

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) 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 calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2009A Bonds is exempt from State of California personal income tax.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2009B Bonds, which are designated as Build America Bonds, is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), but is exempt from State of California personal income tax.

See "TAX MATTERS" with respect to tax consequences relating to the 2009 Bonds.

\$31,895,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue/Refunding Bonds
Issue of 2009A
(Tax-Exempt)

\$67,790,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds
Issue of 2009B
(Federally Taxable-Build America Bonds)

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

Description of the 2009 Bonds. The captioned 2009A Bonds and the captioned 2009B Bonds (collectively, the "2009 Bonds") will be issued by the City of Riverside (the "City") 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. 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 April 1 and October 1 of each year, commencing April 1, 2010.

Redemption Prior to Maturity. The 2009A Bonds are subject to optional redemption prior to maturity. The 2009B Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity. See "DESCRIPTION OF THE 2009 BONDS – Redemption Provisions."

Purpose of the 2009 Bonds. The 2009A Bonds are being issued to (i) finance capital costs of the City's water public utility system (the "Water System"), (ii) refund on a current basis the City's outstanding Water Refunding/Revenue Bonds, Issue of 1998 (the "1998 Bonds"), (iii) refund on an advance basis a portion of the City's outstanding Water Revenue Bonds, Issue of 2001 (the "2001 Bonds"), and (iv) pay the costs of issuing the 2009A Bonds. The 2009B Bonds are being issued to (i) finance capital costs of the Water System and (ii) pay the costs of issuing the 2009B Bonds. See "PLAN OF FINANCE."

Security for the 2009 Bonds. The 2009 Bonds are special limited obligations of the City, and are a charge upon and are payable solely from and secured by a lien upon the Net Operating Revenues (as defined in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS") of the Water System and other funds, assets and security described in the Resolution (as described in this Official Statement) and do not constitute a general obligation or indebtedness of the City. Amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986, which the City will elect to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986 in connection with issuance of the 2009B Bonds, will be deposited into the Water Revenue Fund and will be initially included by the City in the calculation of Gross Operating Revenues under the Resolution (as defined in this Official Statement) pursuant to which the 2009 Bonds are being issued. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." **The City is not funding a debt service reserve account for the 2009 Bonds.**

Existing Parity Debt. Following issuance of the 2009 Bonds and defeasance of the 1998 Bonds and a portion of the 2001 Bonds, the 2009 Bonds will be secured by a lien upon and payable from Net Operating Revenues on a parity with the following outstanding bonds (collectively, the "Prior Parity Bonds"): (i) Water Revenue Bonds, Issue of 1991, (ii) the remaining portion of the 2001 Bonds, (iii) Variable Rate Refunding Water Revenue Bonds, Issue of 2008A and (iv) Water Revenue Bonds, Issue of 2008B. In addition, the City has certain outstanding reimbursement obligations that are secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds and the 2009 Bonds (the "Prior Parity Debt").

Future Parity Debt. The City is authorized to issue additional bonded indebtedness and to incur additional obligations that are secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds, the Prior Parity Debt and the 2009 Bonds, as described in this Official Statement.

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 but not defined on this cover page have the meanings set forth in this Official Statement.

The 2009 Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney, Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City. Nossaman LLP is acting as counsel to the Underwriter. 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 December 22, 2009.



\$31,895,000
City of Riverside, California
Water Revenue/Refunding Bonds
Issue of 2009A
(Tax-Exempt)

MATURITY SCHEDULE
Base CUSIP: 769076†

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <u>Number†</u>
2010	\$ 525,000	3.000%	0.300%	102.088	TH3
2011	1,500,000	0.650	0.670	99.964	TJ9
2011	1,775,000	5.000	0.670	107.626	TU4
2012	1,800,000	3.000	0.960	105.572	TK6
2012	1,580,000	5.000	0.960	111.035	TV2
2013	1,250,000	3.000	1.230	106.508	TL4
2013	2,260,000	5.000	1.230	113.862	TW0
2014	750,000	3.000	1.590	106.457	TM2
2014	3,390,000	5.000	1.590	115.617	TX8
2015	500,000	3.000	2.000	105.426	TN0
2015	3,835,000	5.000	2.000	116.282	TY6
2016	2,970,000	5.000	2.300	116.845	TP5
2017	620,000	4.000	2.600	109.794	TQ3
2017	1,885,000	5.000	2.600	116.792	TZ3
2018	1,000,000	4.000	2.880	108.626	TR1
2018	1,625,000	5.000	2.880	116.330	UA6
2019	2,270,000	4.000	3.060	107.886	TS9
2020	600,000	4.000	3.280*	105.975*	TT7
2020	1,760,000	5.000	3.280*	114.279*	UB4

* Priced to first optional call date on October 1, 2019.

\$67,790,000
City of Riverside, California
Water Revenue Bonds
Issue of 2009B
(Federally Taxable-Build America Bonds)

MATURITY SCHEDULE
Base CUSIP: 769076†

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <u>Number†</u>
2021	\$2,475,000	5.125%	5.297%	98.499	UC2
2022	2,555,000	5.397	5.397	100.000	UD0

\$20,885,000 6.125% Term Bonds due October 1, 2029; Price to Yield 6.249%; CUSIP† UE8

\$14,770,000 6.200% Term Bonds due October 1, 2033; Price to Yield 6.299%; CUSIP† UF5

\$27,105,000 6.349% Term Bonds due October 1, 2039; Price: 100; CUSIP† UG3

† 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 Underwriter assumes 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

BOARD OF PUBLIC UTILITIES

Robert A. Stockton, Chairman

Mary Curtin
Ian J. Davidson
Robert Elliott
Juan "Manny" Sanchez

Justin Scott-Coe
Gustavo Segura
Ken L. Sutter
Berneta M. Titus

CITY OFFICIALS

Bradley J. Hudson, *City Manager*

Paul C. Sundeen,
Assistant City Manager / CFO

David H. Wright,
Public Utilities General Manager

Tom DeSantis,
Assistant City Manager

Stephen H. Badgett,
Utilities Deputy General Manager / Energy Delivery

Belinda J. Graham,
Assistant City Manager

Kevin S. Milligan,
Utilities Assistant General Manager / Water Delivery

Gregory P. Priamos,
City Attorney

Gary L. Nolff,
Utilities Assistant General Manager / Resources

Colleen J. Nicol,
City Clerk

Reiko A. Kerr,
*Utilities Assistant General Manager /
Finance and Customer Services*

Brent A. Mason,
Assistant Director of Finance

BOND COUNSEL

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Newport Beach, California

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San Francisco, California

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San Francisco, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

The Arbitrage Group, Inc.
Tuscaloosa/Buhl, Alabama

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 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 in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made of the 2009 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Water System since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE 2009 BONDS, THE UNDERWRITER 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 at www.riversideca.gov/. 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.

