NEW ISSUE - FULL BOOK-ENTRY

RATINGS:
S&P: "AA"
Moody's: "A1"

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the 2009A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2009B Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2009A Bonds and 2009B Bonds is exempt from California personal income taxation. See "TAX MATTERS" herein.

$240,910,000
CITY OF RIVERSIDE, CALIFORNIA
consisting of
$36,835,000 Sewer Revenue Bonds, Series 2009A
$204,075,000 Sewer Revenue Bonds, Series 2009B Taxable
(Build America Bonds - Direct Payment to Issuer)

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

The 2009 Bonds, consisting of the Sewer Revenue Bonds described above, will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2009 Bonds. Purchasers of the 2009 Bonds will not receive physical certificates representing their interests in 2009 Bonds purchased. Principal of, premium, if any, and interest on the 2009 Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2009 Bonds.

The 2009 Bonds will be dated the date of delivery thereof and will mature in the principal amounts and in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover hereto. The 2009 Bonds will be issued in fully registered form and will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Interest on the 2009 Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2010.

The 2009A Bonds are not subject to redemption prior to maturity. The 2009B Bonds are subject to optional and mandatory sinking account redemption as described herein. See "DESCRIPTION OF THE 2009 BONDS – Redemption Provisions" herein.

The 2009 Bonds are special limited obligations of the City of Riverside, California (the "City") payable solely from the Net Operating Revenues of the City's Sewer System and other funds, assets and security as further described herein, and do not constitute a general obligation or indebtedness of the City. The 2009 Bonds will be payable by the City on a parity with $8,101,200 in outstanding principal amount of certain state revolving fund contracts previously entered into by the City, all as more fully described in this Official Statement. Additional Bonds and Parity Debt (as defined herein) payable and secured on parity with the 2009 Bonds may be issued in the future. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. The Series 2009B Bonds will be issued as "Build America Bonds."

The 2009 Bonds are being issued to (i) reimburse certain previously incurred improvement costs and to finance certain capital projects of the City's Sewer System, (ii) fund a reserve account with respect to each series of 2009 Bonds, and (iii) pay costs of issuance of the 2009 Bonds. See "PLAN OF FINANCE" herein.

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

The 2009 Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is expected that the 2009 Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about August 20, 2009.

Wachovia Bank, National Association **Wells Fargo Institutional Securities, LLC**

De La Rosa & Co. **Stone & Youngberg**

Dated: August 6, 2009

$240,910,000
CITY OF RIVERSIDE, CALIFORNIA

MATURITY SCHEDULE

$36,835,000 Sewer Revenue Bonds, Series 2009A

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2012	$6,760,000	4.000%	1.790%	769047GS4
2013	7,035,000	4.000	2.110	769047GT2
2014	7,325,000	4.000	2.550	769047GU9
2015	7,660,000	5.000	2.830	769047GV7
2016	8,055,000	5.000	3.110	769047GW5

$204,075,000 Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds - Direct Payment to Issuer)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2017	$8,410,000	5.610%	5.610%	769047GX3
2018	8,725,000	5.760	5.760	769047GY1
2019	9,065,000	5.910	5.910	769047GZ8

$68,745,000 7.00% Term Bonds due August 1, 2029 - Yield: 7.045% - CUSIP†: 769047HA2
$109,130,000 7.20% Term Bonds due August 1, 2039 - Yield: 7.245% - CUSIP†: 769047HB0

† CUSIP Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Ronald O. Loveridge, Mayor

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

CITY OFFICIALS

Bradley J. Hudson, *City Manager*
Paul C. Sundeen, *Assistant City Manager / CFO*
Tom DeSantis, *Assistant City Manager*
Belinda Graham, *Assistant City Manager*
Gregory P. Priamos, *City Attorney*
Colleen J. Nicol, *City Clerk*
Brent A. Mason, *Assistant Director of Finance*
Siobhan Foster, *Public Works Director*

BOND COUNSEL

Best Best & Krieger LLP
Riverside, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesman or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2009 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2009 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

IN CONNECTION WITH THE OFFERING OF THE 2009 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2009 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

The City maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2009 Bonds.

TABLE OF CONTENTS

INTRODUCTION 1
General 1
Purpose of the 2009 Bonds 2
Security and Rate Covenant 2
Reserve Accounts 2
The Sewer System 3
Continuing Disclosure 3
Summaries and References to Documents 3
PLAN OF FINANCE 3
General 3
Defeasance of 1993 Bonds 3
Capital Projects 4
DESCRIPTION OF THE 2009 BONDS 4
General 4
Designation of 2009B Bonds as "Build America Bonds" 5
Redemption Provisions 5
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS 7
Net Operating Revenues 7
Resolution Flow of Funds 8
Rate Covenant 9
Rate Stabilization Fund 10
Reserve Accounts 10
Additional Bonds and Parity Debt 11
ESTIMATED SOURCES AND USES OF FUNDS 13
THE SEWER SYSTEM 13
General 13
Organization and Management 13
Existing Facilities and Services 14
Integrated Master Plan and the Capital Improvement Plan 15
Recycled Water Master Plan 17
Environmental Compliance 17
Seismic Issues 18
Employee Relations 18
Insurance 19
Sewer System Litigation 19
OPERATING INFORMATION RELATED TO THE SEWER SYSTEM 19
Customers 19
Sewer Rates and Charges 20
Capacity Charge 22
Comparative Sewer Service Charges and Connection Fees 25
Principal Users 26
Historical Wastewater Flows 27
Projected Wastewater Flows 27
Billing and Collection 28
FINANCIAL RESULTS OF THE SEWER SYSTEM 28
Transfers to the City's General Fund 28
Investment Policy and Controls 28
Significant Accounting Policies 29
Summary of Operations 29
Reserves 30
Projected Operating Data 32
Outstanding Sewer System Obligations 34
Debt Service Requirements 35
RISK FACTORS 35
2009 Bonds Are Limited Obligations 35
Limitations on Remedies 36
Sewer System Expenses and Collections 36
Rate Regulation 36
Greenhouse Gas Emissions 37
Earthquakes, Wildfires and Other Natural Disasters 37
Risks Relating to the Water Supply 38
Security of the Sewer System 38
Energy Costs 39
Impact of Current Fiscal Crisis on Sewer System Revenues 39
Certain Other Limitations on Fees and Charges 40
Loss of Tax Exemption 40
CONSTITUTIONAL LIMITATIONS 41
Article XIIIB 41
Proposition 218 41
Other Initiative Measures 43
TAX MATTERS 43
CERTAIN LEGAL MATTERS 45
LITIGATION 45
FINANCIAL STATEMENTS 45
RATINGS 45
UNDERWRITING 46
CONTINUING DISCLOSURE 46
MISCELLANEOUS 47

APPENDIX A- CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION A-1
APPENDIX B- SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE FOR THE FISCAL YEAR ENDED JUNE 30, 2008 ..... B-1
APPENDIX C- SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION C-1
APPENDIX D- FORM OF CONTINUING DISCLOSURE CERTIFICATE D-1
APPENDIX E- PROPOSED FORM OF BOND COUNSEL OPINIONS E-1
APPENDIX F- BOOK-ENTRY ONLY SYSTEM F-1

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$240,910,000
CITY OF RIVERSIDE, CALIFORNIA
consisting of
$36,835,000 Sewer Revenue Bonds, Series 2009A
$204,075,000 Sewer Revenue Bonds, Series 2009B Taxable
(Build America Bonds - Direct Payment to Issuer)

INTRODUCTION

General

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City"), of $36,835,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2009A (the "2009A Bonds") and $204,075,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds - Direct Payment to Issuer) (the "2009B Bonds"). The 2009A Bonds and the 2009B Bonds are referred herein collectively as the 2009 Bonds. The 2009 Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009 (the "Master Resolution"), as amended and supplemented by a supplemental resolution adopted by the City Council on July 14, 2009 providing for the issuance of the 2009A Bonds (the "First Supplemental Resolution") and a supplemental resolution adopted by the City Council on July 14, 2009 providing for the issuance of the 2009B Bonds (the "Second Supplemental Resolution"). The Master Resolution, as amended and supplemented by the First Supplemental Resolution and the Second Supplemental Resolution, is hereinafter collectively referred to as the "Resolution." The City Charter, the Ordinance and the Resolution are hereinafter collectively referred to as the "Law."

In 1997, the City entered into two state revolving fund loan program contracts (the "State Contracts") with the State Water Resources Control Board to finance certain improvements of the Sewer System. Currently, $8,101,200 in principal amount remains outstanding under the State Contracts. Upon issuance of the 2009 Bonds, except for the existing obligation under the State Contracts, no other outstanding obligation will be secured from the pledge of Net Operating Revenues of the Sewer System created by the Resolution. See "PLAN OF FINANCE - Defeasance of 1993 Bonds" for information related to the defeasance of certain bonds issued in 1993. The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses, as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues." The State Contracts are secured by a lien upon the Net Operating Revenues on a parity basis with the Bonds and the Parity Debt (as such terms are described below), all as further provided in this Official Statement.

Bonds issued by the City pursuant to the Resolution on a parity with the 2009A Bonds, the 2009B Bonds and any Additional Bonds (described herein) are referred to herein as the "Bonds." The City reserves the right to issue and incur additional parity obligations that do not constitute Additional Bonds ("Parity Debt") from time to time, secured by a pledge and charge on the Net Operating Revenues of the Sewer System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds, including the 2009 Bonds, and the State Contracts, to the extent permitted by the Resolution. See

"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Debt" herein for additional information.

Pursuant to the Resolution, the City reserves the right to issue and incur obligations which are payable from Net Operating Revenues on a basis that is junior and subordinate to the payment of the Bonds, State Contracts or Parity Debt ("Subordinate Obligations").

Purpose of the 2009 Bonds

A portion of the 2009A Bond proceeds will be applied to reimburse certain previously incurred improvement costs related to the Sewer System. The 2009 Bonds are being issued to finance certain additional capital costs of the Sewer System. The 2009 Bond proceeds will also be applied to fund the Reserve Accounts, and to pay the costs of issuance of the 2009 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Rate Covenant

Pursuant to the Law, the 2009 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues of the Sewer System, Capacity Charges, Treasury Credits and other funds, assets and security described under the Resolution, on a parity with any other Bonds, State Contracts or Parity Debt issued in the future.

The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay the operating and maintenance expenses of the Sewer System, to pay debt service on all Bonds, State Contracts and Parity Debt and to pay all other obligations which are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues" and "- Rate Covenant." Sewer rates are established by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other State agency. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Customers" herein for a description of billing and collection arrangements within Community Service Districts served by the Sewer System.

The general fund of the City is not liable for the payment of the 2009 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2009 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2009 Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Sewer System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2009 Bonds, interest thereon and any premium upon redemption.

Reserve Accounts

Pursuant to the Resolution, a separate Reserve Account with respect to each series of 2009 Bonds will be established as the 2009A Reserve Account with respect to the 2009A Bonds and the 2009B Reserve Account with respect to the 2009B Bonds (collectively, the "Reserve Accounts"). The 2009A

Reserve Account will be funded at the 2009A Bond Reserve Requirement in an amount equal to $3,683,500 and the 2009B Reserve Account will be funded at the 2009B Bond Reserve Requirement in an amount equal to $16,458,809.58. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2009 BONDS - Reserve Accounts." See also, "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Sewer System

The Sewer System serves an area of approximately 109.86 square miles, of which approximately 81.5 square miles are within the limits of the City. The Sewer System provides service to 86,644 customer accounts in the service area, which represents a population of 392,420. See "THE SEWER SYSTEM" herein for additional information. Unless otherwise noted, all statistical and financial information herein relating to the Sewer System have been provided by the City.

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2009 Bonds to provide certain financial information and operating data relating to the Sewer System and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" and Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Summaries and References to Documents

Brief descriptions of the 2009 Bonds, the security and sources of payment therefor, the Sewer System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2009 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 City is available on the City's website at www.riversideca.gov. Information set forth on such website is not incorporated by reference herein. Financial and statistical information set forth herein, except for the audited financial statements included in Appendix B, is unaudited. The source of such information is the City unless otherwise stated. Terms not defined herein shall have the meanings as set forth in the respective documents.

PLAN OF FINANCE

General

A portion of the 2009A Bond proceeds will be applied to reimburse certain previously incurred improvement costs related to the Sewer System. The proceeds of the 2009 Bonds are expected to be applied to finance the costs of capital improvement projects as described below. In addition, the 2009 Bond proceeds will be used to fund reserve accounts and to pay the costs of issuance related to the 2009 Bonds.

Defeasance of 1993 Bonds

The City previously issued the Sewer Revenue Bonds, Issue of 1993 (the "1993 Bonds"), pursuant to Resolution No. 18181 adopted by the City Council on February 16, 1993 (the "1993 Resolution"). On June 29, 2009, certain existing moneys of the City were applied to defease $17,590,000 in outstanding principal amount of the 1993 Bonds. Such moneys were deposited in an Escrow Fund established under that certain escrow deposit and trust agreement, dated as of June 29, 2009, by and

between the City and U.S. Bank National Association, as escrow agent thereunder. Upon deposit of the moneys into the Escrow Fund, the 1993 Bonds were defeased and no longer secured by and pledge of the Net Operating Revenues of the Sewer System. No amount of the 2009 Bond proceeds will be applied for or related to the defeasance of the 1993 Bonds.

Capital Projects

A portion of the net proceeds of the 2009A Bonds will be applied to reimburse certain previous expenditures related to the Sewer System. On February 5, 2008, the City adopted Resolution No. 21580 in contemplation of such reimbursement. Prior expenditures included costs incurred from February 5, 2008 through June 30, 2009 on capital projects ranging from improvements at the treatment plant and related facilities, lift station upgrades and replacements, sewer-line relocation, repair and replacement projects, pump station upgrades and other related improvements to the Sewer System. The aggregate amount of reimbursed costs is $14,377,083.

A portion of the net proceeds of the 2009 Bonds will be applied to finance a portion of the capital improvement projects outlined in the City's Integrated Master Plan. The capital improvements projects include such upgrades, improvements, and replacements to the Sewer System to be implemented through June 30, 2012 at an aggregate cost of $186,382,300. See "THE SEWER SYSTEM - Integrated Master Plan and the Capital Improvement Plan" for additional information.

DESCRIPTION OF THE 2009 BONDS

The following is a summary of certain provisions of the 2009 Bonds. Reference is made to the 2009 Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

General

The 2009 Bonds will be dated their date of delivery, will mature on the dates and in the respective amounts, and will bear interest at the respective rates per annum shown on the inside cover of this Official Statement. The 2009 Bonds may be purchased in book-entry form only, in principal amounts of $5,000 or any integral multiple thereof. Interest on the 2009 Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2010, to the owners of record at the close of business on the 15th day of the preceding calendar month (a "Record Date") by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such 2009 Bonds as of the close of business on the Record Date at such persons' addresses as they appear on such registration books, except that an Owner of $1,000,000 or more in principal amount of 2009 Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least thirty (30) days preceding any interest payment date specifying the wire transfer instructions for such Owner. Such notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. See Appendix F - "BOOK-ENTRY ONLY SYSTEM."

Each 2009 Bond shall bear interest from the interest payment date before the date of authentication thereof unless it is authenticated during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it shall bear interest from the dated date of the 2009 Bonds.

So long as any 2009 Bond is registered in the name of Cede & Co., as nominee of DTC, procedures with respect to the transfer of ownership, redemption, and the payment of principal, redemption price, premium, if any, and interest on such Bond shall be in accordance with arrangements among the City, the Fiscal Agent and DTC. See Appendix F - "BOOK-ENTRY ONLY SYSTEM."

Designation of 2009B Bonds as "Build America Bonds"

The 2009B Bonds will be issued as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the "Recovery Act"). Pursuant to the Recovery Act, the City expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the City on the 2009B Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. Any cash subsidy payments received by the City will be deposited into the Sewer Revenue Fund.

Redemption Provisions

2009A Bonds - No Redemption. The 2009A Bonds are not subject to redemption prior to maturity.

2009B Bonds - Optional Redemption. The 2009B Bonds maturing on or before August 1, 2019, are not subject to optional redemption prior to maturity. The 2009B Bonds maturing on August 1, 2029 and August 1, 2039, are subject to optional redemption by the City on any date on or after August 1, 2019, as a whole or in part in an Authorized Denomination, at a Redemption Price of 100% of the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

2009B Bonds - Mandatory Sinking Account Redemption. The 2009B Bonds maturing on August 1, 2029 are subject to mandatory sinking account redemption, in part, on August 1, 2020, and on each August 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2009 Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Sewer Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (August 1)	Principal Amount	Redemption Date (August 1)	Principal Amount
2020	$5,555,000	2025	$6,975,000
2021	5,810,000	2026	7,300,000
2022	6,085,000	2027	7,635,000
2023	6,370,000	2028	7,990,000
2024	6,660,000	2029†	8,365,000

† Maturity

The 2009B Bonds maturing on August 1, 2039 are subject to mandatory sinking account redemption, in part, on August 1, 2030, and on each August 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2009B Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Sewer Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (August 1)	Principal Amount	Redemption Date (August 1)	Principal Amount
2030	$ 8,760,000	2035	$11,070,000
2031	9,185,000	3036	11,600,000
2032	9,620,000	3037	12,160,000
2033	10,080,000	3038	12,740,000
2034	10,565,000	3039†	13,350,000

† Maturity

Mandatory Sinking Account Payments for the 2009B Bonds shall be reduced to the extent the City has purchased 2009B Bonds and surrendered such 2009B Bonds to the Fiscal Agent for cancellation. If 2009B Bonds have been redeemed as provided for under the caption "Optional Redemption" above, then the amount of the 2009B Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such 2009B Bonds as nearly as practicable, pro rata. A reduction of Mandatory Sinking Account Payments in any 12 month period ending on August 1 will reduce the principal amount of 2009B Bonds redeemed on that August 1.

Selection of 2009B Bonds for Redemption. If less than all the 2009B Bonds are to be redeemed, the 2009B Bonds shall be redeemed on a pro rata basis based on the relative principal amounts among maturities and the 2009B Bonds of each maturity shall be selected for redemption pro rata as nearly as practicable in proportion to the principal amount of the 2009B Bonds owned by each registered owner within each maturity of 2009B Bonds, subject to authorized denomination of $5,000 applicable to the 2009B Bonds. In such event, the particular 2009B Bonds to be redeemed will be determined by the Fiscal Agent, using such method it deems appropriate. So long as the 2009B Bonds are in book-entry form at the time of such redemption, the Fiscal Agent shall instruct DTC to instruct the DTC Participants to select the 2009B Bonds within each maturity pro rata as nearly as practicable in proportion to the principal amounts of the 2009B Bonds owned by each registered owner within that maturity. Neither the City nor the Fiscal Agent shall have any responsibility to ensure that DTC or the DTC Participants properly select such 2009B Bonds for redemption. Initially, the 2009 Bonds will be issued in book-entry form. See Appendix F for additional information related to DTC and its book-entry only system.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of 2009B Bonds to (i) the Owners of the 2009B Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first-class mail to the Owners of 2009B Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2009B Bonds.

In the event of an optional redemption of 2009B Bonds, if the City shall not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of the redemption price of the 2009B Bonds to be redeemed at the time of such mailing, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefore with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2009B Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2009B Bonds at the place specified in such notice of redemption, such 2009B Bonds shall be redeemed and paid at said redemption price. If on the redemption date moneys for

the redemption of the 2009B Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2009B Bonds to be redeemed shall cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Net Operating Revenues

Pursuant to the Law, the 2009 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues, Capacity Charges, Treasury Credits and other funds, assets and security described under the Resolution, on a parity with the outstanding principal amount of the State Contracts and any other Bonds or Parity Debt issued in the future. All capitalized terms used in this Official Statement not otherwise defined shall have the meanings provided in the Resolution.

The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses. Gross Operating Revenues consist of all income and revenue received by the City during such period from the operation or ownership of the Sewer System, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues shall include any fund balances held in the Sewer Revenue Fund on the date of adoption of the Master Resolution and thereafter any fund balances held from time to time in the Sewer Revenue Fund. Gross Operating Revenues shall include any amounts on deposit in the Rate Stabilization Fund but shall not include Capacity Charges and Treasury Credits.

Operating and Maintenance Expenses are all reasonable and necessary costs paid or incurred by the City for maintaining and operating the Sewer System, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Sewer System in good repair and working order, all administrative costs of the City that are charged directly or apportioned to the operation of the Sewer System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Resolution, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

The general fund of the City is not liable for the payment of the 2009 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2009 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2009 Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Sewer System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2009 Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

The City has created the Sewer Revenue Fund pursuant to the Law, to secure the payment of the Bonds, Parity Debt and the State Contracts. The Sewer Revenue Fund includes the Bond Service Account and the Renewal and Replacement Account. The Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Sewer Revenue Fund and all of the accounts and subaccounts therein are held and administered by the City Treasurer. The 2009A Reserve Account has been created under the First Supplemental Resolution and the 2009B Reserve Account has been created under the Second Supplemental Resolution, each to be held by the Fiscal Agent.

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

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

Interest Account. As soon as practicable in each month, the Treasurer will set aside (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on the State Contracts, Parity Debt and the Bonds with a fixed rate of interest on the next interest payment date (excluding interest for which there are moneys deposited in the Interest Account), and (ii) 110% of the interest which the Treasurer estimates in his or her reasonable discretion will accrue during that month on Bonds with a variable rate of interest. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the interest payment date falling within the next six months upon the State Contracts, Parity Debt and 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). Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

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

Reserve Accounts; Supplemental Deposit. Following the transfers described above as required by the Resolution, the Treasurer will deposit as soon as practicable in each month in the Reserve Accounts and any other reserve account for Bonds established pursuant to a Supplemental Resolution and in any reserve account established for Parity Debt upon the occurrence of any deficiency therein, one-

twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuation of the investments in such reserve account until the balance is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

Excess Earnings Account. Following the transfers described above as required by the Resolution, the Treasurer will deposit any excess earnings or rebate account established for the 2009 Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

Remaining Balance. On the first day of each calendar month, after the transfers to the aforementioned accounts required by the Resolution and all other covenants of the City contained therein have been duly performed, any moneys remaining in the Sewer Revenue Fund will continue to be held in the Sewer Revenue Fund as a fund balance or surplus and may be: (i) invested in any investments that are consistent with the City's then effective investment policy, or (ii) used for the redemption or prepayment of any Outstanding Bonds or Parity Debt which are subject to call and redemption or prepayment prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, (iii) deposited to the Rate Stabilization Fund, (iv) pledged or used by the City to make Subordinate Payments with respect to any Subordinate Obligations, or (v) used by the City in any lawful manner.

Application of Funds and Accounts. The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the 2009 Bonds as it will become due and payable (including accrued interest on any 2009 Bonds purchased or redeemed prior to maturity). The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the 2009 Bonds maturing by their terms on August 1 of the years in which 2009 Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the 2009 Bonds to be redeemed from amounts on deposit in the Principal Account.

Rate Covenant

The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services and facilities of the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, shall provide Gross Operating Revenues 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, Parity Debt and the State Contracts as they become due and payable; provided, however, that the interest deemed to be payable on any Build America Bonds, including the 2009B

Bonds, shall be based on the net economic effect to be produced by the City's receipt of the Treasury Credit;

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

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

The charges shall be so fixed that the Net Operating Revenues, plus any amount deposited in the Rate Stabilization Fund and Capacity Charges, shall be at least 1.25 times the amounts payable under (b) above and 1.0 times the amounts payable under (c) and (d) above. See "FINANCIAL RESULTS OF THE SEWER SYSTEM - Reserves" herein for a discussion of the scope of amounts included in the determination of rate covenant and the covenant default under the 1993 Resolution securing the 1993 Bonds.

Rate Stabilization Fund

As set forth in the Resolution, the City will cause to be deposited in the Rate Stabilization Fund from time to time from available moneys in the Sewer Revenue Fund such amount, that when added to operating revenues, as shown on the books of the City, plus Capacity Charges and interest earnings on the fund balance in the Sewer Revenue Fund, as shown on the books of the City, less Operating and Maintenance Expenses, is as least equal to 1.25 times debt service on the State Contracts, Bonds and Parity Debt (the "Rate Stabilization Fund Coverage Test"). For purposes of the Rate Stabilization Fund Coverage Test, debt service deemed payable on any Build America Bonds, including the 2009B Bonds, shall be based on the net economic effect to be produced by the City's receipt of the Treasury Credit. Moneys in the Rate Stabilization Fund in excess of the Rate Stabilization Fund Coverage Test shall be released and transferred from time to time to the Sewer Revenue Fund or any account therein as shall be determined by the City

Based on the Rate Stabilization Fund Coverage Test, no transfer is required by the City from its available funds in the Sewer Revenue Fund to the Rate Stabilization Fund for fiscal year 2009-10. The amount deposited in the Rate Stabilization Fund, if any, is to be included in determining Gross Operating Revenues and applied to comply with certain financial covenants as further provided in the Resolution. See "FINANCIAL RESULTS OF THE SEWER SYSTEM - Projected Operating Data" for the projected Rate Stabilization Fund Coverage Test results.

Reserve Accounts

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve account for any Series of Bonds issued thereunder. The First Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2009A Reserve Account with respect to the 2009A Bonds an amount equal to the 2009A Bond Reserve Requirement until the 2009A Bonds are discharged in accordance with the Resolution. The Second Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2009B Reserve Account with respect to the 2009B Bonds an amount equal to the 2009B Bond Reserve Requirement in the 2009B Reserve Account until the 2009B Bonds are discharged in accordance with the Resolution.

The 2009A Bond Reserve Requirement and the 2009B Bond Reserve Requirement refer to, as of any date of calculation, the least of (i) the maximum amount of principal of and interest becoming due on

such series of Bonds in any fiscal year, (ii) 125% of the average annual principal of and interest becoming due and payable on such series of Bonds in any fiscal year, and (iii) 10% of the proceeds of such series of Bonds (within the meaning of Section 148 of the Code); provided that the interest coming due on the 2009B Bonds shall be determined on the amount net of expected Treasury Credit amounts. The 2009A Bond Reserve Requirement as of the delivery date of the 2009A Bonds is $3,683,500.00 and the 2009B Bond Reserve Requirement as of the delivery date of the 2009B Bonds is $16,458,809.58. Initially, the 2009A Bond Reserve Requirement and the 2009B Bond Reserve Requirement will be satisfied by a deposit of cash.

The Resolution also requires that there be maintained in each other debt service reserve account established pursuant to a Supplemental Resolution, the amount, if any, required to be deposited therein.

Moneys in the Reserve Accounts will secure only the payment of the appropriate series of 2009 Bonds and may be withdrawn solely (i) to pay principal of and interest on the appropriate series of 2009 Bonds in the event moneys in the Principal Account and the Interest Account are insufficient for payment of that series or (ii) to make the final principal and interest payment on all outstanding 2009 Bonds of appropriate series related to that reserve account. Whenever amounts are withdrawn from a Reserve Account, the amount in said account shall be restored as described above in "Resolution Flow of Funds - Reserve Accounts."

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of, premium, if any, and interest on the other series of 2009 Bonds. In the event that a Reserve Account contains moneys in excess of the amount required to be maintained therein, all of the excess moneys will be transferred to the Sewer Revenue Fund.

At the option of the City, amounts required to be held in a Reserve Account may be substituted, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond or other credit source in a stated amount equal to the amounts so substituted, provided that, among other things, the substitution of such credit facility will not result in a withdrawal or downgrading of any rating of the appropriate series of 2009 Bonds then in effect.

Additional Bonds and Parity Debt

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

Issuance of Additional Bonds and Parity Debt. The Resolution provides that, except for the State Contracts and Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no Additional Bonds or any Parity Debt shall be created or incurred unless: (i) the City is not in default under the terms of the Resolution; (ii) either (a) the Net Operating Revenues of the Sewer System, plus Capacity Charges and any amounts on deposit in the Rate Stabilization Fund, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or any 12 consecutive month period within the last completed 18-month period ended not more than three months before the issuance 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, plus Capacity Charges and any amounts on deposit in the Rate Stabilization Fund, for the first complete fiscal year when the improvements to the Sewer System financed with the proceeds of the Additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of

an independent consulting engineer, independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City, plus, at the option of the City, any or all of the items designated under (a) and (b) below, shall have amounted to at least 1.25 times the Maximum Annual Debt Service (as defined in Appendix C) in any fiscal year thereafter on the State Contracts and all Bonds and Parity Debt to be outstanding immediately subsequent to the incurring of such Additional Bonds or Parity Debt; (iii) on the date of delivery of and payment for such Additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund; and (iv) operating revenues, as shown on the books of the City, shall be in excess of Operating and Maintenance Expenses and the annual debt service (based on the net economic effect to be produced by the City's receipt of the Treasury Credit) on State Contracts, Outstanding Bonds and Parity Debt 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 three months before the issuance of or incurrence of such Additional Bonds or Parity Debt.

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

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

(b) An allowance for earnings arising from any increase in the rates or charges made for the use of the Sewer 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 rates or charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City.

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

Subordinate Debt. Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations), to the payment of the principal, premium, interest and reserve fund requirements for the State Contracts, Bonds and all Parity Debt and which subordinate obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the State Contracts, 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.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2009 Bonds are as follows:

	2009A Bonds	2009B Bonds	Total
Sources:			
Principal Amount of 2009 Bonds	$36,835,000.00	$204,075,000.00	$240,910,000.00
Net Original Issue Premium (Discount)	3,266,804.60	(937,306.00)	2,329,498.60
Total Sources	$40,101,804.60	$203,137,694.00	$243,239,498.60
Uses:			
Project Fund	$33,057,380.65	$167,702,002.35	$200,759,383.00
Reserve Account	3,683,500.00	16,458,809.58	20,142,309.58
Capitalized Interest[(1)]	3,175,043.19	17,947,056.76	21,122,099.95
Underwriters' Discount	124,720.99	690,985.08	815,706.07
Costs of Issuance[(2)]	61,159.77	338,840.23	400,000.00
Total Uses	$40,101,804.60	$203,137,694.00	$243,239,498.60

(1) Reflects interest payments through August 1, 2011.

(2) Includes legal fees, Fiscal Agent fees, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2009 Bonds.

THE SEWER SYSTEM

General

The City's Public Works Department Sewer Division is responsible for the collection and treatment of wastewater flows generated within the City and the communities of Jurupa, Rubidoux, Edgemont and Highgrove. The collection system encompasses more than 820 miles of gravity sewers and 18 wastewater pump stations. Sewage treatment is carried out at the City's Regional Water Quality Control Plant ("RWQCP"), which provides preliminary, primary, secondary and tertiary treatment for a rated capacity of 40 million gallons per day ("mgd").

The Sewer System provides service to approximately 86,644 customer accounts within a service area of 109.86 square miles, of which 81.5 square miles are within the City limits. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. Total population served is over 392,400.

Organization and Management

Sewage collection and treatment facilities are operated on a 24-hour, seven days per week basis by the Wastewater Systems Manager and a staff of 119 employees. The staff includes 30 plant operators, nine environmental compliance inspectors, six laboratory personnel, 34 treatment plant maintenance personnel, 16 collection system maintenance personnel, two co-generation specialists, six engineering personnel, and 16 administrative and office personnel. Staff performs routine maintenance functions in addition to operating the facilities.

Operation of the Sewer System is the responsibility of Ms. Siobhan Foster, Public Works Director. Ms. Foster joined the City in 1990 and served as deputy public works director from spring 2004 until her current appointment in February 2006.

Existing Facilities and Services

The City's Public Works Department Sewer Division is responsible for the administration of wastewater collection and treatment system as well as the enforcement of federal, state and local regulations pertaining to commercial and industrial wastewater discharged into public sewer system for reclamation.

The City's municipal wastewater treatment plant began operation in 1948, becoming a regional facility in 1978. Primary and secondary treatment capacity was constructed to provide treatment for wastewater from the Rubidoux and Jurupa Community Service Districts. Tertiary capacity was built at the same time. Subsequent projects have added capacity and upgraded the existing primary, secondary, tertiary, and solids handling facilities to increase the treatment capacity at the RWQCP. The RWQCP has a rated capacity of 40 mgd to produce high quality treated effluent that complies with all current state and federal requirements.

The City's wastewater collection system is divided into five basins. The wastewater collection system includes over 820 miles of gravity sewers ranging in size from 6 to 48 inches in diameter. The system also includes eighteen wastewater pump stations, three of which are storm water pump stations. Most of the wastewater lift stations are designed for flows of 100 to 400 gallons per minute ("gpm"). There are two large lift stations with design capacity in excess of 2,000 gpm. The three storm water pump stations have design capacities of approximately 500 gpm each.

The RWQCP is a 121 acre site that includes over 4,000 pieces of mechanical and electrical equipment used for wastewater treatment. The RWQCP consists of two separate plants. The sewage comes into the RWQCP at the headworks, where 40% is sent to Plant 1 and 60% is sent to Plant 2 for independent treatment to a primary and secondary level. The secondary effluent is combined and sent to four equalization ponds. The equalized secondary effluent feeds into the two tertiary filter trains where it is further treated. Currently, the tertiary effluent goes through Chlorine Contact Basin No. 1 and Chlorine Contact Basin No. 3 for disinfection. Currently, the City is constructing a roof and a recycled water pump station to upgrade the out-of-service Chlorine Contact Basin No. 2 to produce up to 14,000 gpm of high quality (Title 22) recycled water.

The final effluent is discharged either to the Santa Ana River directly or to the Hidden Valley Wetlands for further nitrogen treatment at the 100 acre wetlands before being discharged to the Santa Ana River. The City expects to greatly expand the use of impure water or recycled water as further described in "- Recycled Water Master Plan" below.

As part of the wastewater treatment process, settled solids from the secondary clarifiers are combined, thickened, blended with solids from the primary clarifiers, and further processed in anaerobic digestion process. The digestion process creates methane gas which is used to produce electricity from three internal combustion engines and a one megawatt fuel cell. The RWQCP uses the generated electricity to offset a portion of its power needs and reduce the amount of electricity purchased to operate the RWQCP. In September 2007, the City contracted with a vendor to dispose of used restaurant grease, at no cost to the City, to inject into the digestion system. The added grease increases not only production but also the quality of methane gas. The "Grease to Gas" project has been recognized by numerous organizations. In 2008, the project received three 20th Annual Clean Air Awards from the South Coast Air Quality Management District; in 2007, the project received the Helen Putman Award for Planning and

Environmental Quality; and again in 2007, the project received the Energy Innovation Award from the American Public Power Association.

Currently, sludge dewatering centrifuges and belt presses are used to reduce the moisture content of sludge. The dewatered solids are discharged to a truck loading facility for off-site disposal as soil amendment in Arizona. The RWQCP generates and requires the disposal of Class B digester sludge / biosolids. The City began exploring alternative biosolids disposal methods in 2002 in anticipation of more stringent future disposal regulations as well as associated increased cost for such methods. In December 2005, the City entered into an agreement with a vendor so that the City's biosolids would be transported and converted to renewable fuel for use as heat source for the vendor's cement kilns. Upon completion of the cement production plant by that vender, residual ash from the fuel combustion is expected to become part of the cement product. This sustainable disposal process was chosen by the City to avoid residual waste from biosolids and associated long-term contingent liability from biosolids disposal. Originally, the RWQCP used sludge drying beds on 8 acres as part of its sludge disposal practice. The drying beds are no longer in service.

The City's Sewer Division also oversees the pretreatment program of Edgemont, Jurupa, Rubidoux and Highgrove communities for compliance with the City's Industrial Pretreatment Program Ordinance No. 5810 and the State EPA reporting requirements. The Sewer Division also provides technical support involving chemical, biological and microbiological analyses related to these communities as well as to commercial and industrial customers to monitor the composition of waste discharge.

Integrated Master Plan and the Capital Improvement Plan

In 2006-07, the Integrated Master Plan (the "Master Plan") for the City's Sewer System was prepared to identify and plan for needed expansion and replacement through 2025. The Master Plan evaluated certain Sewer System facilities and made recommendations to upgrade, rehabilitate and replace certain facilities based on projected population growth and evaluations contained in prior studies and ongoing plans. The Master Plan developed a capital improvement plan and an asset management plan related to rehabilitation and replacement of aged facilities. The collective schedule of facility improvements and related costs as noted in the Master Plan are referred to as the "Capital Improvement Plan."

