in effect:

(a) No later than 4:00 p.m., New York City time, on the Business Day immediately preceding each Interest Payment Date, Principal Payment Date and date of redemption of any 2011A Bonds, the Tender Agent will make a Draw Request or Requests under the Credit Support Instrument, for funds to be transferred to the Fiscal Agent to be available no later than 1:00 p.m., New York City time, on such Interest Payment Date, Principal Payment Date or redemption date, in an amount sufficient to pay the principal of and interest on the 2011A Bonds then becoming due and payable with respect to the 2011A Bonds; and

(b) In the event of a declaration of acceleration, the Tender Agent will make a Draw Request or Requests under the Credit Support Instrument as soon as practicable, for immediately available funds, to be transferred to the Fiscal Agent in an amount sufficient to pay the principal of and interest on the 2011A Bonds then due and payable with respect to the 2011A Bonds as the result of such acceleration (for deposit to the Credit Support Instrument Draw Fund).

(c) Moneys deposited in the Credit Support Instrument Draw Fund will be used solely to pay principal of and interest on the 2011A Bonds as such 2011A Bonds become due and payable; provided, that notwithstanding anything to the contrary in the Sixteenth Supplemental Resolution, the Tender Agent will not draw on the Credit Support Instrument with respect to payment due or made in connection with Bank Bond or 2011A Bonds held by or on behalf of the City.

(B) Draw Requests to Pay Purchase Price. If there is not a sufficient amount of money available to pay the Purchase Price pursuant to the Sixteenth Supplemental Resolution on a Purchase Date on which 2011A Bonds are required to be purchased pursuant thereto, the Tender Agent will make a Draw Request or Requests under the Credit Support Instrument in accordance with its terms, at the times and in the manner required by the Credit Support Instrument and this Sixteenth Supplemental Resolution to receive immediately available funds on the Purchase Date sufficient to pay the balance of the Purchase Price. The Tender Agent agrees to deposit the proceeds of such Draw Requests in the Credit Support Instrument Purchase Account pursuant to the Sixteenth Supplemental Resolution pending application of that money to the payment of the Purchase Price. In determining the amount of the Purchase Price then due, the Tender Agent will not take into consideration any Bank Bonds or 2011A Bonds for which the City is the Owner or the Beneficial Owner. No Draw Requests will be made under a Credit Support Instrument to pay the Purchase Price of Bank Bonds or 2011A Bonds held by or on behalf of the City. Bank Bonds may not be tendered for purchase at the option of the Credit Provider.

(C) Surrender of Credit Support Instrument. If an Alternate Credit Support Instrument is delivered to the Tender Agent pursuant to the Sixteenth Supplemental Resolution with the documents required thereby, then the Tender Agent will accept the Alternate Credit Support Instrument and surrender the Credit Support Instrument previously held for cancellation, provided that no Credit Support Instrument will be surrendered until after the date on which 2011A Bonds required to be purchased pursuant to the Sixteenth Supplemental Resolution have been purchased in accordance therewith. Upon the defeasance of 2011A Bonds pursuant to the Sixteenth Supplemental Resolution and at such time as the 2011A Bonds are no longer subject to tender for purchase, the Tender Agent will surrender the Credit Support Instrument to the Credit Provider for cancellation in accordance with the terms of the Credit Support Instrument. The Tender Agent will comply with the procedures set forth in the Credit Support Instrument and/or Credit Support Agreement relating to the termination thereof, including payment to the Credit Provider of all Credit Support Instrument Costs and all Credit Support Instrument Repayment Obligations at or prior

to such termination, and will deliver any certificates reducing the stated amount of the Credit Support Instrument in accordance with the provisions thereof.

(D) Notice by Fiscal Agent. In connection with a Mandatory Standby Tender resulting in a mandatory purchase of 2011A Bonds as provided in the Sixteenth Supplemental Resolution, the Fiscal Agent will give the notice of mandatory tender for purchase of such 2011A Bonds as provided therein.

(E) Notices from City and Fiscal Agent.

(1) Notices from City. The City will give notice to the Fiscal Agent, the Remarketing Agent, the Tender Agent, and the Credit Provider promptly upon the occurrence of any of the following events: (a) the extension of the expiration date of a Credit Support Instrument; (b) the execution of an Alternate Credit Support Instrument; and (c) the appointment of a successor to any of the Credit Provider, the Remarketing Agent or the Tender Agent.

(2) Notices from Fiscal Agent to Owners of 2011A Bonds. The Fiscal Agent will, promptly upon receipt of notice from: (A) the City of the occurrence of any of the events listed in clause (1) above, give notice to the Owners of Outstanding 2011A Bonds of the occurrence of that event; and (B) the Credit Provider of notice of a Mandatory Standby Tender, give notice to the City, the Tender Agent, the Remarketing Agent and the Owners of Outstanding 2011A Bonds of the occurrence of the Mandatory Standby Tender with the information set forth in the Sixteenth Supplemental Resolution.

Alternate Credit Support Instrument.

(A) Delivery by City. At any time, not later than 35 days prior to the expiration or termination of a Credit Support Instrument, in accordance with the terms of the Credit Support Instrument and/or related Credit Support Agreement, the City may provide for the delivery to the Tender Agent of an Alternate Credit Support Instrument which has a term of at least 360 days. Any Alternate Credit Support Instrument delivered to the Tender Agent pursuant to the Sixteenth Supplemental Resolution will contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent. On or prior to the date of the delivery of the Alternate Credit Support Instrument to the Tender Agent, the City will furnish to the Tender Agent: (a) a Favorable Opinion of Bond Counsel; (b) written evidence satisfactory to the Credit Support Provider whose Credit Support Instrument is being replaced of the provision for purchase from such Credit Provider of all Bank Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due it under the Credit Support Instrument on or before the effective date of such Alternate Credit Support Instrument; and (c) an opinion of counsel to the provider of the Alternate Credit Support Instrument satisfactory to the City, the Tender Agent, and the Remarketing Agent to the effect that such Alternate Credit Support Instrument is a valid and enforceable obligation of the provider thereof.

No drawing under the Alternate Credit Support Instrument may be made by the Tender Agent if the predecessor Credit Support Instrument is effective and available to make drawings thereunder on the date of such drawing. After the date of substitution of a Credit Support Instrument with an Alternate Credit Support Instrument, no drawing under a predecessor Credit Support Instrument may be made by the Tender Agent if such Alternate Credit Support Instrument is effective and available to make drawings thereunder on the date of such drawing.