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\$31,895,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue/Refunding Bonds
Issue of 2009A
(Tax-Exempt)

\$67,790,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds
Issue of 2009B
(Federally Taxable-Build America Bonds)

INTRODUCTION

This Official Statement, including the Appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the “**City**”) of the following bonds (collectively, the “**2009 Bonds**”):

2009A Bonds: City of Riverside, California Water Revenue/Refunding Bonds, Issue of 2009A (Tax-Exempt) (the “**2009A Bonds**”)

2009B Bonds: City of Riverside, California Water Revenue Bonds, Issue of 2009B (Federally Taxable-Build America Bonds) (the “**2009B Bonds**”)

Authority for the 2009 Bonds

The 2009 Bonds are authorized and issued pursuant to the following, which are collectively referred to in this Official Statement as the “**Law**”:

- (i) the City Charter,
- (ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the “**Ordinance**”), and
- (iii) Resolution No. 17664 adopted by the City Council on January 8, 1991 (the “**Master Resolution**”), as previously amended and supplemented, and as amended and supplemented by a supplemental resolution adopted by the City Council on November 17, 2009 (the “**Seventh Supplemental Resolution**”). The Master Resolution, as previously amended and supplemented, and as amended and supplemented by the Seventh Supplemental Resolution, is collectively referred to as the “**Resolution**” in this Official Statement.

Purpose of the 2009 Bonds

The 2009A Bonds are being issued to (i) finance capital costs of the City’s water public utility system (the “**Water System**”), (ii) refund on a current basis the City’s outstanding Water Refunding/Revenue Bonds, Issue of 1998 (the “**1998 Bonds**”), which had been issued by the City pursuant to Resolution No. 19263 adopted by the City Council on April 28, 1998 (the “**Second Supplemental Resolution**”), (iii) refund on an advance basis a portion of the City’s outstanding Water Revenue Bonds, Issue of 2001 (the “**2001 Bonds**”), which had been issued pursuant to Resolution No. 19968 adopted by the City Council on July 24, 2001 (the “**Third Supplemental Resolution**”), and (iv) pay the costs of issuing the 2009A Bonds. **The City is not funding a debt service reserve account for the 2009A Bonds.**

The 2009B Bonds are being issued to (i) finance capital costs of the Water System, and (ii) pay the costs of issuing the 2009B Bonds. **The City is not funding a debt service reserve account for the 2009B Bonds.**

See "PLAN OF FINANCE."

The Water System

The Water System serves an area of approximately 73.8 square miles, of which approximately 70.60 square miles are within the limits of the City. The City typically obtains 100% of its potable and non-potable water from local groundwater basins. The Water System provided service to approximately 64,062 metered customer accounts in the service area during fiscal year 2008-09, which represents a population served of approximately 300,430. See "THE WATER SYSTEM."

Security for the 2009 Bonds; Rate Covenant

Nature of Pledge. Pursuant to the Law, the 2009 Bonds are special limited obligations of the City and are secured by a pledge of and are a charge upon and are payable solely from and secured by a lien upon "**Net Operating Revenues**" of the Water System and other funds, assets and security described under the Resolution. The term Net Operating Revenues is defined in "SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS."

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

Limited Obligation. The general fund of the City is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2009 Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2009 Bonds. 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 and redemption premium (if any) on the 2009 Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2009 Bonds.

Outstanding Parity Debt

Following issuance of the 2009 Bonds, defeasance of the 1998 Bonds and defeasance of a portion of the 2001 Bonds, the 2009 Bonds will be secured by and payable from Net Operating Revenues on a parity with \$122,840,000 outstanding principal amount of "**Prior**

Parity Bonds” and certain outstanding **“Prior Parity Debt”** (as those terms are defined in “PLAN OF FINANCE – Outstanding Bonds and Prior Parity Debt” below).

Additional Bonds and Parity Debt

The City is authorized under the Resolution to issue additional bonds (**“Additional Bonds”**) that are secured by a pledge of and a charge upon and are payable from Net Operating Revenues and other funds, assets and security described under the Resolution on a parity with the 2009 Bonds, the Prior Parity Debt and the Prior Parity Bonds. The 2009 Bonds, together with the Prior Parity Bonds and any Additional Bonds, are referred to in this Official Statement as the **“Bonds.”**

The City is authorized to issue and incur additional obligations that do not constitute Bonds that are secured by and payable from Net Operating Revenues on a parity with the Bonds and the Prior Parity Debt. The Prior Parity Debt and any such obligations are referred to in this Official Statement as **“Parity Debt”**.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Debt.”

No Debt Service Reserve Account

The City is not funding a debt service reserve account for the 2009 Bonds.

Subordinate Obligations

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

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 Water System and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” and “APPENDIX D - Form of Continuing Disclosure Certificate.”

Summaries and References to Documents

Brief descriptions of the 2009 Bonds, the security and sources of payment therefor, the Water System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 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 Water System may be obtained from the Utilities Assistant General Manager, Finance and Customer Services of the City of Riverside Public Utilities Department (the **“Department”**), at the same address. Financial and statistical

information set forth in this Official Statement, except for the audited financial statements included in Appendix B, and unless otherwise indicated, is unaudited.

Terms not defined in this Official Statement shall have the meanings as set forth in the respective documents.

PLAN OF FINANCE

Refunding of 1998 Bonds

The 1998 Bonds are outstanding in the principal amount of \$20,090,000. In order to refund the 1998 Bonds, the City and Union Bank, N.A. (the “**1998 Escrow Agent**”), will enter into an agreement (the “**1998 Escrow Agreement**”) under which the Escrow Agent will establish an irrevocable escrow fund (the “**1998 Escrow Fund**”) and deposit therein a portion of the proceeds of the 2009A Bonds and amounts currently held in the funds and accounts established for the 1998 Bonds. Amounts on deposit in the 1998 Escrow Fund on the closing date will be sufficient to pay the Redemption Price, together with accrued interest to the date of redemption, of the remaining outstanding 1998 Bonds in full approximately 30 days after the pricing of the 2009A Bonds.

Sufficiency of the deposits in the 1998 Escrow Fund for those purposes will be verified by The Arbitrage Group, Inc., (the “**Verification Agent**”). See “VERIFICATION OF MATHEMATICAL ACCURACY” below.

The amounts held and invested by the 1998 Escrow Agent in the 1998 Escrow Fund are pledged solely to the payment of the 1998 Bonds. Neither the funds deposited in the 1998 Escrow Fund nor the interest on the invested funds will be available for the payment of principal and interest with respect to the 2009 Bonds.

Refunding of 2001 Bonds

The 2001 Bonds are outstanding in the principal amount of \$3,595,000. A portion of the 2009A Bond proceeds will be used to refund a \$1,675,000 portion of the outstanding principal amount of the 2001 Bonds (the “**Refunded 2001 Bonds**”), leaving \$1,920,000 of the principal amount of the 2001 Bonds outstanding (the “**Remaining 2001 Bonds**”). The Refunded 2001 Bonds consist of the 2001 Bonds maturing on October 1, 2014, on October 1, 2015, and on October 1, 2016.