In projecting the average daily flow, the Master Plan reviewed a range of anticipated growth within the Sewer System's service area of between 0.75% (low growth scenario) and 1.5% (high growth scenario). Based on the current slow down in the population and housing growth, the City determined in August 2007 to reflect the low growth scenario in projecting the capital costs, operating and maintenance costs, capital improvement plan and schedule to 2025. As a result, the Master Plan assumes a 2025 flow of 47.3 mgd rather than 52.2 mgd, which reflects the high growth assumption. The capacity improvements for the RWQCP will be at 52.2 mgd due to the economy of scale for construction.

The Master Plan evaluated and summarized the Capital Improvement Plan as collection system improvements and treatment system improvements. The collection system improvements include the rehabilitation or replacement of approximately 250 miles of collection system piping over 50 years in age. The treatment system improvement includes the expansion of treatment capacity and the replacement of treatment facilities at the RWQCP, including the replacement of facilities that are over 60 years old. These facilities need to be replaced to reduce maintenance effort, risk of failure and to ensure continued regulatory compliance.

The Capital Improvement Plan includes, among other costs, the cost of following improvements: Replacement of 60-year old primary clarifier basins with new basins providing increased capacity; installation of Membrane Bioreactor equipment; construction of acid phase digesters to decrease the amount of solids to be disposed while increasing methane gas production; installation of an additional 1.2 megawatt fuel cell to support the RWQCP power needs; construction of a digester gas storage facility to better regulate methane flow to power producing equipment; installation of solids screening equipment to improve solids quality for reuse; construction of new waste activated sludge thickening facility; improvements to the RWQCP power and Supervisory Control and Data Acquisition (SCADA) systems; expansion of the disinfection system (chlorine contact basin); improved influent metering; increased capacity of the RWQCP headworks facility; increased capacity to segments of the sewage collection system; and replacement of aging and deteriorating segments of the collections system.

Since the development of the Capital Improvement Plan, the City continued to refine and revise the components and the implementation timeline of the Capital Improvement Plan so as to reflect the available funds and funding sources for such projects. As of July 2009, the estimated cost of projects estimated through fiscal year 2024-25 is approximately $546.2 million. This reflects $166.8 million for aging facility replacements and regulatory updates and approximately $379.4 million for system capacity improvements.

The current cost estimate of the Capital Improvement Plan includes improvements in the treatment capacity of RWQCP from the existing 40 mgd to 52.2 mgd to allow for the development proposed in the City's recently adopted General Plan and to meet the expected needs of the communities of Edgemont, Highgrove, Jurupa and Rubidoux.

CITY OF RIVERSIDE
Capital Improvement Plan Costs
(Dollars in Millions)

	Collection System	Treatment Facilities	Total
System Replacements/Upgrades	$138.9	$27.9	$166.8
Capacity Improvements	267.5	111.9	379.4
Total	$406.4	$139.8	$546.2

Source: City of Riverside

Since the adoption of the Master Plan, the City's Sewer Division continued to modify the schedule of implementing upgrades and improvements to the Sewer System. For July 1, 2009 through June 30, 2012, the City identified approximately $186,382,300 in capital improvements to be financed from the 2009 Bond proceeds. The components to be financed include expansions at the RWQCP, including improvements to the primary treatment equipment, Membrane Bioreactor equipment and digester related improvements. Other components include upgrade, replacements and/or improvements of lift station equipment, pump system, trunk sewer lines, collection system, sewer lines, biosolids storage and loading facility, energy system, recycled water pumping station as well as improvements at the Hidden Valley Wetlands. At this time, the City has not yet obtained all required approvals, including such requirements under the California Environmental Quality Act, but expects to obtain appropriate approvals on a timely basis to complete the projects to be financed with the 2009 Bond proceeds.

Actual components to be financed as well as the cost of such components and the timing of implementing such improvements may continue to change based on the City's needs and priorities. The remaining components identified in the Capital Improvement Plan are expected to be financed through future bond issues of the City as well as available operating revenues of the Sewer System.

Recycled Water Master Plan

The RWQCP currently produces approximately 36,000 acre-feet per year (AFY) of treated effluent discharging almost the entire amount to the Santa Ana River. The facilities proposed in the Master Plan will increase the potential discharge to the river to approximately 67,400 AFY of treated effluent.

Currently, the City supplies recycled water to the RWQCP for in plant uses; for landscape irrigation along Van Buren Boulevard immediately adjacent to the RWQCP; and to three retail customers. The retail customers include a golf course, an electrical power peaking plant, and a Toro irrigation manufacturing/testing facility. The total amount recycled water currently distributed to current retail customers is 290 AFY.

On May 20, 2008 the State Water Resources Control Board approved a minimum discharge of 25,000 AFY of treated effluent from the RWQCP to the Santa Ana River, therefore allowing the diversion of the current remaining 11,000 AFY of recycled water for municipal, industrial and irrigation uses. Ultimately, a total of 41,400 AFY of recycled water may be distributed throughout the City.

On September 9, 2008 the City Council conceptually approved the long range development for the City's Recycled Water Program. To implement the Recycled Water Program, two City departments will be involved in the production and distribution of recycled water. The Sewer Division will be responsible for treating wastewater to recycled water meeting Title 22 requirements. The Sewer Division will sell the recycled water to the Public Utilities Department Water Division at a wholesale rate. The Water Division, in turn, will be responsible for the distribution of recycled water to retail customers. The wholesale rate will be determined in the future between the Sewer and Water Divisions.

As part of the Sewer System's Capital Improvement Plan, a new recycled water pump station is to be constructed at the out-of-service Chlorine Contact Basin No. 2 ("CCB No. 2"). Upon completion, 14,000 gpm or 22,600 AFY of Title 22 recycled water is expected to be produced. The pump station will be used to supply the on-site and off-site demands of recycled water at the peak hour demand of 4,483 gpm. The pump station is expected to be constructed in such a way to permit simple expansion to a peak capacity of 14,000 gpm.

The anticipated cost of the Recycled Water Program to be implemented by the Water Division is expected to be $60 to $100 million. These costs are expected to be financed through grants, private developments, and user fees.

Environmental Compliance

The City's wastewater operations are subject to regulatory requirements relating to the Federal Water Pollution Control Act as amended (the "Act"). The regulatory requirements are administered by the Environmental Protection Agency ("EPA") through the California State Water Resources Control Board ("SWRCB"). Regulations of these agencies deal primarily with the quality of effluent which may be discharged from the wastewater treatment facility, the disposal of sludge generated by the wastewater treatment plant, the discharge of pollutants into the groundwater, and the nature of waste material discharged.

To comply with federally mandated effluent quality and disposal criteria, the City must operate its wastewater treatment facility according to discharge limitations and reporting requirements set forth in the National Pollutant Discharge Elimination System (NPDES) discharge permits. The wastewater

treatment plant meets the requirements of the NPDES permit. The existing NPDES permit was issued on April 21, 2006 and will be subject to renewal in April 2011.

In addition to federal requirements, the City must comply with State requirements which are generally more stringent. The primary State law concerned with the control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended. The basic tenor of that act sets policy that the waters of the State must be protected for use and enjoyment by the people of the State. The Porter-Cologne Act directly addresses the problem of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements.

Principal policies and plans for water quality have been adopted by SWRCB. Since SWRCB was granted the authority to administer and enforce EPA rules and regulations within the State, including the issuance of NPDES permits, these adopted policies and plans have been made an integral part of the City's NPDES permit.

Seismic Issues

The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Sewer System facilities. Due to the RWQCP proximity to these faults there is a potential for it to experience strong ground shaking, ground surface rupture, and soil liquefaction. Although the City has not experienced significant earthquake-related damage to its facilities, the City's Sewer System could be adversely affected by a major local earthquake.

Employee Relations

As of June 30, 2008, 119 City employees were assigned specifically to the Sewer System. Certain functions supporting Sewer System operations, including meter reading, customer billing and collections, are performed by the PUD. Substantially all of the non-administrative City personnel assigned to the Sewer System 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, 2010. Portions of the administrative staff are also represented by the SEIU. The Sewer System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future.

Retirement benefits to City employees, including those assigned to the Sewer System, are provided through the City's participation in the California Public Employees Retirement System (Cal-PERS), an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. All permanent full-time and selected part-time employees are eligible for participation in Cal-PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service, and salary. Employees may retire at age 55 and receive 2.7 % of their highest average annual salary for each year of service completed. Cal-PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are eight percent (8%) of their annual covered salary. The Sewer System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the Cal-PERS actuaries and actuarial consultants and adopted by the Cal-PERS Board of Administration. The Sewer System pays both the employee and employer contributions. Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to

Cal-PERS for the fiscal year ended June 30, 2008, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2008. See also Note 14 to Appendix B - "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE FOR THE FISCAL YEAR ENDED JUNE 30, 2008" for further discussion.

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan and the Implied Subsidy Plan (ISP). These plans provide other post-employment health care benefits for eligible retirees and beneficiaries. The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements, including SEIU. Benefit provisions for the Stipend Plan are established and amended through the various memoranda of understanding with the employee unions. The City's contribution is financed on a "pay-as-you-go-basis."

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 City's healthcare plans and, as such, an implicit subsidy exists. The City's contributions to the Implied Subsidy Plan are established by the City Council. 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 benefits to eligible retirees and beneficiaries. See Note 14 to the City's audited financial statements, portions of which are attached as Appendix B hereto, for additional information.

Insurance

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

Sewer System Litigation

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

OPERATING INFORMATION RELATED TO THE SEWER SYSTEM

Customers

The following table sets forth the actual revenues collected from residential, commercial, industrial, community service districts and other charges from customers for fiscal years 2004-05 through

2007-08. The figures for fiscal year 2008-09 are projected revenues based on actual collections through the date indicated below. For fiscal year 2007-08, of the total operating revenues of the Sewer System, the residential customers represented 62%, commercial customers represented 21%, industrial customers represented 4%, community service districts represented 11% and other charges for services represented 2%.

CITY OF RIVERSIDE
Revenues by Customer Category
for the Fiscal Years 2004-05 through 2008-09

Fiscal Year	Residential Accounts	Commercial Accounts	Industrial Accounts	Community Service Districts	Other Charges for Services	Total
2004-05	$13,701,937	$4,399,449	$1,142,722	$2,366,212	$356,299	$21,966,620
2005-06	13,826,611	4,568,233	974,152	1,879,452[(2)]	261,118	21,509,566
2006-07	13,926,981	4,839,272	999,136	3,787,399[(2)]	504,034	24,056,821
2007-08	13,894,300	4,658,156	976,222	2,438,146	558,392	22,525,216
2008-09[(1)]	13,822,955	4,486,758	1,033,930	2,541,397	440,498	22,325,538

Source: City of Riverside.
(1) Reflects actual revenues received through May 31, 2009 and projected collections for the remainder of the fiscal year.
(2) Fluctuation in revenues shown for fiscal years 2005-06 and 2006-07 is due to changes in the City's billing procedures as well as certain revenue reconcilations that occurred with respect to those two fiscal years.

The customer category represented as Community Service Districts in the above table includes services provided within the communities of Jurupa, Rubidoux, Edgemont and Highgrove. For wasterwater services provided to the communities of Jurupa, Rubidoux and Edgemont, the City has a capacity arrangement with each respective community service district. As a result, rates and charges specifically noted in such agreements govern the City's revenues realized rather than the rates and charges related to the City's Sewer System as further described in this Official Statement. As to the community of Highgrove, the City's existing agreement allows for the collection of the City's rates and charges in effect with respect to the Sewer System as described herein. In addition, the existing billing and collection procedures of the City apply to customers within the community of Highgrove.

Sewer Rates and Charges

Residential units are charged flat monthly amounts with a pumping surcharge applied to certain geographic areas where pumping is required in order for the wastewater to reach the RWQCP. Industrial and commercial facilities sewer service charges are based on water usage and the resulting quantity and type of discharge. Industrial and commercial accounts are assigned to service classes that match the process costs required for treating their discharge. The Sewer Division employs waste inspectors and laboratory personnel who perform a random testing program on discharge. Because of this monitoring program commercial accounts have improved the composition of their discharge through improved operations or pretreatment programs.

Title 14 of the Riverside Municipal Code sets forth regulations governing the City's Sewer System including provisions for sewer service charges and sewer pumping surcharges. On December 22, 1992, the City Council adopted Resolution No. 17964 which established new sewer service rates and pumping surcharges effective as of January 1, 1993 for billings rendered on or after February 1, 1993. The new sewer rate and pumping surcharge represented an 11% increase from 1992. Prior rate increases have been 15%, 7% and 6%, respectively, in 1992, 1991 and 1988.

In 1993, additional increases of approximately 2.4% and 2.9% in fiscal years 1996 and 1997 had been projected. Resolution No. 18155, adopted on December 22, 1992, as restated by Resolution No. 21184, adopted on June 20, 2006, continued the existing sewer rates and charges without an increase in the then existing rates. See also "FINANCIAL RESULTS OF THE SEWER SYSTEM - Reserves" herein for a discussion of the surplus amount in the Sewer Fund and the application of 1993 Bonds rate covenant.

Effective January 1, 1993, the basic single family monthly charge was $13.05 with a pumping surcharge of $1.92. The sewer rates approved on December 22, 1992, remained in effect until the 2008 rate increase approved by the City Council.

Pursuant to Resolution No. 21712, adopted on September 23, 2008, the City Council considered and approved new rates and charges applicable to residential, commercial and industrial customers. The increased rates are to be effective on July 1, 2009 through June 30, 2014, with an annual adjustment effective July 1, 2014 set by any increase in Consumer Price Index ("CPI") for the Los Angeles-Riverside-Orange County area.

The City Council conceptually approved a six-year sewer rate for all customer categories on July 22, 2008. At that time, the effective date of rate increase was to be November 1, 2008 through June 30, 2013 with annual consumer price index adjusted rate starting in fiscal year 2013-14. Through re-evaluation of various factors, the City's Public Works Department determined that lower rates actually approved by the City and a delay of the effective date to July 1, 2009 would not compromise the schedule of the capital program.

The table below summarizes the basic single family and flat commercial customer's monthly sewer rates and pumping surcharge, if applicable, to be applicable for fiscal years 2009-10 through 2013-14.

CITY OF RIVERSIDE
Monthly Sewer Rates for
Basic Single Family Dwelling Customers and
Flat Commercial Customers
Five Year Rate Schedule

Effective Date	Monthly Sewer Rate	Percent Increase	Pumping Surcharge[(2)]	Percent Increase
1/1/1993 through 6/30/2009	$13.05	n/a	$1.92	n/a
7/1/2009	$16.55	26.82%	$2.56	33.33%
7/1/2010	20.55	21.17	3.18	24.22
7/1/2011	23.55	14.60	3.65	14.78
7/1/2012	26.55	12.74	4.11	12.60
7/1/2013	28.55	7.53	4.42	7.54
7/1/2014 and after	(1)		(1)	

Source: City of Riverside.

(1) Rate to be adjusted by CPI.

(2) Sewer pumping surcharge is applied to all users within specific areas of the City which require sewage pumping facilities. Currently, 28% of single family dwelling units is subject to the sewer pumping surcharge and less than 1% of commercial customers is subject to the sewer pumping surcharge.

Additional Monthly Charge for Commercial and Industrial Customers. Commercial customers are charged based on each one hundred cubic feet ("CCF") or portion of CCF of water used and the type of commercial use. For non-pumping commercial customers, the rate ranges from $0.48 per CCF for "Other Commercial 'B'" category to $3.15 per CCF for markets in 2009-10. For pumping commercial customers, the rate ranges from $0.57 per CCF for "Other Commercial 'B'" category to $3.41 per CCF for markets in 2009-10. All commercial customers are charged a minimum monthly rate equal to the single family dwelling rate so that a commercial customer's monthly billing cannot be less than the single family dwelling rate.

Industrial customers are subject to a monthly charge based on Flow (per CCF), Chemical Oxygen Demand (per pound) and Total Suspended Solids (per pound).

Capacity Charge

Title 14 of the Riverside Municipal Code sets forth regulations governing the City's Sewer System and provides that any person desiring a permit to connect property to a City sewer shall pay for off-site trunk lines and general plant facilities required for the disposal of sanitary sewage in an amount established by the City Council by resolution. Such fees and charges are referred to as "sewer connection fees" or "Capacity Charges" in this Official Statement. On June 1, 1980, the City Council adopted Resolution No. 14226 which established sewer connection fees. Since then, the City Council has not increased such fees. In addition, the City Council adopted Resolution No. 20400 on April 22, 2003 and Resolution No. 21085 on December 6, 2005 to reduce sewer connection fees for specific property uses identified in such resolutions.

A Capacity Charge is a one-time fee for new, additional or larger connection to the Sewer System within the City. Capacity Charges are not treated as operating income for financial reporting purposes but are deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage, all as provided in the Resolution. Pursuant to State law, Capacity Charges are applied only to capital expansion, bonds, contracts, or other indebtedness of the Sewer System related to expansion. Capacity Charges are primarily collected on new construction within the service area and revenues therefrom vary based upon construction activity.

The following table sets forth the total amount of connection fees received for fiscal years 2004-05 through 2008-09.

CITY OF RIVERSIDE
Total Connection Fee Revenues
for Fiscal Years 2004-05 through 2008-09

Fiscal Year	City Portion of Connection Fees	Community Service Districts Portion of Connection Fees	Total Connection Fee Revenues
2004-05	$3,494,000	$0	$3,494,010
2005-06	4,057,474	0	4,057,474
2006-07	2,063,468	2,949,880	5,013,348
2007-08	2,171,044	501,231	2,672,275
2008-09[(1)]	(111,855) [(2)]	817,272	705,417

Source: City of Riverside.
(1) Reflects actual collections through May 31, 2009 of $695,417 and projected collections for the remainder of the fiscal year.
(2) Reflects net amount of connection fees projected for fiscal year 2008-09, taking into account refunds of previously collected connection fees attributable to expired building permits.

Pursuant to Resolution No. 21713, adopted on September 23, 2008, the City Council considered and approved increases to Capacity Charges applicable to residential, commercial and industrial customers. The increased rates are to be effective on July 1, 2009 as to residential and commercial customers and on December 1, 2008 as to industrial customers, all as further set forth in the following tables.

In addition to approving increased Capacity Charges, the City Council also adopted new basis for the assessment of Capacity Charges in some cases. Current Capacity Charge basis for residential development will continue and be charged on a per unit basis. Currently, commercial and industrial developments are assessed on the usable floor space of buildings constructed. The proposed Capacity Charges would be based on the amount of flow and composition of the sewage to be contributed to the System by the category of development. As a result, effective July 1, 2009, Capacity Charges for commercial developments would continue to be based on usable floor space and depend on the category of use.

Residential and Commercial Customers. The following table sets forth the existing and increased Capacity Charge for residential and commercial customers. Effective July 1, 2012, all amounts from July 1, 2011 will be adjusted by CPI.

CITY OF RIVERSIDE
Capacity Charge
(Connection Fees)
For Residential and Commercial Customers

	Existing Capacity Charge Basis		Adopted Capacity Charge Basis			
User Rate Categories	**Capacity Charge (Connection Fee)**	**Per/Units**	**Per/Units**	**Effective 7/1/2009**	**Effective 7/1/2010**	**Effective 7/1/2011**
Residential Sewer Capacity Charge						
Basic Multi-Family Dwelling Unit	$2,332	Unit	Unit	$2,332	$3,325	(1)
Basic Single Family Dwelling Unit	$2,684	Unit	Unit	$2,684	$3,683	(1)
Commercial Sewer Capacity Charge						
Basic Commercial (Flat Rate)	$ 700	3,000 S.F.	Unit	$1,694	$2,689	$3,683
Commercial Sewer Capacity Charge Structure						
Department & Retail Stores	$ 700	3,000 S.F.	1,000 S.F.	$ 209	$ 215	$ 222
Hotels & Motels	341	Unit	Unit	692	1,043	1,394
Laundromats	700	3,000 S.F.	1,000 S.F.	3,317	6,401	9,486
Laundries	700	3,000 S.F.	1,000 S.F.	3,041	5,849	8,657
Markets	700	3,000 S.F.	1,000 S.F.	868	1,502	2,137
Mortuaries	700	3,000 S.F.	1,000 S.F.	2,100	3,966	5,833
Professional Offices	700	3,000 S.F.	1,000 S.F.	279	324	369
Repair Shops & Service Stations	700	3,000 S.F.	1,000 S.F.	1,547	2,861	4,175
Restaurants	700	3,000 S.F.	1,000 S.F.	3,225	6,217	9,209
Other Commercial	700	3,000 S.F.	1,000 S.F.	360	487	614
Hospitals	700	3,000 S.F.	1,000 S.F.	662	1,090	1,518
Churches & Halls	700	3,000 S.F.	1,000 S.F.	672	1,110	1,548
Schools "B"	700	3,000 S.F.	1,000 S.F.	324	415	506
Other Commercial "A"	700	3,000 S.F.	1,000 S.F.	688	1,142	1,597
Other Commercial "B"	700	3,000 S.F.	1,000 S.F.	283	332	381
Warehouse	700	(2)	1,000 S.F.	100	103	106

Source: City of Riverside.
(1) Adjusted by CPI.
(2) First 12,000 s.f. is charged $700 per 3,000 s.f. In excess of 12,000 s.f. is charged at a rate of $175 per 3,000 s.f.

Industrial Customers. For industrial developments, at the time of receiving a building permit, a one-time Capacity Charge would be determined based upon anticipated Flow, Chemical Oxygen Demand and Total Suspended Solids quantities. In addition, if the development is anticipated to discharge in excess of 33.5 CCF of flow, 150 pounds of COD or 150 pounds of TSS per day, then the development will be required to pay a Supplemental Capacity Charge monthly. Based on the City's formula for industrial customer capacity charge, a small grease processor will pay approximately $9,000 in Capacity Charge and would not be required to pay any Supplemental Capacity Charge. A large food processor, however, could be expected to pay approximately $535,000 in Capacity Charge and pay $32,000 in Supplemental Capacity Charge monthly.

The following table sets forth the Supplemental Capacity Charge for industrial customers.

CITY OF RIVERSIDE
Supplemental Capacity Charge for
Industrial Customers

Effective Date	Flow[1]	Chemical Oxygen Demand[2]	Total Suspended Solids[3]
12/1/2008	$1.14	$0.54	$0.10
7/1/2009	$1.18	$0.56	$0.11
7/1/2010	$1.21	$0.58	$0.11
7/1/2011	$1.25	$0.59	$0.11
7/1/2012	$1.29	$0.61	$0.12

Source: City of Riverside.
(1) For each 1 CCF/day in excess of 33.5 CCF/day.
(2) For each 1 lb./day in excess of 150 lbs/day.
(3) For each 1 lb./day in excess of 150 lbs/day.

Comparative Sewer Service Charges and Connection Fees

The following table sets forth the monthly basic sewer charge for residential customers within the region.

RIVERSIDE AND SAN BERNARDINO COUNTIES
Comparative Residential Monthly Sewer Service Charges
and Connection Fees
(As of July 2008)

Service Provider	Monthly Sewer Service Charge	Typical Sewer Connection Fee
City of Riverside - Prior Effective Rate	$13.05	$2,684
City of Riverside - Effective 7/1/2009	16.55	2,684
City of San Bernardino	17.95	3,500
Western Municipal Water District	21.40	6,224
Inland Empire Utilities Agency (Ontario)	22.80	4,095
Eastern Municipal Water District	24.39	4,185
City of Rialto	25.97	3,370
Yucaipa Valley Water District	31.39	7,733
City of Corona	33.34	3,396
Elsinore Valley Municipal Water District	33.60	6,690

Source: City of Riverside.

According to a fiscal year 2007-08 survey of 726 agencies encompassing all 58 counties in the State conducted by the State Water Resources Control Board, the average annual sewer rate was $406. The following table sets forth total annual sewer charge for single-family residences within the Sewer Division's service area, together with comparable total average annual charges for wastewater service within the jurisdictions of other cities and districts within the State as of July 1, 2008.

COMPARISON OF TOTAL SEWER SERVICE CHARGES
for Single-Family Residences
As of July 1, 2008

Entity	System Average Dry Weather Flow (mg/d) [3]	Annual Sewer Service Charge[1]	Monthly Sewer Service Charge	Treatment Level[2] [3]	Property Tax Income[3]
City of Riverside	**33**	**$157**	**$13.05**	**5**	**No**
City of San Diego	168	531	44.25	2	No
City of Los Angeles	428	360	30.00	4	No
East Bay MUD	80	247	20.58	4	Yes
Sacramento	140	237	19.75	3	Yes
Orange County Sanitation District	233	201	16.75	2	Yes
Los Angeles County	497	117	9.75	4	Yes

(1) Source: Information obtained from respective entities listed.
(2) Treatment Level Catagories:
"1" - Primary treatment.
"2" - Advanced primary or primary with some secondary treatment.
"3" - Secondary treatment
"4" - Advanced secondary or secondary with some tertiary treatment.
"5" - Tertiary treatment.
(3) Source: 2007-08 Wastewater User Charge Survey Report by the California State Water Resources Control Board.

Principal Users

The ten principal users of the Sewer System and their respective charges for fiscal year 2007-08 are listed below. Sewer service charges are determined on an individual case basis for large users who discharge in excess of 25,000 gallons per day of equivalent sanitary waste. Rates are determined by formula based on quantity and quality of sewage discharged. Based on the total revenues of $22,526,216 for fiscal year 2007-08, except for the County of Riverside, which represents 1.03%, each of the remaining users represents less than 1.00% of the total revenues. The charges of the ten principal users represented approximately 4.22% of the total revenues for fiscal year 2007-08.

Principal Users
Fiscal Year 2007-08

Name of Account	2007-08	Percent of Total Revenues
County of Riverside	$233,008	1.03%
University of California at Riverside	190,548	0.85
Riverside Unified School District	146,544	0.65
Riverside Community Hospital	82,027	0.36
Kaiser Permanente	71,806	0.32
Riverside Meadows	60,364	0.27
Sterling University Palms LLP	57,432	0.25
Historic Mission Inn Corp.	42,960	0.19
Brandon Place Partners	33,421	0.15
Mobile Park Mgmt LLC	33,080	0.15
Total	$951,190	4.22%

Source: City of Riverside Public Works Department.

Historical Wastewater Flows

The table below presents a five-year record of wastewater flows through the treatment plant, expressed as the average daily flow and peak flow for each fiscal year. The reduction in flows over this period reflect water consumption reductions in response to the City's water conservation efforts.

Regional Water Quality Control Plant
Historical Wastewater Flows
Average, Peak Demand and System Capacity
(In mgd)

Fiscal Year	Average Flow	Peak Flow	System Capacity
2004-05	32.90	39.02	40
2005-06	35.54	51.21*	40
2006-07	33.29	39.89	40
2007-08	32.29	35.44	40
2008-09	31.63	37.63	40

Source: City of Riverside Public Works Department.
* Onsite storage accommodates peak flow in excess of treatment capacity.

Projected Wastewater Flows

Wastewater flow projections for the years 2007 to 2025 were developed based upon the City of Riverside General Plan 2025 based on a 1.50% growth rate per year through to 2025. However, due to the recent national economic slow down that has affected local new development the City has scheduled construction of capacity improvements at a lower growth rate of 0.75% per year. The ultimate capacity improvements will remain at 52.2 mgd due to the economy of scale for construction. Based on the current wastewater flow projections as set forth in the following table, the Sewer System is not expected to exceed the current rated capacity of the RWQCP until fiscal year 2012-13.

Regional Water Quality Control Plant
Wastewater Flow Projections[1]
(In mgd)

Fiscal Year Ending	Domestic	Commercial	Industrial Flow	Community Service Districts				Total
				Jurupa	Rubidoux	Edgemont	Highgrove	
2010	21.8	7.3	1.6	4.2	2.3	0.6	0.0	37.8
2011	22.2	7.5	1.6	4.4	2.3	0.6	0.1	38.7
2012	22.7	7.6	1.6	4.6	2.4	0.6	0.1	39.6
2013	23.1	7.8	1.7	4.7	2.4	0.6	0.1	40.4
2014	23.4	7.9	1.7	4.9	2.5	0.7	0.2	41.3

(1) Does not include the City's temporary wastewater treatment arrangement related to a portion of City of Colton's service area. Currently, Colton's wastewater flows are expected at 1.85 mgd at a maximum peak flow rate of 4.50 cubic feet per second. If this arrangement becomes permanent, the above assumptions will need to be modified.

Source: City of Riverside Public Works Department.

Billing and Collection

Sewer service charges are billed and collected on a monthly Statement of Municipal Services and combined with the charges of the City's Water, Electric and Refuse utilities. The customer service, billing and collection operations are provided for all utilities by designated functions of the City's Public Works, Public Utilities, Finance and Information Services Departments.

Bills are due and payable on presentation and become delinquent after 19 days. Due to a combination of customer deposit, credit and collection programs, bad debt write-offs are less than one percent of revenues billed. Based on the average amount for the past three years, the City experienced less than 0.24% of uncollectible accounts, representing an amount less than $66,725.41.

FINANCIAL RESULTS OF THE SEWER SYSTEM

Transfers to the City's General Fund

Contributions to the City's General Fund of surplus funds of the Sewer System (after payment of operating and maintenance expenses and debt service on the Bonds and Parity Debt) are limited to the extent of allocable costs for overhead and administration charges from the Sewer System to the City's General Fund. No other transfers are made to the City's General Fund from the funds of the Sewer System.

Investment Policy and Controls

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

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

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

Significant Accounting Policies

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

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

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

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

Summary of Operations

The following table sets forth the historical summary of operations based on based on audited financial statements of the City related to the Sewer System fiscal years 2003-04 through 2007-08. The following historical summary of operations has not been prepared to indicate Net Operating Revenues available for debt service as contemplated in the Master Resolution but has been prepared to reflect the actual historic operating results. For a summary of Net Operating Revenues available for debt service on the 2009 Bonds, see table set forth under "- Projected Operating Data" below.

HISTORICAL SUMMARY OF OPERATIONS
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2004	2005	2006	2007	2008
Operating Revenues:					
Charges for services	$21,672	$21,967	$21,510	$24,057	$22,525
Operating expenses:					
Personal expenses	$ 6,608	$ 7,169	$ 8,283	$ 8,406	$ 9,453
Contractual services	832	837	918	780	665
Maintenance and operation	5,581	6,451	6,555	7,349	7,888
General	2,190	3,435	3,084	3,839	2,678
Materials and supplies	1,067	1,394	1,306	1,955	3,061
Insurance	270	378	247	276	456
Depreciation and amortization	4,508	4,715	5,111	5,333	5,684
Total operating expenses	$21,056	$24,379	$25,504	$27,938	$29,885
Operating income (loss)	616	(2,412)	(3,994)	(3,881)	(7,360)
Non-operating revenues (expenses):					
Operating grants	--	--	--	--	$ 109
Interest income	$ 1,479	$ 1,496	$ 1,613	$ 2,439	2,342
Other	886	1,809	350	16	221
Gain (loss) on retirement of capital assets	11	627	--	(38)	31
Capital improvement fees	2,648	3,494	4,057	5,014	2,672
Interest expense and fiscal charges	(2,217)	(1,729)	(1,795)	(1,572)	(1,324)
Total non-operating revenues (expenses)	$ 2,807	$ 5,697	$ 4,225	$ 5,859	$ 4,051
Income before capital contributions and transfers	$ 3,423	$ 3,285	$ 231	$ 1,978	$(3,309)

Source: City's audited financial statements for 2003-04 through 2007-08.

Reserves

The City has not established a formal reserve policy related to the Sewer System but has maintained reserves in excess of more than twice the level of annual operating expenditures. It has also set-aside the subsequent year's debt service amount associated with the 1993 Bonds. Collectively, these individual reserves, available for operating, capital and debt service expenditures, have been no less than $47 million over each of the five most recently completed fiscal periods. As projected for fiscal year 2008-09 and for fiscal year 2009-10, reserve levels are being used strategically to phase-in the rate increase adopted in September 2008 and taking effect on July 1, 2009.

The following table sets forth actual reserves at June 30, 2005 through 2008, projected reserves at June 30, 2009, and proposed reserves at June 30, 2010, of the operating and capital reserve as well as the debt service set-aside amounts related to the 1993 Bonds.

CITY OF RIVERSIDE
Actual and Projected Reserves - Sewer System
June 30, 2005 through 2010
(Dollars In Thousands)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Beginning Operating and Capital Reserve Balance[1]	$76,790	$69,522	$65,224	$56,106	$47,628[2]	$12,276
Revenue[3]	29,974	27,541	31,548	27,922	24,550	31,365
Operating Cash Expenditures (Excludes Depreciation)	(18,687)	(19,498)	(21,348)	(24,162)	(25,739)	(27,555)
Capital Project / Other Cash Expenditures	(13,288)	(6,709)	(13,841)	(11,413)	(9,473)	--
Debt Service (Including Principal Payments) [4]	(5,267)	(5,632)	(5,477)	(4,850)	(5,668)	(817)
1993 Bond Defeasance Payment[5]	--	--	--	--	(19,022)	--
Reimbursement from 2009 Bond Proceeds [6]	--	--	--	--	--	14,378
Ending Operating and Capital Reserve Balance	69,522	65,224	56,106	43,603	12,276	29,647
Debt Service Set-Aside Amount (1993 Bonds)	3,896	3,993	4,127	4,025	--	--
Total Ending Cash Reserve Balance	$73,418	$69,217	$60,233	$47,628	$12,276	$29,647

(1) Projected reserves based on estimated operating results for the last three months of fiscal year 2008-09 and the entire fiscal year 2009-10.
(2) Starting balance for fiscal year 2008-09 has been increased by $4,025,000 to reflect the use of the same amount set-aside for debt service on the 1993 Bonds in the defeasance of the 1993 Bonds.
(3) For fiscal years 2004-05 through 2007-08, includes operating revenues shown in the audited financial statements for that period, together with connection fees and investment interest. For fiscal years 2008-09 and 2009-10, includes projected operating revenues, Capacity Charges and investment interest.
(4) No debt service amounts with respect to 2009 Bonds have been entered for fiscal year 2009-10 due to capitalized interest to be funded from 2009 Bond proceeds through August 1, 2011.
(5) On June 29, 2009, $19,022,416.22 was transferred to an escrow fund established to defease the 1993 Bonds. The ending cash reserve balance reflects the reduction equal to the amount related to the defeasance of the 1993 Bonds
(6) Reflects funds advanced from the Sewer Revenue Fund to be reimbursed upon the delivery of the 2009A Bonds in an amount equal to $14,377,083.

Source: City of Riverside.

The Operating and Capital Reserve was accumulated over many years based on the fiscally conservative management of the Sewer System. It is available as needed to meet the Sewer System's various capital and operating needs, as well as to address any catastrophic losses that the Sewer System may incur, such as property damage including fire, flood and earthquake, general liability and workers' compensation. Between 2004-05 and 2007-08, the City spent approximately $45.2 million for Sewer System capital projects. The City spent an additional $9.8 million for additional capital projects in 2008-09. These new facilities were needed primarily to upgrade, rehabilitate and replace certain aged facilities.

In addition, the Operating and Capital Reserve amounts were used to meet principal and interest payments of the 1993 Bonds. The debt service amounts are set-aside in accordance with the provisions of the controlling financing document and are not available for the general needs of the Sewer System. Under the 1993 Resolution securing the 1993 Bonds, however, the term "Gross Revenues" did not address the treatment of Operating and Capital Reserve amounts as Gross Revenues. In addition, in determining compliance with rate covenant under the 1993 Resolution, connection fees were not included. As a result, without being able to take into account such significant Operating and Capital Reserve, the City was required to maintain its charges so as to meet 1.25 times the debt service requirement of the 1993 Bonds. As described in "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Sewer Rates and Charges," the City has not increased its Sewer System rates since 1993. As a result of the restrictive language of the 1993 Resolution and the lack of rate increase, the City

was unable to meet the debt service coverage ratio contained in the 1993 Resolution and disclosed this in Note 7 of its June 30, 2006, June 30, 2007 and June 30, 2008 audited financial statements. See Appendix B for selected information from the City's audited financial statements for the fiscal year ended June 30, 2008, including Note 7 and Table 19 thereof. The information provided in Table 19 does not reconcile with the immediately preceding information due to difference in timing of transaction on accrual basis and cash basis. If the same definition of "Gross Operating Revenues" contained in the Master Resolution securing the 2009 Bonds were applied, the City would not have been in covenant default.