(B) Acceptance by Tender Agent. If at any time there is delivered to the Tender Agent: (i) an Alternate Credit Support Instrument covering all of the 2011A Bonds; (ii) the information, opinions and data required by the Sixteenth Supplemental Resolution; and (iii) all information required to give the notice of mandatory tender, for purchases of the 2011A Bonds if required by the Sixteenth Supplemental Resolution, then the Tender Agent will accept such Alternate Credit Support Instrument and, after the date of the mandatory tender for purchase established pursuant to the Sixteenth Supplemental Resolution, promptly surrender the Credit Support Instrument then in effect to the issuer thereof for cancellation in accordance with its terms or deliver any document necessary to reduce the coverage of such Credit Support Instrument due to the delivery of such Alternate Credit Support Instrument.

(C) Notice of Termination. The Tender Agent will give notice to the Fiscal Agent, the Remarketing Agent and the Owners of the 2011A Bonds of the termination or expiration of any Credit Support Instrument in accordance with its terms as provided in the Sixteenth Supplemental Resolution.

Rights and Duties Under Credit Support Instrument.

(A) Tender Agent. The Tender Agent by accepting its appointment as such, has agreed without further direction, to make Draw Requests under the Credit Support Instrument then in effect, if any, for the payment or purchase of 2011A Bonds in accordance with the terms and conditions set forth in the Sixteenth Supplemental Resolution and that Credit Support Instrument at the times, in the manner and for the purposes set forth therein.

(B) Credit Provider Consent to Actions. Notwithstanding any other provisions of the Master Resolution or the Sixteenth Supplemental Resolution, upon the occurrence and continuance of an "Event of Default" under the Master Resolution, the written consent of any Credit Provider for the 2011A Bonds will be required prior to the Fiscal Agent and/or Owners proceeding to take any action to exercise its remedies under the Master Resolution, except during any time in which: (i) such Credit Provider has failed to pay a properly presented conforming draw or notice of presentment under its respective Credit Support Instrument, which failure is continuing; (ii) such Credit Support Instrument is at any time for any reason finally determined under applicable law, by a court of competent jurisdiction, to be null and void and not valid and binding on the respective Credit Provider, or the validity or enforceability thereof is being contested by such Credit Provider or by any governmental agency or authority which has taken control of the assets of the Credit Provider in any bankruptcy, insolvency or similar proceedings and which are authorized under applicable law to act on behalf of such Credit Provider; or (iii) the Credit Support Instrument is no longer in effect and any and all of the City's obligations under the Credit Support Instrument have been paid in full.

Notice of Termination, Event of Default or Other Change in Credit Support Instrument. The Tender Agent will give notice by mail to the Owners of the 2011A Bonds secured by a Credit Support Instrument: (i) on or before the 30th day preceding the substitution, termination or expiration of such Credit Support Instrument (except in the case of a termination resulting from an event referred to in the following paragraph) in accordance with its terms; or (ii) in the case of any Mandatory Standby Tender under such Credit Support Instrument, as soon as reasonably possible, but no later than the Business Day following the receipt by the Tender Agent of notice of the Mandatory Standby Tender. The notice will be accompanied by directions for the purchase of the 2011A Bonds pursuant to the Sixteenth Supplemental Resolution. The notice will: (A) state the date of such termination or expiration and the date of the proposed substitution of an Alternate Credit Support Instrument (if any); (B) state that the 2011A Bonds will be purchased pursuant to the Sixteenth Supplemental Resolution and specifying the date of such purchase, which will be: (x) the fifth Business Day preceding such termination or expiration (other than a termination as a result of a Mandatory Standby Tender); (y) the effective date of the Alternate Credit Support Instrument, in the case of substitution; or (z) not later than the Business Day preceding the date of any termination as a result of a Mandatory Standby Tender; and (C) any other information required in the notice to the Owners of the 2011A Bonds by the Sixteenth Supplemental Resolution. The City will provide the Tender Agent with written notice of any information required to enable the Tender Agent to give the foregoing notice.

If there should occur any event resulting in the immediate termination or suspension of the obligation of the Credit Provider to purchase 2011A Bonds under the terms of any Credit Support Instrument, then the Fiscal Agent will as soon as practicably possible thereafter notify the Owners of all of the 2011A Bonds then Outstanding that: (i) the Credit Support Instrument has been terminated or suspended, as the case may be; (ii) the Tender Agent will no longer be able to purchase 2011A Bonds with moneys available under the Credit Support Instrument; (iii) the rights of Bondowners to tender 2011A Bonds for purchase has been suspended or terminated, as the case may be (unless the City in its sole discretion provides funds for such purpose pursuant to the Sixteenth Supplemental Resolution); (iv) the Credit Provider is under no obligation to purchase 2011A Bonds or to otherwise advance moneys to fund the purchase of 2011A Bonds; and (v) unless the City in its sole discretion provides funds pursuant to the Sixteenth Supplemental Resolution for the purchase of 2011A Bonds upon the tender thereof, the 2011A Bonds will bear interest at the Maximum Bond Interest Rate until: (a) such Credit Support Instrument is reinstated; (b) an Alternate Credit Support Instrument is in effect; or (c) the 2011A Bonds are converted to a Long-Term Interest Rate.

Remarketing Agent; Tender Agent.

(A) Remarketing Agent. Each Remarketing Agent appointed by the City will designate its principal office in the Remarketing Agreement. The Remarketing Agent will signify its acceptance of the duties and obligations imposed upon it under the Sixteenth Supplemental Resolution by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the City, the Fiscal Agent, the Tender Agent, and the Credit Provider; if any, under which the Remarketing Agent agrees, particularly, to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by the City, the Fiscal Agent and the Tender Agent at all reasonable times.

(B) Tender Agent. Each Tender Agent appointed by the City will designate to the City, the Fiscal Agent, the Credit Provider, if any, and the Remarketing Agent, its principal office for delivery of notices and delivery of 2011A Bonds and signify its acceptance of the duties and obligations imposed upon it under the Sixteenth Supplemental Resolution by a written instrument of acceptance delivered to the City, the Fiscal Agent, the Credit Provider, if any, and the Remarketing Agent. By acceptance of its appointment under the Sixteenth Supplemental Resolution, the Tender Agent has agreed:

(1) to hold all 2011A Bonds delivered to it pursuant to the Sixteenth Supplemental Resolution as agent and bailee of, and in escrow for the benefit of, the respective Owners which have delivered such 2011A Bonds until money representing the Purchase Price of such 2011A Bonds have been delivered to or for the account of or to the order of such Owners;

(2) to hold all 2011A Bonds registered in the name of the new Owners thereof which have been delivered to it by the Fiscal Agent for delivery to the Remarketing Agent;

(3) to hold 2011A Bonds for the account of the Credit Provider as stated in the Sixteenth Supplemental Resolution; and

(4) to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by the Fiscal Agent, the City, the Credit Provider and the Remarketing Agent at all reasonable times.