In order to refund the Refunded 2001 Bonds, the City and U.S. Bank National Association (the “**2001 Escrow Agent**”) will enter into an agreement (the “**2001 Escrow Agreement**”) under which the Escrow Agent will establish an irrevocable escrow fund (the “**2001 Escrow Fund**”) and deposit therein a portion of the proceeds of the 2009A Bonds and certain allocable moneys currently held in the funds and accounts established for the 2001 Bonds. Amounts on deposit in the 2001 Escrow Fund on the closing date will be sufficient to pay (i) the principal of and interest due on the Refunded 2001 Bonds through October 1, 2011 and (ii) the Redemption Price together with accrued interest to the date of redemption, of the Refunded 2001 Bonds chosen for redemption on October 1, 2011.

Sufficiency of the deposits in the 2001 Escrow Fund for those purposes will be verified by the Verification Agent. See “VERIFICATION OF MATHEMATICAL ACCURACY” below.

The amounts held and invested by the 2001 Escrow Agent in the 2001 Escrow Fund are pledged solely to the payment of the Refunded 2001 Bonds. Neither the funds deposited in the 2001 Escrow Fund nor the interest on the invested funds will be available for the payment of principal and interest with respect to the 2009 Bonds.

Financing of Capital Improvements

A portion of the proceeds of the 2009 Bonds will be used to finance a portion of the costs of the projects described in “THE WATER SYSTEM – Capital Improvement Program” below. See “ – Estimated Sources and Uses of Funds.”

Estimated Sources and Uses of Funds

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

	<u>2009A Bonds</u>	<u>2009B Bonds</u>	<u>Total</u>
Sources:			
Principal Amount	\$31,895,000.00	\$67,790,000.00	\$99,685,000.00
Net Original Issue Premium/(Discount)	3,739,795.80	(512,204.20)	3,227,591.60
Moneys Relating to the 2001 Bonds	<u>92,140.93</u>	<u>--</u>	<u>92,140.93</u>
Total Sources	\$35,726,936.73	\$67,277,795.80	\$103,004,732.53
Uses:			
Construction Fund	\$13,199,278.65	\$66,800,721.35	80,000,000.00
1998 Escrow Fund	20,476,413.82	--	20,476,413.82
2001 Escrow Fund	1,828,543.25	--	1,828,543.25
Costs of Issuance ⁽¹⁾	<u>222,700.71</u>	<u>477,074.45</u>	<u>699,775.16</u>
Total Uses	\$35,726,936.43	\$67,277,795.80	\$103,004,732.23

⁽¹⁾ Includes legal fees, Fiscal Agent fees, Underwriter’s discount, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2009 Bonds.

Outstanding Bonds and Prior Parity Debt

Outstanding Prior Parity Bonds. Following issuance of the 2009 Bonds, defeasance of the 1998 Bonds and defeasance of the Refunded 2001 Bonds, the 2009 Bonds will be secured by and payable from Net Operating Revenues on a parity with the following outstanding bonds (collectively, the “**Prior Parity Bonds**”):

(i) Water Revenue Bonds, Issue of 1991 (the “**1991 Bonds**”), issued pursuant to Resolution No. 17686 adopted by the City Council on February 19, 1991 (the “**First Supplemental Resolution**”).

(ii) the Remaining 2001 Bonds.

(iii) Variable Rate Refunding Water Revenue Bonds, Issue of 2008A (the “**2008A Bonds**”), issued pursuant to the Fifth Supplemental Resolution.

(iv) Water Revenue Bonds, Issue of 2008B (the “**2008B Bonds**”), issued pursuant to the Sixth Supplemental Resolution.

<u>Name of Issue</u>	<u>Outstanding Principal Amount</u>
Water Revenue Bonds, Issue of 1991	\$ 3,235,000 ⁽¹⁾
Remaining 2001 Bonds	1,920,000
Variable Rate Refunding Water Revenue Bonds, Issue of 2008A	59,450,000
Water Revenue Bonds, Issue of 2008B	58,235,000
Water Revenue/Refunding Bonds, Issue of 2009A	31,895,000
Water Revenue Bonds, Issue of 2009B	<u>67,790,000</u>
Total	<u>\$222,525,000</u>

⁽¹⁾ Reflects maturity value of capital appreciation bonds.

Prior Parity Debt. In connection with the issuance of the 2008A Bonds, the City entered into a standby bond purchase agreement with Bank of America, N.A. (the “**2008A Standby Bond Purchase Agreement**”), pursuant to which Bank of America, N.A. agreed to provide liquidity support for the 2008A Bonds. The City’s payment obligations under the 2008A Standby Bond Purchase Agreement, as well as certain reimbursement obligations to Financial Security Assurance, Inc., as insurer of the 2008B Bonds (the “**2008B Insurer**”), constitute Parity Debt and are referred to in this Official Statement as the “**Prior Parity Debt.**”

See “RISK FACTORS – 2008A Standby Bond Purchase Agreement.”

Debt Service Requirements

The following table sets forth the estimated debt service on the Prior Parity Bonds and the 2009 Bonds, following defeasance of the 1998 Bonds and defeasance of the Refunded 2001 Bonds.