In part to remedy this covenant default, the City Council approved the rate increases on September 23, 2008. On June 29, 2009, the City caused the defeasance of the outstanding principal amount of the 1993 Bonds and terminated the provisions of the 1993 Resolution. The Master Resolution securing the 2009 Bonds establishes a Rate Stabilization Fund and allows amounts available in the Sewer Revenue Fund to be deposited in the Rate Stabilization Fund for the purpose of determining debt service coverage of the Bonds issued under the Master Resolution, including the 2009 Bonds, all as further described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The table above has been prepared to reflect Operating and Capital Reserves of the Sewer System, as expected at the end of fiscal year 2008-09 and project expected amount for fiscal year 2009-10. These amounts are applied to further project operating results through fiscal year 2013-14, all as further described in section " - Projected Operating Data" below.

Projected Operating Data

The following table sets forth the Sewer System's actual unaudited operating results for Fiscal Year 2008-09 and the projected operating results for Fiscal Years 2009-10 through 2013-14. These projections assume the number of projects and scheduled build out set forth in the Capital Improvement Plan and reflect Council-approved annual increases in sewer rates of 26.82%, 21.17%, 14.60%, 12.74% and 7.53% over this five-year projected period. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Sewer Rates and Charges" herein for additional information related to the scheduled rate increases. Principal expenditure components of these projections are based on the Capital Improvement Plan as set forth in the Master Plan, with such changes as expected to be implemented by the City's Sewer Division as further described under "THE SEWER SYSTEM" herein. The preparation of such projections was based upon certain assumptions and certain forecasts with respect to conditions that may occur in the future. While the City believes that these assumptions and forecasts are reasonable for the purposes of the projected selected operating data, it makes no representations that they will in fact occur. To finance the cost of additional Sewer System improvements, the City expects to issue Additional Bonds in fiscal year 2012-13. The City expects to provide capitalized interest with respect to such Additional Bonds. Accordingly, no debt service amounts with respect to such Additional Bonds have been reflected in the following table. To the extent that actual future conditions differ from those assumed herein, the data will vary.

CITY OF RIVERSIDE
Summary of Actual Revenues and Expenses for Fiscal Year 2008-09 and Projected Revenues and Expenses for Fiscal Years 2009-10 through 2013-14

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Beginning Cash Balance[1]	$47,628,000	$12,275,790	$29,446,593	$39,573,503	$50,733,376	$56,080,780
Revenues:						
Operating Revenue[2]	22,896,730	30,255,125	37,646,451	43,338,975	49,238,775	53,484,962
Capacity Charges[3]	705,417	310,000	671,000	1,878,800	2,684,000	3,489,200
Interest[4]	948,188	600,000	1,000,000	1,400,000	1,800,000	2,100,000
Reimbursements[5]	0	14,377,083	0	0	0	0
Total Revenues	24,550,335	45,542,208	39,317,451	46,617,775	53,722,775	59,074,162
Expenses:						
Operating[6]	25,739,167	27,554,544	28,373,680	29,217,392	30,086,412	31,578,232
Capital Projects[7]	9,472,600	0	0	0	0	0
Prior Debt Service[8]	24,690,778	816,861	816,861	816,861	816,861	816,861
2009 Bonds Debt Service[9]	--	--	--	5,423,649	17,472,098	17,471,198
Total Expenses	59,902,545	28,371,405	29,190,541	35,457,902	48,375,371	49,866,291
Ending Cash Balance[10]	$12,275,790	$29,446,593	$39,573,503	$50,733,376	$56,080,780	$65,288,651
Rate Stabilization Fund Coverage Test						
Revenues minus Expenses[11]	N/A	$ 3,610,581	$10,943,771	$17,400,383	$23,636,363	$27,495,930
Rate Stab. Fund Contribution[12]	N/A	0	0	0	0	0
Annual Debt Service[13]	N/A	$ 816,861	$ 816,861	$ 6,240,510	$18,288,959	$18,288,059
Coverage[14]	N/A	4.42x	13.40x	2.79x	1.29x	1.50x
Debt Service Coverage Test						
Net Operating Revenues[15]	$36,966,568	$30,263,454	$40,390,364	$56,973,886	$74,369,739	$83,576,710
Annual Debt Service[13]	N/A	$ 816,861	$ 816,861	$ 6,240,510	$18,288,959	$18,288,059
Debt Service Coverage[16]	N/A	37.05x	49.45x	9.13x	4.07x	4.57x

(1) Based on the projected balance shown in the table under the caption " - Reserves" above.

(2) The Residential and Commercial Sewer Rates and the Industrial Sewer Rates are forecasts based on the total projected equivalent dwelling units, and approved rate increases of 26.82%, 21.17%, 14.60%, 12.74% and 7.53%, respectively, for the five fiscal years, commencing July 1, 2009.

(3) Capacity Charge forecast is based on the total projected equivalent dwelling units ("EDUs") of 115, 250, 700, 1,000 and 1,300 for fiscal years 2009-10 through 2013-14, respectively, within the Sewer System service area. As comparison, the City recorded EDUs of 152,727 in fiscal year 2006-07. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Capacity Charge" herein for the applicable Capacity Charge rates in effect.

(4) Assumes interest earnings of 3% of average annual cash balance.

(5) Reflects reimbursement of prior capital expenditures from 2009A Bond proceeds.

(6) Operating and Maintenance Expenses are projected to increase 3% per year through fiscal year 2012-13 and 5% for fiscal year 2013-14.

(7) Capital improvements funded from available reserves of the Sewer System during fiscal year 2008-09.

(8) Includes amount payable with respect to the State Contracts. Also includes $19,022,416.22 used for the defeasance of the 1993 Bonds on June 29, 2009, as well as scheduled payments of principal and interest on the 1993 Bonds during fiscal year 2008-09.

(9) Debt service for the 2009B Bonds is net of Treasury Credit. No amount for fiscal year 2008-09 is shown to reflect that the 2009 Bonds were issued in fiscal year 2009-10. No 2009 Bonds Debt Service is shown through August 1, 2011 based on expected funding of capitalized interest for that period.

(10) Beginning Cash Balance, plus Total Revenues, minus Total Expenses.

(11) Revenues, consisting of Operating Revenue, Capacity Charges and Interest for applicable fiscal year, minus Expenses - Operating, noted for such fiscal year, without regard to Beginning Cash Balance.

(12) Amount expected to be deposited in the Rate Stabilization Fund, consistent with the terms of the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Stabilization Fund" for additional information.

(*Footnotes continued on next page.*)

(*Footnotes continued from previous page.*)

(13) Reflects debt service related to the State Contracts as described in footnote 8 above and the 2009 Bonds debt service as described in footnote 9 above.

(14) Revenues minus Expenses divided by Annual Debt Service.

(15) Calculated in accordance with the Master Resolution. Reflects amounts shown under Beginning Cash Balance plus Total Revenues, minus Operating and Capital Projects under Expenses above. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues" for additional information.

(16) Net Operating Revenues divided by Annual Debt Service.

Source: City of Riverside.

Outstanding Sewer System Obligations

As indicated herein, upon the issuance of the 2009 Bonds, the City will have outstanding State Contracts in the aggregate principal amount of $8,101,200. No other Parity Debt will be outstanding upon issuance of the 2009 Bonds.

The following table sets forth a summary of currently outstanding obligations secured by the Net Operating Revenues.

CITY OF RIVERSIDE
Outstanding Sewer System Obligations
as of July 1, 2009

Obligation	Outstanding Principal	Maturity Year
State Contract - Headworks Project	$4,332,708	2018-19
State Contract - Cogeneration Project	3,768,492	2020-21
Total	$8,101,200	

Source: Finance Department of the City of Riverside.

Debt Service Requirements

The following table sets forth the estimated debt service on the 2009 Bonds upon delivery of the 2009 Bonds.

Debt Service Requirements

Fiscal Year Ending (June 30)	2009A Bonds		2009B Bonds			Total Net Debt Service
	Principal	Interest	Principal	Interest	Treasury Credit	
2010	--	$ 729,218	--	$ 6,341,438	$ (2,219,503)	$ 4,851,153
2011	--	1,630,550	--	14,179,613	(4,962,864)	10,847,298
2012	--	1,630,550	--	14,179,613	(4,962,864)	10,847,298
2013	$ 6,760,000	1,495,350	--	14,179,613	(4,962,864)	17,472,098
2014	7,035,000	1,219,450	--	14,179,613	(4,962,864)	17,471,198
2015	7,325,000	932,250	--	14,179,613	(4,962,864)	17,473,998
2016	7,660,000	594,250	--	14,179,613	(4,962,864)	17,470,998
2017	8,055,000	201,375	--	14,179,613	(4,962,864)	17,473,123
2018	--	--	$ 8,410,000	13,943,712	(4,880,299)	17,473,413
2019	--	--	8,725,000	13,456,532	(4,709,786)	17,471,745
2020	--	--	9,065,000	12,937,381	(4,528,083)	17,474,297
2021	--	--	5,555,000	12,475,085	(4,366,280)	13,663,805
2022	--	--	5,810,000	12,077,310	(4,227,059)	13,660,252
2023	--	--	6,085,000	11,660,985	(4,081,345)	13,664,640
2024	--	--	6,370,000	11,225,060	(3,928,771)	13,666,289
2025	--	--	6,660,000	10,769,010	(3,769,154)	13,659,857
2026	--	--	6,975,000	10,291,785	(3,602,125)	13,664,660
2027	--	--	7,300,000	9,792,160	(3,427,256)	13,664,904
2028	--	--	7,635,000	9,269,435	(3,244,302)	13,660,133
2029	--	--	7,990,000	8,722,560	(3,052,896)	13,659,664
2030	--	--	8,365,000	8,150,135	(2,852,547)	13,662,588
2031	--	--	8,760,000	7,542,000	(2,639,700)	13,662,300
2032	--	--	9,185,000	6,895,980	(2,413,593)	13,667,387
2033	--	--	9,620,000	6,219,000	(2,176,650)	13,662,350
2034	--	--	10,080,000	5,509,800	(1,928,430)	13,661,370
2035	--	--	10,565,000	4,766,580	(1,668,303)	13,663,277
2036	--	--	11,070,000	3,987,720	(1,395,702)	13,662,018
2037	--	--	11,600,000	3,171,600	(1,110,060)	13,661,540
2038	--	--	12,160,000	2,316,240	(810,684)	13,665,556
2039	--	--	12,740,000	1,419,840	(496,944)	13,662,896
2040	--	--	13,350,000	480,600	(168,210)	13,662,390
Total	**$36,835,000**	**$8,432,993**	**$204,075,000**	**$292,679,235**	**$(102,437,732)**	**$439,584,496**

RISK FACTORS

The purchase of the 2009 Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2009 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of any 2009 Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City

pledged for the payment of any 2009 Bonds, any premium thereon upon redemption prior to maturity or their interest. No owner of any 2009 Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2009 Bonds and any premium upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2009 Bonds, interest thereon and any premium upon redemption.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2009 Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2009 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Sewer System serves an essential public purpose.

Sewer System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Sewer 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 2009 Bonds.

The ability of the City to comply with its covenants under the Resolution and to generate Net Operating Revenues sufficient to pay principal of and interest on the Bonds, including the 2009 Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS." Any remedies available to the owners of the Bonds, including the 2009 Bonds, upon the occurrence of an event of default under the Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Rate Regulation

The authority of the City to impose and collect rates and charges for wastewater collection and treatment services is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State of California limits or restricts such rates and charges. It is possible that future legislative changes could subject the rates or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements. See, however, a description of the existing arrangements

related to customers of certain Community Service Districts provided under the caption "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Customers" herein.

Greenhouse Gas Emissions

The Governor signed Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"), which became effective as law on January 1, 2007. The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 greenhouse gas ("GHG") emission levels by 2020 and a reduction to 80% below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the California Air Resources Board ("CARB") for significant GHG emissions and requires the CARB to adopt regulations for significant greenhouse gas emission sources (allowing CARB to design a cap and trade program) and gives CARB the authority to enforce such regulations beginning in 2012.

On April 2, 2007, the U.S. Supreme Court ruled that GHGs qualify as air pollutants under the Clean Air Act. While the rule was specific to the authority of the U.S. Environmental Protection Agency to regulate emissions from new motor vehicles, it may also impact federal and statewide regulation regarding GHG emissions from other sources, including publicly-owned treatment works, such as the City's Sewer System.

Meanwhile, Assembly Bill 1925, signed by the Governor on September 26, 2006, requires the California Energy Resources Conservation and Development Commission ("CEC") to develop a cost effective strategy for the geologic sequestration and management of industrial carbon dioxide. Also on September 26, 2006, the Governor signed Senate Bill 1686, which authorizes the Wildlife Conservation Board (the "WCB") to take into account the potential of forestlands to beneficially reduce or sequester GHG emissions when it prioritizes funds available for proposed acquisitions. Senate Bill 1686 also specifies that the WCB may use policies, protocols and other relevant information developed by the California Climate Action Registry in determining a project's potential to reduce or sequester GHG emissions.

In 2005, the City joined the California Climate Action Registry. As one of the state's first municipal utility members to have its data certified, the City voluntarily measures, monitors and publicly reports its GHG emissions, thereby creating an inventory of its GHG emissions that will help achieve the City's goal to reduce the overall GHG emissions in response to the City Council and legislative mandates.

Key issues that remain unresolved as to GWSA include the nature of the regulation of utilities, the point of regulation, and the allocation of emissions credits or allowances. The resolution of these issues may impact the cost of GHG emission reductions, although it is not possible to estimate the financial impact to the City's Sewer System at this time. In the future, such reporting of GHG emissions may become mandatory. The implementation of a cap-and-trade program setting an overall GHG emission cap and flexible compliance through trading and allocation schemes may also adversely impact the operating cost of the Sewer System.

Earthquakes, Wildfires and Other Natural Disasters

Although the City has not experienced any significant damage from seismic activities, the geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions which represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. Earthquakes or other natural disasters could interrupt operation of the Sewer System and thereby interrupt the ability of the City to realize Net Operating Revenues sufficient to pay the principal of and interest on the 2009 Bonds.

The San Andreas, Rose Canyon, Elsinore and San Jacinto fault zones are all capable of producing earthquakes in the area. In anticipation of such potential disasters, the City designs and constructs all facilities of the Sewer System to the seismic codes in effect at the time of design of the project. The Sewer System has not experienced any significant losses of facilities or services as a result of earthquakes. All treatment facilities, pumping stations and piping structures are designed in accordance with appropriate seismic design requirements.

The above ground facilities within the Sewer System are designed to be tolerant to damage by wildfires through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the City works closely with the City's fire department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Sewer System. The City watches for wildfires that may threaten the facilities of the Sewer System and operations and maintenance crews are dispatched to ensure that all above-ground facilities remain safe and operational. Further, during fires, the City works closely with the City's fire department and law enforcement officers to monitor and protect facilities of the Sewer System to ensure continuous operation.

Although the City has implemented disaster preparedness plans and made improvements to Sewer System facilities in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the Sewer System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Operating Revenues. The City is not obligated under the Resolution to procure and maintain, or cause to be procured and maintained, nor does the City plan to procure and maintain, earthquake insurance on the Sewer System.

Risks Relating to the Water Supply

The ability of the Sewer System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that is currently subject to drought conditions. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the Sewer System will diminish and Net Operating Revenues available to pay the principal of and interest on the 2009 Bonds may be adversely affected. Under current estimates, Sewer System operations and Net Operating Revenues are not expected to be materially adversely affected if the customers are ordered to conserve up to 20% of its annual water supply. All single family dwelling customers and commercial customers are charged a minimum monthly rate as described in "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM - Sewer Rates and Charges" herein. In addition, commercial and industrial customers are also charged rates based on CCF of water used. As a result, in the event of significant water conservation, such rates based on CCF of water flow could be adversely impacted. The City anticipates, however, that any such reduction in Net Operating Revenues would be offset in part by reductions in the amount of sewage collected and treated by the RWQCP, which would reduce operational expenses.

Security of the Sewer System

The security of the Sewer System is maintained through a combination of regular inspections by Sewer Division personnel, electronic monitoring, and analysis of incident reports. The RWQCP is a controlled access facility with fencing, gates, closed circuit television and 24-hour onsite personnel. Collection system pump stations are fenced with lock gates, in addition to access / intrusion alarms. Security of all facilities is evaluated on an ongoing basis. Improvements are made to the security system whenever needed by enhanced technology and system integration.

Military conflicts and terrorist activities may adversely impact the operations and finances of the Sewer System. The City continually plans and prepares for emergency situations and immediately responds to ensure sewer 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 Sewer System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Sewer System could require the City to increase expenditures for repairs to the Sewer System significantly enough to adversely impact the City's ability to pay debt service on the 2009 Bonds. Although the City has not established a formal reserve policy related to the Sewer System, the City has maintained no less than $47 million for each of the five most recently completed fiscal years. See "FINANCIAL RESULTS OF THE SEWER SYSTEM – Reserves" herein for additional information.

Energy Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Sewer System. The volume of wastewater conveyed and treated in the Sewer System on a daily basis requires a significant amount of electrical and thermal power. Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. Thermal energy, usually generated by electrical power or by burning natural gas, provides heat and cooling necessary for both buildings and the wastewater treatment process. Energy in excess of the amount necessary to power the RWQCP reduces the amount of energy purchased by the City for use at facilities in the Sewer System. The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Sewer System's financial condition. Such increases in wastewater rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's wastewater customers as increased wastewater rates in accordance with the Riverside Municipal Code. Such "pass through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS – Proposition 218" herein.

The City operates an energy efficiency program at its facilities as a component of its ongoing commitment to protect the environment by preserving our natural resources, reducing power consumption, using renewable energy sources, seeking cheaper sources of power and serving the needs of all our customers. Energy savings, if any, directly benefit the residents of the City by helping to maintain lower sewer rates while providing renewable electric energy to the region.

Impact of Current Fiscal Crisis on Sewer System Revenues

The United States financial market is presently experiencing extreme volatility precipitated by major economic disruptions, indications of a severe economic recession and significant credit and liquidity problems. The City cannot predict the extent of the fiscal problems that will be encountered in this or in any future fiscal years, and, it is not clear what measures will be taken by the State or Federal government to address the current fiscal crisis. Accordingly, the City cannot predict the final outcome of future State or Federal actions or the impact that such actions will have on the Sewer System's finances and operations.

Pursuant to the Resolution, the City covenanted to prescribe, revise and collect such rates and charges for the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, so that the Net Operating Revenues (including therein for this purpose any amounts on deposit in the Surplus Account pledged by resolution of the City to the payment thereof) will be at least 1.25 times the amounts payable on the Outstanding Bonds, Parity Debt and the State Contracts. See "SECURITY AND SOURCES OF PAYMENT FOR

THE BONDS - Rate Covenant" herein for additional information. The Resolution also prohibits the City from reducing the rates and charges then in effect unless the Net Operating Revenues from such reduced rates and charges will be at all times sufficient to meet the requirements of the Resolution. See also "CONSTITUTIONAL LIMITATIONS – Proposition 218" for a description of limitations on the rate-setting process under the California Constitution.

The City has taken the current fiscal crisis into consideration in its projections of sewer rates and capacity charges for the current and subsequent fiscal years. The City has also considered the effects of the housing market on the other components of Gross Operating Revenues, including revenues generated from sewer service charges. Notwithstanding housing foreclosures and related account closings, usage of the Sewer System has remained stable. Accordingly, the City expects that the current housing conditions will not adversely affect the ability of the Sewer System to generate Net Operating Revenues sufficient to pay the 2009 Bonds. However, the City cannot predict the extent to which the current or any future financial crisis will impact its ability to generate Net Operating Revenues in the amounts required to pay debt service on the 2009 Bonds. In particular, the City cannot predict the extent to which an economic recession and credit crisis will affect future wastewater flow, the impact of any reduced demand on the Sewer System's finances and operations or whether a sustained fiscal crisis would create sufficient pressure on the City to effect a reduction in wastewater fees.

Certain Other Limitations on Fees and Charges

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

Loss of Tax Exemption

As discussed under the caption "TAX EXEMPTION" herein, interest with respect to the 2009A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2009A Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the Resolution. Should such an event of taxability occur, the 2009A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

CONSTITUTIONAL LIMITATIONS

Article XIIIB

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

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

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

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

Proposition 218

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996. The initiative added Articles XIIIC and XIIID to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (*i.e.*, "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIIID imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIIID includes any levy, other than an *ad valorem* tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a

majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal.4th 409 (2004) ("*Richmond*"), and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) ("*Bighorn*") have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIIID because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIIID, rejecting, in *Bighorn*, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

Article XIIID also provides that "standby charges" are considered "assessments" and must follow the procedures required for "assessments" under Article XIIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that "majority protest" exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity "separate the general benefits from the special benefits conferred on a parcel" of land. Article XIIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and "imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water" are exempted from some of the provisions of Article XIIID applicable to assessments.

Article XIIIC extends the people's initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIIC local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, . . . provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

On September 23, 2008, the City Council adopted Resolution No. 21712 to increase sewer rates and adopted Resolution No. 21713 to increase Sewer Capacity Charge, all as further described in "THE SEWER SYSTEM" herein. The Resolutions were adopted by a 2/3 vote of the City Council members as required under law after conducting a noticed public hearing in compliance with all laws. These increases represented the increase permitted under the protest hearings on the fee increase which was held on September 23, 2008.

Pursuant to the Resolution, the City covenanted to prescribe, revise and collect such rates and charges for the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, so that the Net Operating Revenues (including therein for this purpose any amounts on deposit in the Surplus Account pledged by resolution of the City to the payment thereof) will be at least 1.25 times the amounts payable on the Outstanding Bonds, Parity Debt and the State Contracts. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant" herein for additional information. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the fees and charges then in effect unless the Gross Operating Revenues and Net Operating Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Resolution. In the event that service charges are determined to be subject to Article XIIID, and proposed increased service charges cannot be imposed as a result of a majority protest, such circumstances may adversely effect the ability of the City to generate revenues in the amounts required by the Resolution. No assurance may be given that Articles XIIIC and XIIID will not have a material adverse impact on Net Operating Revenues.

Other Initiative Measures

Articles XIIIA, XIIIB, XIIIC and XIIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the City to increase revenues.

TAX MATTERS

2009A Bonds Federal Tax Status. In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2009A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the issuance of the 2009A Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2009A Bonds.

2009B Bonds Federal Tax Status. In the opinion of Bond Counsel, the 2009B Bonds constitute Qualified Bonds within the meaning of Section 54AA(g)(2) of the Tax Code and are eligible for the credit payable by the federal government under Section 6431 of the Tax Code (the "Treasury Credit"). The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the 2009B Bonds in order for the 2009B Bonds to be treated as Qualified Bonds and continue to be eligible for the Treasury Credit. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Treasury Credit and may cause the 2009B Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the 2009B Bonds. Bond Counsel express no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Treasury Credit by the federal government, nor does Bond Counsel express any opinion regarding other federal tax consequences arising with respect to the 2009B Bonds.

Interest on the 2009B Bonds is not excluded from gross income for federal income tax purposes.

California Tax Status. In the opinion of Bond Counsel, interest on the 2009A Bonds and the 2009B Bonds is exempt from California personal income taxes.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

Form of Bond Counsel Opinions. At the time of issuance of the Bonds, Bond Counsel expects to deliver final approving opinions for the 2009A Bonds and the 2009B Bonds in substantially the respective form set forth in Appendix E.

Other Tax Considerations. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Circular 230 Disclosure. To ensure compliance with the requirements imposed by the Internal Revenue Service, purchasers and Owners of the 2009B Bonds should be aware that any federal income

tax advice contained in this Official Statement (including the Appendices hereto) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Tax Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed in this Official Statement.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2009 Bonds are subject to the unqualified approving opinions of Best Best & Krieger LLP, Riverside, California, Bond Counsel. Said opinions in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2009 Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. The payment of the fees and expenses of Bond Counsel is contingent upon the closing of the sale of the 2009 Bonds.

LITIGATION

At the time of delivery and payment for the 2009 Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2009 Bonds or the power and authority of the City to issue the 2009 Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2009 Bonds.

FINANCIAL STATEMENTS

Selected information from the financial statements of the City of Riverside as of and for the year ended June 30, 2008 included in Appendix B to this Official Statement have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor"), as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix B of its report on such 2007-08 financial statements. The Auditor's review in connection with such 2007-08 audited financial statements included in Appendix B included events only as of June 30, 2008 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, have assigned their ratings of "A1" and "AA," respectively, to the 2009 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2009 Bonds.

UNDERWRITING

Wachovia Bank, National Association, as representative of itself, Wells Fargo Institutional Securities, LLC, E. J. De La Rosa & Co., Inc. and Stone & Youngberg LLC, has agreed, subject to certain conditions, to purchase the 2009 Bonds from the City at a price of $242,423,792.53 (which reflects $815,706.07 in Underwriters' discount and $2,329,498.60 in net original issue premium) and to make a bona fide public offering of the 2009 Bonds at not in excess of the initial public offering prices. The Underwriters will be obligated to purchase all of the 2009 Bonds if any 2009 Bonds are purchased.

The Underwriters may offer and sell the 2009 Bonds to certain dealers and others (including underwriters and other dealers depositing such 2009 Bonds into investment trusts) at prices lower than the respective initial public offering prices, and the public offering prices may be changed from time to time by the Underwriters. Wachovia Bank, National Association and Wells Fargo Institutional Securities, LLC, are both subsidiaries of Wells Fargo & Company and are both serving as Underwriters of the 2009 Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2009 Bonds to provide certain financial information and operating data relating to the Sewer System (the "Annual Report") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2008-09 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository, if any. The notices of material events will be filed by the City with the repositories (and with the appropriate State Repository, if any). The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

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MISCELLANEOUS

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

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Paul C. Sundeen
Treasurer

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APPENDIX A

CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

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

General

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

Riverside and San Bernardino Counties cover approximately 27,400 square miles, a land area larger than the State of Virginia. With a population of more than 4 million, it ranks as one of the largest MSAs in the United States. Riverside County alone is larger than the State of New Jersey, in terms of square miles. The MSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

Municipal Government

The City was incorporated in 1883 and covers 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 for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council. Functions of the City government are carried out by close to 2,850 full and part-time personnel. The City operates and maintains a sewer, water and electric system. Other City services include police, fire, diversified recreation programs, parks, a museum and libraries.

Population

As of January 1, 2009 the population of the City was estimated to be 300,430 and the County had a population of approximately 2,107,653. As of January 1, 2009, San Bernardino County had a population of approximately 2,060,950. The following table presents population data for both the City and the County.

Table 1
CITY OF RIVERSIDE AND COUNTY OF RIVERSIDE
POPULATION

Year	City of Riverside	County of Riverside
1970	140,089	459,074
1980	170,876	663,166
1990	226,505	1,170,413
2000	255,166	1,545,387
2001	262,159	1,590,122
2002	270,781	1,652,808
2003	277,150	1,724,329
2004	281,173	1,804,117
2005	286,563	1,883,735
2006	288,984	1,962,014
2007	291,812	2,030,315
2008	296,191	2,078,601
2009[(1)]	300,430	2,107,653

Sources: 1970-2000 U.S. Census for each respective year; 2001-2008 California Department of Finance, Demographic Research Unit, 2000 Benchmark.

(1) Provisional estimate as of May, 2009.

Personal Income

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

The following table sets forth the per capita personal income in the County and the State for calendar years 2003 through 2007.

Table 2
COUNTY OF RIVERSIDE
PER CAPITA PERSONAL INCOME
Calendar Years 2003 through 2007

Year	County of Riverside	California
2003	$25,489	$33,620
2004	26,406	35,531
2005	27,527	37,418
2006	29,029	40,020
2007	29,560	41,805

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
(1) Per capital personal income was computed using Census Bureau midyear population estimates. Estimates reflect County population estimates available as of April, 2009.

Education

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

The following table sets forth public elementary and secondary school enrollment in the County for school years 2005 through 2009.

Table 3
COUNTY OF RIVERSIDE
PUBLIC SCHOOL ENROLLMENT
School Years 2005 through 2009

Grades	2005	2006	2007	2008	2009
Elementary(1)	266,742	275,194	286,207	289,293	286,315
Secondary(2)	114,222	119,989	126,852	132,349	133,996
Total	380,964	395,183	413,059	421,642	420,311

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

The following table sets forth enrollment figures for colleges and universities in the City for school year 2007-08.

Table 4
CITY OF RIVERSIDE
COLLEGE AND UNIVERSITY ENROLLMENT
School Year 2007-08[(1)]

College or University	Enrollment
Riverside City College	30,961
University of California at Riverside	17,187
California Baptist University	3,775
La Sierra University	1,749

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

Employment

The following table presents the annual average distribution of persons in various wage and salary employment categories for the MSA for calendar years 2004 through 2008. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the MSA. The MSA lays to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation.

Table 5
RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT COMPARISON
Calendar Years 2004 through 2008

	2004	2005	2006	2007	2008
Civilian Labor Force[1]	1,653,300	1,713,500	1,758,800	1,782,700	1,795,200
Employment	1,555,900	1,622,300	1,672,100	1,678,900	1,646,300
Unemployment	97,400	91,200	86,700	103,800	148,900
Unemployment Rate	5.9%	5.3%	4.9%	5.8%	8.3%
Wage and Salary Employment[2]					
Agriculture	18,700	18,300	17,300	16,400	16,200
Natural Resources and Mining	1,200	1,400	1,400	1,300	1,200
Construction	111,800	123,300	127,500	112,500	90,500
Manufacturing	120,100	121,000	123,400	118,500	107,000
Wholesale Trade	45,600	49,900	54,200	56,800	55,100
Retail Trade	153,800	165,700	173,200	175,600	168,000
Transportation, Warehousing and Utilities	55,500	60,200	63,800	69,500	70,200
Information	14,000	14,500	15,300	15,400	14,800
Finance and Insurance	28,000	30,100	31,700	30,700	27,800
Real Estate and Rental and Leasing	17,700	18,900	19,900	19,500	18,500
Professional and Business Services	125,500	133,200	142,300	145,000	136,700
Educational and Health Services	118,400	119,900	122,100	127,000	131,700
Leisure and Hospitality	116,700	122,600	128,100	132,600	130,100
Other Services	39,300	40,800	42,500	41,200	40,900
Federal Government	17,300	18,700	19,300	19,400	19,600
State Government	26,500	27,000	27,400	28,700	29,400
Local Government	168,700	174,800	175,700	177,200	181,000
Total, All Industries[3]	1,178,700	1,240,300	1,285,000	1,287,300	1,238,700

Source: State of California Employment Development Department, Labor Market Division, March 2008 Benchmark.

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

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

(3) Figures may not add to total due to independent rounding.

The 25 largest employers in the County are shown below, listed in alphabetical order.

Table 6
COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(as of April, 2009)

	Employer Name	Location	Industry
1.	Boston Scientific Corp.	Temecula	Physicians
2.	Corrections Department	Norco	Government
3.	Crossroads Truck Dismantling	Mira Loma	Automobile
4.	Desert Sands Unified School District	La Quinta	Schools
5.	Eisenhower Medical Center	Rancho Mirage	Hospitals
6.	Hemet Valley Medical Center	Hemet	Hospitals
7.	J.W. Marriott-Desert Springs Resort	Palm Desert	Hotels
8.	Kaiser Permanente Medical Care	Riverside	Health Maintenance
9.	La Quinta Resort & Club	La Quinta	Resorts
10.	Labtechniques	Rancho Mirage	Laboratories-Medical
11.	Morongo Casino Resort & Spa	Cabazon	Casinos
12.	Mountain & Dunes Golf Courses	La Quinta	Golf Courses-Private
13.	Pechanga Development Corp.	Temecula	Casinos
14.	Riverside City Council	Riverside	Government
15.	Riverside Community College	Riverside	Schools-Universities
16.	Riverside Community Hospital	Riverside	Hospitals
17.	Riverside County Regional Med.	Moreno Valley	Hospitals
18.	Riverside Forklift Training	Riverside	Trucks-Industrial
19.	Robertson's Ready-Mix	Corona	Concrete-Ready Mixed
20.	Starcrest of California	Perris	Internet & Catalog Shopping
21.	Starcrest Products-California	Perris	Internet & Catalog Shopping
22.	Sun World Intl Llc	Coachella	Fruits & Vegetables
23.	University Of California	Riverside	Schools-Universities
24.	Watson Pharmaceuticals Inc	Corona	Marketing Programs & Services
25.	Well Church at Oak Valley	Calimesa	Churches

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

Housing

The following table sets forth estimates of the City's housing stock for calendar years 2004 through 2008.

Table 7
CITY OF RIVERSIDE
HOUSING STOCK[1]
Calendar Years 2004 through 2008

Type	2004	2005	2006	2007	2008[2]
Single family					
Detached	58,106	58,673	59,933	60,838	61,595
Attached	4,185	4,139	4,139	4,144	4,144
Multifamily					
2 to 4 units	5,826	5,826	5,832	5,840	5,887
5 or more units	20,801	22,382	22,639	23,147	24,338
Mobile homes	2,431	2,431	2,477	2,477	2,477
Total units	91,349	93,451	95,020	96,446	98,441

Source: California State Department of Finance.

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

(2) Provisional estimate as of May, 2008.

Construction Activity

The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the number of new dwelling units authorized in the City during calendar years 2004 through March 2009.

Table 8
CITY OF RIVERSIDE
BUILDING PERMIT ACTIVITY
Calendar Years 2004 through March 2009
(Dollars in Thousands)

	2004	2005	2006	2007	2008	2009*
PERMIT VALUATION						
New Single-family	$205,436.7	$333,223.8	$200,821.0	$88,700.6	$ 23,168.9	$ 6,608.0
New Multi-family	23,610.9	44,223.8	32,498.8	59,369.5	24,410.6	1,711.3
Res. Alterations/Additions	22,225.7	22,817.8	17,139.3	183,372.3	16,864.6	1,461.9
Total Residential	$251,273.3	$400,265.4	$250,459.2	$166,512.4	$ 64,444.1	$ 9,781.3
New Commercial	$161,598.7	$107,106.2	$118,436.3	$117,693.6	$ 55,156.5	$ 3,527.3
New Industrial	14,593.8	26,909.5	35,584.2	45,943.6	13,778.9	0
New Other	32,324.4	35,436.2	26,905.6	27,857.2	11,023.8	1,928.7
Commercial Alterations/Additions	40,374.2	56,320.9	63,389.2	67,889.5	59,695.9	7,612.6
Total Nonresidential	$248,891.2	$225,772.7	$244,315.3	$259,383.9	$139,655.2	$13,068.6
NEW DWELLING UNITS						
Single Family	820	1,442	847	342	69	26
Multiple Family	282	521	286	599	216	23
TOTAL	1,102	1,963	1,133	941	285	49

Source: Construction Industry Research Board.
* Through and including March, 2009.

Taxable Sales

The following table sets forth taxable transactions for calendar years 2003 through 2007 in the City by type of business.

Table 9
CITY OF RIVERSIDE
TAXABLE TRANSACTIONS
Calendar Years 2003 through 2007
(Dollars in Thousands)

	2003	2004	2005	2006	2007[1]
Apparel stores	$ 124,223	$ 145,023	$ 160,138	$ 174,662	$ 171,743
General merchandise stores	536,795	597,030	625,500	606,351	568,120
Food stores	145,308	154,562	168,015	176,052	180,993
Eating and drinking places	276,757	300,858	330,249	350,911	374,528
Home furnishings and appliances	93,977	102,243	108,873	119,217	107,072
Building materials[2]	395,175	517,865	584,760	573,736	334,342
Motor vehicles and parts[3]	987,372	1,172,792	1,245,340	1,219,784	1,170,184
Service stations	222,575	266,658	306,008	342,810	402,574
Other retail stores	427,978	461,968	491,080	519,454	578,695
Retail Stores Totals[4]	$3,210,160	$3,718,999	$4,019,963	$4,082,977	$3,888,251
All other outlets	764,423	884,770	930,291	951,095	901,303
Total all outlets[4]	$3,974,583	$4,603,769	$4,950,254	$5,034,072	$4,789,554

Source: California State Board of Equalization, Taxable Sales in California (Sales and Use Tax).

(1) In early 2007, the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change process, industry data for 2007 are not comparable with data from prior years.

(2) In 2007, the Building Materials and Farm Implements group was changed to Building Materials.

(3) In 2007, the Auto Dealers and Auto Supplies group was changed to Motor Vehicles and Parts.