Qualifications of Remarketing Agent and Tender Agent; Resignation and Removal of Remarketing Agent and Tender Agent.

(A) Remarketing Agent. Each Remarketing Agent must be a member of the National Association of Securities Dealers and authorized by law to perform all the duties imposed upon it under the Sixteenth Supplemental Resolution and under the Remarketing Agreement. The Remarketing Agent for any 2011A Bonds must be acceptable to the Credit Provider, if any. The Remarketing Agent may at any time resign and be discharged of the duties and obligations under the Sixteenth Supplemental by giving notice to the City, the Fiscal Agent, the Tender Agent, and the Credit Provider, if any. Such resignation will take effect on the 45th day after the receipt by the City of the notice of resignation. The Remarketing Agent may be removed at any time on 45 days prior written notice, by an instrument signed by the City, approved by the Credit Provider, if any, and delivered to the Remarketing Agent, the Fiscal Agent, the City and the Tender Agent.

(B) Tender Agent. Each Tender Agent must be a commercial bank with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$100,000,000 and authorized by law to perform all the duties imposed upon it under the Sixteenth Supplemental Resolution. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the Sixteenth Supplemental Resolution by giving at least 60 days' notice to the City, the Fiscal Agent, the Credit Provider, if any, and the Remarketing Agent. A Tender Agent may be removed at any time by an instrument signed by the City, and filed with the Fiscal Agent. However, such resignation or removal will not take effect prior to the date that a successor Tender Agent has been appointed by the City and has accepted such appointment, such appointment has been approved by the Credit Provider, and the Credit Support Instrument, if any, has been transferred, in accordance with its terms, to that successor.

Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent will deliver any 2011A Bonds and money and Credit Support Instrument held by it in such capacity to its successor.

Notice of 2011A Bonds Delivered for Purchase; Purchase of 2011A Bonds; Deposit of Purchase Price.

(A) Determination by Tender Agent; Notice of Tender. For purposes of the Sixteenth Supplemental Resolution, the Tender Agent will determine timely and proper delivery of 2011A Bonds pursuant thereto and the proper endorsement of 2011A Bonds delivered. That determination will be binding on the Owners of the 2011A Bonds, the City, the Credit Provider, if any, and the Remarketing Agent, absent manifest error.

As soon as practicable upon its receipt, but not later than 12:00 noon, New York City time, on the following Business Day, the Tender Agent will notify the Remarketing Agent, the Credit Provider, the Fiscal Agent and the City by telephone, promptly confirmed in writing, or by telecopy, of receipt, in the case of a 2011A Bond bearing interest at a Weekly Interest Rate, from an Owner of an Outstanding 2011A Bond of a notice pursuant to the Sixteenth Supplemental Resolution, specifying the principal amount of 2011A Bonds for which it has received a notice pursuant to the Sixteenth Supplemental Resolution, the names of the Owners thereof and the date on which such 2011A Bonds are to be purchased in accordance therewith.

(B) Purchase of 2011A Bonds; Sources and Deposits of Purchase Price. The 2011A Bonds required to be purchased in accordance with the Sixteenth Supplemental Resolution will be purchased from the Owners thereof, on the Purchase Date and at the Purchase Price. Funds for the payment of the Purchase Price will be received by the Tender Agent from the following sources and used in the order of priority indicated:

(1) proceeds of the sale of 2011A Bonds remarketed pursuant to the Sixteenth Supplemental Resolution and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; and

(2) while the 2011A Bonds are supported by a Credit Support Agreement, money furnished by the Credit Provider to the Tender Agent for deposit into the Credit Support Instrument Purchase Account of the Bond Purchase Fund from Draw Requests on the Credit Support Instrument, if any; and

(3) any funds provided by the City, which funds will be furnished to the Fiscal Agent for deposit into the Principal Account or Interest Account for such purpose (any such funds being provided by the City in its sole discretion, there being no obligation of the City to so provide any such funds except in the case of a Conversion from a Long-Term Interest Rate on an optional redemption date for which a premium is payable, which, notwithstanding the foregoing, will be payable by the City and which amounts are to be furnished by the City to the Fiscal Agent for such purpose).

(C) Undelivered Bonds; Purchase Price. If a 2011A Bond purchased as provided in the Sixteenth Supplemental Resolution is not presented to the Tender Agent, the Tender Agent will segregate and hold uninvested the money for the Purchase Price of such 2011A Bond in trust for the benefit of the former Owner of such 2011A Bond, who will, except as provided in the following sentences, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Purchase Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Purchase Price of any 2011A Bond which remains unclaimed for two years after the date of purchase will be paid to the City. After the payment of such unclaimed money to the City, the former Owner of such 2011A Bond will look only to the City for the payment thereof. The City is not liable for any interest on unclaimed money and will not be regarded as a trustee of such money.

(D) Inadequate Funds for Tenders. During an Interest Rate Period, if sufficient funds are not available for the purchase of all 2011A Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, all 2011A Bonds will bear interest at the SIFMA Municipal Swap Index plus 3% (provided, that in no event will 2011A Bonds bear interest at a rate in excess of the Maximum Bond Interest Rate) from the date of such failed purchase until all such 2011A Bonds are purchased as required in accordance with the Sixteenth Supplemental Resolution, and all tendered 2011A Bonds will be returned to their respective Owners. Notwithstanding any other provision of the Sixteenth Supplemental Resolution, such failed purchase and return will not constitute an Event of

Default. Thereafter, the Fiscal Agent will continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Credit Provider, if any. Any obligation of the Remarketing Agent or Credit Provider, if any, to cause the deposit of such funds from remarketing proceeds or proceeds of a Draw Request under the Credit Support Instrument, respectively, will remain enforceable pursuant to the Sixteenth Supplemental Resolution, and such obligation will only be discharged at such time as funds are deposited with the Fiscal Agent in an amount sufficient to purchase all such 2011A Bonds, together with any interest which has accrued on such 2011A Bonds to the subsequent actual Purchase Date.