Debt Service Requirements⁽¹⁾

Period Ending (Oct. 1)	Prior Parity Bonds Principal ⁽²⁾	Prior Parity Bonds Current Interest ⁽³⁾	2009A Bonds Principal	2009A Bonds Interest	2009B Bonds Principal	2009B Bonds Interest	Total Bonds Debt Service	Treasury Credits ⁽⁴⁾	Total Bonds Debt Service Net of Treasury Credits
2010	\$4,135,000	\$4,812,688	\$ 525,000	\$1,075,777.50		\$3,239,949.35	13,788,414.35	\$(1,133,982.28)	\$12,654,432.07
2011	1,270,000	4,780,288	3,275,000	1,372,350.00		4,180,579.80	14,878,217.30	(1,463,202.94)	13,415,014.36
2012	1,315,000	4,735,888	3,380,000	1,273,850.00		4,180,579.80	14,885,317.30	(1,463,202.94)	13,422,114.36
2013	1,360,000	4,688,663	3,510,000	1,140,850.00		4,180,579.80	14,880,092.30	(1,463,202.94)	13,416,889.36
2014	875,000	4,639,150	4,140,000	990,350.00		4,180,579.80	14,825,079.80	(1,463,202.94)	13,361,876.86
2015	925,000	4,611,150	4,335,000	798,350.00		4,180,579.80	14,850,079.80	(1,463,202.94)	13,386,876.86
2016	2,210,000	4,581,550	2,970,000	591,600.00		4,180,579.80	14,533,729.80	(1,463,202.94)	13,070,526.86
2017	2,910,000	4,497,950	2,505,000	443,100.00		4,180,579.80	14,536,629.80	(1,463,202.94)	13,073,426.86
2018	3,010,000	4,395,150	2,625,000	324,050.00		4,180,579.80	14,534,779.80	(1,463,202.94)	13,071,576.86
2019	3,595,000	4,286,550	2,270,000	202,800.00		4,180,579.80	14,534,929.80	(1,463,202.94)	13,071,726.86
2020	3,720,000	4,161,750	2,360,000	112,000.00		4,180,579.80	14,534,329.80	(1,463,202.94)	13,071,126.86
2021	3,845,000	4,032,750			\$2,475,000	4,180,579.80	14,533,329.80	(1,463,202.94)	13,070,126.86
2022	3,980,000	3,899,150			2,555,000	4,053,736.06	14,487,886.06	(1,418,807.62)	13,069,078.44
2023	4,135,000	3,746,950			2,645,000	3,915,842.70	14,442,792.70	(1,370,544.94)	13,072,247.76
2024	4,290,000	3,589,250			2,750,000	3,753,836.46	14,383,086.46	(1,313,842.76)	13,069,243.70
2025	4,455,000	3,425,150			2,860,000	3,585,398.96	14,325,548.96	(1,254,889.64)	13,070,659.32
2026	4,625,000	3,254,600			2,975,000	3,410,223.96	14,264,823.96	(1,193,578.38)	13,071,245.58
2027	4,805,000	3,077,350			3,090,000	3,228,005.20	14,200,355.20	(1,129,801.82)	13,070,553.38
2028	4,985,000	2,892,900			3,220,000	3,038,742.70	14,136,642.70	(1,063,559.94)	13,073,082.76
2029	5,195,000	2,686,850			3,345,000	2,841,517.70	14,068,367.70	(994,531.20)	13,073,836.50
2030	5,395,000	2,486,050			3,475,000	2,636,636.46	13,992,686.46	(922,822.76)	13,069,863.70
2031	5,605,000	2,277,500			3,615,000	2,421,186.46	13,918,686.46	(847,415.26)	13,071,271.20
2032	5,820,000	2,060,700			3,765,000	2,197,056.46	13,842,756.46	(768,969.76)	13,073,786.70
2033	6,070,000	1,812,450			3,915,000	1,963,626.46	13,761,076.46	(687,269.26)	13,073,807.20
2034	6,305,000	1,575,550			4,070,000	1,720,896.46	13,671,446.46	(602,313.76)	13,069,132.70
2035	6,550,000	1,329,150			4,240,000	1,462,492.16	13,581,642.16	(511,872.26)	13,069,769.90
2036	6,805,000	1,072,750			4,420,000	1,193,294.56	13,491,044.56	(417,653.10)	13,073,391.46
2037	7,145,000	732,500			4,600,000	912,668.76	13,390,168.76	(319,434.06)	13,070,734.70
2038	7,505,000	375,250			4,790,000	620,614.76	13,290,864.76	(217,215.16)	13,073,649.60
2039					4,985,000	316,497.66	5,301,497.66	(110,774.18)	5,190,723.48
Total	\$122,840,000	\$94,517,627	\$31,895,000	\$8,325,077.50	\$67,790,000	\$92,498,601.09	417,866,303.59	\$(32,374,510.48)	\$385,491,793.11

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Includes maturity values of capital appreciation bonds. Includes principal of the Remaining 2001 Bonds.

⁽³⁾ Assumes an annual interest rate of 3.20% on the 2008A Bonds, reflecting the anticipated effect of the 2005 Swap Agreement. Includes interest on the Remaining 2001 Bonds. Does not include ongoing remarketing or liquidity fees.

⁽⁴⁾ Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986, which the City will elect to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986. These amounts are included in Gross Operating Revenues.

DESCRIPTION OF THE 2009 BONDS

The following is a summary of certain provisions of the 2009 Bonds. Please refer to the complete text of the 2009 Bonds and to the Resolution for more detailed information. See also "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 April 1 and October 1 of each year, commencing April 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 will 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 will bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it will bear interest from the dated date of the 2009 Bonds or unless at the time of authentication interest is in default, in which event it shall bear interest from the interest payment date to which interest has been paid or provided for.

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 will be in accordance with arrangements among the City, the Fiscal Agent and DTC. See "APPENDIX F - DTC and the Book-Entry Only System."

2009A Bonds Redemption Provisions

Optional Redemption. The 2009A Bonds maturing on or before October 1, 2019, are not subject to optional redemption prior to maturity. The 2009A Bonds maturing on October 1, 2020, are subject to optional redemption by the City on any date on or after October 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 Redemption Provisions

Optional Redemption. The 2009B Bonds are subject to optional redemption prior to maturity at the “**Optional Make-Whole Redemption Price**”. The “Optional Make-Whole Redemption Price” means the amount equal to the greater of the following:

(a) the issue price of the 2009B Bonds set forth in the Bond Purchase Agreement relating to the 2009B Bonds (but not less than 100%) of the principal amount of the 2009B Bonds to be redeemed; or

(b) the sum of the present value of the remaining scheduled payments of the principal of and interest with respect to the 2009B Bonds to be redeemed to the maturity date of such 2009B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2009B Bonds are to be redeemed, discounted to the date on which the 2009B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate, plus 35 basis points; *plus*, in each case, accrued interest on the 2009B Bonds to be redeemed to the date of redemption. See “Definitions Applicable to Make-Whole Prepayment Prices” below.

Mandatory Sinking Account Redemption. The Term 2009B Bonds maturing on October 1, 2029 are subject to mandatory sinking account redemption, in part, on October 1, 2023, and on each October 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 Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount
2023	\$2,645,000
2024	2,750,000
2025	2,860,000
2026	2,975,000
2027	3,090,000
2028	3,220,000
2029 [†]	3,345,000

[†] Maturity

The Term 2009B Bonds maturing on October 1, 2033 are subject to mandatory sinking account redemption, in part, on October 1, 2030, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such Term 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 Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount
2030	\$3,475,000
2031	3,615,000
2032	3,765,000
2033 [†]	3,915,000

[†] Maturity

The Term 2009B Bonds maturing on October 1, 2039 are subject to mandatory sinking account redemption, in part, on October 1, 2034, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such Term 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 Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount
2034	\$4,070,000
2035	4,240,000
2036	4,420,000
2037	4,600,000
2038	4,790,000
2039 [†]	4,985,000

[†] Maturity

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

Extraordinary Redemption of 2009B Bonds. The 2009B Bonds are subject to extraordinary redemption prior to their respective maturities, at the option of the City, upon the occurrence of an “**Extraordinary Event**” from any source of available funds, in whole or in part, by lot, at the “**Extraordinary Optional Make-Whole Redemption Price.**” The “**Extraordinary Optional Make-Whole Redemption Price**” means the amount equal to the greater of the following:

(a) the issue price of the 2009B Bonds set forth in the Bond Purchase Agreement relating to the 2009B Bonds (but not less than 100%) of the principal amount of the 2009B Bonds to be redeemed; or

(b) the sum of the present value of the remaining scheduled payments of the principal of and interest with respect to the 2009B Bonds to be redeemed to the maturity date of such 2009B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2009B Bonds are to be redeemed, discounted to the date on which the 2009B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate, plus 100 basis points; *plus*, in each case, accrued interest on the 2009B Bonds to be redeemed to the date of redemption.

Definitions Applicable to Make-Whole Prepayment Prices. For the purpose of determining either the Optional Make-Whole Prepayment Price or the Extraordinary Make-Whole Redemption Price, the following definitions apply:

“Treasury Rate” means, with respect to any redemption date for a particular 2009B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation-indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the 2009B Bonds to be redeemed; provided, however that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

“Extraordinary Event” means an event causing the BAB Credit expected to be received with respect to the 2009B Bonds to be eliminated or reduced, as reasonably determined by the City, which determination shall be conclusive, as a result of:

(a) a material adverse change to Section 54AA or 6431 of the Code,

(b) guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections, or

(c) a determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of a failure of the City to satisfy the requirements of Section 3.08 hereof.