(4) Figures may not add to total due to independent rounding.

Community Facilities

Among the City's cultural institutions and activities are a convention center, a municipal art center, museums, a library, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community, Riverside Community and Kaiser Permanente.

Transportation

The City is served by a variety of land and air transportation facilities. 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 Burlington Northern Santa Fe and Union Pacific. Amtrak-operated passenger train service is available in the City.

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

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

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

APPENDIX B

SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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Honorable Mayor and Members of the City Council
City of Riverside
Riverside, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Riverside, California, (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Riverside, California, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described further in note 13 to the financial statements, the City changed its method of accounting for post employment benefits for fiscal years ending on or after June 30, 2008.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
October 3, 2008

Management's Discussion and Analysis

As management of the City of Riverside, we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, compromised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain supplementary information.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the excess of assets over liabilities reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.

The government-wide financial statements include the City and its component units. The City's component units are the Riverside Redevelopment Agency, Riverside Public Financing Authority, and the Riverside Municipal Improvements Corporation. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

Both the Governmental Activities and the Business Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1 of the Notes to the Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unreserved fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Redevelopment Agency Debt Service Fund, the Capital Outlay Fund, and the Redevelopment Capital Projects Fund all of which are major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data

for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 65-72 in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 23-27 of this report.

Proprietary funds. The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for Electric, Water, Sewer, Refuse, Parking, Airport and Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, central stores and its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 73-82 in this report.

The basic proprietary fund financial statements can be found on pages 28-32 of this report.

Agency funds. Agency funds are used to account for situations where the City's role is purely custodial. Agency funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All assets reported in agency funds are offset by a liability; the accrual basis of accounting is used to recognize receivables and payables.

The agency fund financial statement can be found on page 33 of this report, and the combining statement can be found on page 83.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 34 of this report.

Government-wide Financial Analysis

The following table presents a summarization of the City's assets, liabilities and net assets for its governmental and business type activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

	Governmental Activities		Business type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	$ 780,914	$ 814,979	$ 658,447	$ 454,149	$ 1,439,361	$ 1,269,128
Capital assets, net	966,068	792,536	1,050,010	948,306	2,016,078	1,740,842
Total assets	1,746,982	1,607,515	1,708,457	1,402,455	3,455,439	3,009,970
Current liabilities	116,917	118,973	102,776	92,584	219,693	211,557
Long-term liabilities	708,079	702,004	735,059	489,233	1,443,138	1,191,237
Total liabilities	824,996	820,977	837,835	581,817	1,662,831	1,402,794
Net assets:						
Invested in capital assets, net of related debt	887,964	712,801	541,671	520,059	1,429,635	1,232,860
Restricted	377,137	415,618	82,262	57,613	459,399	473,231
Unrestricted	(343,115)	(341,881)	246,689	242,966	(96,426)	(98,915)
Total net assets	$921,986	$786,538	$870,622	$820,638	$1,792,608	$1,607,176

The City's assets exceeded liabilities by $1,792,608 at June 30, 2008, an increase of $185,432 from June 30, 2007.

By far the largest portion of the City's net assets (80 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (26 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, $246,689 is held by the business type activities; and negative $343,115 is held by the governmental activities. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents $261,344 of negative unrestricted net assets for 2008 and was a negative $276,012 in the prior year. The remaining governmental activities of the City have

negative unrestricted net assets of $81,771 in 2008 and negative $65,869 in 2007. This decrease in unrestricted net assets is primarily due to the restriction of net assets pertaining to capital projects.

The Agency exists to finance improvements that serve to remediate blight within the City. Often these activities do not result in a residual asset, but rather underwrite the cost of a development activity deemed beneficial in meeting the Agency's objectives. The resulting statement of net assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is the routine functioning of such an entity, when blended with the City, its negative unrestricted net assets causes the governmental activities to report a negative position.

The City's total net assets increased by $185,432 during the current fiscal year, which reflects the growth in both the governmental ($135,448) and business type ($49,984) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources.

The following is a condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2008 with the prior fiscal year presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid in understanding the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services	$ 57,958	$ 61,520	$399,421	$370,854	$457,379	$ 432,374
Operating Grants and Contributions	15,024	12,101	3,308	1,939	18,332	14,040
Capital Grants and Contributions	48,186	10,557	29,215	40,066	77,401	50,623
General Revenues:						
Sales taxes	50,526	55,666	-	-	50,526	55,666
Property taxes	120,646	106,114	-	-	120,646	106,114
Other taxes and fees	37,108	35,859	-	-	37,108	35,859
Grants and contributions not restricted to specific programs	67,796	29,743	-	-	67,796	29,743
Other	35,280	22,810	27,687	20,486	62,967	43,296
Total revenues	432,524	334,370	459,631	433,345	892,155	767,715
Expenses:						
General government	76,313	80,353	-	-	76,313	80,353
Public safety	143,337	134,062	-	-	143,337	134,062
Highways and streets	36,978	28,944	-	-	36,978	28,944
Culture and recreation	38,699	32,964	-	-	38,699	32,964
Interest on long-term debt	34,075	26,378	-	-	34,075	26,378
Electric	-	-	271,411	232,346	271,411	232,346
Water	-	-	47,570	42,108	47,570	42,108
Sewer	-	-	31,209	29,510	31,209	29,510
Refuse	-	-	18,430	16,490	18,430	16,490
Airport	-	-	1,418	1,201	1,418	1,201
Transportation	-	-	3,190	2,831	3,190	2,831
Public Parking	-	-	4,093	3,762	4,093	3,762
Total expenses	329,402	302,701	377,321	328,248	706,723	630,949
Increase in net assets before transfers:	103,122	31,669	82,310	105,097	185,432	136,766
Transfers	32,326	31,171	(32,326)	(31,171)	-	-
Increase in net assets	135,448	62,840	49,984	73,926	185,432	136,766
Net assets – beginning	786,538	723,698	820,638	746,712	1,607,176	1,470,410
Net assets – ending	$921,986	$786,538	$870,622	$820,638	$1,792,608	$1,607,176

Governmental activities. Governmental activities increased the City's net assets by $135,448 accounting for 73 percent of the total growth in net assets. The net assets in the prior fiscal year increased by $62,840. Key elements of this year's activity in relation to the prior year are as follows:

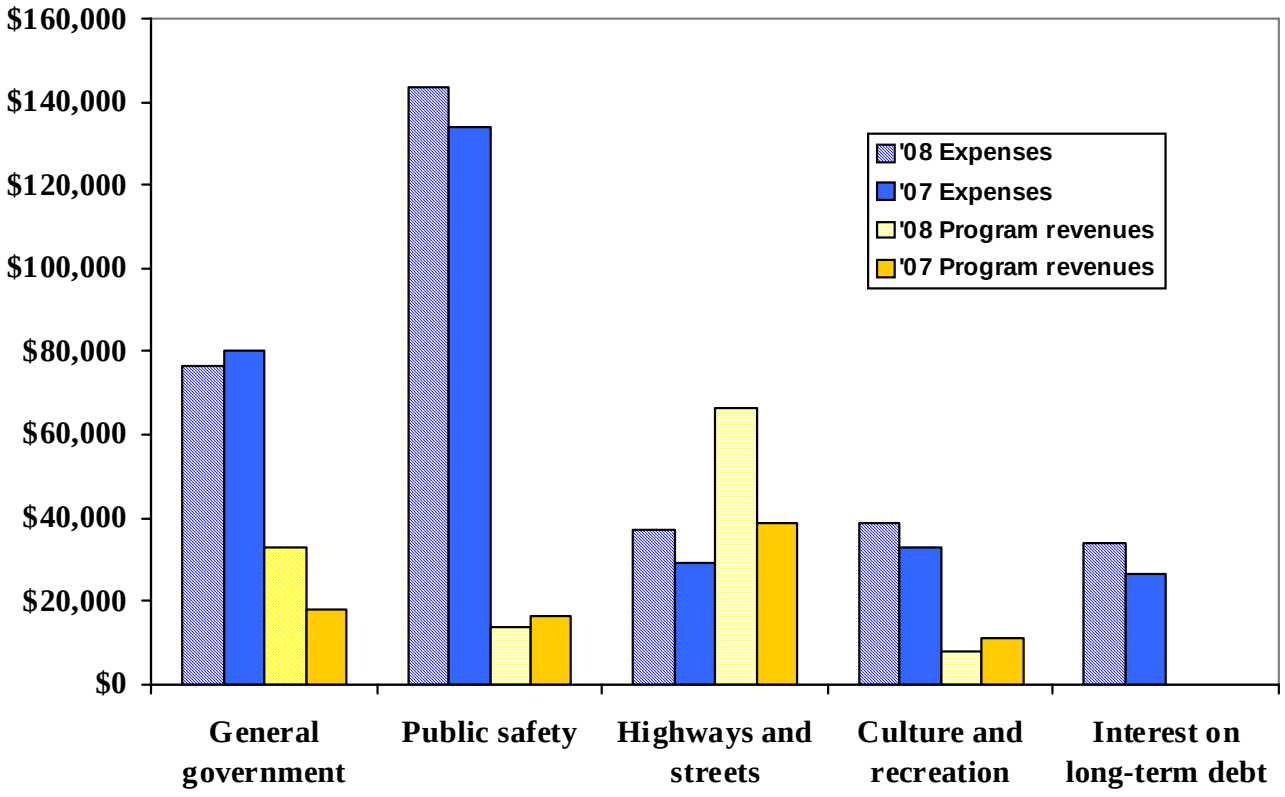
Revenues:

- Operating and capital grants and contributions, in total, increased approximately $4,300 in 2008 primarily due to increased grant funding for capital projects.
- Sales taxes decreased approximately $5,100 in 2008 due to the current downturn in the economy.
- Property taxes increased approximately $14,500 in 2008, principally because of increased property values and the expansion of redevelopment activities.
- Grants and contributions not restricted to specific programs increased approximately $38,100 mainly due to an increase in developer contributed assets.
- The total net increase in Other general revenues was approximately $12,500 primarily due to an increase in rental and investment income.

Expenditures and Transfers:

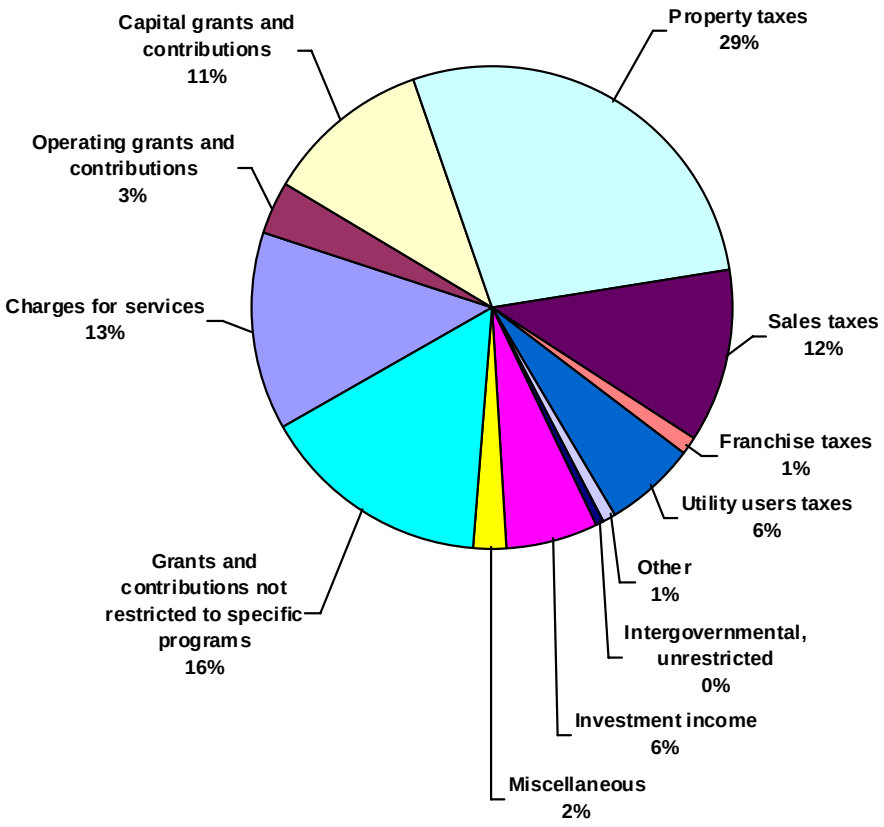
- While significant variances between years exist for the various expense functions, the total net increase was approximately $27 million. The more significant items are: (1) increased salaries and benefits and (2) increased costs associated with capital projects and development activities. Transfers to governmental funds increased $1,155 primarily due to increased operating revenue realized by the Electric and Water funds.

Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2008 vs. 2007

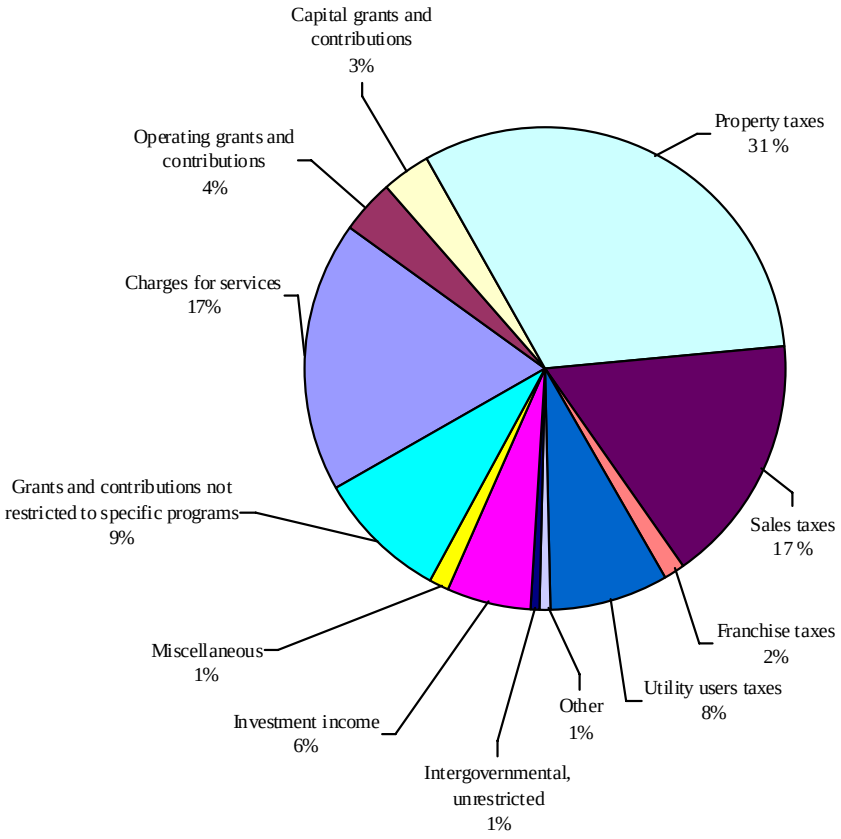


Revenues by Source – Governmental Activities – Fiscal Year Comparison

2008



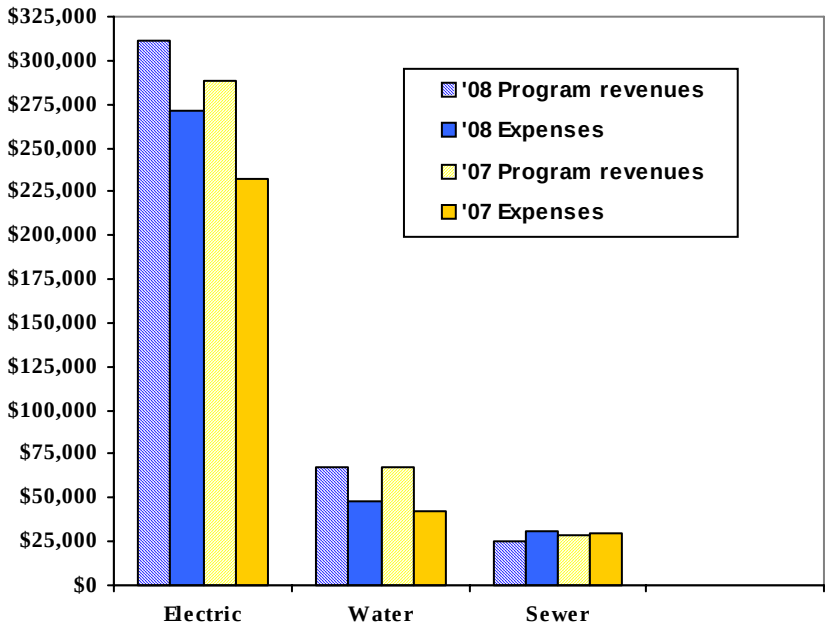
2007

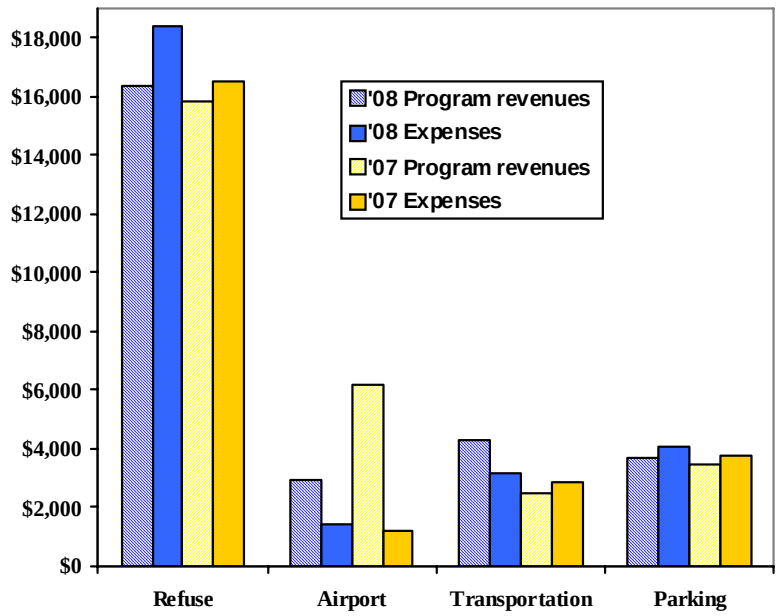


Business type activities. Business type activities increased the City's net assets by $49,984, accounting for 27 percent of the total growth in net assets. The net assets of business type activities increased by $73,926 in the prior year. Key elements of this year's increase in relation to the prior year are as follows:

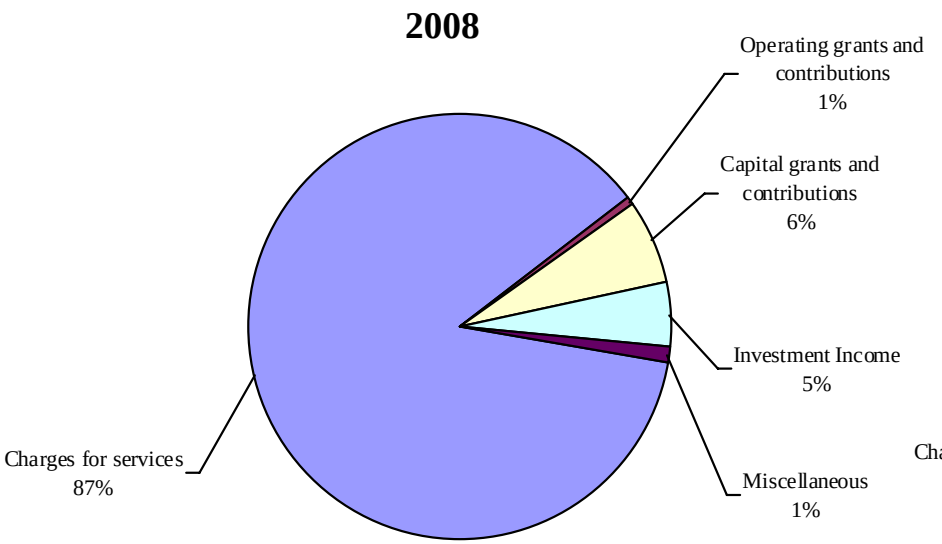
- In 2008, charges for services increased $28,567 to $399,421 primarily due to an increase in the volume of electric and water sales, an electric rate increase, and the continued implementation of the five year Safe W.A.T.E.R. rate plan with a 10% rate increase in 2008.
- Capital grants and contributions decreased $10,851 in the current year to $29,215. The decrease is due primarily to a one-time City contribution for the construction of a fiber optic network in 2007.
- Other revenues increased by $7 million mainly due to an increase in interest income.
- The total net increase in expenses in Business type activities was approximately $49 million due to increased staffing, professional services and maintenance costs.

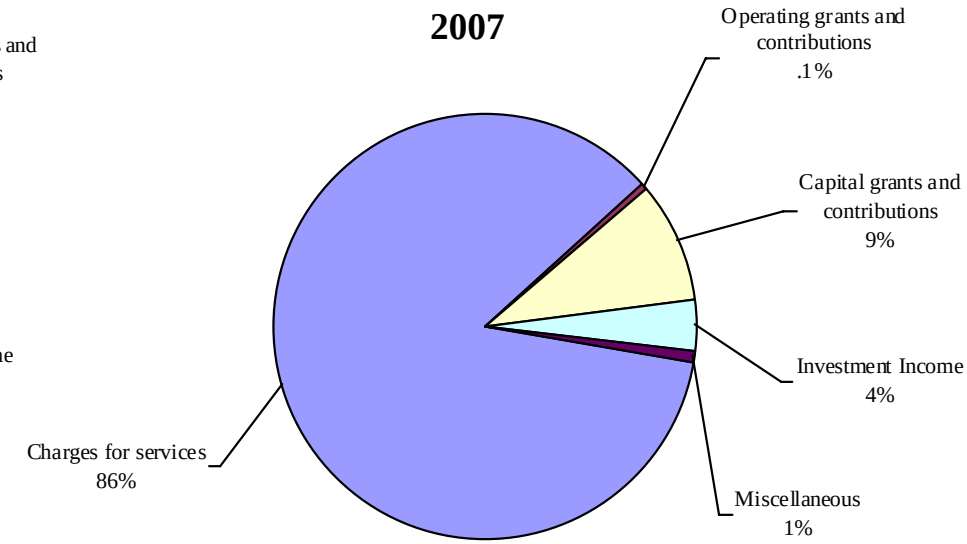
Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2008 vs. 2007





Revenues by Source – Business Type Activities – Fiscal Year Comparison





Financial Analysis of the City's Funds

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following table summarizes the balance sheet of the City's General, Redevelopment Debt Service, Riverside Municipal Improvements Corporation, Capital Outlay, Redevelopment Capital Projects, and Total Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

	General Fund		Redevelopment Debt Service		Riverside Muni. Improvements Corp.	
	2008	2007	2008	2007	2008	2007
Total assets	$ 156,184	$ 178,892	$ 49,315	$ 38,185	$ 18,194	$ 14,145
Total liabilities	$ 74,967	$ 84,126	$ 25,596	$ 27,457	$ 80	$ -
Fund balances						
Reserved	36,025	50,631	23,719	10,728	18,114	14,145
Unreserved:						
Designated for economic cont.	34,000	34,000	-	-	-	-
Designated for future operations	11,192	10,135	-	-	-	-
Undesignated	-	-	-	-	-	-
Total	81,217	94,766	23,719	10,728	18,114	14,145
Total liabilities and fund balances	$ 156,184	$ 178,892	$ 49,315	$ 38,185	$ 18,194	$ 14,145

	Capital Outlay		Redevelopment Capital Projects		Other Governmental Funds		Total Governmental Funds	
	2008	2007	2008	2007	2008	2007	2008	2007
Total assets	$ 115,182	$ 142,152	$ 233,402	$ 235,973	$ 90,783	$ 98,422	$ 663,060	$ 707,769
Total liabilities	$ 14,466	$ 6,952	$ 40,748	$ 35,135	$ 23,389	$ 29,392	$ 179,246	$ 183,062
Fund balances								
Reserved	59,189	28,586	73,963	39,846	20,097	15,076	231,107	159,012
Unreserved:								
Designated for economic cont.	-	-	-	-	-	-	34,000	34,000
Designated for future operations	23,756	20,751	119,891	154,923	23,891	22,665	178,730	208,474
Undesignated	17,771	85,863	(1,200)	6,069	23,406	31,289	39,977	123,221
Total	100,716	135,200	192,654	200,838	67,394	69,030	483,814	524,707
Total liabilities and fund balances	$ 115,182	$ 142,152	$ 233,402	$ 235,973	$ 90,783	$ 98,422	$ 663,060	$ 707,769

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $663,060, a decrease of $44,709 in comparison with the prior year. About 35% of this amount ($231,107) is reserved to indicate funds are not available for new spending because it has already been committed for a variety of restricted purposes. The remainder of the fund balance is unreserved, meaning it is available for spending at the City's discretion. Of that amount, $212,730 has been designated for specific capital projects and economic contingencies, leaving $39,977 without a commitment; at June 30, 2007 the comparable amount was $123,221.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was $45,192, most of which was designated for future operations and economic contingencies, leaving $939 unreserved and undesignated; the comparable number at June 30, 2007 was $0. The total fund balance equaled $81,217 at June 30, 2008, a decrease of $13,549 from the prior year. This decrease was primarily due to planned spending for capital projects.

The Redevelopment debt service fund has a total fund balance of $23,719 all of which is reserved for the payment of debt service. A net increase in the fund balance occurred during the current year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to $146,439, $37,885, and $41,733 respectively. The total growth in net assets for these funds was an increase of $8,731, a decrease of $9,065 and an increase of $32,199, respectively as a result of routine operations. The City Council recently approved an increase in the sewer rate structure to avoid continuing deficits in the Sewer Fund.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	$203,806	$218,622	$195,570	$ (23,052)
Expenditures:				
General Government	60,128	35,841	14,084	21,757
Public Safety	151,724	165,809	157,816	7,993
Highways & Streets	26,352	26,606	25,908	698
Culture & Recreation	38,652	42,395	37,219	5,176
Debt Service	17,552	23,509	17,961	5,548
Total Expenditures	294,408	294,160	252,988	41,172
Deficiency of Revenue Under Expenditures	(90,602)	(75,538)	(57,418)	18,120
Other Financing Sources	61,639	73,003	43,869	(29,134)
Net Change in Fund Balances	(28,963)	(2,535)	(13,549)	(11,014)
Beginning Fund Balance	94,766	94,766	94,766	-
Ending Fund Balance	$ 65,803	$ 92,231	$81,217	$(11,014)

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs and financing associated with capital projects.

Actual amounts differed from the Final Fund budget as follows:

- Actual total revenues were less than the amount budgeted due to (1) lower than anticipated development activity within the City resulting in decreased sales taxes, property taxes, and licenses and permits, (2) intergovernmental revenue was under budget due to the timing of receipts for grant funded projects, and (3) revenue from the Red Light Photo Enforcement Program was lower than anticipated.
- Budgeted expenditures exceeded actual amounts by approximately $41,000. As in prior years, this excess is primarily associated with capital projects not being completed by year-end. Such projects and related amounts are carried over to the next fiscal year.

- The net effect of all of the above was that the ending fund balance decreased $11,014 more than anticipated.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business type activities as of June 30, 2008 amounted to $2,016,078 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was $275,236 ($173,532 for governmental activities including internal service funds and $101,704 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements ($55,425); Sewer Mains ($6,681); Electric Utility upgrades ($58,447); Water Utility upgrades ($39,959); public improvements to the Galleria Mall ($15,274); Reid Park Improvements ($7,012); Arlington Branch Library ($6,992); Orange Terrace Park Improvements ($5,712); and the Fire Training Facility ($9,479).

Construction in progress totaled $193,321 at June 30, 2008. Some of the major projects in process are the Riverside Energy Resource Center Power Plant Units 3 & 4, a 203 KV Transmission Substation, the John W. North Water Treatment Plant, the Orange Terrace Community Center, the Fox Theatre, and City Hall Improvements. Depreciation expense during the fiscal year was $25,449 for governmental activities and $38,898 for business type activities.

City of Riverside's Capital Assets
(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$250,582	$191,694	$ 37,198	$ 30,413	$ 287,780	$ 222,107
Buildings	91,239	72,179	153,859	157,155	245,098	229,334
Improvements other than Buildings	63,022	30,792	728,835	648,113	791,857	678,905
Machinery and equipment	28,398	25,299	21,458	16,673	49,856	41,972
Infrastructure	448,165	407,586	-	-	448,165	407,586
Construction in progress	84,661	64,986	108,660	95,952	193,321	160,938
Total	$966,068	$792,536	$1,050,010	$948,306	$2,016,078	$1,740,842

Additional information on the City's capital assets can be found in note 5 on page 42 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $1,443,138 which includes bonded debt of $1,374,210.

City of Riverside's Long-Term Debt

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Lease/Revenue Bonds	$292,244	$296,598	$720,749	$482,930	$1,012,993	$779,528
General Obligation Bonds	18,774	19,331	-	-	18,774	19,331
Pension Obligation Bonds	142,170	144,450	-	-	142,170	144,450
Certificates of Participation	200,273	192,874	-	-	200,273	192,874
Notes Payable	9,040	9,759	8,569	9,211	17,609	18,970
Capital Leases	9,391	4,929	211	253	9,602	5,182
Landfill Capping	-	-	2,881	3,121	2,881	3,121
Arbitrage Liability	-	-	481	1,343	481	1,343
Compensated Absences	34,295	34,063	-	-	34,295	34,063
Net OPEB Obligation	1,892	-	1,204	-	3,096	-
Water Acquisition Rights	-	-	964	974	964	974
Total	$708,079	$702,004	$735,059	$497,832	$1,443,138	$1,199,836

The City's total debt increased by $243,302 (20 percent) during the current fiscal year due to the issuance of $267,975 in Revenue bonds.

The City's Water Utility maintains "AA+" and "AA" ratings, from Standard & Poors and Fitch, respectively, for their revenue bonds, while the Electric Utility maintains "AA-" ratings from both rating agencies. The City's general obligation bond ratings are "AA-" and "AA", respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total adjusted assessed valuation. The legal debt margin for the City is $512,184, after deducting the general obligation debt of $18,774.

Additional information on the City's long-term debt can be found in note 7 beginning on page 43 of this report.

Economic Factors and Next Year's Budget and Rates

- The assessed value for taxable property in the City increased 9.5% between fiscal year 2007 and fiscal year 2008.
- Property taxes increased between fiscal year 2007 and 2008 by 20% primarily as a result of new development, the expansion of redevelopment activity and increased assessed value.
- Unemployment in Riverside County is 8.3% as compared to 6.5% for 2007.
- The required contribution rates as a percentage of payroll for the City's retirement program, including the employee portion which is paid by the City, will be changing effective July 1, 2008 as follows:
    - Miscellaneous Plan –23.00% to 24.00%
    - Safety Plan – 31.00% to 31.70%

At the time of budget preparation for fiscal year 2009, the economic outlook for the City was considered to be stable. The General Fund Budget for fiscal year 2009 of approximately $215 million was adopted as balanced, not having to utilize any reserves. However, it represents a reduction from the prior year of approximately 5%, principally as a result of a projected reduction in sales taxes.

Request for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager's Office, Finance Division, 3900 Main Street City of Riverside, CA 92522.

City of Riverside
Statement of Net Assets
June 30, 2008
(amounts expressed in thousands)

Assets	Governmental Activities	Business-type Activities	Total
Cash and investments	$ 200,402	$ 157,607	$ 358,009
Receivables, net	98,659	67,508	166,167
Inventory	6,636	989	7,625
Nuclear material inventory	-	1,921	1,921
Prepaid items	4,086	7,017	11,103
Deferred charges	129,510	44,708	174,218
Internal balances	(6,750)	6,750	-
Land and improvements held for resale	78,950	-	78,950
Restricted assets:			
Cash and cash equivalents	-	40,795	40,795
Cash and investments at fiscal agent	243,838	330,182	574,020
Other	-	970	970
Capital leases receivable	25,585	-	25,585
Land and other capital assets not being depreciated	335,243	145,863	481,106
Capital assets (net of accumulated depreciation)	630,825	904,147	1,534,972
Total assets	1,746,984	1,708,457	3,455,441
Liabilities			
Accounts payable and other current liabilities	58,190	39,327	97,517
Accrued interest payable	7,851	3,878	11,729
Unearned revenue	2,020	1,102	3,122
Deposits	20,377	3,721	24,098
Current liabilities payable from restricted assets	-	225	225
Claims and judgments payable	28,479	-	28,479
Decommissioning liability	-	54,523	54,523
Noncurrent liabilities:			
Due within one year	57,507	30,238	87,745
Due in more than one year	650,572	704,821	1,355,393
Total liabilities	824,996	837,835	1,662,831
Net Assets			
Invested in capital assets, net of related debt	887,964	601,999	1,489,963
Restricted for:			
Expendable:			
Capital projects	306,376	-	306,376
Debt service	4,670	29,821	34,491
Economic development	16,119		
Other purposes		3,217	3,217
Public works	5,699		5,699
Housing	43,041	-	43,041
Programs	-	10,304	10,304
Nonexpendable	1,232	-	1,232
Unrestricted	(343,113)	225,281	(117,832)
Total net assets	$ 921,988	$ 870,622	$ 1,792,610

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Activities
For the fiscal year ended June 30,2008
(amounts expressed in thousands)

			Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	**Expenses**	**Indirect Expenses Allocation**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business type Activities**	**Total**
Governmental activities:								
General government	$ 113,897	$ (18,793)	$ 23,969	$ 8,461	$ 280	$ (62,394)		$ (62,394)
Public safety	122,783	10,277	9,924	4,009	-	(119,127)		(119,127)
Highways and streets	26,986	4,996	19,695	319	114,203	102,235		102,235
Culture and recreation	31,659	3,520	4,370	2,235	1,499	(27,075)		(27,075)
Interest on long-term debt	34,075		-	-	-	(34,075)		(34,075)
Total governmental activities	329,400	-	57,958	15,024	115,982	(140,436)		(140,436)
Business type activities:								
Electric	271,411		305,299	-	6,076		$ 39,964	39,964
Water	47,570		49,855		18,116		20,401	20,401
Sewer	31,209		22,525	109	2,672		(5,903)	(5,903)
Refuse	18,430		16,289	107	-		(2,034)	(2,034)
Airport	1,418		1,423	-	1,496		1,501	1,501
Transportation	3,190		313	3,092	855		1,070	1,070
Public parking	4,093		3,717	-	-		(376)	(376)
Total business type activities	377,321		399,421	3,308	29,215		54,623	54,623
Total	$ 706,721		$ 457,379	$ 18,332	$ 145,197	(140,436)	54,623	(85,813)

General revenues:			
Taxes:			
Sales	50,526	-	50,526
Property	120,646	-	120,646
Utility users	26,267	-	26,267
Franchise	4,972	-	4,972
Other	3,795	-	3,795
Intergovernmental, unrestricted	2,074	-	2,074
Grants and contributions not restricted to specific programs	-	-	-
Investment income	25,670	22,756	48,426
Miscellaneous	9,610	4,931	14,541
Subtotal	243,560	27,687	271,247
Transfers, net	32,326	(32,326)	-
Total general revenues, special items, and transfers	275,886	(4,639)	271,247
Change in net assets	135,450	49,984	185,434
Net assets - beginning	786,538	820,638	1,607,176
Net assets - ending	$ 921,988	$ 870,622	$ 1,792,610

The notes to the financial statements are an integral part of this statement.