Remarketing of 2011A Bonds; Notice of Interest Rates.

(A) Remarketing. Upon a mandatory tender (other than a Mandatory Standby Tender) or notice of tender for purchase of 2011A Bonds, the Remarketing Agent will offer for sale and use its best efforts to sell such 2011A Bonds on the same date designated for purchase thereof at a price equal to the Purchase Price therefor in accordance with the Sixteenth Supplemental Resolution and, if not remarketed on such date, thereafter until sold. In so remarketing the 2011A Bonds, the Remarketing Agent will exercise its best efforts to remarket the 2011A Bonds at a rate of interest necessary to cause the 2011A Bonds to be remarketed, up to and including the Maximum Bond Interest Rate with respect to 2011A Bonds (other than Bank Bonds) permitted by the Sixteenth Supplemental Resolution. The City has no obligation to purchase 2011A Bonds tendered for purchase if such 2011A Bonds are not remarketed pursuant to the Sixteenth Supplemental Resolution. The Remarketing Agent will have the ongoing obligation to use its best efforts to remarket Bank Bonds. 2011A Bonds subject to a Mandatory Standby Tender may not be remarketed unless: (1) such 2011A Bonds are Converted to a Long-Term Interest Rate Period to their Maturity Date (i.e., Fixed Rate Bonds) or to an Index Rate Period; or (2) an Alternate Credit Support Instrument is delivered to the Tender Agent pursuant to the Sixteenth Supplemental Resolution and is in full force and effect; or (3) the Fiscal Agent has received written notice from the Credit Provider that all events of default under the Credit Support Instrument have been cured and that the Credit Support Instrument has been reinstated. No 2011A Bonds may be sold by the Remarketing Agent to the City.

(B) Notice of Rates and Terms. While in an Interest Rate Period other than an Index Interest Rate Period, the Remarketing Agent will determine the rate of interest for 2011A Bonds during each Interest Rate Period as provided in the Sixteenth Supplemental Resolution and will furnish to the Fiscal Agent each rate of interest so determined by telephone or teletype, promptly confirmed in writing. Notice of each Weekly Interest Rate will be made on Wednesday of each week. In lieu of the notification provided in the preceding sentence, the Remarketing Agent may make such information available by readily accessible electronic means.

(C) Notice of Purchase and Remarketing. As soon as practicable, but in any event by no later than 4:00 p.m., New York City time, on the last Business Day prior to the Purchase Date, the Remarketing Agent will inform the Tender Agent by telephone, promptly confirmed in writing, or by written notice, of the principal amount of 2011A Bonds tendered for purchase sold by the Remarketing Agent pursuant to the Sixteenth Supplemental Resolution and the name, address and taxpayer identification number of each such purchaser, the principal amount of 2011A Bonds to be purchased and the denominations in which such 2011A Bonds are to be delivered. By no later than 12:00 noon, New York City time, on the Purchase Date, the Remarketing Agent will deliver to the Tender Agent the remarketing proceeds for which notice of remarketing was provided in accordance with the preceding sentence in immediately available funds.

Promptly upon receipt of such notice from the Remarketing Agent, but in any event by no later than 12:40 p.m., New York City time, on the Purchase Date, the Tender Agent will: (i) notify the City, the Fiscal Agent and the Credit Provider, if any, by telephone, promptly confirmed in writing, as to the aggregate purchase price of 2011A Bonds to be purchased and as to the amount of the difference between: (1) the total purchase price of those 2011A Bonds with respect to which a notice was received pursuant to the Sixteenth Supplemental Resolution; and (2) the Purchase Price of those 2011A Bonds to be purchased pursuant to the Sixteenth Supplemental Resolution that have been remarketed by the Remarketing Agent pursuant to the Sixteenth Supplemental Resolution; and (ii) submit a Draw Request under the Credit Support Instrument in accordance with the Sixteenth Supplemental Resolution. A copy of such Draw Request will be delivered by teletype by the Tender Agent to the City and the Fiscal Agent.

Delivery of 2011A Bonds.

(A) By 1:00 p.m., New York City time, on the Purchase Date, a principal amount of 2011A Bonds equal to the amount of 2011A Bonds purchased (or deemed purchased) with moneys described in the Sixteenth Supplemental Resolution will be made available by the Tender Agent to the Remarketing Agent against payment therefor. The Tender Agent will deliver at such time to the Remarketing Agent the due bills, if any, delivered to the Tender Agent in accordance with the Sixteenth Supplemental Resolution. Prior to such deliveries, the Tender Agent will register each 2011A Bond to be so delivered in the names as directed by the Remarketing Agent.

(B) A principal amount of 2011A Bonds equal to the amount of 2011A Bonds purchased (or deemed purchased) with moneys described in the Sixteenth Supplemental Resolution on deposit in the Credit Support Instrument Purchase Account will be deposited on the day of such purchase, together with the due bills therefor, if any, by the Tender Agent in the Bank Bonds Escrow Account. No Bank Bonds will be transferred out of the Bank Bonds Escrow Account: (1) unless the Credit Support Instrument provides for the automatic reinstatement of amounts available thereunder for Bank Bonds which are remarketed, the Credit Provider has received all amounts due and payable thereto pursuant to the terms of the Credit Support Instrument and/or related Credit Support Agreement and has reinstated the amount available under the Credit Support Instrument to reflect the principal amount of such 2011A Bond plus the interest coverage thereon then required to maintain the ratings on such 2011A Bond, if any, and the Tender Agent has received written notice of reinstatement; or (2) until any such Bank Bonds is selected for redemption pursuant to this Sixteenth Supplemental Resolution and is delivered to the Fiscal Agent against receipt of the redemption price or for cancellation. The Tender Agent will register Bank Bonds as directed by the Credit Provider. In the event any Bank Bonds are remarketed, by 1:30 p.m., New York City time, on the Business Day such Bank Bonds are remarketed, a principal amount of Bank Bonds registered as requested by the Remarketing Agent will be made available by the Tender Agent to the Remarketing Agent against payment therefor in immediately available funds. The Tender Agent will deliver at such time to the Remarketing Agent the due bills, if any, delivered to the Tender Agent in accordance with the Sixteenth Supplemental Resolution.

Delivery of Proceeds of Sale. The proceeds of the sale by the Remarketing Agent of any 2011A Bonds will be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund and in sufficient time to enable the Tender Agent to make payment of the Purchase Price of any 2011A Bonds being purchased with the proceeds therefrom accordance with the Sixteenth Supplemental Resolution.