“BAB Credit” means the amount of the direct payment the federal government is to make to the City with respect to the 2009B Bonds pursuant to Sections 54AA and 6431 of the Tax Code.

General Redemption Provisions

Selection of 2009A Bonds for Redemption. If less than all the 2009A Bonds are to be redeemed, the maturities of the 2009 Bonds to be redeemed may be selected by the City;. The City shall give written notice of its selection not later than 15 business days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the 2009A Bonds. If the City does not give

notice of its selection, such Fiscal Agent shall select the 2009A Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in the Sixth Supplemental Resolution, if less than all of the 2009A Bonds of like maturity are to be redeemed, the particular 2009A Bonds or portions of Series 2009A Bonds to be redeemed shall be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Selection of 2009B Bonds for Redemption. If less than all of the 2009B Bonds of any maturity are to be redeemed prior to maturity, then (a) if the 2009B Bonds are in book-entry form at the time of such redemption, the Fiscal Agent will instruct DTC to instruct the DTC Participants to select the specific 2009B Bonds for redemption pro rata among Owners, and neither the City nor the Fiscal Agent will have any responsibility to ensure that DTC or the DTC Participants properly select such 2009B Bonds for redemption, and (b) if the 2009B Bonds are not then in book-entry form at the time of such redemption, on each redemption date, the Fiscal Agent will select the specific 2009B Bonds for redemption pro rata among Owners. The portion of any registered 2009B Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of 2009 Bonds to (i) the Owners of the 2009 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 2009 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 2009 Bonds.

In the event of an optional redemption of 2009 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 2009 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 2009 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2009 Bonds at the place specified in such notice of redemption, such 2009 Bonds shall be redeemed and paid at said redemption price. If on the redemption date moneys for the redemption of the 2009 Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2009 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 are a charge upon and are payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the Prior Parity Bonds, the Prior Parity Debt, and any Additional Bonds or Parity Debt issued in the future. All capitalized terms used but not defined in this Official Statement have the meanings provided in the Resolution.

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

Future Change in Definition of Net Operating Revenues. Pursuant to the Seventh Supplemental Resolution, at such time as the Prior Parity Bonds and the Prior Parity Debt are no longer outstanding (the final maturity date of the Prior Parity Bonds is October 1, 2038, although they could be refunded earlier) or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), the definition of “Net Operating Revenues” will be amended and restated as follows:

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

Limited Obligation

The general fund of the City is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2009 Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2009 Bonds. 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 and redemption premium (if any) on the 2009 Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are,

under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2009 Bonds.

Resolution Flow of Funds

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

The City has elected not to create debt service reserve accounts for the 2009 Bonds, and the owners of the 2009 Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

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

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

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

Interest Account. As soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding

Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness) is on deposit in such account, (b) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; *provided, however*, that the amount of the deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of the deposit into the Interest Account for any month will be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and (c) only after all deposits have been made for such month in the Principal Account as provided in the immediately following paragraph and the Reserve Accounts as provided below, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of the Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (a) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (b) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (c) above. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made *pari passu* with the payments required to be placed in the Interest Account.

Principal Account. As soon as practicable in each month, the Treasurer will deposit an amount equal to at least (i) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months plus (ii) one-twelfth of the aggregate yearly Bond Obligation becoming due and payable on the Outstanding Bonds having annual maturity dates or annual Mandatory Sinking Account Payments due within the next 12 months, provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. 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 any reserve account for Bonds established pursuant to a Supplemental Resolution for a Series of Bonds and in any reserve account established for Parity Debt upon the occurrence of any deficiency therein, (i) one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and (ii) the full amount of any deficiency due to any required valuation of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

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

Excess Earnings Account. Following the transfers described above as required by the Resolution, the Treasurer will deposit in the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the Prior Parity Bonds, the 2009 Bonds, and any Additional Bonds or Parity Debt, the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

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

Application of Funds in the Bond Service Account.

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

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

Rate Covenant

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

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

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

Future Change in Rate Covenant. Pursuant to the Seventh Supplemental Resolution, at such time as the Prior Parity Bonds and the Prior Parity Debt are no longer outstanding (the final maturity date of the Prior Parity Bonds is October 1, 2038, subject to earlier redemption), or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), the following paragraph will be added to the Rate Covenant:

“For purposes of calculating the interest due under (b) above, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American

Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.”

No Reserve Accounts for the 2009 Bonds

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City is not funding a reserve account for either the 2009A Bonds or the 2009B Bonds. The owners of the 2009 Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Additional Bonds and Parity Debt

The City may incur additional obligations payable from Net Operating Revenues as described below. See “PLAN OF FINANCE – Outstanding Bonds and Prior Parity Debt.”

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

Issuance of Additional Bonds and Parity Debt. The Resolution provides that, except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt and which result in a present value savings to the City computed based on the rate of interest on such Refunding Bonds or Parity Debt, no Additional Bonds or any Parity Debt shall be created or incurred unless the following conditions are met:

(i) the City is not in default under the terms of the Resolution;

(ii) either (a) the Net Operating Revenues of the Water System, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance or incurrence of such additional Bonds or Parity Debt set forth in a Certificate of the City or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items designated under (a), (b) and (c) below, shall have amounted to at least 1.25 times the Maximum Annual Debt Service (as defined in Appendix C) in any fiscal year thereafter on all Bonds and Parity Debt to be outstanding immediately subsequent to the incurring of such additional Bonds or Parity Debt; and

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

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

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

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

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

For definitions of "Maximum Annual Debt Service" and other capitalized terms used herein, see "APPENDIX C - Summary of Certain Provisions of the Resolution."

Subordinate Obligations

Outstanding Subordinate Debt. In connection with issuance of the Water Refunding/Revenue Bonds, Issue of 2005 (the "**2005 Bonds**"), the City entered into a variable-to-fixed interest rate swap agreement in a notional amount of \$61,125,000 (the "**2005 Swap Agreement**") with Bear Stearns Capital Markets Inc. (the "**Swap Provider**") for the purpose of converting the floating rate interest payments the City was obligated to make on the 2005 Bonds into substantially fixed payments. The obligations of the City under the 2005 Swap Agreement constitute Subordinate Obligations pursuant to the Resolution. The 2005 Swap Agreement was reallocated to the 2008A Bonds, the proceeds of which refunded the 2005 Bonds. The obligations of the Swap Provider under the 2005 Swap Agreement were guaranteed by The Bear Stearns Companies Inc. (the "**Swap Guarantor**").

Under the 2005 Swap Agreement, the City pays a fixed rate of interest on the notional amount. In return, the Swap Provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate ("**LIBOR**") one month index plus 12 basis points on a like notional amount. The periodic amounts payable by a party under the 2005 Swap Agreement are netted against the payments to be received by such party thereunder.

The 2005 Swap Agreement has a stated termination date of October 1, 2035. Both the City and the Swap Provider will have the right to terminate the 2005 Swap Agreement prior to its stated termination date under certain conditions, in which event a termination payment may be owed by either party. Such termination payment could be substantial.