City of Riverside
Balance Sheet
Governmental Funds
June 30,2008
(amounts expressed in thousands)

Assets	General Fund	Redevelopment Debt Service	Riverside Municipal Improvements Corporation	Capital Outlay	Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and investments	$ 64,347	$ 15,833	$ 127	$ 3,321	$ 45,561	$ 49,046	$ 178,235
Cash and investments at fiscal agent	13,042	7,752	18,065	82,004	115,335	7,640	243,838
Receivables (net of allowance for uncollectibles)							
Interest	526	145	2	185	372	465	1,695
Property taxes	22,245	-	-	-	-	-	22,245
Sales tax	8,032	-	-	-	-	-	8,032
Utility billed	885	-	-	-	-	-	885
Accounts	5,323	-	-	15,103	7	3	20,436
Intergovernmental	4,576	-	-	14,389	466	4,070	23,501
Notes	246	-	-	-	3,631	17,860	21,737
Capital lease receivable	-	25,585	-	-	-	-	25,585
Prepaid items	512	-	-	4	1	-	517
Deposits	-	-	-	176	3,368	-	3,544
Due from other funds	5,911	-	-	-	3	-	5,914
Advances to other funds	27,946	-	-	-	-	-	27,946
Land & improvments held for resale	2,593	-	-	-	64,658	11,699	78,950
Total assets:	$ 156,184	$ 49,315	$ 18,194	$ 115,182	$ 233,402	$ 90,783	$ 663,060
Liabilities and fund balances							
Liabilities:							
Accounts payable	$ 10,334	$ 8	$ 80	$ 10,827	$ 14,201	$ 1,371	$ 36,821
Accrued payroll	13,829	-	-	-	23	-	13,852
Retainage payable	647	-	-	60	1,950	2,193	4,850
Intergovernmental	146	-	-	-	-	-	146
Unearned revenue	20,023	25,585	-	1,599	3,377	18,024	68,608
Deposits	20,367	-	-	-	-	10	20,377
Due to other funds	50	3	-	-	-	1,185	1,238
Advances from other funds	9,571	-	-	1,980	21,197	606	33,354
Total liabilities:	74,967	25,596	80	14,466	40,748	23,389	179,246
Fund balances:							
Reserved	36,025	23,719	18,114	59,189	73,963	20,097	231,107
Unreserved, designated for economic contingencies	34,000	-	-	-	-	-	34,000
Unreserved, designated for future operations							
General fund	10,253	-	-	-	-	-	10,253
Special revenue	-	-	-	-	-	10,178	10,178
Capital project funds	-	-	-	23,756	118,691	13,713	156,160
Unreserved, undesignated							
General fund	939	-	-	-	-	-	939
Special revenue	-	-	-	-	-	11,893	11,893
Debt service	-	-	-	-	-	54	54
Capital project funds	-	-	-	17,771	-	11,459	29,230
Total fund balances	81,217	23,719	18,114	100,716	192,654	67,394	483,814
Total liabilities and fund balances	$ 156,184	$ 49,315	$ 18,194	$ 115,182	$ 233,402	$ 90,783	$ 663,060

The notes to the financial statements are an intergral part of this statement.

CITY OF RIVERSIDE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008
(amounts expressed in thousands)

Total fund balances - governmental funds		$483,814
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds.		962,244
Issuance costs from issuing debt are expenditures at the fund level but are deferred and subject to capitalization and amortization in the Statement of Net Assets.		7,808
Pension contributions were expenditures at the fund level but are deferred as a net pension asset and subject to capitalizaton and amortization in the Statement of Net Assets.		118,588
Revenues that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds.		66,588
Accrued interest payable for the current portion of interest due on various debt issues has not been reported in the governmental funds.		(7,851)
Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	$ (446,448)	
Certificates of participation payable	(198,855)	
Notes payable	(9,040)	
Capital leases payable	(9,391)	
Bond premiums	(8,158)	
Net OPEB obligation	(1,892)	
Compensated absences	(33,486)	
		(707,270)
Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.		(1,933)
Net assets of governmental activities		$921,988

City of Riverside
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2008
(amounts expressed in thousands)

	General Fund	Redevelopment Debt Service	Riverside Municipal Improvements Corporation	Capital Outlay	Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	$ 135,991	$ 51,559	$ -	$ -	$ -	$ 12,888	$ 200,438
Licenses and permits	7,144	-	-	-	-	2,883	10,027
Intergovernmental	10,628	200	-	54,276	1,026	13,293	79,423
Charges for services	11,325	-	-	-	-	-	11,325
Fines and forfeitures	4,573	-	-	-	-	-	4,573
Special assessments	4,110	-	-	838	-	297	5,245
Rental and investment income	5,787	1,945	1,423	6,399	8,793	3,623	27,970
Miscellaneous	11,316	161	20	137	514	648	12,796
Total revenues	190,874	53,865	1,443	61,650	10,333	33,632	351,797
Expenditures							
Current:							
General government	14,084	722	210	1,822	10,933	4,725	32,496
Public safety	157,816	-	-	-	-	-	157,816
Highways and streets	25,908	-	-	-	-	-	25,908
Culture and recreation	37,219	-	-	-	-	139	37,358
Capital outlay	-	-	-	94,395	29,790	27,970	152,155
Debt service:							
Principal	5,683	4,869	705		-	-	11,257
Interest	12,118	13,848	5,273	-	-	-	31,239
Bond issuance costs	160	9	528	-	-	-	697
Total expenditures	252,988	19,448	6,716	96,217	40,723	32,834	448,926
Excess (deficiency) of revenues over (under) expenditures	(62,114)	34,417	(5,273)	(34,567)	(30,390)	798	(97,129)
Other financing sources (uses):							
Transfers in	33,526	3,254	-	83	24,680	1,298	62,841
Transfers out	-	(24,680)	(83)	-	(2,474)	(3,278)	(30,515)
Issuance of long term debt	36,108	-	128,300	-	-	-	164,408
Payment to escrow account for advance refunding	(30,000)	-	(118,975)	-	-	-	(148,975)
Sales of capital assets	8,931	-	-	-	-	-	8,931
Advances from other fund	-	-	-	-	-	-	-
Total other financing sources and uses	48,565	(21,426)	9,242	83	22,206	(1,980)	56,690
Net change in fund balances	(13,549)	12,991	3,969	(34,484)	(8,184)	(1,182)	(40,439)
Fund balances - beginning	94,766	10,728	14,145	135,200	200,838	68,576	524,253
Fund balances - ending	$ 81,217	$ 23,719	$ 18,114	$ 100,716	$ 192,654	$ 67,394	$ 483,814

The notes to the financial statements are an integral part of this statement.

CITY OF RIVERSIDE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIE8
For the year ended June 30, 2008
(amounts expressed in thousands)

Net change in fund balances-total governmental funds		($39,827)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below:		
Capital Asset additions	$ 198,170	
Depreciation Expense	(24,271)	173,899
Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds.		8,763
The amortization of the net pension asset reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		(1,080)
The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds immediately report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below:		
Principal repayments	11,288	
Debt refunding	149,703	
Deferred Charges	(1,153)	
Other post-employment benefit liabilities	(1,809)	
Compensated Absences	4	
Interest	2,354	
Premiums on the issuance of LTD	197	
Proceeds from LTD	(164,411)	(3,827)
Some expenses reorted in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,939)
Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		(539)
Change in net assets of governmental activities		$ 135,450

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the year ended June 30, 2008
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 151,802	$ 151,802	$ 135,991	$ (15,811)
Licenses and permits	8,637	8,637	7,144	(1,493)
Intergovernmental	11,202	17,717	10,628	(7,089)
Charges for services	12,160	12,556	11,325	(1,231)
Fines and forfeitures	6,857	6,857	4,573	(2,284)
Special assessments	3,800	3,800	4,110	310
Rental and investment income	2,897	7,623	5,787	(1,836)
Miscellaneous	6,451	9,630	11,316	1,686
Total revenues	203,806	218,622	190,874	(27,748)
Expenditures				
General government:				
Mayor	749	792	724	68
Council	199	199	149	50
Manager	16,653	21,451	13,064	8,387
Attorney	94	94	45	49
Clerk	340	531	527	4
Community Development	12,153	11,932	9,405	2,527
Human Resources	4,672	4,672	3,855	817
General Services	25,150	26,025	17,672	8,353
Information System	17,583	17,583	14,725	2,858
Development	35,945	5,972	5,885	87
Subtotal	113,538	89,251	66,051	23,200
Allocated expenditures	(53,410)	(53,410)	(51,967)	(1,443)
Total general government	60,128	35,841	14,084	21,757

continued

The notes to the financial statements are an integral part of this statement.

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Public safety:				
Police	88,674	96,923	93,006	3,917
Fire	51,340	56,879	54,620	2,259
Animal regulation	3,816	3,916	2,716	1,200
Building and zoning inspection	3,778	3,778	3,161	617
Street lighting	4,116	4,313	4,313	0
Total public safety	151,724	165,809	157,816	7,993
Highways and streets	26,352	26,606	25,908	698
Culture and recreation	38,652	42,395	37,219	5,176
Debt service:				
Principal	6,394	12,351	5,683	6,668
Interest	11,158	11,158	12,118	(960)
Bond issuance costs			160	(160)
Total debt service	17,552	23,509	17,961	5,548
Total expenditures	294,408	294,160	252,988	41,172
Deficiency of revenue under expenditures	(90,602)	(75,538)	(62,114)	13,424
Other financing sources (uses)				
Transfers in	31,626	33,525	33,526	1
Transfers out	0	0	0	0
Issuance of long term debt	29,973	1,284	36,108	34,824
Payment to escrow account for advance refunding	0	0	(30,000)	(30,000)
Sale of capital assets	40	8,221	8,931	710
Total other financing sources	61,639	43,030	48,565	5,535
Net change in fund balances	(28,963)	(32,508)	(13,549)	18,959
Fund balance, beginning	94,766	94,766	94,766	0
Fund balance, ending	$ 65,803	$ 62,258	$ 81,217	$ 18,959

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 3008
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					
Assets	**Electric**	**Water**	**Sewer**	**Other Enterprise Funds**	**Total Enterprise Funds**	**Governmental Activities-Internal Service Funds**
Current assets:						
Cash and investments	$ 78,687	$ 29,577	$ 43,603	$ 5,740	$ 157,607	$ 22,167
Receivables (net allowances for uncollectibles)						
Interest	2,794	260	249	96	3,399	56
Utility billed	16,478	2,900	792	658	20,828	-
Utility unbilled	13,876	2,960	798	644	18,278	-
Accounts	10,199	1,310	1,251	188	12,948	42
Intergovernmental	58	10,408	109	1,479	12,054	30
Nuclear materials inventory	1,921	-	-	-	1,921	-
Inventory	-	-	989	-	989	6,636
Prepaid items	7,010	6	1	-	7,017	25
Due from other funds	50	-	-	-	50	-
Advances to other funds	1,780	-	-	-	1,780	-
Restricted assets:						
Cash and cash equivalents	27,302	6,111	4,025	3,357	40,795	-
Cash and investments at fiscal agent	273,488	56,694	-	-	330,182	-
Public benefit programs receivable	822	-	-	-	822	-
Conservation & reclamation programs receivable	-	148	-	-	148	-
Total current assets	434,465	110,374	51,817	12,162	608,818	28,956
Non-current assets:						
Advances to other funds	37,724	-	-	-	37,724	-
Deferred charges	26,633	7,484	3,767	6,824	44,708	1,626
Capital assets:						
Land	7,150	13,651	2,698	13,701	37,200	-
Buildings	15,294	14,858	182,389	22,050	234,591	1,488
Accumulated depreciation - buildings	(3,955)	(3,149)	(70,151)	(3,462)	(80,717)	(122)
Improvements other than buildings	678,545	374,605	55,086	16,625	1,124,861	-
Accumulated depreciation - improvements other than buildings	(270,516)	(112,216)	(9,802)	(3,510)	(396,044)	-
Machinery and equipment	18,237	11,984	8,400	15,892	54,513	9,501
Accumulated depreciation - machinery and equipment	(12,652)	(6,975)	(4,736)	(8,694)	(33,057)	(7,044)
Construction in progress	73,341	31,878	-	3,444	108,663	-
Total non-current assets	569,801	332,120	167,651	62,870	1,132,442	5,449
Total assets	1,004,266	442,494	219,468	75,032	1,741,260	34,405

Continued

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 3008
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					
Liabilities	**Electric**	**Water**	**Sewer**	**Other Enterprise Funds**	**Total Enterprise Funds**	**Governmental Activities-Internal Service Funds**
Current liabilities:						
Accounts payable	18,866	6,170	2,048	1,014	28,098	996
Accrued payroll	6,227	2,142	1,427	1,003	10,799	762
Retainage payable	19	692	78	102	891	-
Intergovernmental	20	-	-	-	20	-
Claims and judgements	-	-	-	-	-	28,479
Unearned revenue	-	-	-	1,102	1,102	-
Deposits	3,094	626	-	1	3,721	-
Due to other funds	-	-	-	971	971	3,755
Capital leases - current	-	-	42	17	59	-
Water stock acquisitions - current	-	150	-	-	150	-
Landfill capping - current	-	-	-	300	300	-
Current liabilities payable from restricted assets:						
Revenue bonds	20,345	4,375	3,760	-	28,480	-
Accrued interest	2,801	568	510	-	3,879	-
Other payables	521	124	85	79	809	40
Total current liabilities	51,893	14,847	7,950	4,589	79,279	34,032
Non-current liabilities:						
Revenue bonds	528,030	146,535	17,704	-	692,269	-
Arbitrage payable	-	-	-	-	-	-
Notes payable	-	-	8,569	-	8,569	-
Other payables	317	129	90	83	619	43
Capital leases	-	-	24	128	152	-
Advances from other funds	13,206	5,682	3,635	9,309	31,832	2,263
Decommissioning liability	54,523	-	-	-	54,523	-
Water stock acquisitions	-	814	-	-	814	-
Landfill capping	-	-	-	2,581	2,581	-
Total non-current liabilities	596,076	153,160	30,022	12,101	791,359	2,306
Total liabilities	647,969	168,007	37,972	16,690	870,638	36,338
Net Assets						
Invested in capital assets, net of related debt	181,966	230,347	133,785	55,901	601,999	3,823
Restricted for debt service	18,981	4,862	5,978	-	29,821	-
Restricted for other purposes	-	-	-	3,217	3,217	-
Restricted for programs	8,910	1,394	-	-	10,304	-
Unrestricted	146,440	37,884	41,733	(776)	225,281	(5,756)
Total net assets	$ 356,297	$ 274,487	$ 181,496	$ 58,342	$ 870,622	$ (1,933)

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2008
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Operating revenues:						
Charges for services	$ 305,299	$ 49,855	$ 22,525	$ 21,742	$ 399,421	$ 17,063
Operating expenses:						
Personal services	29,521	9,593	9,453	7,231	55,798	3,799
Contractual services	5,909	2,552	665	4,415	13,541	63
Maintenance and operation	180,682	9,363	7,888	5,963	203,896	1,538
General	15,738	11,532	2,678	5,152	35,100	2,652
Materials and supplies	647	818	3,061	1,127	5,653	146
Insurance	749	505	456	278	1,988	9,450
Depreciation and amortization	22,193	8,806	5,684	2,413	39,096	937
Total operating expenses	255,439	43,169	29,885	26,579	355,072	18,585
Operating income (loss)	49,860	6,686	(7,360)	(4,837)	44,349	(1,522)
Non-operating revenues (expenses):						
Operating grants	-	-	109	3,199	3,308	-
Interest income	16,380	3,357	2,342	677	22,756	991
Other	1,666	1,591	221	1,038	4,516	78
Gain (loss) on retirement of capital assets	171	176	31	37	415	142
Capital improvement fees	-	-	2,672	-	2,672	-
Interest expense and fiscal charges	(15,972)	(4,401)	(1,324)	(552)	(22,249)	(228)
Total non-operating revenues (expenses)	2,245	723	4,051	4,399	11,418	983
Income before capital contributions and transfers	52,105	7,409	(3,309)	(438)	55,767	(539)
Cash capital contributions	1,084	3,531	-	980	5,595	-
Noncash capital contributions	4,992	14,585	-	1,371	20,948	-
Transfers out	(27,371)	(4,955)	-	-	(32,326)	-
Change in net assets	30,810	20,570	(3,309)	1,913	49,984	(539)
Total net assets - beginning	325,487	253,917	184,805	56,429	820,638	(1,394)
Total net assets - ending	$ 356,297	$ 274,487	$ 181,496	$ 58,342	$ 870,622	$ (1,933)

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2008
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Cash flows from operating activities:						
Cash received from customers and users	$ 301,858	$ 48,531	$ 22,054	$ 21,732	$ 394,175	$ 17,020
Cash paid to employees for services	(28,500)	(9,104)	(9,287)	(7,064)	(53,955)	(3,529)
Cash paid to other suppliers of goods or services	(192,993)	(22,345)	(14,688)	(16,927)	(246,953)	(13,262)
Other receipts	1,666	1,591	11	1,038	4,306	78
Net cash provided (used) by operating activities	82,031	18,673	(1,910)	(1,221)	97,573	307
Cash flows from noncapital financing activities:						
Transfers out	(27,371)	(4,955)	-	-	(32,326)	-
Operating grants	-	-	109	3,196	3,305	-
Advances from other funds	-	20	22,104	627	22,751	17,079
Advances to other funds	(39,688)	(79)	(50)	(3,240)	(43,057)	(22)
Net cash provided (used) by noncapital financing activities	(67,059)	(5,014)	22,163	583	(49,327)	17,057
Cash flows from capital and related financing activities:						
Proceeds from the sale of revenue bonds	413,404	120,430	-	-	533,834	-
Deposit to escrow account for advance refunding	(197,100)	(60,300)	-	-	(257,400)	-
Issuance costs	(5,100)	(1,435)	-	-	(6,535)	-
Purchase of capital assets	(68,573)	(42,031)	(10,152)	(8,508)	(129,264)	(600)
Purchase of nuclear fuel	(2,046)	-	-	-	(2,046)	-
Proceeds from the sale of capital assets	916	306	52	44	1,318	172
Principal paid on long-term obligations	(19,460)	(4,364)	(4,161)	(38)	(28,023)	-
Interest paid on long-term obligations	(16,192)	(3,820)	(1,443)	(552)	(22,007)	(228)
Capital improvement fees	-	-	2,672	-	2,672	-
Capital contributions	4,030	3,531	-	5,562	13,123	-
Net cash used for capital and related financing activities	109,879	12,317	(13,032)	(3,492)	105,672	(656)
Cash flows from investing activities:						
Purchase of investments	(5,955)	-	-	-	(5,955)	-
Sale of investments	-	27	-	-	27	-
Income from investments	13,970	3,080	2,278	692	20,020	1,181
Net cash provided by investing activities	8,015	3,107	2,278	692	14,092	1,181
Net change in cash and cash equivalents	132,866	29,083	9,499	(3,438)	168,010	17,889
Cash and cash equivalents, ending (including $53,166 for Electric, $15,148 for Water and $4,127 for Sewer in restricted accounts)	158,554	54,849	38,129	12,535	264,067	4,278
Cash and cash equivalents, ending (including $212,733 for Electric, $54,355 for Water and $4,025 for Sewer in restricted accounts)	$ 291,420	$ 83,932	$ 47,628	$ 9,097	$ 432,077	$ 22,167

continued

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2008
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income (loss)	$ 49,860	$ 6,686	$ (7,360)	$ (4,837)	$ 44,349	$ (1,522)
Other receipts	1,666	1,591	221	1,038	4,516	78
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	22,193	8,806	5,684	2,413	39,096	937
Amortization of pension costs	131	56	36	24	247	17
Amortization (burn) of nuclear fuel	4,437	-	-	-	4,437	-
(Increase) in utility billed receivables	(2,986)	(342)	(196)	(110)	(3,634)	-
(Increase) decrease in utility unbilled receivables	362	(228)	19	-	153	-
(Increase) decrease in accounts receivable	(1,568)	44	(185)	207	(1,502)	(10)
(Increase) decrease in intergovernmental receivables	237	(81)	(109)	(107)	(60)	(2)
(Increase) in prepaid items	(580)	(4)	-	-	(584)	(24)
(Increase) in nuclear materials inventory	(386)	-	-	-	(386)	-
Decrease in inventory	-	-	72	-	72	(720)
Increase (decrease) in accounts payable	6,821	2,269	4	(72)	9,022	187
Increase (decrease) in accrued payroll	285	183	(45)	(19)	404	83
Increase (decrease) in retainage payable	(3,489)	269	(16)	-	(3,236)	-
Increase in other payable	605	253	175	156	1,189	170
Increase in intergovernmental receivables	12	-	-	-	12	-
Decrease in deferred revenue	-	(112)	(210)	-	(322)	-
Increase in deposits	514	(717)	-	-	(203)	-
(Decrease) in due to other funds	-	-	-	326	326	623
Increase in claims and judgments	-	-	-	-	-	490
Increase in decommissioning liabilitity	3,917	-	-	-	3,917	-
(Decrease) in landfill capping	-	-	-	(240)	(240)	-
Net cash provided by operating activities	$ 82,031	$ 18,673	$ (1,910)	$ (1,221)	$ 97,573	$ 307
Schedule of noncash financing and investing activities:						
Contribution in aid	$ 4,992	$ 14,585	$ -	$ 1,371	$ 20,948	$ -

(continued)

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2008
(amounts expressed in thousands)

		Agency Funds
Assets:		
Cash and investments	$	11,176
Cash and investments at fiscal agent		9,308
Interest receivable		93
Property tax receivables		286
Total assets	$	20,863
Liabilities:		
Accounts payable	$	-
Held for bond holders		20,863
Total liabilities	$	20,863

The notes to the financial statements are an integral part of this statement

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is financially accountable. Blended component units are legally separate entities, but in substance are part of the City's operations and their data is combined with that of the City's. The City has no component units that meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1971 by the City. The Redevelopment Agency's primary purpose is to eliminate blighted areas in the City by encouraging commercial development. City Council members serve as the Redevelopment Agency's directors and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. Three members of the City Council serve as the Municipal Improvements Corporation's directors and have full accountability for fiscal matters.

Complete financial statements for each of the individual component units except the Riverside Municipal Improvement Corporation (which does not generate a financial statement) may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting for the proprietary fund financial statements. Agency funds report only assets and liabilities, therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized

as revenues in the year for which they are levied on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables. Agency funds report only assets and liabilities, therefore have no measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for grant revenue, including reimbursements received from Transportation Uniform Mitigation Fees, which is (6) months and sales tax revenue which is seven (7) months, as described below. Grant revenue is recognized if received within six (6) months of year end to enable the matching of revenue with applicable expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Effective with the previous fiscal year, the State temporarily began to exchange 25% of sales taxes for an equal amount of property taxes to securitize a short-term State bond issue. The State bond issue will remain outstanding for an uncertain number of years, but is currently estimated not to exceed eight (8) years. These in-lieu sales taxes will be paid to the City by the State on a different calendar than sales taxes, which are paid monthly, three months in arrears. The vast majority of the in-lieu amount will be paid during the applicable fiscal year; however, the final payment of the in-lieu sales taxes will not be paid until the January following the end of the applicable fiscal year. The City has budgeted this final payment in the current fiscal year and will continue this practice during this temporary period, effectively extending the availability period to seven (7) months for the in-lieu sales taxes and thus provide consistency in the reporting of sales tax revenue.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when the government receives cash, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency's debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency.

The Riverside Municipal Improvements Corporation fund accumulates monies for the payment of interest, principal and trustee fees on certificates of participation issued by the Corporation. Debt service is financed via lease payments from the City.

The Capital Outlay fund accounts for the construction and installation of street and highway capital improvements for the City, including improvements funded by the ½ % sales tax approved by Riverside County in 1988.

The Redevelopment Agency's capital project fund for the acquisition, relocation, demolition and sale of land for those portions of the City designated to be in need of redevelopment activities.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for the central stores, central garage, and the three self-insured risks of workers compensation, unemployment and public liability on a cost reimbursement basis.

The agency (fiduciary) fund is used to account for special assessments that service no-commitment debt.

The permanent fund is a governmental fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs. Non-expendable net assets on the Statement of Net Assets includes $1 million of permanent fund principal which are considered nonexpendable net assets.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Significant interfund activity has been eliminated from the government-wide financial statements with the exception of charges between the City's electric, water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish 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 a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of 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.

D. Cash and Investments

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

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of Enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements in the normal course of Redevelopment Agency activity. The Developer Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. Additionally, the General fund has acquired property which is to be held for resale at a later date. This property is carried at cost until an event occurs to indicate a lower net realizable value.

G. Inventory

Supplies are valued at cost using the average-cost method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets and Nuclear Fuel

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight-line method.

Nuclear Fuel

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

J. Compensated Absences

City employees receive 10 to 25 vacation days a 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.

City employees generally 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. The General, Redevelopment Agency Capital Projects and the Housing and Community Development Special Revenue funds have been used to liquidate such balances.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are classified as deferred charges and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside $54,523 in cash and investments with the trustee as Riverside's estimated

share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. Decommissioning is expected to commence around the year 2014.

L. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

M. Fund Equity

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management or the governing board for the future use of financial resources.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

O. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions, which constitute reimbursements, are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest, which has been offset by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

P. Unearned Revenues

Governmental and proprietary funds report unearned revenue on the statement of net assets. Unearned revenues arise in governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The majority of the City’s governmental fund unearned revenue for June 30, 2008 relates to unearned revenue on a capital lease. See Note 4.

Q. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property’s assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the revenues due and expenditures incurred through fiscal year end, collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets, and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

S. Implementation of new accounting principles

GASB has issued two pronouncements prior to June 30, 2008 (for years ending after June 30, 2008) that have effective dates that may impact future financial presentations. Management has currently determined that GASB Statement No 51, “Accounting and Reporting for Intangible Assets” and GASB Statement No. 53 “Accounting and Financial Reporting for Derivative Instruments” apply to the City, and are currently evaluating the impacts of implementing the pronouncements.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion.

3. Cash and Investments

Cash and investments at fiscal year end consist of the following:

Investments	$359,963
Investments at fiscal agent	624,289
	984,252
Cash on hand and deposits with financial institutions	9,056
	$993,308

The amounts are reflected in the government-wide statement of net assets:

Cash and investments	$358,009
Restricted cash and cash equivalents	40,795
Restricted cash and investments at fiscal agent	574,020
Total per statement of net assets	972,824
Fiduciary fund cash and investments	20,484
	$993,308

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first $100 or by collateral held in the pledging bank’s trust department in the name of the City.

Authorized Investments

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

	Max Maturity	Max % of Portfolio
Securities of the U.S. Gov't. and its sponsored agencies	5 Years	100%
Repurchase Agreements	1 Year	100%
Reverse Repurchase Agreements	90 Days	20%
Negotiable Certificates of Deposit	5 Years	30%
Bankers Acceptances	180 Days	40%
Commercial Paper of "prime" quality	270 Days	25%
Local Agency Investment Fund (State Pool)	N/A	100%
Mutual Funds	N/A	20%
Medium-Term Corporate Notes	5 Years	30%

Investments in Medium Term Corporate Notes may be invested in securities rated A or better by Moody's or Standard and Poor's rating services and no more than 15% of the market value of the portfolio may be invested in one corporation.

The City's investment policy provides two exceptions to the above; one is for investments authorized by debt agreements (described below) and the other for funds reserved in the San Onofre Nuclear Generating Station Decommissioning Account for which the five-year maturity limitation may be extended to the term of the operating license.

Investments Authorized by Debt Agreements

Provisions of debt agreements, rather than the general provisions of the California Government Code or the City's investment policy, govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following:

Securities of the U.S. Government and its sponsored agencies
Bankers' Acceptances rated in the single highest classification
Commercial Paper rated in the single highest classification
Investments in money market funds rated in the single highest classification
Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody's and S&P
Investment Agreements

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	$ 8,474	$ 8,474	$ -	$ -	$ -
Federal Agency Securities	237,930	35,323	91,581	111,026	-
Corp Medium Term Notes	25,168	15,011	10,157	-	-
State Investment Pool	88,391	88,391	-	-	-
Held by Fiscal Agent					
Money Market Funds	28,475	28,475	-	-	-
State Investment Pool	105,582	105,582	-	-	-
Investment Contracts	430,430	15,206	148,033	211,100	56,091
Commercial Paper	714	714	-	-	-
Fed Agency Securities	36,056	3,829	1,080	31,147	-
Corp Med Term Notes	23,032	-	-	5,164	17,868
Total	$984,252	$301,005	$250,851	$358,437	$73,959

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type:

		Rating as of Year End				
Investment Type		AAA	AA+	AA	A-1+	Unrated
Money Market Funds	$ 8,474	$ 6,988	$ -	$ -	$ -	$ 1,486
Federal Agency Securities	237,930	237,930	-	-	-	-
Corp Medium Term Notes	25,168	10,157	5,011	10,000	-	-
State Investment Pool	88,391	-	-	-	-	88,391
Held by Fiscal Agent						
Money Market Funds	28,475	28,342	-	-	-	133
Investment Contracts	430,430	-	-	-	-	430,430
State Investment Pool	105,582	105,582	-	-	-	-
Corp Med Term Notes	23,032	4,292	-	18,740	-	-
Commercial Paper	714	-	-	-	714	-
Fed Agency Securities	36,056	36,056	-	-	-	-
Total	$984,252	$429,347	$ 5,011	$28,740	$ 714	$520,440

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in any one issuer that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
FHLB	Federal Agency Securities	$170,413

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that a third party bank trust department hold all securities owned by the City. All trades are settled on a delivery vs. payment basis through the City's safekeeping agent. The City has no deposits with financial institutions; bank balances are swept daily into a money market account.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Capital Lease Receivable

The Redevelopment Agency has a direct financing lease arrangement with the State of California (the State) for a twelve-story office building. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments not less than the debt service owed by the Redevelopment Agency on the lease revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2009	$ 2,324
2010	2,355
2011	2,381
2012	2,413
2013	2,443
Thereafter	31,754
Total Due	43,670
Less: amount applicable to interest	(18,085)
Total capital lease receivable	$25,585

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2008.

Governmental activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	$191,694	$65,017	$(6,129)	$250,582
Construction in progress	64,986	67,364	(47,689)	84,661
Total capital assets not being depreciated	256,680	132,381	(53,818)	335,243
Capital assets being depreciated:				
Buildings	101,863	25,478	(5,010)	122,330
Improvements other than Buildings	60,654	34,648	(38)	95,264
Machinery and Equipment	67,809	9,846	(5,481)	72,175
Infrastructure	587,857	54,802	-	642,659
Total capital assets being depreciated	818,183	124,774	(10,529)	932,428
Less accumulated depreciation for:				
Buildings	(29,684)	(2,593)	1,186	(31,091)
Improvements other than Buildings	(29,862)	(2,381)	1	(32,242)
Machinery and Equipment	(42,510)	(6,254)	4,987	(43,777)
Infrastructure	(180,271)	(14,221)	(2)	(194,494)
Total accumulated depreciation	(282,327)	(25,449)	6,173	(301,603)
Total capital assets being depreciated, net	535,856	99,325	(4,356)	630,825
Governmental activities capital assets, net	$792,536	$231,706	$58,174)	$966,068

Business type activities:	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	$ 30,413	$6,785	$2	$37,200
Construction in progress	95,952	144,329	(131,618)	108,663
Total capital assets not being depreciated	126,365	151,114	(131,616)	145,863
Capital assets being depreciated:				
Buildings	232,390	2,201	0	234,591
Improvements other than Buildings	1,015,760	110,956	(1,855)	1,124,861
Machinery and Equipment	48,131	8,853	(2,471)	54,513
Total capital assets being depreciated	1,296,281	122,010	(4,326)	1,413,965
Less accumulated depreciation for:				
Buildings	(75,235)	(5,487)	5	(80,717)
Improvements other than Buildings	(367,647)	(29,397)	1,000	(396,044)
Machinery and Equipment	(31,458)	(4,014)	2,415	(33,057)
Total accumulated depreciation	(474,340)	(38,898)	3,420	(509,818)
Total capital assets being depreciated, net	821,941	83,112	(906)	904,147
Business type activities capital assets, net	$948,306	$234,226	$(132,522)	$1,050,010

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

Depreciation expense was charged to functions of the government as follows:

Governmental activities:	
General government	$ 2,364
Public safety	3,627
Highways and streets, including depreciation of general infrastructure assets	16,265
Culture and recreation	3,193
Total depreciation expense – governmental activities	$25,449
Business type activities:	
Electric	$22,193
Water	8,806
Sewer	5,684
Refuse	1.330
Special Transportation	345
Airport	248
Public Parking	490
Total depreciation and amortization expense - business type activities	$39,096

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property insurance coverage has a limit of $100,000, with a deductible of $50. Earthquake and flood insurance coverage has a limit of $15,000, with a deductible of 5% for earthquake and 2% for flood. Workers' compensation insurance coverage has a limit of $25,000, with a deductible of $3,000 per occurrence. The City carries commercial insurance up to $23,000 for general and auto liability claims greater than $3,000 per occurrence. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service funds in the fund financial statements.

Changes in the funds' claims liability amounts are:

	Workers' Compensation	Unemployment Compensation	Public Liability	Total
Unpaid Claims, June 30, 2006	$13,734	$ 76	$6,174	$21,683
Incurred claims	14,251	-	7,432	21,683
Claim payments	(8,298)	-	(5,380)	(16,678)
Unpaid Claims, June 30, 2007	19,687	76	8,226	27,989
Incurred claims (including IBNR's)	2,086	104	6,451	8,641
Claim payments	(2,530)	-	(5,621)	(8,151)
Unpaid claims, June 30, 2008	$19,243	$ 180	$ 9,056	$28,479

7. Long-Term Obligations

Changes in Long-Term Obligations: The following is a summary of changes in long-term obligations during the fiscal year:

The following debt has been issued for the purpose of generating capital resources for use in acquiring or constructing municipal facilities or infrastructure projects. The City has made a practice of not issuing debt for purposes for covering operational costs. The Redevelopment Agency does issue debt for the above purposes as well as for redevelopment related purposes such as housing and blight removal.

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency bonds	$296,598	$ -	$4,354	$292,244	$ 6,250
General Obligation Bonds	19,331	-	557	18,774	590
Pension Obligation Bonds	144,450	30,200	32,480	142,170	*33,185
Certificates of Participation	192,874	128,300	120,901	200,273	1,950
Capital leases	4,929	6,057	1,595	9,391	1,795
Notes Payable	9,759	-	719	9,040	319
Compensated Absences	34,063	13,924	13,692	34,295	12,500
Net OPEB Obligation	-	2,680	788	1,892	918
Total	$702,004	$181,161	$175,086	$708,079	$57,507

Business-type activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	$474,332	$533,835	$287,418	$720,749	$28,480
Notes Payable	9,211	-	642	8,569	654
Capital Leases	253	43	85	211	70
Landfill Capping	3,121	-	240	2,881	300
Arbitrage Liability	1,343	481	1,343	481	-
Water Stock Acquisition Rights	973	-	10	963	150
Net OPEB Obligation	-	1,706	502	1,204	584
Total	$489,233	$536,065	$ 290,240	$735,058	$30,238

Prior Year Defeasance of Debt:

The City entered into a series of refunding transactions during the fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's various Auction Rate Securities ("ARS"). The market that routinely absorbed these instruments through a weekly auction process discontinued their interest in the product and the result was excessively high

interest rates, often to the default rate (defined in the bond documents) as the auction "failed," having insufficient bids to clear the auction.

All of the City's ARS debt was layered with "synthetic fixed rate" swaps designed to maintain the overall cost of funds at a level considered to be in the City's best interest. The unusual market conditions resulted in the swaps not performing as intended and thus the ARS debt was refunded with Variable Rate Demand Notes ("VRDNs"). The transactions were completed (as described individually below), and the variable rates received on the VRDNs as of June 30, 2008 have resulted in the swaps again functioning as intended, to control the cost of funds on the outstanding variable rate debt.

Because one variable rate debt product was exchanged for another, the typical refunding disclosure measuring the difference in aggregate debt service and calculating an economic gain or loss is less relevant, as the future cash flows of each leg of the calculation are uncertain. For this reason, the calculations were only made for the first refunding transaction described below because in this case, the principal amount of the new debt was larger than that of the refunded debt. In the other case, only the terms of the transaction are described.

On April 17, 2008, $128,300 of Certificates of Participation were sold with a true interest cost of 3.88% to refund $118,975 of previously outstanding 2007 Certificates of Participation. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,428. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in auction rate securities, resulting in a net increase in aggregate debt service payments of $11,882. The refunding resulted in an economic gain (difference between present value of the old and new debt service payments) of $3,923.

On April 25 and May 8, 2008, $84,515 of Electric Revenue Bonds were sold with a true interest cost of 3.14% to refund $82,500 of previously outstanding 2004 Electric Revenue Bonds. Also on May 1, 2008, $114,600 of Electric Revenue Bonds were sold with a true interest cost of 3.22% to refund $114,600 of previously outstanding Electric Revenue Bonds. The refunding resulted in a combined difference between the reacquisition prices and the net carrying amounts of the old debt of $5,435. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in auction rate securities.