Bond Purchase Fund. There will be established with and maintained by the Tender Agent a separate trust fund which is referred to in the Sixteenth Supplemental Resolution as the "Bond Purchase Fund," with separate trust accounts therein referred to as the "Remarketing Account," the "Credit Support Instrument Purchase Account" and the "Bank Bonds Escrow Account."

(A) Remarketing Account. Upon receipt of the proceeds of a remarketing of 2011A Bonds on a Purchase Date pursuant to the Sixteenth Supplemental Resolution, the Tender Agent will deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for such 2011A Bonds for application to the Purchase Price of such 2011A Bonds in accordance with the Sixteenth Supplemental Resolution and, if the Tender Agent is not a paying agent with respect to the 2011A Bonds, will transmit such proceeds to the Fiscal Agent for such application. Notwithstanding the foregoing, but subject to the Sixteenth Supplemental Resolution, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent will immediately pay such proceeds to the Credit Provider. The Tender Agent will give notice of such transfer to the City. Moneys in the Remarketing Account will be held in the name of the Tender Agent for the benefit of the Owners uninvested and without liability for interest thereon. The Remarketing Account must be an Eligible Account.

(B) Credit Support Instrument Purchase Account. Upon receipt from the Credit Provider of the immediately available funds transferred to the Tender Agent pursuant to the Sixteenth Supplemental Resolution, the Tender Agent will deposit such money in the Credit Support Instrument Purchase Account of the Bond Purchase Fund for such 2011A Bonds for application to the Purchase Price of the 2011A Bonds required to be purchased on a Purchase Date in accordance with the Sixteenth Supplemental Resolution to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund are not sufficient. Any amounts deposited in the Credit Support Instrument Purchase Account and not needed with respect to any Purchase Date for the payment of the Purchase Price for any 2011A Bonds will be immediately returned to the Credit Provider. Moneys in the Credit

Support Instrument Purchase Account will be held in the name of the Tender Agent for the benefit of the Owners uninvested and without liability for interest thereon. The Credit Support Instrument Purchase Account must be an Eligible Account.

(C) Bank Bonds Escrow Account. Upon receipt by the Tender Agent of 2011A Bonds purchased from moneys on deposit in the Credit Support Instrument Purchase Account, such 2011A Bonds purchased from moneys on deposit in the Credit Support Instrument Purchase Account will be deposited in the Bank Bonds Escrow Account pursuant to the Sixteenth Supplemental Resolution. 2011A Bonds on deposit in the Bank Bonds Escrow Account constitute Bank Bonds and will be held for the account of Credit Provider (or any subsequent purchaser from the Credit Provider), subject to the Sixteenth Supplemental Resolution.

City to Replace Credit Support Instrument. If: (a) the credit rating assigned to the short-term debt obligations of the Credit Provider for the 2011A Bonds are withdrawn or reduced below “F-1” (or its equivalent) by Fitch or “A-1” (or its equivalent) by Standard and Poor’s; or (b) the Credit Provider has failed to purchase 2011A Bonds tendered for purchase but not remarketed in accordance with the provisions of the Sixteenth Supplemental Resolution and the Credit Support Instrument (so long as the Credit Support Instrument has not been suspended) for a period of 15 days, then, the City may replace the Credit Support Instrument with an Alternate Credit Support Instrument.

Notices and Other Information to Rating Agencies. The Fiscal Agent, to the extent it has actual knowledge, will give immediate notice to Fitch and Standard & Poor’s in the event: (1) the Fiscal Agent, Tender Agent, Remarketing Agent or Calculation Agent resigns or is replaced; (2) the Sixteenth Supplemental Resolution, any Credit Support Instrument, any Alternate Credit Support Instrument, or any Remarketing Agreement is amended or supplemented; (3) the Credit Support Instrument expires or is terminated or is suspended or is extended or an Alternate Credit Support Instrument is delivered; (4) the 2011A Bonds are Converted from one Interest Rate Period to another Interest Rate Period; (5) there has been a redemption, defeasance or acceleration of the 2011A Bonds; or (6) there is a mandatory tender of the 2011A Bonds. The City will provide to the Rating Agencies such additional information as such Rating Agencies may reasonably request in order to maintain ratings on the 2011A Bonds.

Defeasance of 2011A Bonds.

(A) In addition to the requirements of the Master Resolution, the 2011A Bonds will be deemed to have been paid within the meaning of and with the effect expressed in the Master Resolution only if the interest due on such 2011A Bonds on or prior to the maturity date or redemption date thereof as the case may be, is calculated at the Maximum Bond Interest Rate; provided, however, that if on any date, as a result of any of such 2011A Bonds having borne interest at less than the Maximum Bond Interest Rate for any period, the total amount of moneys and securities required for deposit with the Fiscal Agent, escrow agent or other fiduciary for the payment of interest on such 2011A Bonds is in excess of the total amount which would have been required to be deposited with the Fiscal Agent, escrow agent or other fiduciary on such date in respect of such 2011A Bonds in order for such 2011A Bonds to have been deemed paid within the meaning and with the effect expressed in the Master Resolution, the Fiscal Agent, escrow agent or other fiduciary will, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing such 2011A Bonds or otherwise existing under the Sixteenth Supplemental Resolution. The Fiscal Agent, escrow agent or other fiduciary may not pay any excess referred to above to the City unless the Fiscal Agent, escrow agent or other fiduciary receives a certificate or other written evidence from an independent certified public accountant that an excess as described above exists and specifying the amount of such excess.

(B) Notwithstanding any provision of the Sixteenth Supplemental Resolution to the contrary, if cash is not used, the City may cause any or all of the 2011A Bonds to be deemed to have been paid within the meaning of and with the effect expressed in the Master Resolution only with Federal Securities described in the Master Resolution which are non-callable.

(C) 2011A Bonds will be deemed to have been paid within the meaning of and with the effect expressed in the Resolution and only if such 2011A Bonds are required to be called for redemption on the next succeeding date on which they are subject to redemption prior to maturity pursuant to the Sixteenth Supplemental Resolution that occurs after the deposits required under the Resolution have been made, or if such 2011A Bonds are

tendered or deemed tendered for purchase prior to such date pursuant to the Sixteenth Supplemental Resolution, they are required to be redeemed on the Purchase Date thereof.