Amounts received by the City from the Swap Provider under the 2005 Swap Agreement constitute Gross Operating Revenues under the Resolution. Any amounts due from the City under the 2005 Swap Agreement, including regularly scheduled payments and any amount due upon an early termination of the 2005 Swap Agreement are payable by the City from Net Operating Revenues on a basis that is junior and subordinate to the Prior Parity Bonds, the 2009 Bonds, any Additional Bonds and any Parity Debt.

Certain Information Related to the Swap Provider. According to a representative of JPMorgan Chase & Co., following the merger of Bear Stearns and JPMorgan Chase & Co., (i) the identities of the Swap Provider and the Swap Guarantor have not changed and (ii) JPMorgan Chase & Co. guarantees the obligations of both the Swap Provider and the Swap Guarantor pursuant to an Amended and Restated Guaranty Agreement dated March 16, 2008. *The City can provide no assurances as to the accuracy of the information summarized in this paragraph.*

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

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

Under the provisions of the California Constitution and Article XII of the City Charter, the City owns and operates both electric and water utilities for its citizens. The City's Public Utilities Department (the "**Department**") exercises jurisdiction over the electric and water utilities owned, controlled and operated by the City. The Department is under the management and control of the City Manager, subject to the powers and duties vested in the Board of Public Utilities and in the City Council, and is supervised by the Public Utilities General Manager who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. David H. Wright, Public Utilities General Manager, is a Certified Public Accountant. He received his Bachelor of Arts and Master of Business Administration degrees from California State University, Fullerton. He has been with the City since 1988, and has nearly 21 years of experience in municipal government, including five years as Utilities Assistant Director of Finance and Administration and five years as the Utilities Deputy Director.

Mr. Stephen H. Badgett, Utilities Deputy General Manager / Energy Delivery, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with the Department since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at the Department, Mr. Badgett was with Memphis Light Gas and Water for 16 years and has been involved with public power for nearly 35 years.

Mr. Kevin S. Milligan, Utilities Assistant General Manager / Water Delivery is a registered professional engineer, and holds a Bachelor of Science degree in Engineering from California State Polytechnic University, Pomona and a Master of Business Administration from the University of Redlands. He has been with the City since 1984, and has nearly 25 years of experience in the water industry.

Mr. Gary L. Nolff, Utilities Assistant General Manager / Resources, holds a Bachelor of Science degree in Business and Management from the University of Redlands. He has over 35 years in the electric utilities industry, including 17 years as Power Resources Projects / Contracts Manager (16 of which are with the City), and 14 years as a generation station and bulk power electric system operator with SCE and the United States Army. Mr. Nolff has been with the Department since 1990.

Ms. Reiko A. Kerr, Utilities Assistant General Manager / Finance & Customer Services, is a certified public accountant with over 17 years of accounting experience. She's been with the Utility since 2000 and has served as the Finance/Rates Manager, Assistant CFO/Energy Risk Manager, and spent one year as the Power Resources Projects/Contracts Manager where she was instrumental in brokering, among other contracts, a 96 megawatt, 30 year, renewable geothermal energy contract with the Northwestern Band of Shoshone Nation in Utah.

Board of Public Utilities

The Board, created by Article XII, Section 1201 of the City Charter, currently consists of nine members appointed by the City Council. As set forth in said Article XII, the Board, among other things, has the power and obligation to: (1) consider the annual budget for the Department

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

The voters in the City passed Measure MM (the “**Measure**”) on November 2, 2004, which became fully effective upon approval of the City Council on May 17, 2005. The Measure amended the City Charter provisions and granted the authority to award bids and authorize procurement contracts to the Board. The effect of the Measure streamlines the process for procurement approvals by eliminating the need for City Council approval, assuming funding authority exists in the Department’s budget, as adopted or amended by the City Council. Contracts that are subject to the Measure are public works, goods, non-professional and professional services. Contracts related to property acquisitions / dispositions, power and transmission and other negotiated agreements are not affected by the Measure, and remain subject to prior approval requirements established by the City Council.

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

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

Ken L. Sutter – Vice Chairman of the Board, appointed to the Board in 2005, term expires March 1, 2013. Mr. Sutter is a retired licensed architect.

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

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

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

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

Mary Curtin - Appointed to the Board in 2006, term expires March 1, 2013. Ms. Curtin is a teacher at a local community college.

Justin Scott-Coe – Appointed to the Board in 2009, term expires March 1, 2013. Mr. Scott-Coe is a Public Affairs Specialist for a local water district.

Gustavo Segura – Appointed to the Board in 2008, term expires March 1, 2013. Mr. Segura is an Instructional Media Broadcast Coordinator at a local community college.

The Department's administrative offices are located at 3901 Orange Street, Riverside, California 92501.

Employee Relations

As of June 30, 2009, 167 City employees were assigned specifically to the Water System. Certain functions supporting Water System operations, including meter reading, customer billing and collections, are performed by the staff of the electric division of the Department, with a charge to the water division to reimburse the electric division for the water division's proportional share of such costs. Substantially all of the non-administrative City personnel assigned to the Water System are represented by the International Brotherhood of Electrical Works (“**IBEW**”). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2010. Portions of the administrative staff are represented by the Service Employees International Union (“**SEIU**”). The City and the SEIU are parties to a Memorandum of Understanding that expires on June 30, 2011. The Water System has not faced any strikes or other work stoppages within the last 10 years and the City does not anticipate any in the near future.

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

Employee contributions are 8% of their annual covered salary. The Water System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water System pays both the employee and employer contributions. Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS, and recent trend information may be found in the notes of the City's “Comprehensive Annual Financial Report”. See also Note 1 to “APPENDIX B - Audited Financial Statements of the City of Riverside Water Utility for the Fiscal Year Ended June 30, 2009” for further discussion.

The Water System 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 and IBEW. Benefit provisions for the Stipend Plan are established and amended through the various memoranda of understanding with the employee unions. The Water System'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 Utility's healthcare plans and, as such, an implicit subsidy exists. The Water System's contributions to the Implied Subsidy Plan are established by the City Council. The Water System is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries. See also Note 1 to "APPENDIX B - Audited Financial Statements of the City of Riverside Water Utility for the Fiscal Year Ended June 30, 2009" for further discussion.

Investment Policy and Controls

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

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

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds and corporate notes which are rated at least "A" and money market funds, including the State of California Local Agency Investment Fund. The current portfolio does not include any derivative type investments. The City entered into certain interest rate swap agreements in connection with its previously issued Water System revenue bonds.

THE WATER SYSTEM

General

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

The Water System provides service to approximately 64,062 metered customers within a service area of 73.8 square miles, of which 70.60 square miles are within the City limits. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The population served is approximately 300,430. Presently, portions of the Water System service area are fully developed, while other portions are only sparsely developed or completely undeveloped. The City provides water service primarily to residential customers, although there are a number of commercial and industrial customers as well. The City also provides irrigation water within its service area.

The following table sets forth certain general statistical information relating to the Water System for fiscal years 2004-05 through 2008-09.