On May 7 and May 15, 2008 $60,300 of Water Revenue Bonds were sold with a true interest cost of 3.22% to refund $60,300 of previously outstanding 2005 Water Revenue Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,905. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in auction rate securities.

The following debt has been issued for the purpose of generating capital resources for use in acquiring or constructing municipal facilities or infrastructure projects. The City has made a practice of not issuing debt for purposes for covering operational costs. The Redevelopment Agency does issue debt for the above purposes as well as for redevelopment related purposes such as housing and blight removal.

Long-Term Obligations at June 30, 2008:

Revenue Bonds:	Principal Outstanding
Electric	
$98,730 1998 Electric Revenue Bonds (partial refunding issue); $63,165 serial bonds, 4.25% to 5.38%, due in annual installments from $4,650 to $7,085 through October 1, 2013; $35,565 term bonds, 5%, due October 1, 2022 (partially advance refunded in 2005, with final maturity in 2018).	$ 41,410
$47,215 2001 Electric Revenue Bonds; 2.9% to 5.25%, due in annual installments from $2,855 to $4,280 through October 1, 2016 (partially advance refunded in 2005, with final maturity in 2014).	25,990
$75,405 2003 Electric Revenue Bonds; 2.0% to 5.0%, due in annual installments from $1,035 to $8,535 through October 1, 2013.	46,710
$27,500 2004 Electric Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.5%, due in annual installments from $2,615 to $3,695 through October 1, 2014.	22,160
$199,115 2008 Electric Refunding/Revenue Bonds; Series A, B, and C; variable rate subject to weekly repricing (rate at June 30, 2008 was 3.1%), due in	

annual installments from $1,800 to $9,285 through October 1, 2035.	199,115
$209,740 2008 Electric Revenue Bonds; Series D fixed rate bonds, 3.6% to 5.0%, due in annual installments from $125 to $24,960 through October 1, 2038.	209,740
Subtotal	545,125
Add: Unamortized bond premium	10,932
Less: Unamortized deferred bond refunding costs	(7,682)
	$548,375

Water

$69,840 1991 Water Revenue Bonds; $25,050 serial bonds, 4.25% to 9.0%, due in annual installments from $675 to $3,100 through October 1, 2002; $25,900 Capital Appreciation Bonds, due in annual installments from $3,235 to $3,240 from October 1, 2003 to October 1, 2010; (partially advance refunded in 1998)	$ 9,710
$30,965 1998 Water Revenue Bonds (partial refunding issue); $15,055 serial bonds, 4.0% to 5.38%, due in annual installments from $205 to $4,080 through October 1, 2013; $15,910 term bonds, 5%, due October 1, 2027 (with final maturity in 2018).	20,705
$20,000 2001 Water Revenue Bonds; 2.6% to 5.0%, due in annual installments from $345 to $585 through October 1, 2031 (partially advance refunded in 2005, with final maturity in 2016).	4,445
$60,300 2008 Water Refunding/Revenue Bonds; Series A variable rate subject to weekly repricing (rate at June 30, 2008 was 3.2%), due in annual installments from $425 to $3,950 through October 1, 2035	60,300
$58,235 2008 Water Revenue Bonds; Series B fixed rate bonds, 4.0% to 5.0%, due in annual installments from $1,210 to $7,505 through October 1, 2038.	58,235
Subtotal	153,395
Less: Unamortized bond premium	713
Less: Unamortized deferred bond refunding costs	(3,198)
	$ 150,910

Sewer

$49,145 1993 Sewer Revenue Refunding Serial Bonds; 4.0% to 7.0%, due in annual installments from $335 to $4,745 through August 1, 2012	$ 21,350
Add: Unamortized bond premium	114
	21,464
Total Revenue Bonds	$720,749

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water, and Sewer Utility Enterprise funds. Annual debt service requirements to maturity are as follows:

	Electric Utility Fund			Water Utility Fund		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2009	20,345	21,295	41,640	4,375	5,534	9,909
2010	21,300	21,735	43,035	4,415	5,939	10,354
2011	22,295	20,709	43,004	4,465	5,892	10,357
2012	21,050	19,693	40,743	4,590	5,939	10,529
2013	22,040	18,692	40,732	4,820	5,709	10,529
2014-2018	75,780	81,337	157,117	22,440	24,204	46,644
2019-2023	61,825	69,802	131,627	18,600	20,371	38,971
2024-2028	74,090	57,153	131,243	22,310	16,550	38,860
2029-2033	90,305	40,555	130,860	27,000	11,744	38,744
2034-2038	110,750	19,581	130,331	32,875	5,712	38,587
2039-2043	25,345	633	25,978	7,505	188	7,693
Premium (Discount)	10,932	-	10,932	713	-	731
Refunding Costs	(7,682)	-	(7,682)	(3,198)	-	(3,198)
Total	$548,375	$371,184	$919,559	$ 150,910	$107,781	$258,709

	Sewer Utility Fund		
Fiscal Year	Principal	Interest	Total
2009	3,760	1,092	4,852
2010	4,020	819	4,839
2011	4,305	571	4,876

2012	4,520	350	4,870
2013	4,745	119	4,864
Premium	114	-	114
Total	$21,464	$2,951	$24,415

Redevelopment Agency Bonds:	Principal Outstanding
$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; $1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from $100 to $145 through February 1, 2003; and $4,175 term bonds, 8.0%, due in annual installments from $155 to $450 through February 1, 2018 (portion not refunded)	$ 170
$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A; $6,205 serial bonds, 3.4% to 4.7% due in annual installments from $40 to $570 through August 1, 2014; $4,810 term bonds at 4.75% due August 1, 2021; and $6,010 term bonds at 5.0% due August 1, 2027	14,325
$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B; $1,900 serial bonds, 4.5% to 5.5% due in annual installments from $35 to $190 through September 1, 2013; $1,135 term bonds at 5.5% due September 1, 2018; and $3,020 term bonds at 5.625% due September 1, 2027	5,175
$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; $8,925 serial bonds, 3.4% to 4.7% due in annual installments from $455 to $780 through August 1, 2014; $2,565 term bonds at 4.75% due August 1, 2017; $4,035 term bonds at 4.75% due August 1,2021; and $4,870 term bonds at 5.0% due August 1, 2025.	16,285
$4,550 Arlington Redevelopment Project, 2004 Tax Allocation Bonds, Series A; $420 term bonds at 3.8% due August 1, 2014; $615 term bonds at 4.6% due August 1, 2024; and $3,515 term bonds at 4.7% due August 1, 2034	4,435
$2,975 Arlington Redevelopment Project, 2004 Tax Allocation Bonds; Series B: 5.5% due in annual installments from $85 to $235 through August 1, 2024	2,705
$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2.0% to 5.0% due in annual installments from $545 to $2,230 through October 1, 2024	23,060
$4,810 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; $310 serial bonds 1.20% to 1.42% through October 1, 2004; $620 term bonds at 3.090% due Oct. 1, 2008; $1,110 term bonds at 4.340% due Oct. 1, 2014 and $2,770 term bonds at 5.480% due Oct. 1, 2024	4,040
$40,435 Downtown/Airport Merged Project Area, 2003 Tax Allocation and Refunding Bonds; $32,720 serial bonds 2.0% to 5.25% due in annual installments from $1,220 to $1,955 through August 1, 2023; and $7,715 term bonds at 5.0% due in annual installments from $195 to $2,060 through August 2034	35,375
$24,115 2005 Housing Set-Aside Tax Allocation Bonds; $17,025 serial bonds 3.0% to 4.625% due in annual installments from $505 to $1,165 through August 1, 2025; $2,425 term bonds at 5.0% due August 1, 2028; and $4,665 term bonds at 4.85% due August 1, 2034	22,460
$1,465 California Statewide Communities Development Authority 2005 Taxable Revenue Bonds, Series A (CRA/ERAF Loan Program); 3.87% to 5.01% due in annual installments of $105 to $180 through August 1, 2015	1,235
$8,340 Downtown/Airport Merged Project Area and	

Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from $20 to $590,000 through August 1, 2025; $4,980 term bonds at 4.5% due August 1, 2029; $410 term bonds at 4.375% due August 1, 2037	8,340
$14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, $4,050 term bonds at 5.2% due August 1, 2017; $10,800 term bonds at 5.8% due August 1, 2028	14,850
$89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from $50 to $3,210 through August 1, 2025; $17,955 term bonds at 4.5% due August 1, 2030; $47,775 term bonds at 5.0% due August 1, 2037	89,205
$43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, $15,740 term bonds due August 1, 2017; $28,135 term bonds due August 1, 2032	43,875
Subtotal	285,535
Add: Unamortized bond premium	6,709
Total Redevelopment Agency Bonds	$292,244

Remaining debt service will be paid by the Redevelopment Agency Debt Service Funds from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2009	6,250	13,931	20,181
2010	6,625	13,670	20,295
2011	6,925	13,380	20,305
2012	7,235	13,072	20,307
2013	7,565	12,753	20,318
2014-2018	43,490	58,185	101,675
2019-2023	57,795	45,783	103,578
2024-2028	60,745	29,782	90,527
2029-2033	46,985	16,173	63,158
2034-2038	41,920	4,976	46,896
Premium	6,709	-	6,918
Total	$292,244	$221,705	$513,948

General Obligation Bonds:	Principal Outstanding
$20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from $410 to $1,740 through August 1, 2024	$18,530
Add; Unamortized bond premium	244
Total General Obligation Bonds	$18,774

Remaining general obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2009	590	840	1,430
2010	625	819	1,444
2011	675	794	1,469
2012	725	766	1,491
2013	780	737	1,517
2014-2018	4,855	3,148	8,003
2019-2023	6,900	1,837	8,737
2024-2028	3,380	189	3,569
Premium	244	-	244
Total	$18,774	$9,128	$27,902

Pension Obligation Bonds:	Principal Outstanding
$89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from $1,125 to $10,715 through June 1, 2023	$84,090
$30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments $630 to $3,860 through June 1,2020	27,880
$30,200 2008 Taxable Pension Obligation Refunding Bond Anticipation Notes; rate at June 30, 2008 was 3.18%, $30,200 due May 30, 2009	30,200
Total Pension Obligation Bonds	$142,170

Remaining pension obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2009	*33,185	7,050	40,235
2010	3,535	5,957	9,492
2011	4,130	5,792	9,922
2012	4,780	5,592	10,372
2013	5,475	5,357	10,832
2014-2018	40,010	21,683	61,693
2019-2023	51,055	8,827	59,882
Total	$142,170	$88,706	$202,428

* Principal payment includes the refunding

Certificates of Participation:	Principal Outstanding
$6,360 1999 Municipal Improvements Corporation Certificates of Participation; 6.0% to 7.6%, due in annual installments from $310 to $815 through April 1, 2010	$ 1,575
$53,185 2003 Riverside Public Financing Authority Certificates of Participation; 2.0% to 5.0%, due in annual installments from $755 to $2,830 through September 1,2033	49,035
$19,945 2006 Galleria at Tyler Public Improvements Certificates of Participation; 4.0% to 5.0%, due in annual installments from $435 to $1,270 through September 1, 2036	19,945
$128,300 2008 Riverside Renaissance Certificates of Participation; rate at June 30, 2008 was 3.62%, due in annual installments from $2,900 to $7,200 through March 1, 2037	128,300
Subtotal	198,855
Add: Unamortized bond premium	1,418
Total Certificates of Participation	$200,273

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2009	1,950	7,633	9,583
2010	2,045	7,533	9,578
2011	4,175	7,403	11,578
2012	4,750	7,250	12,000
2013	4,920	7,079	11,999
2014-2018	27,605	32,475	60,080
2019-2023	33,555	26,677	60,232
2024-2028	38,550	19,651	58201
2029-2033	46,340	11,473	57,813
2034-2038	34,965	2,671	37,636
Premium	1,418	-	1,418
Total	$200,273	$129,846	$330,119

Contracts – Enterprise Funds:	Principal Outstanding
Water stock acquisition rights payable on demand to various water companies	$964

Notes Payable - Redevelopment Agency:	Principal Outstanding
These notes payable have been issued to promote development and expansion within the City's redevelopment areas.	
Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of $341, including principal and interest through June 2020	$2,987
HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of $272 to $425 through August 1, 2015	2,260
HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of $110 to $420 through August 1, 2018	3,390
Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of $88 through 2013, for housing projects.	403
Total notes payable – Redevelopment Agency	$ 9,040

Remaining notes payable debt service payments will be made from unrestricted revenues of the Redevelopment Agency. Annual debt service requirements to maturity are as follows:

	Redevelopment Agency		
Fiscal Year	Principal	Interest	Total
2009	319	589	908
2010	589	598	1,187
2011	636	570	1,206
2012	681	539	1,220
2013	732	505	1,237
2014-2018	3,136	1,935	5,071
2019-2023	891	1,252	2,143
2024-2028	777	933	1,710
2029-2033	1,279	430	1,709
Total	$ 9,040	$7,351	$16,391

Notes payable – Sewer Fund:	Principal Outstanding
Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of $339,474, beginning January 29, 2003 through January 29, 2022	$ 3,833
Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of $477,387, beginning November 6, 1999 through November 6, 2018	4,736
Total notes payable – Sewer Fund	$8,569

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer fund. Annual debt service requirements to maturity are as follows:

	Sewer Fund		
Fiscal Year	Principal	Interest	Total
2009	654	163	817
2010	666	151	817
2011	679	138	817
2012	692	125	817
2013	705	112	817
2014-2018	3,727	357	4,084
2019-2021	1,446	49	1,495
Total	$8,569	$1,095	$9,664

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation. The assets acquired through capital leases are as follows:

Asset	Governmental Activities	Business-Type Activities
Buildings	$8,660	$868
Equipment	6,558	-
Subtotal	15,218	868
Less: Accumulated Depreciation	(3,639)	(196)
Total	$11,579	$672

The future minimum lease obligations as of June 30, 2008 were as follows:

Years Ending June 30,	Governmental Activities	Business-type Activities
2009	2,227	74
2010	1,598	51
2011	1,598	51
2012	1,081	43
2013	938	-
Thereafter	2,844	-
Copiers	745	-
Total Minimum lease payments	11,032	219
Less: Amount representing interest (rates ranging from 2.5% to 9%)	(1,640)	(8)
Total capital lease payable	$9,391	$211

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2008:

General long-term obligations:	
Redevelopment Agency	$ 7,033
Certificates of Participation	12,908
Total	$19,941
Enterprise funds:	
Electric	$31,398
Water	8,923
Total	$40,321

Following are required debt service ratios for the year ended June 30, 2008. The ratio measures operating income in relation to debt service. The City is in compliance with these ratios, except for the Sewer fund. The Sewer fund has not raised sewer rates in over 20 years. Management is in the process of preparing a rate increase that is anticipated to be approved by City Council by fiscal year 08/09.

	Minimum Debt Service Ratio Required
Electric fund	1.10
Water fund	1.25
Sewer fund	1.25

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

Landfill Capping:

State and Federal laws and regulations require the City to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. To comply with these laws and regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City. The capacity used at June 30, 2008 was 100%.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. All potential costs have been recognized in the financial statements. There is the potential for these estimates to change due to inflation, deflation, technology, or change in laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost of $4,361 is recorded as a deferred charge in the accompanying financial statements of the Refuse fund and is being amortized on a straight-line basis over the remaining post closure period, currently 23 years. The estimated cost of meeting the State's requirements was increased by $2.2 million during 2002 based on the engineer's annual review of closure and post-closure maintenance costs.

8. Other Long-Term Obligations

Assessment Districts Bonds (Not obligations of the City)

As of June 30, 2008, the City has several series of Assessment District Bonds outstanding in the amount of $69,384. Bonds issued for improvements in certain special assessment districts, in accordance with the provisions of the Municipal Improvements Acts, are liabilities of the property owners and are secured by liens against the assessed property. The City Treasurer acts as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of $13,545 and Industrial Development Revenue Bonds of $11,275 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from the acquired mortgage loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City or Redevelopment Agency. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

9. Interest Rate Swaps on Revenue Bonds

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2008, the City entered into interest rate swap agreements in connection with its $198,115 2008 Electric Revenue Bonds (Series A, B, and C) and $61,300 2008 Water Revenue Bonds. In 2008, the City entered into additional interest rate swap agreements in connection with its $128,300 2008 Certificates of Participation.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2009, the notional value of the swaps and the principal amounts of the associated debt decline by $975 to $7,200 until the debt is completely retired in fiscal year 2037.

The bonds and the related swap agreements for the 2008A Electric Revenue Bonds mature on October 1, 2029 and the 2008B and C Electric and 2008 Water Revenue/Refunding Bonds both mature on October 1, 2035. The 2008 Certificates of Participation mature on March 1, 2037. As of June 30, 2008 rates were as follows:

	Terms	2008 Water Refunding/ Revenue Bonds Series A	2008 Electric Refunding/ Revenue Bonds Series B
		Rates	Rates
Interest rate Swap:			
Fixed payment to counterparty	Fixed	3.2000%	3.2010%
Variable payment from counterparty	62.68 LIBOR + 12 bps	(3.0527%)	(3.08345%)
Net interest rate swap payments		(.1473%)	(.1176%)
Variable-rate bond coupon payments	ARS	3.3219%	3.46701%
Synthetic interest rate on bonds		3.4692%	3.58456%

	Terms	2008 Electric Refunding/ Revenue Bonds Series C	2008 Electric Refunding/ Revenue Bonds Series A
		Rates	Rates
Interest rate Swap:			
Fixed payment to counterparty	Fixed	3.2040%	3.1110%
Variable payment from counterparty	62.68 LIBOR + 12 bps	(3.09446%)	(3.03682%)
Net interest rate swap payments		(.1095%)	(.0742%)
Variable-rate bond coupon payments	ARS	3.49539%	3.35081%
Synthetic interest rate on bonds		3.60493%	3.42499%

	Terms	COP 2008 Bonds
		Rates
Interest rate Swap:		
Fixed payment to counterparty	Fixed	3.362%
Variable payment from counterparty	63.00 LIBOR + 7 bps	(1.71919%)
Net interest rate swap payments		(1.6428%)
Variable-rate bond coupon payments	ARS	1.79154%
Synthetic interest rate on bonds		3.43435%

Fair Value: As of June 30, 2008, in connection with all swap arrangements, the transactions had a total negative fair value of <$6,179>. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2008, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, Bank of America, Bear Stearns/J.P. Morgan and Merrill Lynch were rated AA+, AA- and A respectively by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap 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, 2008, there is no requirement for collateral posting for any of the outstanding swaps.

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

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

Swap payments and associated debt: As of June 30, 2008, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same, for their term are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
2009	975	8,954	2,387	12,316
2010	1,000	8,919	2,385	12,304
2011	1,025	8,884	2,384	12,293
2012	6,350	8,760	2,332	17,442
2013	6,575	8,632	2,279	17,486
2014-2018	59,225	39,204	10,470	108,899
2019-2023	72,875	30,560	8,687	112,122
2024-2028	64,500	17,810	5,292	87,602
2029-2033	104,275	15,148	4,699	124,122
2033-2037	68,900	1,536	747	71,183
Total	$385,700	$148,407	$ 41,662	$575,769

10. Reserved Fund Balances:

Reserved fund balances at June 30, 2008 for the General Fund, Redevelopment Debt Service Fund, RMIC, Capital Outlay Fund and the Redevelopment Debt Service Fund consist of the following:

Reserved for:	
Encumbrances	$ 67,793
Interfund receivable	27,946
Debt service	41,833
Prepaid items	511
Notes receivable	3,701
Fire bond	1,975
Capital Assets	67,251
Total reserved fund balance	$ 211,010

11. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds: These balances resulted from expenditures being incurred prior to receipt of the related revenue source.

The following table shows amounts receivable/payable between funds within the City at June 30, 2008:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental Funds	$1,185
	Airport	645
	Refuse	326
	Central stores *	3,755
		5,911
RDA Capital Projects	RDA Debt Service	3
Electric	General	50
Total		$5,964

* Internal service funds

Advances To/From Other Funds: These balances consist of advances used to fund capital projects in advance of related financing/assessments and for other long-term borrowing purposes.

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2008:

Receivable Fund	Payable Fund	Amount
General	Electric	$13,206
	Water	5,682
	Sewer	3,635
	Nonmajor governmental Funds	1,367
	Nonmajor enterprise funds	2,443
	Workers' compensation *	238
	Central stores *	250
	Central garage *	1,125
		27,946
Electric	General	9,571
	Nonmajor governmental funds	22,416
	Nonmajor enterprise funds	6,867
	Central stores *	650
		39,504
Total		$67,450

Transfers In/Out: Transfers are used to (1) move revenues to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) move the remaining fund balances of closed funds to the General fund and (4) use unrestricted revenues collected in the General fund to finance various programs accounted for in the other funds in accordance with budgetary operations.

The following table shows amounts transferred to/from funds within the City as of June 30, 2008:

Transfer In Fund	Transfer Out Fund	Amount
General	Electric	$27,371
	Water	4,955
	RDA Capital Projects	1,125
	Nonmajor governmental funds	75
		33,526
RDA Special Revenue	RDA Capital Projects	1,298
		1,298
RDA Debt Service	Nonmajor governmental funds	3,203
	RDA Capital Projects	51
		3,254
RDA Capital Projects	RDA Debt Service	24,680
		24,680
Capital Outlay	RMIC COPS Debt Service	83
		83
Total		$62,841

12. Deficit Fund Balances/Net Assets

Deficit fund balance/net assets exist in the Workers Compensation ($3,159), and the Public Liability ($4,348) funds at fiscal year end. The deficit in these funds will be reduced based on a rate increase implemented in the subsequent fiscal year. Management's analysis shows that continuing cost control together with the rate increase will eliminate these deficits over the next few years.

13. Litigation

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the California Independent System Operator's (ISO) Market Redesign and Technology Upgrade (MRTU).

On January 1, 2003, the City became a Participating Transmission Owner (PTO) with the ISO, entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based on the City's Transmission Reserve Requirements (TRR) as approved by the FERC. After numerous FERC hearings, briefings, and decisions on this TRR issue, FERC issued a final order in favor of the City in late 2006. CDWR appealed this order to the U.S. Court of Appeals for the D.C. Circuit, but CDWR subsequently withdrew this petition, and the court issued an order dismissing the case on July 9, 2007. As a result of this dismissal, approximately $49 million collected from the ISO through June 30, 2007 but previously held in reserves, has now been released to the Electric Utility's unrestricted operating cash reserve account, and is available for current operations or other strategic purposes upon approval of the Public Utilities Board and the City Council.

During the California Energy Crisis of 2001-2002, the City made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (PX) who filed for Chapter 11 bankruptcy in 2001, the City was not paid for many of these transactions. The unpaid amounts were fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, PG&E was the largest purchaser of electricity from the ISO and the PX, and therefore was the largest creditor of the ISO and PX. PG&E's various creditors' classes and the Bankruptcy Court approved a Settlement Plan under which PG&E paid the PX and ISO 100% of its debts to creditors in the same class as the City. On June 4, 2008, the FERC approved a settlement agreement between the City and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the City will be paid all of its unpaid receivables, plus interest, minus $1.2 million in refunds. The net payout to the City will be approximately $4 million, minus approximately $250,000 to be paid to the City of Banning for transactions made on its behalf by the City.

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.

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

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

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. Although the City has tentatively settled with a number of the defendants, the settlement has not been approved by the court and no trial date for the remainder of the case. ..

The City also detected perchlorate in a number of its drinking water wells. While Lockheed Martin has not admitted liability for the presence of perchlorate in the City's wells, Lockheed Martin has agreed to pay for the design, construction, installation, rental and permitting, and to reimburse the City for its operational and maintenance costs associated with perchlorate treatment facilities on certain of the City's drinking water wells, under an agreement between the City and Lockheed Martin dated October 29, 2002 (the "Interim Perchlorate Agreement"). The Interim Perchlorate Agreement

has been thrice amended, on November 25, 2003, on February 22, 2005, and on May 31, 2007, with each amendment increasing the number of wells from an original four wells to fourteen wells being treated for perchlorate at Lockheed Martin's expense.

14. City Employees Retirement Plan

(A) Plan Description. The City of Riverside 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. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) Funding Policy. For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. For 2008, the City's annual pension cost of $38,579 for CalPERS was equal to its annual required contribution of $37,235 plus the effect of amortization of the net pension asset of $1,344. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.25% per year compounded annually, attributable to inflation, and (c) 3.0% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

Three-year trend information for CalPERS:

Fiscal Year June 30,	Plan	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation (Asset)
2006	Misc	$18,270	100%	$(59,290)
2006	Safety	12,414	100%	(88,256)
2007	Misc	20,871	100%	(58,908)
2007	Safety	14,182	100%	(87,813)
2008	Misc	22,971	100%	(58,334)
2008	Safety	15,608	100%	(87,043)

A total of $145,377 of net pension assets are included as a deferred charge in the Government-wide Statement of Net Assets. The deferred charge relating to the net pension assets will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses.

Determination of Net Pension Obligations as of June 30, 2008:

	Misc	Safety
Annual Required Contribution	$22,971	$15,609
Amortization of Net Pension Asset	(574)	(770)
Annual Pension Cost	22,397	14,839
Contributions made	(22,971)	(15,609)
Increase (Decrease) in Net Pension Obligation	(574)	(770)
Net Pension Asset, beginning of year	58,908	87,813
Net Pension Asset, end of year	$58,334	$87,043

Schedule of funding for CalPERS:

Plan	Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Misc.	6/30/04	611,841	528,829	83,012	86.4	77,959	106.5
Safety	6/30/04	454,795	454,795	22,685	95.0	48,635	46.6
Misc.	6/30/05	655,642	649,695	5,947	99.1	84,290	7.1
Safety	6/30/05	486,880	481,479	5,401	98.9	50,368	10.7
Misc.	6/30/06	712,552	715,993	3,441	100.5	92,844	3.7
Safety	6/30/06	523,914	528,420	4,506	100.9	53,728	8.4

Other Post-Employment Benefits

Plan Description

The City of Riverside (City) contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other post-employment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plans is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The City currently contributes to seven bargaining units through their associations. The following seven associations are responsible for the administration of their individual plans: The Riverside City Fire Association (RCFA), International Brotherhood of Electrical Workers General Trust (IBEW), The Riverside Police Administrator's Association (RPAA), The Riverside Police Association Trust 1991 (RPOA 91), The Riverside Police Association Trust 2006 (RPOA 06), Service Employee's International Union General Trust (SEIUG), and the Service Employee's International Union Refuse (SEIUR). The RCFA and the RPAA associations are new trusts and the benefit levels are not yet established, therefore the actuarial information was excluded and the actuarial information stated that the ARC for both trust would be equal to the City's contribution.

The City also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-along financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association. The benefit summary information is as followed:

BENEFIT SUMMARY1

Eligibility & Benefit	Trust/Group	Eligibility	Monthly Benefit
	• IBEW General Retiree Health Trust	• DOR>7/1/2000 50 & 5, or disability	• $100 until Medicare eligible
	• RPOA & RPOA Sergeants 1991 Trust	• Active on 6/1/90 or bought in to plan, 20 yrs as Police officer (15 with City), or industrial disability with 5 yrs City Police service	• DOR<6/1/1990: $75 • DOR>6/1/1990: $150
	• RPOA & RPOA Sergeants 2006 Trust	• DOR>7/1/06, 15 yrs City police service, or industrial disability	• $200
	• SEIU General Retiree Health	• 20 yrs City service or industrial disability with 5 yrs service	• DOR<6/30/90: $50 • DOR>6/30/90: $100
	• SEIU Refuse Retiree Health	• 20 yrs City service or industrial disability with 5 yrs service	• $100

1 Chart information obtained from the Bartel Associates, LLC Stipend and Implied Subsidy Plans-GASB 45 Actuarial Valuation report dated July 24, 2008.

BENEFIT SUMMARY		
▪ Eligibility	▪ Retire directly from City under CalPERS (age 50, 5 years of service or disability), and meet plan eligibility above	
▪ City Contribution	Trust/Group	Contribution
	• IBEW General Retiree Health Trust	• $50/month for each active
	• RPOA & RPOA Sergeants 1991 Trust	• Initial contribution of $750,000
	• RPOA & RPOA Sergeants 2006 Trust	• $50/month for each active increasing to $100/month beginning 1/1/2008
	• SEIU General Retiree Health	• Each January 1st through 2010, City contributes 0.25% of annual full-time payroll
	• SEIU Refuse Retiree Health	• Each January 1st through 2011, City contributes 0.25% of annual full-time payroll

Funding Policy and Annual OPEB Cost

The contribution requirements of the City for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The City's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded.

Assets Trust Amounts June 30, 2008		
IBEW General Retiree Health Trust	$	204,858
RPOA 1991 Trust		531,376
RPOA 2006 Trust		230,105
SEIU General Retiree Health		1,839,569
SEIU Refuse Retiree Health		30,317
Total	$	2,836,225

The contribution requirements of the City's Implied Subsidy Plan are established by the City Council. 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 benefits to eligible retirees and beneficiaries.

The City's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years.

The City's annual OPEB cost for the current year and the related information for each plan are as followed (amounts in thousands):

RESULTS – STIPEND PLANS

Annual Required Contribution (ARC) at 4.5%
2007/08 Fiscal Year
(amounts in 000's)

	IBEW	RPOA 1991 Trust	RPOA 2006 Trust	SEIU General	SEIU Refuse
▪ ARC $					
• Normal Cost2	$19	$44	$303	$172	$7
• UAAL Amortization3	4	94	150	128	8
• Total	23	138	453	300	15
▪ Projected 2007/08 Payroll	12,641	8,083	28,234	42,222	1,463
▪ ARC as % of payroll					
• Normal Cost	0.2%	0.5%	1.1%	0.4%	0.5%
• UAAL Amortization	0.0%	1.2%	0.5%	0.3%	0.5%
• Total	0.2%	1.7%	1.6%	0.7%	1.0%
▪ Current Contribution					
• $	$105	-	$3224	$1135	$4
• % of payroll	0.8%	-	1.1%	0.25%	0.25%

2 Level $

3 Amortized as a level percent of payroll over 30 years

4 These numbers reflect the January 1, 2008 increase to $100 per employee (2007/2008 contribution).

5 Provided by City based on actual 2007/08 payroll. If projected payroll had been used, contributions would be $106.

RESULTS – IMPLIED SUBSIDY

Discount Rate and Amortization Sensitivity
(amounts in 000's)

	4.5%	
▪ **Discount Rate**		
▪ **Amortization Period**	20 Years	30 Years
▪ **Present Value of Benefits**	$75,665	$75,665
▪ **Funded Status**		
• AAL (Accrued Actuarial Liability)	50,430	50,430
• Assets	0	0
• UAAL	50,430	50,430
▪ **2007/2008 ARC**		
• Normal Cost	2,306	2,306
• UAAL Amortization	2,947	2,080
• ARC	5,253	4,386
• ARC as % of payroll	3.8%	3.1%

The City's annual OPEB cost (AOC), the contribution, and the net OPEB obligation (NOO) for the year ended June 30, 2008 for each of the plans were as follows (dollar amounts in thousands):

RESULTS – STIPEND PLANS

Estimated Net OPEB Obligation
(amounts in 000's)

4.5% Discount Rate

	IBEW	RPOA 1991 TRUST	RPOA 2006 TRUST	SEIU GENERAL	SEIU REFUSE	Total
▪ **NOO 6/30/2007**	$ -	$ -	$ -	$ -	$ -	$ -
o AOC6	23	138	453	300	15	929
o Contribution	(105)	-	(322)	(113)	(4)	(544)
▪ **Estimated NOO 6/30/2008**	$ (82)	$ 138	$ 131	$ 187	$ 11	$ 385

6 30 year amortization. Level $ for IBEW, RPOA 1991 & RPOA 2006. Level % of payroll for SEIU General and SEIU Refuse.

RESULTS – IMPLIED SUBSIDY Estimated Net OPEB Obligation (amounts in 000's)	No Pre-Funding 4.5%
▪ **NOO 6/30/2007**	$ -
o 2007/08 ARC7	4,386
o Contributions8	(1,290)
▪ **Estimated NOO 6/30//20089**	$ 3,096

Funding Status and Funding Progress

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information normally provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Implied Subsidy Plan is unfunded. The actuarial accrued liability for benefits was $50.4 million as of June 30, 2008.The funded status of the Stipend Plan as of June 30, 2008, was as follows (amounts in thousands):

Stipend Plan

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Actuarial Valuation Date	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2,885	12,186	9,301	06/30/2008	24%	92,643	10%

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations eflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

ACTUARIAL ASSUMPTIONS	June 30, 2007 Valuation
▪ Valuation Date	• June 30, 2007 • Cost for fiscal year 2007/08 (end of year)
▪ Discount Rate:	• 6.0% Baseline • 4.5% Assets invested conservatively • 7.75% Pre-funded with CalPERS CERBT – diversified and irrevocable trust
▪ General Inflation	• 3.0%
▪ Aggregate Payroll Increases	• 3.25%
▪ Retirement	• CalPERS 1997-2002 Experience Study

	Misc	Fire	Police
Level	2.7%@55	3%@55	3%@50
Hire Age	34	27	27
Exp. Ret. Age	60 (M) 59 (F)	56	54

▪ Mortality, Termination, & Disability	• CalPERS 1997-2002 Experience Study

7 UAAL amortized as a level percent of payroll over 30 years.
8 Includes benefit payments.
9 Actual NOO will depend on actual benefit payment or contribution.

▪ Medicare Eligible Rate	• 100%
▪ Plan Assets	▪ Market value of assets ▪ No smoothing
▪ Cost Method	▪ Entry Age Normal • As a level % of pay: ➢ SEIU General ➢ SEIU Refuse • As a level $ amount: ➢ IBEW Trust ➢ RPOA 1991 Trust ➢ RPOA 2006 Trust ▪ Acceptable under GASB 27
▪ Amortization Period	▪ 30 years ▪ 20 years -- sensitivity
▪ Amortization Method	▪ Level Percent of Payroll (same as CalPERS) ▪ Level Dollar Amount
▪ Future New Entrants	▪ None – Closed Group

15. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

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 located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

Southern California Public Power Authority

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

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

Project	Percent Share	Entitlement
Palo Verde Nuclear Generating Station	5.40%	11.7MW
Southern Transmission System	10.20%	195.0MW
Hoover Dam Uprating	31.90%	30.0MW
Mead – Phoenix Transmission	4.00%	12.0MW
Mead – Adelanto Transmission	13.50%	118.0MW

Terms of Take or Pay Commitments

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.0 percent to 6.38 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.

	IPA	SCPPA					
Fiscal Year	Inter-mountain Power Project	Palo Verde Nuclear Generating Project	Trans-mission System Project	Hoover Dam Uprating	Mead–Phoenix Trans-mission	Mead-Adelanto Trans-mission	Total
2009	$ 21,852	$ 964	$ 5,108	$ 586	$ 200	$ 2,196	$ 30,906
2010	22,626	810	7,074	717	262	2,858	34,347
2011	26,440	796	7,125	717	301	2,928	38,307
2012	24,061	782	7,203	717	300	2,918	35,981
2013	20,927	768	8,881	718	300	2,915	34,509
Thereafter	189,285	2,919	39,969	3,587	2,089	23,218	309,432
Total	$305,191	$ 7,039	$ 88,334	$ 7,042	$ 3,452	$37,033	$483,482

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

Project	Final Maturity Date
Intermountain Power Project	2024
Palo Verde Nuclear Generating System	2017
Southern Transmission System	2023
Hoover Dam Uprating	2017
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

In addition to debt service, Riverside'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, 2008 and 2007, are as follows (in thousands):

Fiscal Year	IPA	PV	STS	MAP	MPP	Hoover	Total
2008	27,759	2,758	2,181	248	97	88	33,131
2007	24,227	2,122	1,948	249	49	96	28,691

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

B. Other Commitments

Power Purchase Agreements:

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

Minimum Obligations 2008-2009

Supplier	Capacity	Energy	Total
Deseret	$3,463	$1,966	$5,429
BPA (two agreements)	868	-	868
Total	$4,331	$1,966	$6,297

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret $25,000 from Electric fund reserves, which is reflected on the Balance Sheets as Deferred purchased power. On July 1, 2002, the Electric Utility began to amortize the $25,000, and will continue to amortize the remaining balance over the term of the agreement using the straight-line method.

As of June 30, 2008 and 2007, Deferred purchased power was $5,011 and $8,352, respectively, and the Utility had recorded amortization of $3,340 in both fiscal years.