Continuing Disclosure. The City has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be delivered by the City in connection with the issuance of the 2011A Bonds. Notwithstanding any other provision of the Resolution, failure of the City to comply with the Continuing Disclosure Certificate will not be considered an Event of Default under the Resolution.

Non-Business Days. If the date of maturity of principal of or interest on the 2011A Bonds or the date fixed for redemption of any 2011A Bonds or the last day for the performance of any act or the exercising of any right, as provided in this Sixteenth Supplemental Resolution is not a Business Day, then such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Sixteenth Supplemental Resolution and, except as otherwise provided in a Credit Support Agreement, no interest will accrue for the period from and after such nominal date.

Notices Upon Transfer. If the Fiscal Agent makes any transfer of 2011A Bonds after the date of mailing of notice of Conversion, redemption or mandatory purchase given pursuant to the provisions of the Sixteenth Supplemental Resolution, the Fiscal Agent will provide to any transferee who becomes an Owner of the 2011A Bonds after such date and prior to the Conversion, redemption or mandatory purchase, a copy of any notice of Conversion, redemption or mandatory purchase so mailed.

SALE OF 2011A BONDS; APPLICATION; FUNDS; COVENANTS

Establishment and Application of 2011A Rebate Account.

(A) Establishment. The Fiscal Agent will establish a separate account for the 2011A Bonds designated the “2011A Rebate Account.” Within the 2011A Rebate Account, the Fiscal Agent will maintain such other accounts as it is instructed by the City as are necessary in order to comply with the terms and requirements of the Tax Certificate. Absent an opinion of bond counsel that the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds will not be adversely affected, the City will cause to be deposited in the 2011A Rebate Account such amounts as are required to be deposited therein pursuant to the Sixteenth Supplemental Resolution and the Tax Certificate. Subject to the transfer provisions provided in clauses (C) and (H) below, all money at any time deposited in the 2011A Rebate Account will be held by the Fiscal Agent in trust for payment to the United States Treasury, and no other person will have any rights in or claim to such money. All amounts on deposit in the 2011A Rebate Account for the 2011A Bonds will be governed by the Sixteenth Supplemental Resolution and the Tax Certificate for the 2011A Bonds, unless and to the extent that the City delivers to the Fiscal Agent an opinion of bond counsel that the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds will not be adversely affected if such requirements are not satisfied. The Fiscal Agent will be deemed conclusively to have complied with such provisions if it follows the directions of the City including supplying all necessary information in the manner provided in the Tax Certificate, will not be required to take any actions thereunder, in the absence of written directions by the City, and will have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate. The Fiscal Agent has no responsibility to make any independent calculations or determinations or to review the City’s calculations under the Sixteenth Supplemental Resolution.

(B) Computation. Within 45 days of the end of each fifth Bond Year (as defined in the Tax Certificate), the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (as defined in the Tax Certificate), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebate Amount”). The City will not be required to calculate the Rebate Amount, and the Fiscal Agent will not be required to deposit any amount to the 2011A Rebate Account in accordance with the Sixteenth Supplemental Resolution, with respect to all or a portion of the proceeds of the 2011A Bonds (including amounts treated as proceeds of the 2011A Bonds): (i) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said Sections is applicable; (ii) to the extent such proceeds are subject to an election by the

City under Section 148(f)(4)(C)(vii) of the Code to pay a 1 ½% penalty in lieu of arbitrage rebate in the event that any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied; or (iii) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the City will provide written direction to the Fiscal Agent that the Fiscal Agent is not required to deposit any amount to the 2011A Rebate Account in accordance with the Sixteenth Supplemental Resolution. The City will obtain expert advice as to the Rebate Amount to comply with the Rebate Fund provisions of the Resolution.

(C) Transfer. Within 55 days of the end of each fifth Bond Year, upon the written request of the City an amount will be deposited to the 2011A Rebate Account by the Fiscal Agent from deposits by the City from any Net Operating Revenues legally available for such purpose (as specified by the City in the aforesaid written Request), if and to the extent required, so that the balance in the 2011A Rebate Account equals the Rebate Amount so calculated in accordance with the Sixteenth Supplemental Resolution. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the 2011A Rebate Account exceeds the amount required to be on deposit therein, upon written request of the City, the Fiscal Agent will withdraw the excess from the 2011A Rebate Account and then transfer such amounts to the Treasurer for credit to the Electric Revenue Fund.

(D) Payment to the Treasury. The Fiscal Agent will pay, as directed by request of the City to the United States Treasury, out of amounts in the 2011A Rebate Account, subject to the exceptions contained in clause (B): (i) not later than 60 days after the end of: (x) the fifth Bond Year; and (y) each applicable fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the Rebate Amount (calculated as of the end of such Bond Year) and all previous rebate payments; and (ii) not later than 60 days after the payment of all the 2011A Bonds, an amount equal to 100% of the Rebate Amount calculated as of the date of such payment and any income attributable to the Rebate Amount determined to be due and payable, computed in accordance with Section 1.148-3 of the Treasury Regulations.

(E) Deficiencies. In the event that, prior to the time of any payment required to be made from the 2011A Rebate Account, the amount in the 2011A Rebate Account is not sufficient to make such payment when such payment is due, the City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due.

(F) Withdrawals of Excess Amounts. In the event that immediately following the calculation required by clause (B), but prior to any deposit made thereunder, the amount on deposit in the 2011A Rebate Account exceeds the Rebate Amount calculated in accordance therewith, upon written instructions from the City, the Fiscal Agent will withdraw the excess from the 2011A Rebate Account and credit such excess to the Interest Account of the Bond Service Account.

(G) Disposition of Unexpended Funds. Any funds remaining in the 2011A Rebate Account after redemption and payment in full of the 2011A Bonds and the payments described in clause (D) above being made may be withdrawn by the Fiscal Agent and remitted to the City and utilized in any manner by the City.

(H) Rebate Payments. Each payment required to be made pursuant to clause (D) will be made to the Internal Revenue Service Center, Ogden, Utah, on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, which will be completed by the City for execution by the City, or be made in such other manner as provided under the Code.

(I) Survival of Defeasance. Notwithstanding anything in the Sixteenth Supplemental Resolution to the contrary, the obligation to remit the Rebate Amount to the United States and to comply with the Rebate Fund requirements thereof and of the Tax Certificate will survive the defeasance or payment in full of the 2011A Bonds.

(J) Recordkeeping. The City will retain records of all determinations made under the Sixteenth Supplemental Resolution until six years after the complete retirement of the 2011A Bonds.