WATER SYSTEM GENERAL STATISTICS Fiscal Years 2004-05 through 2008-09

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
No. of Service Connections	62,492	62,985	63,431	63,494	64,062
Annual Water Production ⁽¹⁾					
Annual Production from System Wells ⁽¹⁾	24,017	24,962	27,795	26,385	25,035
Purchased Imported Water	<u>1,347</u>	<u>870</u>	<u>681</u>	<u>536</u>	<u>0</u>
Total Annual Water Production	25,364	25,832	28,476	26,921	25,035
Peak Daily Distribution ⁽²⁾	112.1	118.8	109.2	111.3	105.8
Average Daily Production ⁽²⁾⁽³⁾	64.6	67.8	75.9	73.8	68.8

⁽¹⁾ In millions of gallons. One acre-foot is equal to approximately 325,900 gallons.

⁽²⁾ In millions of gallons per day.

⁽³⁾ Average Daily Production = Average Daily Distribution.

History of the Water System

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

Major expansion of the Water System began in 1960 due to the combination of the following events plus population growth and service expansion in the areas described: (1)

demand in the pre-1960 service area; (2) annexation of areas by the City; (3) acquisition of three water companies serving primarily non-irrigation customers; and (4) the acquisition of four private water companies serving primarily irrigation customers.

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

Existing Facilities

Major facilities in the Water System include potable and non-potable supply wells, transmission pipelines, distribution pipelines, storage reservoirs, treatment plants, pumping facilities, and pressure reducing facilities. The City maintains 55 active wells for supplying domestic water to its service area. Distribution and transmission pipelines for the Water System range in diameter from 2 to 72 inches and total over 993 miles. There are 15 storage reservoirs with a total capacity of 99.9 million gallons, or 3 days of emergency supply. Seven treatment plants remove contaminants from local groundwater before the water is delivered to the distribution system, consisting of 56 granular activated carbon ("**GAC**") vessels to treat trichloroethylene ("**TCE**") and dibromochloropropane ("**DBCP**") and 42 ion exchange ("**IX**") vessels to treat perchlorate. Thirty-eight booster-pumping stations deliver water to higher elevation pressure zones. Twenty-two pressure reducing stations deliver water from higher to lower pressure zones.

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

The City also maintains over 7,523 fire hydrants throughout the distribution system. The Water System currently has a Class 2 rating (the second highest of ten classifications) assigned by the Insurance Services Office.

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

WATER SYSTEM FACILITIES

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Utility Plant (less provision for accumulated depreciation) ⁽¹⁾	\$229,043	\$247,762	\$259,329	\$292,758	\$331,682
Construction in Progress ⁽¹⁾	\$12,656	\$6,663	\$27,067	\$31,878	\$24,407 ⁽²⁾
Miles of Pipeline	957	967	973	988	993
Number of Active Domestic Wells	53	51	49	51	55
Number of Active Reservoirs	16	16	16	15	15

⁽¹⁾ In thousands of dollars and dollars rounded to the nearest thousand.

⁽²⁾ Includes \$13.4 million for reservoir replacement, \$1.5 million for facility rehabilitation, \$1.3 million for main replacement, \$550,000 for transmission main, \$450,000 in booster station replacement, \$246,000 for meter replacements, and \$7.0 million for various other projects, such as well betterments, vault replacements, and leak repairs throughout the City.

Water Supply

The City obtains 100% of its potable water from water rights in its wells in the San Bernardino (or Bunker Hill) and Riverside/Colton groundwater basins. Imported water obtained from MWD through Western Municipal Water District of Riverside County (“**WMWD**”), a member agency of MWD and the wholesale distributor for the Riverside area, is used only for emergency purposes. In the fiscal year ended June 30, 2009, the Water System pumped a total 25,035 million gallons of water from local groundwater basins, and had no purchases from WMWD.

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

WATER PRODUCTION (In Millions of Gallons)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Local Groundwater	24,017	24,962	27,795	26,385	25,035
Purchases from WMWD	<u>1,347</u>	<u>870</u>	<u>681</u>	<u>536</u>	<u>0</u> ⁽¹⁾
Total Water Production	<u>25,364</u>	<u>25,832</u>	<u>28,476</u>	<u>26,921</u>	<u>25,035</u>

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

The largest source of water for the City is the Bunker Hill Basin (“**BHB**”) located approximately eight miles northeast of the City. Water is collected from a total of 41 wells in the BHB and conveyed to the City through two separate transmission pipelines, the 60-inch Gage Pipeline and the 42-inch Waterman Transmission Main. Thirteen of these wells are treated through two wellhead and three regional treatment plants for perchlorate and/or TCE.

The second source of groundwater for the City is pumped from a total of 14 wells in the Riverside North and South Basins. Within the Riverside South Basin, seven wells are located in the North Orange Well Field and conveyed to the distribution system through the 60-inch North Orange transmission pipeline. Four of these wells pump through the Palmyrita Treatment Plant to remove DBCP. In the Riverside North Basin, four wells pump to the new John W. North Treatment Plant (“**JWNWTP**”) and three wells pump directly into the 60-inch Gage Pipeline.

The third source of water is imported water treated and delivered from the Mills Filtration Plant by WMWD for purchase by Riverside on a wholesale basis. This water was historically used by the City only during peak summer months because of its higher cost, and the availability of sufficient groundwater rights to meet the City’s annual demand. As of the summer of 2008 and completion of the JWNWTP, this source is used only for emergency supply purposes. The City also pumps irrigation wells into its Riverside Canal along with direct pumping from the Olivewood wells to transmit irrigation water to the Gage Canal Company in exchange for potable water from the BHB under an agreement with the Gage Canal Company.

The JWNWTP was constructed to bring new water supplies online and eliminate the City’s reliance on imported Colorado River water. This innovative project includes adaptive reuse of existing facilities, coupled with the Department’s first Design-Build project and staff engineered pipeline replacement program. The JWNWTP cost approximately \$25.7 million, with approximately 50% of Proposition 50 grant funds from the State of California (authorized by ballot initiative in November 2002 to construct water-related infrastructure that reduces Southern California’s consumption of imported water from the Colorado River), with the remaining portion funded with bond proceeds. The City has received \$10.7 million to date from the State, with an additional \$2.2 million anticipated upon submitting the final project report. The JWNWTP began commercial operations on September 4, 2008, allowing Riverside to become water independent except for emergency conditions, with fiscal year 2009 having no demand on either Colorado River water or the State Project water.

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

Water Supply Conditions

The City believes that its current and anticipated future water needs to provide water to its service area for the next 100 years are adequately met by its existing water rights, new sources of supply (see following discussion on “New Sources of Supply”) and by the availability of supplemental imported water from WMWD, primarily to cover peak days of water demand and emergency conditions. As a result of a court decision in 1969 (the “**1969 Judgment**”), the City’s rights to extract water from the Bunker Hill Basin were fixed at 49,542 acre-feet per year (“**AFY**”). An acre-foot of water is the amount of water required to cover one acre of area to a depth of one foot (one acre-foot is approximately 325,900 gallons). The administration of the 1969 Judgment and the “safe yield” determination are assigned to two “Watermasters” (as defined in the 1969 Judgment). The natural safe yield of the Bunker Hill Basin was determined

by court order in the 1969 Judgment and is 232,100 acre-feet. The natural safe yield is based on a 40 year hydrologic cycle. With its ownership in several mutual water companies with rights in the Bunker Hill Basin, the City's rights total 53,528 acre-feet per year. Over the past five fiscal years, the City has pumped an average of 55,834 acre-feet per year from the Bunker Hill Basin; in those years in which it pumps in excess of its rights, the City leases a corresponding amount from other parties with rights in the Bunker Hill Basin. The long-term supply of this basin appears secure, and currently provides approximately two-thirds of the City's water requirements under normal conditions.