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

On June 6, 2003 and July 8, 2003, the Public Utilities Board and the City Council respectively, adopted a RPS to increase procurement of renewable resources to reach a target of 20% of the Utility's energy by 2015. On March

16, 2007, the Public Utilities Board approved a new RPS, increasing the targets to 20% and 25% by 2010 and 2015, respectively. On May 4, 2007, the Public Utilities added an additional target of 33% by 2020.

The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio.

Long-term renewable power purchase agreements:

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost for 2008
Riverside County (Badlands Landfill)	Landfill Gas	1.2MW	12/31/2008	255
Wintec	Wind	8.0MW	11/10/2021	182
Salton Sea Power	Geothermal	20.0MW	5/31/2020	10,701
Total		93.2MW		$11,138

All contracts are contingent on energy production from specific related generating facilities. Riverside has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

On August 23, 2005, the City Council approved an amendment to the Power Purchase Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from the current 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the City of Riverside entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to 8 MW. The contract term is for 15 years, with capacity available upon completion of Wintec's Facility II Wind Turbine Project.

On June 24, 2008, the City of Riverside entered into a Renewable Power Purchase Agreement with Shoshone Renaissance, LLC for geothermal power. The contract term is for 30 years with an estimated start date of May 2010. The plant's capacity will be 64 MW upon completion of two geothermal units at 32 MW each.

Construction Commitments:

As of June 30, 2008, the Electric Utility had major commitments of approximately $37,884, with respect to unfinished capital projects, of which $37,240 is expected to be funded by bonds, $644 funded by rates and $0 funded by others.

As of June 30, 2008, the Water Utility had major commitments of approximately $5,520 with respect to unfinished capital projects, of which $2,909 is expected to be funded by bonds, $1,774 funded by other sources and $837 funded by rates.

C. Jointly Governed Organizations

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2007-08 and 2006-07 fiscal years, the Electric Utility paid approximately $17,144 and $16,854, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

On July 1, 1990, the City of Riverside joined with the cities 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 for each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001,

PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

D. Jointly-Owned Utility Project

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

SCE, as operating agent, has declared an “operating impairment” due to deterioration of the steam generators (“SGs”), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated costs to replace the SGs is $680,000, of which approximately $12,200 would represent the City’s share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission approval is obtained. Although the City Council has approved participation in the replacement of the SGs, Anaheim has opted not to participate. During 2006, the FERC, Nuclear Regulatory Commission and the California Public Utility Commission (CPUC) approved the transfer of Anaheim’s shares to SCE, and as a result, SCE’s ownership was increased to 78.21 percent in units 2 and 3 of SONGS.

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively.

There are no separate financial statements for the jointly-owned utility plant since each participant’s interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility’s 1.79 percent share of the capitalized construction costs for SONGS totaled $142,120 and $138,575 for fiscal years ended June 30, 2008 and 2007, respectively. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. As a result, all acquisitions are now depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to $114,511 and $108,709 for the fiscal years ended June 30, 2008 and 2007, respectively. The Electric Utility made provisions for future decommissioning costs of $1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of $2,336 and $1,946 for fiscal years June 30, 2008 and June 30, 2007, respectively (see Note 1). The Electric Utility’s portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

16. Subsequent Events

On July 1, 2008, the City as a participant in the California Statewide Communities Development Authority Pool issued $30 million of Tax and Revenue Anticipation Notes in the form of Series A-1 Bonds due June 20, 2009. The stated interest rate is set at 3.0% per annum with a yield of 1.8%.

In accordance with California law, the TRANS Bond is a general obligation of the City and is payable only out of taxes, income, revenues, cash receipts, and other monies of the City attributable to fiscal year 2008-09 and legally available for payment thereof. Proceeds of the Bonds will be used for 2008-09 General Fund expenditures, including current expenditures and prepayment of PERS.

CITY OF
RIVERSIDE

City of Riverside
Statistical Section
For the year ended June 30, 2008

Table of Contents

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents **Page**

Financial Trends **89**
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity **95**
These schedules contain information to help the reader assess the factors affecting the City's ability to generate property and sales taxes.

Debt Capacity **104**
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information **111**
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

Operating Information **113**
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Statement 34 in the year ended June 30, 2001; schedules presenting government-wide information include information beginning in that year.

Table 1
City of Riverside
Net Assets by Component
Last Seven Fiscal Years
(accrual basis of accounting) **(in thousands)**

	Fiscal Year						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Governmental activities							
Invested in capital assets, net of related debt	$ 465,803	$ 471,380	$ 484,784	$ 515,354	$ 622,336	$ 712,801	$ 887,964
Restricted	115,352	106,862	137,126	154,957	158,038	415,618	377,137
Unrestricted	(59,893)	(10,227)	(41,353)	(46,419)	(51,261)	(335,928)	(343,113)
Total governmental activities net assets	$ 521,262	$ 568,015	$ 580,557	$ 623,892	$ 729,113	$ 792,491	$ 921,988
Business-type activities							
Invested in capital assets, net of related debt	$ 293,936	$ 323,094	$ 341,041	$ 402,377	$ 425,285	$ 520,059	$ 601,999
Restricted	38,535	40,869	49,242	54,540	71,386	57,613	43,342
Unrestricted	177,537	181,985	217,762	229,462	250,041	242,966	225,281
Total business-type activities net assets	$ 510,008	$ 545,948	$ 608,045	$ 686,379	$ 746,712	$ 820,638	$ 870,622
Primary government							
Invested in capital assets, net of related debt	$ 759,739	$ 794,474	$ 825,825	$ 917,731	$ 1,047,621	$ 1,232,860	$ 1,489,963
Restricted	153,887	147,731	186,368	209,497	229,424	473,231	420,479
Unrestricted	117,644	171,758	176,409	183,043	198,780	(92,962)	(117,832)
Total primary government net assets	$ 1,031,270	$ 1,113,963	$ 1,188,602	$ 1,310,271	$ 1,475,825	$ 1,613,129	$ 1,792,610

Table 2
City of Riverside
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting) **(in thousands)**

	Fiscal Year						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Expenses							
Governmental activities:							
General government	$ 47,245	$ 59,530	$ 63,000	$ 58,460	$ 74,458	$ 105,486	$113,897
Public safety	80,944	88,969	102,500	110,969	120,470	114,312	122,783
Highways and streets	6,819	15,625	22,017	20,364	20,757	22,556	26,986
Culture and Recreation	29,607	29,236	22,988	26,353	32,602	28,016	31,659
Interest on long-term debt	7,727	7,696	10,996	15,885	16,358	26,378	34,075
Total governmental activities expenses	172,342	201,056	221,501	232,031	264,645	296,748	329,400
Business-type activities:							
Electric	215,131	186,917	196,727	200,030	226,186	232,346	271,411
Water	28,978	29,715	33,921	36,709	39,486	42,108	47,570
Sewer	19,214	20,053	23,273	26,108	27,299	29,510	31,209
Refuse	10,821	11,577	11,510	12,841	14,546	16,490	18,430
Airport	1,045	1,151	1,088	1,185	1,004	1,201	1,418
Transportation	1,735	2,110	2,286	2,557	2,917	2,831	3,190
Public parking	-	1,392	1,389	824	2,701	3,762	4,093
Total business-type activities expenses	276,924	252,915	270,194	280,254	314,139	328,248	377,321
Total primary government expenses	$ 449,266	$ 453,971	$ 491,695	$ 512,285	$ 578,784	$ 624,996	$706,721
Program Revenues							
Governmental activities:							
Charges for services:							
General government	$ 20,265	$ 22,675	$ 26,160	$ 25,995	$ 24,683	$ 10,245	$ 23,969
Public safety	5,855	6,427	6,799	6,982	5,845	12,410	9,924
Highways and streets	18,891	20,867	22,286	23,108	25,412	30,563	19,695
Culture and recreation	4,671	8,304	5,056	7,002	7,716	8,302	4,370
Operating grants and contributions	7,257	12,716	12,935	16,140	13,150	12,101	15,024
Capital grants and contributions	19,528	2,144	1,136	5,292	18,618	10,557	115,982
Total governmental activities program revenues	76,467	73,133	74,372	84,519	95,424	84,178	188,964
Business-type activities:							
Charges for services:							
Electric	216,106	204,293	233,102	252,322	259,572	278,888	305,299
Water	29,527	28,637	32,382	34,002	37,613	47,080	49,855
Sewer	20,457	21,172	21,672	21,967	21,510	24,057	22,525
Refuse	11,220	11,795	13,759	14,492	15,160	15,833	16,289
Airport	1,089	1,046	1,051	1,088	1,162	1,263	1,423
Transportation	116	170	185	200	238	302	313
Public parking	-	2,385	2,760	2,961	2,837	3,431	3,717
Operating grants and contributions	2,992	3,663	1,723	2,261	2,704	1,939	3,308
Capital grants and contributions	1,877	4,976	26,390	32,317	29,293	40,066	29,215
Total business-type activities program revenues	283,384	278,137	333,024	361,610	370,089	412,859	431,944
Total primary government program revenues	$ 359,851	$ 351,270	$ 407,396	$ 446,129	$ 465,513	$ 497,037	$620,908

(continued)

Table 2
City of Riverside
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting) **(in thousands)**

	Fiscal Year						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Net Revenues (Expense)							
Governmental activities	$ (95,875)	$ (127,923)	$ (147,129)	$ (147,512)	$ (169,221)	$- $ (212,570)	$- $ (140,436)
Business-type activities	6,460	25,222	62,830	81,356	55,950	- 84,611	- 54,623
Total primary government net expense	$ (89,415)	$ (102,701)	$ (84,299)	$ (66,156)	$ (113,271)	$ (127,959)	$ (85,813)
General Revenues and Other Changes in Net Assets							
Governmental activities:							
Taxes							
Sales	$ 38,467	$ 41,691	$ 46,624	$ 53,348	$ 57,522	$ 55,666	$ 50,526
Property	29,471	33,584	35,911	61,553	80,934	106,114	120,646
Utility Users	18,510	19,928	21,362	22,133	23,502	25,384	26,267
Franchise	4,070	3,811	4,261	4,481	4,813	5,031	4,972
Other	2,777	2,967	3,213	3,828	4,372	3,581	3,795
Intergovernmental, unrestricted	14,848	15,533	12,528	1,795	1,747	1,863	2,074
Unrestricted grants and contributions	-	-	18,710	15,220	39,653	29,743	-
Investment earnings	11,058	8,064	1,284	7,815	10,150	18,582	25,670
Miscellaneous	5,079	2,241	5,476	5,756	26,173	4,228	9,610
Transfers	18,057	18,218	10,302	14,918	25,576	31,171	32,326
Contributions	-	-	(2,800)	-	-	-	-
Total governmental activities	142,337	146,037	156,871	190,847	274,442	281,363	275,886
Business-type activities:							
Unrestricted grants and contributions	12,638	15,972	-	-	-	-	-
Investment income	12,780	9,115	5,016	7,548	11,259	16,988	22,756
Miscellaneous	5,624	3,849	4,553	7,362	18,700	3,498	4,931
Special item	7,900	-	-	(3,014)	-	-	-
Transfers	(18,057)	(18,218)	(10,302)	(14,918)	(25,576)	(31,171)	(32,326)
Total business-type activities	20,885	10,718	(733)	(3,022)	4,383	(10,685)	(4,639)
Total primary government	163,222	156,755	156,138	187,825	278,825	270,678	271,247
Change in Net Assets							
Governmental activities	$ 46,462	$ 18,114	$ 9,742	$ 43,335	$ 105,221	$ 68,793	$ 135,450
Business-type activities	27,345	35,940	62,097	78,334	60,333	73,926	49,984
Total primary government	$ 73,807	$ 54,054	$ 71,839	$ 121,669	$ 165,554	$ 142,719	$ 185,434

Table 3
City of Riverside
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting) **(in thousands)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General fund										
Reserved	$ 4,245	$ 11,049	$ 9,089	$ 10,947	$ 14,362	$ 17,268	$ 44,487	$ 59,930	$ 50,631	$ 36,025
Unreserved	28,149	33,643	61,048	63,829	67,376	117,259	109,266	68,967	44,135	45,192
Total general fund	32,394	44,692	70,137	74,776	81,738	134,527	153,753	128,897	94,766	81,217
All other governmental funds										
Reserved	30,346	25,564	30,589	29,856	28,123	35,177	47,677	54,173	99,986	195,082
Unreserved, reported in:										
Special revenue funds	21,992	23,945	12,350	12,168	14,691	14,960	24,991	26,718	22,731	22,071
Capital projects funds	63,034	68,027	65,698	67,211	69,444	93,722	89,303	94,070	307,224	185,390
Permanent funds	-	-	1,355	1,457	1,232	1,219	127	81	-	
Total all other governmental funds	$ 115,372	$ 117,536	$ 109,992	$ 110,692	$ 113,490	$ 145,078	$ 162,098	$ 175,042	$ 429,941	$ 402,543

Table 4
City of Riverside
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis accounting) **(in thousands)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues:										
Taxes	$ 77,617	$ 84,445	$ 88,121	$ 93,879	$ 102,286	$ 113,118	$ 142,056	$ 170,638	$ 191,131	$ 200,438
Licenses and permits	7,854	12,273	13,232	12,317	14,394	11,343	14,389	16,351	12,984	10,027
Intergovernmental	44,055	42,259	48,960	47,410	43,829	42,609	42,568	55,178	47,934	79,423
Charges for services	6,922	7,160	7,879	7,866	8,878	10,046	11,299	11,538	11,914	11,325
Fines and forfeitures	1,702	2,226	2,330	2,346	2,095	2,188	2,006	2,098	2,778	4,573
Special assessments	4,060	6,587	5,258	5,420	6,324	10,259	6,272	6,247	6,170	5,245
Use of money and property	11,856	12,470	22,329	13,017	11,255	10,587	10,915	14,324	22,587	27,970
Miscellaneous	4,503	7,900	6,325	4,816	5,042	7,133	9,996	8,502	6,164	12,796
Total revenues	$ 158,569	$ 175,320	$ 194,434	$ 187,071	$ 194,103	$ 207,283	$ 239,501	$ 284,876	$ 301,662	$ 351,797
Expenditures:										
General government	$ 22,046	$ 19,942	$ 28,552	$ 27,748	$ 22,031	$ 36,938	$ 28,800	$ 49,381	$ 51,413	$ 32,496
Public safety	72,687	76,386	84,134	91,245	96,487	107,637	119,036	131,688	153,226	157,816
Highways and streets	9,292	9,388	9,979	10,551	12,034	12,124	13,446	12,171	20,760	25,908
Culture and recreation	17,573	18,856	21,239	23,835	27,579	25,919	34,180	34,264	36,449	37,358
Capital outlay	30,647	36,784	33,195	41,058	39,098	37,035	48,366	87,972	117,070	152,155
Debt Service:										
Principal	7,082	14,559	9,326	6,174	4,470	2,422	8,599	9,733	12,045	11,257
Interest	9,285	8,268	8,154	7,785	7,785	9,945	15,025	19,205	21,330	31,239
Debt issuance costs	2,185	469	-	-	-	950	1,538	-	2,551	697
Total expenditures	$ 170,797	$ 184,652	$ 194,579	$ 208,396	$ 209,484	$ 232,970	$ 268,990	$ 344,414	$ 414,844	$ 448,926
Excess of revenues over (under) expenditures	$ (12,228)	$ (9,332)	$ (145)	$ (21,325)	$ (15,381)	$ (25,687)	$ (29,489)	$ (59,538)	$(113,182)	$ (97,129)

(continued)

Table 4
City of Riverside
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis accounting) **(in thousands)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Other financing sources (uses):										
Transfers in	$ 39,089	$ 32,914	$ 41,364	$ 31,305	$ 36,202	$ 41,440	$ 49,944	$ 59,545	$ 84,306	$ 62,841
Transfers out	(21,258)	(15,902)	(23,837)	(13,248)	(17,984)	(31,338)	(35,026)	(33,969)	(53,135)	(30,515)
Sales of general capital assets	(225)	(191)	168	153	1,314	(675)	6,230	1,281	541	8,931
Advances from other funds	918	613	1,599	-	81	-	-	-	-	-
Long-term obligation proceeds	48,936	6,360	-	8,454	750	247,594	85,578	20,969	295,190	164,408
Premiums on bonds issued	-	-	-	-	-	-	113	-	4,455	-
Payments to refunded bond agent	(20,360)	-	-	-	-	(58,657)	(9,167)	-	-	(148,975)
Total other financing sources (uses)	47,100	23,794	19,294	26,664	20,363	198,364	97,672	47,826	331,357	56,690
Special item - pension contribution	-	-	-	-	-	(88,300)	(32,141)	-	-	-
Net change in fund balances	$ 34,872	$ 14,462	$ 19,149	$ 5,339	$ 4,982	$ 84,377	$ 36,042	$ (11,712)	$ 218,175	$ (40,439)
Debt service as a percentage of noncapital expenditures	10.100%	12.240%	14.287%	11.311% **(2)**	9.018% **(2)**	9.140% **(1) (2)**	16.676% **(1) (2)**	31.075% **(2)**	32.274% **(2)**	76.697% **(2)**

(1) Restatement of debt service principal payments to reflect proper reporting of payment to refunded bond agent for refundings during the fiscal year.
(2) Restatement of debt service percentages to exclude capitalized expenditures.

Table 5
City of Riverside
Business-Type Activities Electricity Revenue By Source
Last Seven Fiscal Years
(accrual basis of accounting) **(in thousands)**

Fiscal Year	Residential Sales	Commerical Sales	Industrial Sales	Wholesale Sales	Other Sales	Transmission Revenue	Other Operating Revenue	Total Revenues
2002	$ 64,625	$ 46,265	$ 49,487	$ 46,505	$ 7,447	$ -	$ 1,777	$ 216,106
2003	68,649	48,974	52,380	17,806	5,619	8,661	2,230	204,319
2004	80,872	57,079	56,117	9,581	6,354	20,917	2,182	233,102
2005	79,786	59,998	59,157	15,249	6,337	20,213	12,697	253,437
2006	85,243	53,773	71,084	11,952	7,139	20,043	9,183	258,417
2007	94,426	55,421	83,698	9,913	5,713	20,097	9,536	278,804
2008	99,981	60,768	92,697	14,805	5,425	19,211	12,405	305,292

The City started receiving Transmission Revenue in 2003.

Table 6
City of Riverside
Governmental Activities Tax Revenues By Source
Last Seven Fiscal Years
(accrual basis of accounting) **(in thousands)**

Fiscal Year	Sales Tax	Property Tax	Utility Users Tax	Franchise Tax	Other Tax	Total Taxes
2002	$ 38,467	$ 29,471	$ 18,510	$ 4,070	$ 2,777	$ 95,102
2003	41,691	33,584	19,928	3,811	2,967	101,981
2004	46,624	35,911	21,362	4,261	3,213	111,371
2005	53,348	61,553	22,133	4,481	1,795	143,310
2006	57,522	80,934	23,502	4,813	4,372	171,143
2007	55,666	106,114	25,384	5,031	3,581	195,776
2008	50,526	120,646	26,267	4,972	3,795	206,206

Table 7
City of Riverside
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years **(in thousands)**

Fiscal Year Ended June 30	City				Redevelopment Agency				Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	
1999	10,158,747	576,029	(1,819,089)	8,915,687	N/A	N/A	N/A	N/A	1.000
2000	10,557,523	632,940	(1,899,625)	9,290,838	N/A	N/A	N/A	N/A	1.000
2001	11,269,877	686,215	(2,017,543)	9,938,549	N/A	N/A	N/A	N/A	1.000
2002	12,103,179	799,323	(2,129,115)	10,773,387	1,240,768	205,181	(16,263)	1,429,686	1.000
2003	13,071,416	980,529	(2,406,961)	11,644,984	1,390,108	276,506	(27,690)	1,638,924	1.000
2004	14,188,658	845,858	(2,526,503)	12,508,013	1,508,478	228,775	(30,286)	1,706,967	1.000
2005	15,540,982	951,211	(2,751,844)	13,740,349	1,775,655	158,148	(33,654)	1,900,149	1.010
2006	17,557,341	1,058,995	(4,002,177)	14,614,159	2,914,600	210,025	(51,992)	3,072,633	1.009
2007	20,672,126	1,140,891	(5,417,388)	16,395,629	4,145,700	410,625	(93,261)	4,463,064	1.009
2008	23,618,776	1,291,972	(6,960,666)	17,950,082	5,509,441	553,124	(138,490)	5,924,075	1.007

Notes:
In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Assessed valuations are based on 100 percent of estimated actual value.

NA - not available

Source: Riverside County Auditor-Controller

Table 8
City of Riverside
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

	City Direct Rates			Overlapping Rates			
Fiscal Year	**Basic Rate**	**General Obligation Debt Service**	**Total Direct Rate**	**Alvord Unified School District**	**Jurupa Unified School District**	**Riverside Unified School District**	**Moreno Valley Unified School District**
1999	1.00	-	1.000	0.095	0.000	-	-
2000	1.00	-	1.000	0.116	-	-	-
2001	1.00	-	1.000	0.134	-	-	-
2002	1.00	-	1.000	0.128	-	-	-
2003	1.00	-	1.000	0.116	0.060	0.050	-
2004	1.00	-	1.000	0.076	0.060	0.050	-
2005	1.00	0.010	1.010	0.075	0.060	0.040	0.034
2006	1.00	0.009	1.009	0.073	0.060	0.041	0.031
2007	1.00	0.008	1.008	0.058	0.029	0.035	0.023
2008	1.00	0.006	1.006	0.053	0.029	0.035	0.031

Notes:
In 1978, California voters passed Propostion 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of the various intergovernmental overlapping debt.

Source: Riverside County, Auditor-Controller's Office

Table 9
City of Riverside
Principal Property Taxpayers
June 30, 2008 **(in thousands)**

	2008			1999		
Property Owner	**Taxable Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**	**Taxable Assessed Value**	**Rank**	**Percentage of Total Taxable Assessed Value**
Bre Prop Inc	$ 151,859	1	0.6%			
La Sierra University	124,565	2	0.5%			
Riverside Healthcare System	109,056	3	0.5%	87,571	2	1.0%
MEF Realty	89,303	4	0.4%			
State Street Bank & Trust Co of Calif	83,391	5	0.3%	80,696	3	0.9%
Press Enterprise Co	82,248	6	0.3%	51,883	5	0.6%
Riverside Plaza	68,502	7	0.3%			
Canyon Springs Marketplace Corp	66,978	8	0.3%	35,995	8	0.4%
Canyon Crossing I	60,997	9	0.3%			
Rohr Inc	60,690	10	0.3%	65,652	4	0.7%
Ohio Teacher Retirement				135,226	1	1.5%
Metal Container Corp				38,491	6	0.4%
Wal Mart Stores				37,322	7	0.4%
RREEF America Reit Corp				32,653	9	0.3%
Nordstrom Inc				30,746	10	0.3%
Totals	$ 897,589		3.8%	596,235		6.5%

Notes:
The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Source: California Municipal Statistics, Inc.

Table 10
City of Riverside
Property Tax Levies and Collections
Last Ten Fiscal Years **(in thousands)**

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections for Fiscal Year	Total Fiscal Year Collections	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	23,113	21,888	94.7%	537	$ 22,425	97.0%
2000	24,241	23,431	96.7%	626	24,057	99.2%
2001	25,205	24,436	96.9%	370	24,806	98.4%
2002	25,237	23,098	91.5%	513	23,611	93.6%
2003	26,050	25,186	96.7%	603	25,789	99.0%
2004	31,954	31,092	97.3%	966	32,058	100.3%
2005	37,144	36,004	96.9%	706	36,710	98.8%
2006	53,680	51,503	95.9%	746	52,249	97.3%
2007	74,305	66,751	89.8%	934	67,685	91.1%
2008	89,099	82,022	92.1%	1,562	83,584	93.8%

Notes:
The table includes the City of Riverside Redevelopment Agency. Total Tax collections include supplemental tax levies not included in the total tax levy column.

Source: Riverside County Auditor Controller's Office

Table 11
City of Riverside
Electricity Sold by Type of Customer,
Last Ten Fiscal Years **(in millions of kilowatt-hours)**

	Fiscal Year									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Type of Customer:										
Residential	575.0	594.0	610.0	600.0	618.0	707.0	675.0	696.0	748.0	734.0
Commercial	406.0	436.0	432.0	434.0	451.0	522.0	530.0	474.0	456.0	441.0
Industrial	619.0	651.0	654.0	629.0	658.0	687.0	707.0	810.0	924.0	960.0
Wholesale sales	151.0	419.0	600.0	541.0	378.0	354.0	470.0	287.0	295.0	357.0
Other	46.0	53.0	54.0	53.0	49.0	52.0	50.0	58.0	39.0	34.0
Total	1,797.0	2,153.0	2,350.0	2,257.0	2,154.0	2,322.0	2,432.0	2,325.0	2,462.0	2,526.0
Total direct rate										
Monthly Base Rate [1]	3.06	3.06	3.06	3.06	3.18	3.28	3.36	3.36	5.00	11.35
Rate per 250 KWH [1]	20.18	20.18	20.18	20.18	20.98	21.65	22.20	22.20	22.20	25.88

[1] Rates are based on a monthly base rate plus energy charge for the first 250 KWH.
The Utility charges an excess use rate over 250 KWH.

Source: Riverside Public Utilities, Finance Services

Table 12
City of Riverside
Electricity Rates
Last Ten Fiscal Years
(Average Rate in Dollars per Kilowatt-Hour)

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Other
1999	0.10744	0.10632	0.08163	0.11319
2000	0.10767	0.10640	0.08081	0.11090
2001	0.10798	0.10637	0.07925	0.11112
2002	0.10768	0.10615	0.07844	0.11206
2003	0.10990	0.10779	0.07901	0.11869
2004	0.11439	0.10936	0.08167	0.12271
2005	0.11813	0.11321	0.08369	0.12768
2006	0.12222	0.11330	0.08798	0.12373
2007	0.12621	0.12164	0.09059	0.14493
2008	0.13613	0.13781	0.09658	0.16099

NOTE:
Rates are based on a monthly base rate plus an energy charge for the first 250 KWH. The Utility charges an excess use rate over 250 KWH.

Source: Riverside Public Utilities, Finance Services

Table 13
City of Riverside
Top 10 Electricity Customers
Current Year and Nine Years Ago

	2008		1999	
Electricity Customer	**Electricity Charges**	**Percent of Total Electric Revenues**	**Electricity Charges**	**Percent of Total Electric Revenues**
County Agency	$ 7,328,364	2.83%	N/A	N/A
State University	6,903,554	2.67%	N/A	N/A
Local Government	6,081,471	2.35%	N/A	N/A
Local School District	4,299,987	1.66%	N/A	N/A
Grocery Store	2,945,052	1.14%	N/A	N/A
Corporation	2,346,808	0.91%	N/A	N/A
Shopping Mall	2,121,432	0.82%	N/A	N/A
Corporation	1,828,885	0.71%	N/A	N/A
Corporation	1,726,147	0.67%	N/A	N/A
Hospital	1,684,620	0.65%	N/A	N/A
	$ 37,266,320	14.40%	N/A	N/A

Retail Sales Per Financial Statements $ 258,871,586

N/A - not available

Source: Riverside Public Utilities, Finance Services

Table 14
City of Riverside
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years **(in thousands)**

	Governmental Activities							
Fiscal Year	General Obligation Bonds	Redevelopment Bonds	Revenue Bonds	Assessment Bonds	Pension Obligation Bonds	Certificates of Participation	Capital Leases	Notes Payable
1999	-	116,600	8,595	285	-	7,440	5,375	13,674
2000	-	115,605	6,795	245	-	6,050	4,719	12,998
2001	-	113,980	2,830	195	-	5,615	7,316	11,629
2002	-	111,880	525	135	-	5,150	6,430	11,096
2003	-	109,615	-	-	-	4,650	5,517	11,447
2004	20,285	131,590	-	-	89,540	58,706	8,938	11,057
2005	20,280	144,024	-	-	148,280	57,336	7,431	10,645
2006	19,858	140,195	-	-	146,470	55,571	6,008	10,215
2007	19,331	296,598	-	-	144,450	192,874	4,929	9,759
2008	18,774	292,244	-	-	142,170	200,273	9,391	9,040

	Business-Type Activities					
Fiscal Year	Revenue Bonds	Loans Payable	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
1999	321,058	7,956	428	481,411	13.43%	1.89
2000	310,424	7,956	409	465,201	12.96%	1.79
2001	299,244	7,315	653	448,777	12.01%	1.71
2002	355,621	6,966	571	498,374	13.70%	1.88
2003	342,559	11,524	498	485,810	12.54%	1.77
2004	440,970	11,066	439	772,591	18.68%	2.79
2005	419,581	10,459	392	818,428	19.02%	2.87
2006	509,577	9,841	317	898,052	14.29%	3.12
2007	482,929	9,211	253	1,160,334	17.37%	3.92
2008	720,749	8,569	211	1,401,421	20.97%	4.74

Source: City of Riverside Notes to Financial Statements and Statistical Table 19.

Table 15
City of Riverside
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years **(in thousands, except per capita amount)**

Fiscal Year	General Obligation Bonds	Pension Bonds	Certificates of Participation	Tax Allocation Bonds [2]	Total	Percent of Assessed Value [1]	Per Capita
1999	-	-	-	116,600	116,600	1.31%	483
2000	-	-	-	115,605	115,605	1.24%	478
2001	-	-	-	113,980	113,980	1.15%	472
2002	-	-	-	111,880	111,880	1.04%	463
2003	-	-	-	109,615	109,615	0.94%	454
2004	20,285	89,540	58,706	131,590	300,121	2.40%	1,242
2005	20,280	148,280	57,336	144,024	369,920	2.69%	1,531
2006	19,858	146,470	55,571	140,195	362,094	2.48%	1,499
2007	19,331	144,450	192,874	290,412	647,067	3.95%	2,188
2008	18,774	142,170	200,273	292,244	653,461	3.64%	2,201

Notes:
General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (which, the City has none.)

[1] Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

[2] Amount presented is net of restricted resources held for the repayment of outstanding debt principal.

Source: City of Riverside Notes to Financial Statements and Reserve Cash Reconciliation maintained by City Finance Division.

Table 16
City of Riverside
Direct and Overlapping Debt
As of June 30, 2008

City Assessed Valuation:	$ 24,091,825,141
Redevelopment Agency Incremental Valuation:	4,463,063,852
Adjusted Assessed Valuation:	$ 19,628,761,289

	Percentage Applicable [3]	Outstanding Debt 06/30/2008	Estimated Share of Overlapping Debt
Direct and Overlapping Tax and Assessment Debt:			
Metropolitan Water District	1.023%	$ 3,347,410	$ 34,244
Riverside City Community College District	27.014%	40,141,753	10,843,893
Alvord Unified School District	61.632%	27,833,011	17,154,041
Riverside Unified School District	82.813%	94,738,072	78,455,440
Corona-Norco Unified School District	0.002%	2,496	0
Jurupa Unified School District	0.800%	4,429	35
Moreno Valley Unified School District	4.002%	1,969,525	78,820
City of Riverside	100%	18,530,000	18,530,000
Alvord Unified School District Community District No.2006-1	69%	6,127,327	4,208,922
Riverside Unified School District Community Facilities Districts	96.650-100%	90,661,425	87,624,267
City of Riverside Community Facilities Districts	100%	46,570,000	46,570,000
City of Riverside 1915 Act Bonds	100%	39,210,000	39,210,000
Total Direct and Overlapping Tax and Assessment Debt:		$ 369,135,448	$ 302,709,663

(continued)

Table 16
City of Riverside
Direct and Overlapping Debt
As of June 30, 2008

Direct and Overlapping General Fund Debt:				
Riverside County General Fund Obligations	10.449%	$ 74,568,794	$ 7,791,693	
Riverside County Pension Obligations	10.449%	40,541,598	4,236,192	
Riverside County Board of Education Certificates of Participation	10.449%	969,145	101,266	
Alvord Unified School District Certificates of Participation	61.632%	14,218,502	8,763,147	
Corona-Norco Unified School District Certificates of Participation	0.002%	2,098	0	
Jurupa Unified School District Certificates of Participation	0.800%	613	5	
Moreno Valley Unified School District Certificates of Participation	4.002%	981,090	39,263	
Riverside Unified School District General Fund Obligations	82.813%	19,560,431	16,198,580	
City of Riverside General Fund Obligations	100%	190,235,000	190,235,000	**(1)**
City of Riverside Pension Obligations	100%	144,450,000	144,450,000	
Total Gross Direct and Overlapping General Fund Debt:		485,527,271	371,815,146	
Less: Riverside County Self-Supporting Obligations		1,886,232	2,363,665	
Total Net Direct and Overlapping General Fund Debt:		$ 483,641,039	$ 369,451,481	
Net Direct and Overlapping Debt:			$ 672,161,144	
Gross Direct and Overlapping Debt:			$ 674,524,809	**(2)**

(1) Excludes certificates of participation to be sold
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
(3) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

Overlapping governments are those that coincide at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.
Note: July 1, 2006 is the latest information available from the California Municipal Statistics, Inc. for this schedule.

Table 17
City of Riverside
Legal Debt Margin Information
Last Ten Fiscal Years **(in thousands)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assessed valuation	$8,915,687	$9,290,838	$9,938,549	$10,773,387	$11,644,984	$12,508,013	$13,740,349	$14,614,159	$16,395,629	$17,950,082
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,228,922	2,322,710	2,484,637	2,693,347	2,911,246	3,127,003	3,435,087	3,653,540	4,098,907	4,487,521
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	334,338	348,406	372,696	404,002	436,687	469,050	515,263	548,031	614,836	673,128
General obligation bonds	-	-	-	-	-	20,285	20,280	19,858	19,331	18,774
Pension obligation bonds	-	-	-	-	-	89,540	148,280	146,470	144,450	142,170
Total net debt applicable to limit:	-	-	-	-	-	109,825	168,560	166,328	163,781	160,944
Legal debt margin	334,338	348,406	372,696	404,002	436,687	359,225	346,703	381,703	451,055	512,184
Total net debt applicable to the limit as a percentage of debt limit	0.0%	0.0%	0.0%	0.0%	0.0%	23.4%	32.7%	30.4%	26.6%	23.9%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect a the time that the legal debt margin was enacted by the State of California for local governments located within the State.

Source: City of Riverside, Statistical Table 6 and Notes to Financial Statements.

Table 18
City of Riverside
Pledged-Revenue Coverage
Governmental Activity Debt
Last Ten Fiscal Years **(in thousands)**

	Tax Allocation Bonds				
		Debt Service			
Fiscal Year	**Tax Increment**	**Principal**		**Interest**	**Coverage**
1999	11,832.00	2,466.00		7,970.00	1.13
2000	12,829.00	1,894.00		7,194.00	1.41
2001	13,279.00	3,099.00		7,363.00	1.27
2002	14,859.00	2,745.00		7,252.00	1.49
2003	16,180.00	2,694.00		7,371.00	1.61
2004	17,410.00	1,873.00	(1)	9,599.00	1.52
2005	21,242.00	4,507.00	(1)	6,307.00	1.96
2006	35,268.00	4,390.00		7,236.00	3.03
2007	49,772.00	4,727.00		7,663.00	4.02
2008	64,447.00	5,117.00		13,848.00	3.40

Source: Annual Financial Report, Redevelopment Agency

(1) Restatement of debt service principal payments to reflect proper reporting of payment to refunded bond agent during the fiscal year.