Tax Covenants. Notwithstanding any other provision of the Sixteenth Supplemental Resolution, absent an opinion of bond counsel that the exclusion from gross income of interest on the 2011A Bonds will not be adversely affected for federal income tax purposes, the City has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(A) Private Activity. The City will not take or omit to take any action or make any use of the proceeds of the 2011A Bonds or of any other moneys or property which would cause the 2011A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(B) Arbitrage. The City will make no use of the proceeds of the 2011A Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the 2011A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(C) Federal Guarantee. The City will make no use of the proceeds of the 2011A Bonds or take or omit to take any action that would cause the 2011A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(D) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code

(E) Compliance with the Tax Certificate. The City will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the 2011A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Sixteenth Supplemental Resolution. In furtherance of the foregoing tax covenants, the City will comply with the provisions of the Tax Certificate, which is incorporated in the Sixteenth Supplemental Resolution as if fully set forth therein. The foregoing covenants will survive payment in full or defeasance of the 2011A Bonds.

The foregoing tax covenants are not applicable to, and nothing contained in the Sixteenth Supplemental Resolution will be deemed to prevent the City from issuing 2011A Bonds the interest on which has been determined by bond counsel to be subject to federal income taxation.

FISCAL AGENT

Fiscal Agent. The Treasurer (or any duly authorized designee thereof) is hereby authorized, empowered and directed to appoint a Fiscal Agent with respect to the 2011A Bonds. The Fiscal Agent will signify its acceptance of the duties and obligations under the Sixteenth Supplemental Resolution by executing and delivering to the City a written acceptance in which the Fiscal Agent agrees to perform said duties and obligations as set forth in the Resolution.

The City has agreed, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any liabilities it may incur in the exercise and performance of its powers and duties under the Resolution which are not due to its negligence or willful misconduct.

The City has acknowledged that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City has specifically waived receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the City periodic transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Sixteenth Supplemental Resolution; provided that the Fiscal Agent is not obligated to provide an accounting for any fund or account that: (a) has a balance of \$0.00; and (b) has not had any activity since the last reporting date.

The foregoing obligation of the City will survive resignation or removal of the Fiscal Agent under the Sixteenth Supplemental Resolution and payment of the 2011A Bonds and discharge of the Sixteenth Supplemental Resolution.

Retention and Dissemination of Available Information. The Fiscal Agent for the 2011A Bonds will retain in its possession all reports, certificates and other documents received by it with respect to the 2011A Bonds, all of which will be subject at all reasonable times during regular business hours with reasonable prior notice to inspection by the City, the Securities Depository with respect to the 2011A Bonds and any other Person that the City reasonably determines to be a beneficial owner of 2011A Bonds held by such Securities Depository, and the agents and representatives of any thereof. Upon receipt by the Fiscal Agent of a written request of any Person described in the immediately preceding sentence, the Fiscal Agent will provide to such Person a copy of any such report, certificate or other document, provided that such Person will bear the direct cost of reproduction and delivery thereof. The Fiscal Agent will, at the cost of and at the written instruction of the City, disseminate all material written information received by the Fiscal Agent pursuant to the Resolution to one or more officially recognized central information facilities or repositories with respect to information regarding obligations similar to the 2011A Bonds specified to the Fiscal Agent by the City.

MISCELLANEOUS

2011A Bonds Subject to the Master Resolution. Except as expressly provided in the Sixteenth Supplemental Resolution, every term and condition contained in the Master Resolution will apply to the Sixteenth Supplemental Resolution and to the 2011A Bonds with the same force and effect as if it were set forth at length in the Sixteenth Supplemental Resolution, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Sixteenth Supplemental Resolution.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Sixteenth Supplemental Resolution or in the 2011A Bonds are for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Sixteenth Supplemental Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Sixteenth Supplemental Resolution, and the Sixteenth Supplemental Resolution will be construed as if such invalid, illegal or unenforceable provision had never been contained therein. The City Council has declared that it would have adopted the Sixteenth Supplemental Resolution and each and every other Section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2011A Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Sixteenth Supplemental Resolution may be held illegal, invalid or unenforceable.

Governing Law. The Sixteenth Supplemental Resolution will be construed and governed in accordance with the laws of the State of California.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon remarketing of the 2011A Bonds, the County will enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of Riverside (the “Issuer”) in connection with the Issuer’s issuance of its Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 17662 of the Issuer adopted by the City Council of the Issuer on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. 22193, adopted by the City Council on April 5, 2011, as amended by Resolution No. 22664 adopted on March 25, 2014 (collectively, the “Resolution”). The Issuer covenants and agrees as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Disclosure Representative” shall mean the City Manager, Treasurer or Chief Financial Officer of the Issuer or either of their designees, or such other officer or employee as the Issuer shall designate in writing from time to time.

“Dissemination Agent” shall mean, initially, the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Financial Obligation” shall mean: (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities (as such term is defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as such term is defined in the Rule) has been provided to the MSRB consistent with the Rule.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” shall mean the Remarketing Statement relating to the Bonds dated April 7, 2020.

“Participating Underwriter” shall mean BofA Securities, Inc.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than 270 days following the end of the Issuer’s fiscal year (which presently ends on June 30), commencing with the report for the fiscal year ending June 30, 2020, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent (if other than the Issuer) of a change in the fiscal year dates. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is a person or entity other than the Issuer then, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a). If the Issuer does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report due date, the Issuer shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in the form required by the MSRB.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent’s duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB’s EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer's Electric System for the most recent fiscal year of the Issuer then ended, which may be a part of the Issuer's audited financial statements. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer's Electric System in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer's Electric System shall be audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) To the extent not included in the audited financial statements of the Issuer's Electric System, the Annual Report shall also include the following:

(1) Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.

(2) Updated information comparable to the information in Table 3 entitled "Annual Electricity Supply" as it appears in the Official Statement.

(3) Updated information comparable to the information in Table 4 entitled "Total Energy Generated and Purchased and Peak Demand" as it appears in the Official Statement.

(4) Updated information comparable to the information in Table 6 entitled "Number of Meters" as it appears in the Official Statement.

(5) Updated information comparable to the information in Table 7 entitled "Energy Sold" as it appears in the Official Statement.

(6) Updated information comparable to the information in Table 9 entitled "Average Billing Price" as it appears in the Official Statement.

(7) Updated information comparable to the information in Table 11 entitled "Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement.