Table 19
City of Riverside
Pledged-Revenue Coverage
Business Type Activity Debt
Last Ten Fiscal Years **(in thousands)**

	Electric Revenue Bonds						Water Revenue Bonds					
				Debt Service						Debt Service		
Fiscal Year	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Principal	Interest	Coverage	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Principal	Interest	Coverage
1999	180,171	145,402	34,769	6,555	10,701	2.01	30,739	15,659	15,080	2,780	2,667	2.77
2000	197,842	150,175	47,667	6,610	10,669	2.76	33,327	16,397	16,930	2,755	2,591	3.17
2001	271,828	227,081	44,747	6,930	10,350	2.59	36,259	18,643	17,616	2,955	2,364	3.31
2002	229,529	190,426	39,103	7,385	9,841	2.27	43,215	19,244	23,971	3,215	2,941	3.89
2003	211,553	157,450	54,103	7,840	10,966	2.88	36,837	19,928	16,909	3,895	2,720	2.56
2004	239,842	168,162	71,680	10,780	10,183	3.42	47,093	23,767	23,326	4,010	2,622	3.52
2005	271,987	169,064	102,923	14,555	12,143	3.86	45,626	26,583	19,043	4,045	2,591	2.87
2006	275,478	191,758	83,720	15,015	14,545	2.83	51,313	27,385	23,928	3,875	3,388	3.29
2007	301,414	192,450	108,964	18,815	13,549	3.37	70,736	29,856	40,880	4,300	3,113	5.51
2008	378,852	228,809	150,043	19,460	16,118	4.22	62,461	34,363	28,098	64,655	3,906	0.41

	Sewer Revenue Bonds					
				Debt Service		
Fiscal Year	Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Principal	Interest	Coverage
1999	21,322	12,117	9,205	2,200	2,662	1.89
2000	23,851	12,300	11,551	2,330	2,557	2.36
2001	25,056	12,451	12,605	2,435	2,729	2.44
2002	23,872	12,387	11,485	2,550	2,423	2.31
2003	24,297	13,433	10,864	2,665	2,165	2.25
2004	24,176	17,006	7,170	2,800	2,341	1.39
2005	25,444	19,163	6,281	2,970	2,061	1.25
2006	23,482	20,393	3,089	3,120	1,691	0.64
2007	26,534	22,806	3,728	3,285	1,469	0.78
2008	25,088	24,201	887	3,515	1,456	0.18

Source: City of Riverside, Propriety Fund Statement of Revenues, Expenses and Changes in Net Fund Balance.

Table 20
City of Riverside
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (amounts expressed in thousands)	Per Capita Personal Income	Unemployment Rate	
1999	254,262	3,583,314,366	14,093	6.2	(1)
2000	259,738	3,590,877,850	13,825	5.3	
2001	265,684	3,783,605,844	14,241	5.2	(1)
2002	269,402	3,687,305,174	13,687	6.5	(1)
2003	274,100	3,874,951,700	14,137	6.8	
2004	277,030	4,135,503,840	14,928	6.2	
2005	285,537	4,303,042,590	15,070	5.9	(1)
2006	287,820	6,275,627,280	21,804	5.4	(1)
2007	291,398	6,583,846,412	22,594	6.5	(1)
2008	296,842	6,725,549,194	22,657	8.3	

Source: City of Riverside, Development Department

(1) Note: Prior year population figures restated due to a change in data source.

Table 21
City of Riverside
Principal Employers
Current Year and Nine Years Ago

	2008			1999		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment**	**Employees**	**Rank**	**Percentage of Total City Employment**
University of California	7,127	1	4.6%	N/A	N/A	N/A
Riverside Unified School District	4,200	2	2.7%	N/A	N/A	N/A
Kaiser Permanente	3,900	3	2.5%	N/A	N/A	N/A
City of Riverside	2,749	4	1.8%	N/A	N/A	N/A
Alvord Unified School District	2,000	5	1.3%	N/A	N/A	N/A
Riverside Community College	2,000	6	1.3%	N/A	N/A	N/A
Fleetwood Motorhome Svc	1,963	7	1.3%	N/A	N/A	N/A
Riverside Community Hospital	1,600	8	1.0%	N/A	N/A	N/A
Parkview Community Hospital	915	9	0.6%	N/A	N/A	N/A
Riverside Medical Clinic	750	10	0.5%	N/A	N/A	N/A
Total	27,204		17.5%	N/A		N/A

N/A - not available

Source: City of Riverside, Development Department

Table 22
City of Riverside
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Function										
General government	273.50	276.22	288.26	313.29	314.39	318.36	331.88	377.15	412.22	436.35
Public safety										
Police	530.70	534.95	544.65	560.65	569.65	567.83	568.83	589.33	618.33	637.33
Fire										
Firefighters and officers	187.64	188.64	218.64	217.65	218.65	219.65	221.11	221.73	251.73	254.21
Highways and streets	266.10	267.10	269.10	266.10	280.10	285.10	281.35	262.35	286.35	318.35
Sanitation	44.49	44.49	44.49	44.49	44.49	48.49	48.49	59.49	60.29	64.29
Culture and recreation	249.28	256.52	265.08	282.93	301.97	302.92	300.92	311.45	324.26	339.52
Airport	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.00	7.00	7.00
Water	119.00	121.00	122.00	123.00	123.00	130.00	130.00	133.00	142.00	167.00
Electric	273.60	276.60	280.60	282.60	291.60	295.60	305.60	337.60	351.35	404.60
Total	1,949.31	1,970.52	2,037.82	2,096.71	2,149.85	2,173.95	2,194.18	2,298.10	2,453.53	2,628.65

Source: City of Riverside, Budget Office

Table 23
City of Riverside
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year									
Function/Program	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Police										
Arrests	11,034	8,756	9,638	10,047	10,541	11,951	11,280	10,093	9,827	9,367
Fire										
Number of calls answered	20,920	22,824	23,968	24,115	24,886	25,876	26,505	26,696	27,458	27,429
Inspections	N/A	N/A	N/A	N/A	14,229	16,306	17,028	19,261	7,261	10,812 (1)
Public works:										
Street resurfacing (miles)	N/A	N/A	109.09	104.04	67.39	62.37	102.45	51.26	73.40	26.27
Parks and recreation										
Number of recreation classes	14,492	14,492	14,492	14,619	14,787	15,135	15,195	16,272	19,079	22,146
Number of facility rentals	26,327	26,327	26,327	26,533	26,854	27,014	27,074	27,483	32,980	35,076
Water										
Number of accounts	58,383	58,538	58,905	59,176	59,890	61,668	62,492	62,985	63,431	63,494
Annual consumption (ccf)	26,777,544	29,285,011	28,044,248	29,419,027	28,232,000	30,407,000	27,697,000	28,682,000	32,110,208	30,583,266
Electric										
Number of accounts	92,213	93,147	95,205	96,503	98,459	100,766	103,463	104,294	105,226	106,015
Annual consumption (kwh)	1,646,453,088	1,734,156,468	1,749,842,407	1,716,000,000	1,776,000,000	1,968,000,000	1,962,000,000	2,038,000,000	2,431,000	2,526,000
Sewer:										
New connections	N/A	N/A	4,073	5,267	5,825	7,034	9,621	16,717	15,423	16,412
Average daily sewage treatment (millions of gallons)	32.33	30.92	32.59	34.75	33.15	35.24	38.07	35.91	32.50	32.10

[1] Inspections were not tracked prior to 2003

N/A - not available

Source: City of Riverside, various departments

Table 24
City of Riverside
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005 (1)**	**2006**	**2007**	**2008**
Function										
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	3	3	3
Substations	9	9	9	9	7	11	7	5	4	4
Helicopters	4	4	4	4	4	4	4	4	4	4
Fire										
Stations	13	13	13	13	13	13	13	13	14	14
Active apparatus	25	26	26	26	30	30	30	29	30	30
Reserve apparatus	6	4	4	5	6	5	5	6	6	6
Training facilities	1	1	1	1	1	1	1	1	1	1
Highways and streets										
Streets (miles)	804.04	811.74	819.18	816.34	1,100.00	829.00	836.00	845.35	852.04	864.68
Streetlights	27,406	27,622	27,841	28,058	28,246	28,401	28,581	28,847	29,028	29,312
Traffic signals	283	287	299	320	320	322	322	353	358	363
Culture and recreation										
Parks acreage	2,664.60	2,664.60	2,664.60	2,665.00	2,534.00	2,500.00	2,534.00	2,534.00	2,800.00	2,939.22
Community centers	10	10	10	10	10	10	11	11	11	11
Playgrounds	31	32	32	35	30	26	26	27	38	38
Swimming pools	9	9	9	9	6	6	7	6	7	8
Softball & baseball diamonds	36	36	36	36	34	34	35	33	44	44
Library branches	5	5	5	5	7	5	5	6	6	5
Museum exhibit-fixed	51	51	51	51	52	11	8	7	13	8
Museum exhibit-special	7	7	7	11	13	4	1	-	2	5
Museum reference library volumes	2,575	2,575	2,575	2,600	2,750	3,000	5,224	5,500	5,600	4,500
Water										
Fire hydrants	6,390	6,504	6,566	6,715	6,763	6,763	6,926	7,127	7,187	7,381
Sewer										
Sanitary sewers (miles)	1,100	1,100	1,100	800	750	755	755	810	840	820
Electric										
Miles of overhead distribution system	546.0	543.9	554.9	539.1	593.3	539.0	531.0	527.0	528.0	523.5
Miles of underground system	515.1	523.5	540.1	575.8	538.2	608.0	622.0	663.0	704.0	741.6

Source: City of Riverside, various departments

(1) During the 2004/05 fiscal year, four police substations closed.

Table 25
City of Riverside
Cash Debt Reserves
Tax Allocation Bonds
Last Ten Fiscal Years **(in thousands)**

Tax Allocation Bond	Minimun Required Reserve	Cash Debt Reserve 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1988 Issue Series A Revenue Bonds	492	-	-	-	-	-	-	-	-	-	-
1991 Issue $13,285,000 Series A	28	79	75	76	76	74	29	29	29	29	28
1994 Issue PFA Multiple Project Areas A/B	900	900	911	927	902	904	906	-	-	-	-
1994 Issue RDA CA Towers Series A	2,481	2,699	2,699	2,699	2,411	2,411	-	-	-	-	-
1994 Issue RDA CA Towers Series B	431	465	465	417	431	431	-	-	-	-	-
1999 Issue $17,025,000 Series A Univ Corr	1,257	1,257	1,259	1,220	1,256	1,257	1,257	1,257	1,257	1,257	1,257
1999 Issue $6,055,000 Series B Univ Corr	442	442	442	442	443	442	442	442	442	442	442
1999 Issue $20,395,000 Casa Blanca	343	344	340	340	341	344	344	344	344	348	344
2004 Issue A Arlington $4,550,000	301	-	-	-	-	-	299	305	309	309	310
2004 Issue B Arlington $2,975,000	197	-	-	-	-	-	195	199	198	193	198
2003 Issue A Cal Towers $26,255,000	2,341	-	-	-	-	-	2,342	2,342	2,342	2,342	2,342
2003 Issue B Cal Towers $4,810,000	371	-	-	-	-	-	371	371	371	371	371
2004 Issue A Multiple Project $24,115,000	1,753	-	-	-	-	-	-	1,753	1,753	1,753	1,753
2004 ERAF loan $1,465,000	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas A $8,340,000	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas B $14,850,000	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas C $9,205,000	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas D $43,875,000	-	-	-	-	-	-	-	-	-	-	-
	$ 11,337	$ 6,186	$ 6,191	$ 6,121	$ 5,860	$ 5,863	$ 6,185	$ 7,042	$ 7,045	$ 7,044	$ 7,045

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

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

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

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

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

"Bond" or "Bonds" means the City of Riverside Sewer Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution. "Bonds" include any obligations of the City issued under the Resolution, including bonds, notes or other evidences of indebtedness payable from Net Operating Revenues under the terms of 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, (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); and (3) with respect to the State Loans or Parity Debt, the unpaid principal balance thereof.

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

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

"Build America Bonds" means any Bonds or Parity Debt issued under a Supplemental Resolution as a Build America Bond under the American Recovery and Reinvestment Act of 2009 and as such act may be amended from time to time and any Bond or Parity Debt issued under any other similar act pursuant to which the issuer of taxable bonds receives a cash subsidy or related payment from the U.S. Treasury (defined in the Resolution as the "Treasury Credit").

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

"Capacity Charges" means connecting capacity, capital or other similar fees and charges imposed or caused to be imposed by the City on a development project of the purpose of defraying all or a portion of the cost of improving or expanding the Sewer System in order to accommodate such development project.

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

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

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

"City" means the City of Riverside, California.

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

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

"Code" means the Internal Revenue Code of 1986.

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

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of any Series of Bonds, including but not limited to initial fees and expenses of any Credit Facility, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiscal Agent or paying agent, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the delivery of such Series of Bonds.

"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 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 such Series of Bonds and/or the purchase price of such Series of or portion of such 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 for such purposes. Current Interest Bonds include any Build America Bonds that pay interest in the manner set forth in the preceding sentence.

"Designated Investments" means, with respect to the 2009A Bonds and the 2009B Bonds, 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 any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over collateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

(c) forward delivery or forward purchase agreements with underlying securities of the types outlined in the California Government Code Section 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) Unsecured certificates of deposit, time deposits and bankers' acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated on the date of purchase "A-1+" or better by S&P and "P-1" by Moody's Investors Service and or certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase A-1 or better by S&P, Moody's Investors Service and Fitch; and

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

"Excluded Principal Payment" means each payment of principal of Bonds or Parity Debt which the City designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Debt) to be an Excluded Principal Payment. No such determination shall affect the security for such Bonds or Parity Debt or the obligation of the City to pay such payments from Net Operating Revenues or from the applicable reserve account, if any. With respect to any Bonds or Parity Debt for which the City designates Excluded Principal Payments and which have a final maturity date less than the amortization term designated by the City (which amortization term so designated by the City shall in any event not exceed 30 years) in the Assumed Debt Service for such Bonds or Parity Debt, the City shall designate such Bonds or Parity Debt as having Excluded Principal Payments only if the City has covenanted to refund such Bonds or Parity Debt on or before the maturity date thereof and only if such Bonds or Parity Debt shall have a final maturity date or remarketing date not to exceed 24 months from the date of issuance.

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

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

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

"Fitch" means Fitch Ratings Group, and its successors and assigns.

"Generally Accepted Accounting Principles" means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successors and the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such procedures, and includes, as

applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

"Government Obligations" means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, or (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America;

(ii) advance refunded tax-exempt obligations secured by the obligations specified in clause (i) which tax-exempt obligations are rated "Aaa" by Fitch and "AAA" by S&P as a result of such obligations being secured by said obligations;

(iii) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank; provided that such bonds, debentures or notes shall be the senior obligations of such agency (including participation certificates); and

(iv) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations shall not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

"Gross Operating Revenues" means, for any period, all income and revenue received by the City during such period from the operation or ownership of the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues shall include any fund balance held in the Sewer Reserve Fund on the date of adoption of the Resolution and thereafter any fund balance held from time to time in the Sewer Revenue Fund.. Gross Operating Revenues also shall include any amounts on deposit in the Rate Stabilization Fund. Gross Operating Revenues shall not include any Treasury Credit or Capacity Charges.

"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" shall mean Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department, and 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, or any other such services 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 amended, and the Resolution.

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

"Maximum Annual Debt Service" shall mean, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds, Parity Debt and the State Loans in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

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

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

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

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

(e) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule

established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date; and

(f) Interest deemed payable on any Build America Bond shall be based on the net economic effect on the City expected to be produced by the receipt by the City of the Treasury Credit equal to 35% (or such other percentage as may be then applicable) of the interest payable on the Build America Bond so long as such subsidy payments are pledged to the repayment of the Build America Bond under the applicable Supplemental Resolution.

"Net Operating Revenues" means the Gross Operating Revenues, less Operating and Maintenance Expenses.

"Operating and Maintenance Expenses" means all reasonable and necessary costs paid or incurred by the City for maintaining and operating the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Sewer System in good repair and working order, all administrative costs of the City that are charged directly or apportioned to the operation of the Sewer System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Resolution or of any Supplemental Resolution, such as compensation, reimbursement and indemnification of the Fiscal Agent and fees and expenses of independent certified public accountants and independent engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel.

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

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

"Parity Debt" means (1) any indebtedness or other obligation of the City's Sewer System for borrowed money, or (2) any obligations of the City for deferred purchase price, in each case having an equal lien and charge upon the Net Operating Revenues and therefore

payable on a parity with the Bonds and the State Loans (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.

"Rate Stabilization Fund" means the fund by that name established pursuant to the Resolution.

"Rating Agencies" means either or both of Standard & Poor's and Fitch, 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 Sewer 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, or as a portion of a Series of Bonds, 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 Sewer Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Sewer Revenue Fund.

"Resolution" or "the Resolution" means Resolution No. 21860 adopted by the City Council on July 14, 2009, as amended, modified or supplemented from time to time by any Supplemental Resolution.

"Securities Depositories" means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; 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.

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

"Sewer System" means the whole and each and every part of the sewer public utility owned, controlled and updated by the City, including, without limitation, wastewater collection, transmission, treatment and disposal facilities of the City, all real and personal property, or any interest therein, constituting a part thereof and all additions, improvements, betterments and extensions thereto, whether existing as of the date of the Resolution or subsequently acquired, constructed or installed.

"Standard & Poor's" means Standard & Poor's Ratings Services, a Division of the McGraw-Hill Corporation, Inc., and its successors and assigns, except that if such Division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City (other than Moody's).

"State" means the State of California.

"State Loans" means (i) State Revolving Fund Loan Program Contract Between the State Water Resources Control Board and the City (Contract No. 6-814-550-0, Loan No. 5-06-4331-130), dated January 2, 1997 and (ii) State Revolving Fund Local Match Loan Program Contract Between the State Water Resources Control Board and the City (Contract No. 7-831-550-0, Local Match Loan No. C-06-4331-120), dated August 28, 1997.

"Subordinate Obligations" means any indebtedness or other obligation of the City, so designated as Subordinate Obligations on the date issued or incurred, in each case having a lien on Net Operating Revenues and payable therefrom on a subordinate basis to the State Loans, the Bonds and any Parity Debt.

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

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

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

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

"Treasury Credit" means, with respect to Build America Bonds, the amounts which are payable by the federal government under Section 6431 of the Internal Revenue Code of 1986, which the City has elected to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986.

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

Revenues; Funds and Accounts

Pledge of Net Operating Revenues, Capacity Charges and Treasury Credits. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured on a parity with the State Loans and Parity Debt by a lien upon the Net Operating Revenues, Capacity Charges and Treasury Credits and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City pledges, places a charge upon and assigns all Net Operating Revenues, Capacity Charges and Treasury Credits to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt on a parity with the State Loans 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, Capacity Charges and Treasury Credits so pledged constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt on a parity with the State Loans. There are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Out of Gross Operating Revenues there shall be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, together with Treasury Credits and Capacity Charges, shall be applied to the payment of the principal of (including any premium thereon) and interest on the State Loans, the Bonds and all Parity Debt, together with any sinking fund payments of the State Loans, the Bonds and Parity Debt and any reserve fund and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be retained in the Sewer Revenue Fund as a fund balance or surplus and may be used for any lawful purpose. The pledge of Net Operating Revenues, Capacity Charges and Treasury Credits made in the Resolution shall be irrevocable until there are no longer Bonds Outstanding.

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

1. Sewer Revenue Bonds, Bond Service Account (the "Bond Service Account"), in which there are established the following subaccounts:

(a) Sewer Revenue Bonds, Principal Account (the "Principal Account");

(b) Sewer Revenue Bonds, Interest Account (the "Interest Account"); and

2. Sewer Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account").

There is also established and there shall be maintained by the Treasurer in accordance with the terms of the Resolution the Sewer Rate Stabilization Fund (the "Rate Stabilization Fund").

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

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

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

Bond Service Account. Upon delivery of the Bonds to the purchasers thereof, the amount, if any, specified pursuant to the Resolution to be applied to accrued interest or capitalized interest shall be placed in the Bond Service Account, all as further provided in the applicable Supplemental Resolution.

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

(A) *Interest Account.* As soon as practicable in each month an amount equal to (a) with respect to the State Loans, Parity Debt and the Outstanding Current Interest Bonds of each Series (except for Bonds or Parity Debt constituting Variable Rate Indebtedness), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for the State Loans, Parity Debt and 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

the State Loans, Parity Debt and all such Outstanding Current Interest Bonds of such Series (except for Bonds and Parity Debt constituting Variable Rate Indebtedness) is on deposit in such account, and (b) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable discretion, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Interest Account for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the interest payment date falling within the next six months upon the State Loans, Parity Debt and all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates). If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service account to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

(B) *Principal Account.* As soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series and Parity Debt having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one twelfth of the aggregate yearly amount of any Bond Obligation become due and payable on the Outstanding Bonds of all Series, the State Contracts and Parity Debt having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series or Parity Debt shall be refunded or prepaid on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid; and provided further that no deposit to the Principal Account shall be required to be made prior to the payment due at the maturity date thereof with respect to any outstanding Bond or Parity Debt for which the City has designated such payment as an Excluded Principal Payment under the Resolution. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking

Account Payment for such Series and maturity of Term Bonds, than as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such funds moneys sufficient to pay (i) 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 and (ii) for the Bond Obligations with respect to Parity Debt not having semi-annual or annual maturity dates, the amounts, if any, required by the terms of any Parity Debt documents to then be on deposit in the Principal Account. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

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

Excess Earnings and Certain Other Accounts. Following the transfers required above, the Treasurer shall deposit in any excess earnings account or rebate account established pursuant to a Supplemental Resolution for a Series of Bonds or Parity Debt such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

Sewer Revenue Fund Remaining Balance. On the first day of each calendar month, after the transfers to the aforementioned accounts required above or any Supplemental Resolution and all other covenants of the City contained in the Resolution have been duly performed, any moneys remaining in the Sewer Revenue Fund shall continue to be held in the Sewer Revenue Fund as a fund balance or surplus and may be: (i) invested in any investments that are consistent with the City's then effective investment policy, or (ii) used for the redemption or prepayment of any Outstanding Bonds or Parity Debt which are subject to call and redemption or prepayment prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, (iii) deposited to the Rate Stabilization Fund, (iv) pledged or used by the City to make Subordinate Payments with respect to any Subordinate Obligations, or (v) used by the City in any lawful manner.

Application of Funds and Accounts.

(A) Bond Service Account.

(i) *Interest Account.* Amounts in the Interest Account shall be used and withdrawn by the Treasurer solely for the purpose of paying interest on the State Loans, Parity Debt and Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity). If proceeds of Bonds of a Series are deposited to the Interest Account to pay capitalized interest on the Bonds of such Series, the Supplemental Resolution shall so specify.

(ii) *Principal Account.*

(a) All amounts in the Principal Account shall be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the State Loans, Parity Debt and Bonds when due and payable at maturity or upon redemption.

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

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

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

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

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

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

Rate Stabilization Fund. The City may make an initial deposit to the Rate Stabilization Fund in an amount as may be set forth in a Supplemental Resolution. Thereafter, there shall be deposited in the Rate Stabilization Fund from time to time from available moneys in the Sewer Revenue Fund such amount, that when added to operating revenues, as shown on the books of the City, plus Capacity Charges and interest earnings on the fund balance in the Sewer Revenue Fund, as shown on the books of the City, less Operating and Maintenance Expenses, is as least equal to 1.25 times debt service on the State Contracts, Bonds and Parity Debt (the "Rate Stabilization Fund Coverage Test"). For purposes of the Rate Stabilization Fund Coverage Test, debt service deemed payable on any Build America Bond shall be based on the net economic effect on the City expected to be produced by the City's receipt of the Treasury Credit. Moneys in the Rate Stabilization Fund in excess of the Rate Stabilization Fund Coverage Test shall be released and transferred from time to time to the Sewer Revenue Fund or any account therein as shall be determined by the City.

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

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

Unless otherwise provided in a Supplemental Resolution with respect to a fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Resolution into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be accounted for separately as required by the

Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited.

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

Covenants

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

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

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

Against Sale, Eminent Domain. The City covenants that the Sewer System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Sewer Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Sewer System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt or which otherwise would impair the rights of the Owners with respect to the Net Operating Revenues or the operation of the Sewer System. If any substantial part of the Sewer System is sold, the payment therefor shall, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Sewer System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

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

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

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

Records and Accounts. The City shall keep proper books of records and accounts of the Sewer System separate from all other records and accounts in which complete and correct entries shall be made of all transactions relating to the Sewer System. Said books shall at all times be

subject to the inspection of the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

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

Rates and Charges. The City shall prescribe, revise and collect such rates and charges for the services, facilities and sewer of the Sewer System which, together with other moneys available for such purpose and after making allowances for contingencies and error in estimates, shall provide Gross Operating Revenues at least sufficient to pay the following amounts in the order set forth:

(a) Operating and Maintenance Expenses;

(b) The interest on and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds), Parity Debt and the State Contracts, as they become due and payable; provided, (i) the Assumed Debt Service shall be used for purposes of this covenant in the case of Bonds or Parity Debt for which the City has designated Excluded Principal Payments; (ii) interest deemed payable on any Build America Bond shall be based on the net economic effect on the City expected to be produced by the receipt by the City of the Treasury Credits equal to 35% (or such other percentage as may be then applicable) of the interest payable on any Build America Bond so long as such Treasury Credits are pledged to the repayment of any Build America Bond under the applicable Supplemental Resolution; and (iii) interest with respect to any Bonds or Parity Debt that constitute Variable Rate Indebtedness shall be estimated by the Treasurer in his or reasonable discretion taking into account the terms of such Variable Rate Indebtedness.

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

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

The charges shall be so fixed that the Net Operating Revenues, plus any amounts on deposit in the Rate Stabilization Fund and Capacity Charges, shall be at least 1.25 times the amounts payable under (b) above and 1.0 times the amounts payable under (c) and (d) above.

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

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

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

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

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Sewer System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of Bonds and Parity Debt previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which,

during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements, commencing with the dates on which each addition, extension or improvement are to be in operation, all as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City.

(b) An allowance for earnings arising from any increase in the rates or charges made for the use of the Sewer 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 rates or charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, as shown by the certificate or opinion of an independent engineer or independent financial consultant or firm of independent consulting engineers or independent financial consultants employed by the City.

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

Fourth: Operating revenues, as shown on the books of the City, shall be in excess of Operating and Maintenance Expenses and the annual debt service (based on the net economic effect on the City expected to be produced by the City's receipt of the Treasury Credit) on State Contracts, Outstanding Bonds and Parity Debt, calculated on generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than three months before the issuance of or incurrence of such additional Bonds or Parity Debt.

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

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

(A) The City may appoint a Fiscal Agent, who may be the Treasurer, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent shall act as the agent of the City and shall perform such duties and only such duties as are

specifically set forth in the Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants shall be read into the Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent shall exercise such of the rights and powers vested in it by the Resolution or the Supplemental Resolution pursuant to which it was appointed.

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

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

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

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

trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

Amendments

Amendments Permitted

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

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

It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City Council of any Supplemental Resolution pursuant to this subsection (A), the Fiscal Agent for each Series of Bonds that may be

affected by any such modification or amendment shall mail a notice provided by the City, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

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

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

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

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

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

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

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

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

Defeasance

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, any or all of the 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 such Bonds, as and when the same become due and payable;

(b) by depositing with the Treasurer, the Fiscal Agent for such Bonds, 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 such Bonds; or

(c) by delivering such Bonds to the Fiscal Agent for such Bonds, for cancellation by it.

If the City shall pay all such Bonds and also pay or cause to be paid all other sums payable to any provider of a Credit Facility with respect to such Bonds under the Resolution by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer shall cause an accounting for such period or periods as the City may request to be prepared and filed with the City and shall cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

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

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

Deposit of Money or Securities with Treasurer. Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal

Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the funds and accounts established pursuant to the Resolution and shall be one or more of the following:

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

(b) non-callable Government Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds-to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

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

Events of Default; Remedies

Events of Default. Each of the following events shall be an Event of Default:

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

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

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

(d) Destruction or damage to any substantial part of the Sewer 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 Sewer System or any substantial part of the City's property, or to the taking possession by any such official of the Sewer System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

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

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

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

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

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsections (e), (f) or (g) above, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration the City shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged for such purpose by 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 consequence. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

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

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or

other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders under the Resolution or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence 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 shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

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

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Riverside (the "City") in connection with the City's issuance of $36,835,000 Sewer Revenue Bonds, Series 2009A and $204,075,000 Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds – Direct Payment to Issuer) (together, the "Bonds"). The Bonds are being issued pursuant to Resolution No. 21860 of the City adopted by the City Council on July 14, 2009, as amended and supplemented by Resolution No. 21861 relating to the 2009A Bonds and Resolution No. 21862 relating to the 2009B Bonds and both , adopted by the City Council on July 14, 2009 (together, the "Resolution"). The City covenants and agrees as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Dissemination Agent" shall mean any person or entity appointed by the City which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate. The initial Dissemination Agent shall be U.S. Bank National Association.

"EMMA" shall mean the Electronic Municipal Market Access system located at http://www.emma.msrb.org, which is the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule.

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

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

"MSRB" means the Municipal Securities Rule Making Board.

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

"Participating Underwriter" shall mean the original underwriter or underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean the MSRB, with filings to be made via EMMA, as set forth herein.

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

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days following the end of each Fiscal Year of the City (which Fiscal Year presently ends on June 30), commencing with the report for Fiscal Year 2008-09, provide to the Repository, in an electronic format accompanied by information as prescribed by the MSRB, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the City changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

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

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

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

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

2. Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year and a list of Parity Debt issued and then currently outstanding under the Resolution and their respective principal amounts.

3. Balances in the 2009A Reserve Account and 2009B Reserve Account as of the end of the immediately preceding Fiscal Year and a statement of the 2009A Bond Reserve Requirement and 2009B Bond Reserve Requirement, respectively.

4. Updated information comparable to the information in the table entitled "Revenues by Customer Category" as it appears in the Official Statement.

5. Updated information comparable to the information in the table entitled "Total Connection Fee Revenues" as it appears in the Official Statement.

6. Updated information comparable to the information in the table entitled "Historical Summary of Operations" as it appears in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The City 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 City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Bondholders.

4. optional, contingent or unscheduled Bond calls.

5. defeasances.

6. rating changes.

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

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

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

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

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

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repository, via EMMA, in an electronic format accompanied by identifying information as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

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

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

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. U.S. Bank National Association shall be the Initial Dissemination Agent.

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

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

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate.

A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if other than the City) shall have only such duties as are specifically set forth in this Disclosure Certificate, , and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Owners or Beneficial Owners of the Bonds, or any other party. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: August 20, 2009

CITY OF RIVERSIDE

By:_____

Treasurer

CONSENT OF DISSEMINATION AGENT

U.S. Bank National Association hereby consents and agrees to its appointment as initial Dissemination Agent pursuant to this Continuing Disclosure Certificate of the City of Riverside.

U.S. BANK NATIONAL ASSOCIATION,
As Dissemination Agent

By:_____
Title: Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: SEWER REVENUE BONDS, SERIES 2009A AND SEWER REVENUE BONDS, SERIES 2009B TAXABLE (BUILD AMERICA BONDS – DIRECT PAYMENT TO ISSUER)

Date of Issuance: August 20, 2009

NOTICE IS HEREBY GIVEN that the City of Riverside, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated August 20, 2009 relating to the Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated:

CITY OF RIVERSIDE, CALIFORNIA

By: _____

Title: _____

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINIONS

2009A BONDS

August 20, 2009

City of Riverside
Riverside, California

$36,835,000
City of Riverside, California
Sewer Revenue Bonds, Series 2009A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Riverside, California (the "City") in connection with the issuance by the City of its Water Revenue Bonds, Series 2009A (the "2009A Bonds") in the aggregate principal amount of $36,835,000. The 2009A Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009, (the "Master Resolution"), as amended and supplemented by Resolution No. 21861 adopted by the City Council on July 14, 2009. The Bonds are being issued contemporaneously with the issuance by the City of its Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds – Direct Payment to Issuer) (the "2009B Bonds" and, with the 2009A Bonds, the "Bonds"). The 2009B Bonds are being issued pursuant to the Ordinance and the Master Resolution, as amended and supplemented by Resolution No. 21862 adopted by the City Council on July 14, 2009. The Master Resolution, together with Resolution No. 21861 and Resolution No. 21862 are referred to herein as the "Bond Resolution".

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

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have

assumed compliance with all covenants and agreements contained in the Bond Resolution, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2009A Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Bond Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

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

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

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

3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues, Capacity Charges and Treasury Credits on a parity with certain State Loans and by certain amounts held under the Bond Resolution. The general fund of the City is not liable for the payment of the Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds or their interest.

4. The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met subsequent to the issuance and delivery of the 2009A Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Under applicable Treasury Regulations, for purposes of evaluation of the excludability of interest on the Bonds, noncompliance with any of the foregoing requirements in respect of any of the 2009A Bonds could cause the interest on the 2009A Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the 2009A Bonds. The City has undertaken certain covenants in the Bond Resolution necessary to maintain the exclusion of the interest on the 2009A Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the 2009A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenants, interest on the 2009A Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the 2009A Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2009A Bonds will

not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code on individuals and corporations.

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2009A Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2009A Bonds, or the interest thereon, if any action is taken with respect to the 2009A Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel other than ourselves.

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

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

Very truly yours,

2009B BONDS

August 20, 2009

City of Riverside
Riverside, California

$204,075,000
City of Riverside, California
Sewer Revenue Bonds, Series 2009B Taxable
(Build America Bonds – Direct Payment to Issuer)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Riverside, California (the "City") in connection with the issuance by the City of its Water Revenue Bonds, Series 2009B Taxable (Build America Bonds – Direct Payment to Issuer) (the "2009B Bonds") in the aggregate principal amount of $204,075,000. The 2009B Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009, (the "Master Resolution"), as amended and supplemented by Resolution No. 21862 adopted by the City Council on July 14, 2009. The Bonds are being issued contemporaneously with the issuance by the City of its Sewer Revenue Bonds, Series 2009A (the "2009A Bonds" and, with the 2009B Bonds, the "Bonds"). The 2009A Bonds are being issued pursuant to the Ordinance and the Master Resolution, as amended and supplemented by Resolution No. 21861 adopted by the City Council on July 14, 2009. The Master Resolution, together with Resolution No. 21861 and Resolution No. 21862 are referred to herein as the "Bond Resolution".

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

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Resolution, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the 2009B Bonds to no longer be treated as Qualified Bonds or be eligible for the Treasury Credit (as defined

herein). In addition, we call attention to the fact that the rights and obligations under the Bonds and the Bond Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

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

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

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

3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues, Capacity Charges and Treasury Credits on a parity with certain State Loans and by certain amounts held under the Bond Resolution. The general fund of the City is not liable for the payment of the Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds or their interest.

5. Interest on the 2009B Bonds is exempt from personal income taxes of the State of California.

6. Interest on the 2009B Bonds is not excluded from gross income for federal income tax purposes.

7. The 2009B Bonds constitute Qualified Bonds within the meaning of Section 54AA(g)(2) of the Internal Revenue Code of 1986 (the "Tax Code") and are eligible for the credit payable by the Federal government under Section 6431 of the Tax Code (the "Treasury Credit"). The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the 2009B Bonds in order for the 2009B Bonds to be treated as Qualified Bonds and continue to be eligible for the Treasury Credit. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Treasury Credit and may cause the 2009B Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination or retroactively to the date of issuance of the 2009B Bonds. We express no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Treasury Credit by the Federal government, nor do we express any opinion regarding other federal tax consequences arising with respect to the 2009B Bonds.

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2009B Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2009B Bonds, or the interest thereon, if any action is taken with respect

to the 2009B Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel other than ourselves.

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

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any U.S. federal tax advice contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

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

Very truly yours,

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the 2009 Bonds. The 2009 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2009 Bond certificate will be issued for each maturity of 2009 Bond, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2009 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2009 Bonds, except in the event that use of the book-entry system for the 2009 Bonds is discontinued.

To facilitate subsequent transfers, all 2009 Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 Bonds are credited, which may or may not be the

Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2009 Bonds may wish to ascertain that the nominee holding the 2009 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2009 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price (if any) and interest payments on the 2009 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009 Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2009 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2009 Bond certificates will be printed and delivered.

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

Discontinuation of the Book-Entry System

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Fiscal Agent, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2009 Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2009 Bonds as requested by DTC and will deliver new 2009 Bonds in fully registered form in authorized denominations in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2009 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. The interest on 2009 Bonds will be payable by check mailed to the respective owners thereof at their addresses as they appear on the books maintained by the Fiscal Agent.

Transfer and Exchange of 2009 Bonds

Any 2009 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 2009 Bond for cancellation, accompanied by deliver of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent. The 2009 Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2009 Bonds of other authorized denominations of the same Series, tenor, maturity and interest rate; provided that no transfer or exchange may occur during the 15 days before the date of selection of 2009 Bonds for redemption, or of any 2009 Bond or portion of a 2009 Bond so selected for redemption. The Fiscal Agent shall require the bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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