(8) Updated information comparable to the information in Table 12 entitled "Summary of Operations and Debt Service Coverage" as it appears in the Official Statement.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, or their failure to perform;
- (5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) ratings changes; and
- (9) default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties; and
- (10) bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (10), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

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

- (1) unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (3) appointment of a successor or additional trustee or the change of the name of a trustee;

- (4) nonpayment related defaults;
- (5) modifications to the rights of Owners of the Bonds;
- (6) Bond calls;
- (7) release, substitution or sale of property securing repayment of the Bonds; and
- (8) incurrence of a Financial Obligation of the Issuer or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders.

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

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Certificate. In the event of a failure of the Dissemination Agent to comply with

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is a person or entity other than the Issuer, this Section 11 shall apply. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	City of Riverside 3900 Main Street Riverside, California 92501
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April 16, 2020

CITY OF RIVERSIDE

By: _____
Chief Financial Officer/Treasurer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Riverside

Name of Issue: Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A

Date of Issuance: April 28, 2011

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated April 16, 2020. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

APPENDIX E

FORM OF BOND COUNSEL OPINION

Upon remarketing of the 2011A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

April 16, 2020

City of Riverside
Riverside, California

BofA Securities, Inc.
Los Angeles, California

U.S. Bank National Association
Los Angeles, California

Re: City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Riverside (the “City”) in connection with the remarketing of the above captioned bonds (the “Bonds”) and have examined a certified copy of the record of the proceedings of the City of Vernon (the “City”) relative to the remarketing of the Bonds. We are rendering this opinion pursuant to Section 2.04(C)(3) of the Sixteenth Supplemental Resolution (as such term is defined in the following sentence). The Bonds were originally issued on April 26, 2011 (the “Delivery Date”) pursuant to the Charter of the City (the “Charter”), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the “Ordinance”), and Resolution No. 17662 adopted by the City Council on January 8, 1991 (the “Master Resolution”), as previously amended and supplemented, including as amended and supplemented by Resolution No. 22193, the sixteenth supplemental resolution, which provides for the issuance of the 2011A Bonds (as amended by Resolution No. 22664 adopted on March 25, 2014, the “Sixteenth Supplemental Resolution”), which was adopted by the City Council on April 5, 2011.

On April 28, 2011, in connection with the original issuance of the 2011A Bonds, Hawkins Delafield & Wood LLP, as Bond Counsel to the City, rendered an opinion regarding the validity and tax status of the 2011A Bonds.

Capitalized terms which are used herein and not defined have the meanings which are given to such terms in the Resolution.

The Bonds currently bear interest in an Index Interest Rate Period at the LIBOR Index Interest Rate, with an Index Rate Scheduled Purchase Date of April 27, 2020. The City has elected to Convert the Interest Rate Period of the 2011A Bonds to a Weekly Interest Rate Period (the “Conversion”) on the Index Rate Unscheduled Purchase Date of April 16, 2020 (the “Purchase Date”). In order to effect such Conversion, the Bonds will be subject to mandatory tender and remarketing on the Purchase Date.

Commencing on the Purchase Date, the Bonds will bear interest in a Weekly Interest Rate Period at the Weekly Interest Rate.

In connection with the Conversion of the Interest Rate Period for the 2011A Bonds, we are rendering the opinions that are set forth herein.

In rendering our opinions, we have examined the Charter, the Ordinance, the Resolution, certain certificates, notices and instructions related to the tender, purchase and remarketing of the Bonds on the Purchase Date and such other information and documents as we have deemed necessary to render the opinions that are set forth herein. As to questions of fact that are material to the opinions which are stated herein, we have relied upon the accuracy of the representations, statements of intention and statements of reasonable expectations made by the City which are contained in certain certificates that are dated the date hereof, the Tax Certificate related to the initial issuance of the Bonds (the "Tax Certificate"), the certified proceedings of the City and certifications of public officials of the City and others which have been furnished to us, and compliance by the City with the procedures and covenants that are set forth in such documents as to such tax matters, without undertaking to verify through independent investigation the accuracy of the representations and certifications that we have relied upon. We have also assumed due authorization and valid execution and delivery of certificates signed by the City in connection with the tender, purchase and remarketing of the Bonds on the Purchase Date.

Based on our examination as Bond Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The Conversion is not prohibited by the laws of the State of California or the Sixteenth Supplemental Resolution.
2. The Bonds constitute the valid and binding special revenue obligations of the City.
3. The Resolution was duly adopted at meetings of the City Council of the City.
4. The Resolution creates a valid pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Resolution to secure the payment of the principal of and interest on the Bonds. The general fund of the City is not liable for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest.
5. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Resolution, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.
6. Interest on the Bonds is exempt from State of California personal income tax.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions that are expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters that are not directly addressed by such authorities. 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 thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result; 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.

We call attention to the fact that the rights and obligations under the Resolution and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of any official statement, remarketing statement or other offering material relating to the Bonds, and we expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in any such document.

We further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Conversion terminates on the date hereof, and we disclaim any obligation to update the matters set forth herein. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to the Bonds if any such action is taken or omitted based upon the opinion or advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

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

This opinion letter may be relied upon only by you and may not be relied upon by any other party without our prior written consent.

Respectfully submitted,

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Securities, payment of principal, interest and other payments on the Securities to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Securities and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Securities (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Securities (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Securities, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Securities, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Securities, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“**DTC**”), New York, NY, will act as securities depository for the securities (the “**Securities**”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. 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. The information contained on this Internet site is not incorporated herein by reference.

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

6. Redemption notices shall be sent to DTC. If less than all of the Securities within 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.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of

such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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APPENDIX G

BANK OF AMERICA, N.A.

Bank of America, N.A. (the “**Bank**”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “**Corporation**”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2019, the Bank had consolidated assets of \$1.853 trillion, consolidated deposits of \$1.498 trillion and stockholder’s equity of \$212.16 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2019, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the “**SEC**”).

The SEC maintains a website at www.sec.gov which contains the filings that the Corporation files with the SEC such as reports, proxy statements and other documentation. The reports, proxy statements and other information the Corporation files with the SEC are also available at its website, www.bankofamerica.com.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case, as filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporation
Office of the Corporate Secretary/Shareholder Relations
Hearst Tower, 214 North Tryon Street
NC1-027-18-05
Charlotte, NC 28255

PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2011A BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE 2011A BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in this Appendix G is correct as of any time subsequent to the referenced date.

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