Rights to water in the Riverside North, Riverside South and Colton Basins are not adjudicated. However, the 1969 Judgment base period (1959-63) extractions for use in Riverside County from these basins were determined at a total amount of about 54,000 acre-feet per year. The City has the entitlement to a major portion of this base period extraction, and can increase its production beyond the base period extraction. Under the terms of the 1969 Judgment, the obligation to replenish the Colton and Riverside North basins accrues to the San Bernardino Valley Municipal Water District ("**SBVMWD**") and WMWD. The replenishment obligation is triggered if extractions exceed the base year extractions and the average water level in three specified wells fall below 822.04 feet above mean sea level. To date the water levels in the three wells have remained above the surface water elevation that would trigger the replenishment obligation. These basins are considered another reliable long-term source of water to meet the City's needs, and actions have been taken to increase production of domestic water from the Riverside North and Riverside South Basins. These basins currently supply approximately 30 to 35% of the City's water requirements under normal conditions. Over the past five fiscal years, the City has pumped an average of 28,433 acre-feet per year from the Riverside North, Riverside South and Colton Basins.

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

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

During years of less than normal rainfall, customer demand can increase as outdoor water usage continues. When rainfall is below average for consecutive years, drought conditions can result and certain customers may be required to reduce consumption to preserve existing water reserves. California is in the third year of drought, and the Riverside-San Bernardino area continues to receive less than normal amounts of rainfall. Although water levels in the groundwater basins have declined in recent years, the City believes that an adequate volume of stored water exists to meet its demands for the foreseeable future. The City is working closely with regional agencies to continuously monitor groundwater conditions and encourage recharge of the basins using imported water when available.

New Sources of Supply

The City is actively developing and securing additional water supplies to meet projected increased demands. Although the current economic conditions have temporarily curtailed development activity, significant growth in the City is still anticipated, and certain parts of this growth area is served by special districts and other water suppliers. Completion of the JWNWTP permitted the City to reactivate four wells and increase water production from the Riverside North Basin.

In May 2007, Riverside submitted an application to the State Water Resources Control Board (“**SWRCB**”) to divert up to 41,000 AFY of recycled water from the City’s Regional Water Quality Control Plant (“**RWQCP**”). On May 20, 2008, SWRCB issued its Final Order Conditionally Approving Wastewater Change Petition.

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

On October 20, 2009, the SWRCB issued its Decision Partially Approving Water Right Applications 31165 and 31370 submitted by San Bernardino Valley Municipal Water District (Valley District) and WMWD to capture and store storm water behind the Seven Oaks Dam with a combined total diversion of 200,000 AFY. The average diversions are estimated to be approximately 25,000 AFY. Based upon prior agreements with SBVMWD and WMWD, as well as previously adjudicated water rights, the City is entitled to up to approximately 26% of any such water available, to be used for storage or to serve potable water needs, at a cost significantly lower than purchasing imported water.

Although California faces long-term water supply challenges, the City believes it is well positioned to satisfy its water supply requirements. The City is working to meet future challenges by continuing to educate customers on responsible water use practices, obtaining new water resources, and participating in future water supply projects. The City has implemented a landscape water use efficiency ordinance, a revision of which is scheduled for consideration by the City Council on November 10, 2009. Plumbing codes adopted by the City address retrofit of indoor plumbing fixtures upon issuance of building permits. In addition, the City has taken measures to promote conservation measures to achieve sustainable water levels. Through extensive collaboration efforts with WMWD as the Administrator of the Commercial rebate programs, the City offers a variety of programs to residential and commercial customers in efforts to promote water conservation. The City has a successful rebate program which offers customers rebates for the use of high efficiency clothes washers, rotating sprinkler nozzles, toilets/urinals, cooling tower conductivity & pH controllers, synthetic turfs and water-wise landscaping. Additionally, on an ongoing basis, the City hosts educational programs targeting students on conservation measures; advertises in the form of media, newspaper, bill stuffers, local television, and radio; and recently, the City launched a campaign where over 50,000 coasters and pens were issued to local restaurants and other businesses with messages of conservation. To further enhance conservation measures and accountability

of the programs offered, the City employs three different auditing vendors with different specialization backgrounds to assist customers, without charge to the customers, with conservation efforts.

To promote conservation for new development, the City has implemented a “Green-builder program” that provides incentives for ultra-high efficiency landscaping and indoor plumbing fixtures. In addition, the municipal code addresses restrictions on running waste water.

Water Quality

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

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

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

Existing Contamination. Some City wells are contaminated by the plumes of TCE, perchlorate and/or DBCP. To provide safe drinking water, several wellhead and regional treatment facilities have been constructed. As described in “Water Quality Settlements” below, Lockheed Martin Corporation (“**Lockheed Martin**”) has constructed three regional GAC facilities (Tippecanoe, Sunnyside, and Raub) to treat TCE at eleven of the City wells. Lockheed Martin has also constructed two wellhead IX treatment facilities (Gage 46-1 and Gage 66-1) and three regional facilities (Tippecanoe, Sunnyside, and Raub) for removal of perchlorate from thirteen of the City’s wells. Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, The Best Fertilizer Company and Occidental Petroleum Corporation (the “**DBCP Defendants**”), funded the construction of two regional GAC plants (Palmyrita and Garner) to treat DBCP at six of the City wells. However, effective April 15, 2009, the Garner regional GAC plant has been decommissioned since one of the two wells no longer contains DBCP and the other well has been abandoned due to decreasing production. See “ – Water Quality Settlements” below for discussions on operational costs funded by other parties.

The City does not expect any known water quality issues to adversely impact the sufficiency of its water supply to meet expected demand.

Water Quality Settlements

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

Lockheed Martin Corporation Settlement. On November 10, 1998, the City entered into an agreement with the Lockheed Martin to address contamination of certain City wells by TCE. This contamination was caused by the Crafton-Redlands plume, a plume of TCE which is situated in the groundwater in the BHB of San Bernardino County, California. Pursuant to the agreement, Lockheed Martin agreed to design and construct certain new components for the City's water system to address the contamination problem. Specifically, Lockheed Martin designed, purchased, constructed and installed water treatment systems in the City's Gage and Raub well fields to maintain water quality. The Gage and Raub well fields consist of approximately 24 groundwater extraction wells and associated equipment owned by the City in the BHB, of which 13 wells require treatment. Lockheed Martin funded the design and construction of pipelines to transport water from supply wells in the North Orange area to the Linden-Evans reservoirs and to provide return flows to the North Orange area, as well as other costs associated with these projects. Construction of the majority of the treatment facilities was completed in fiscal year 2003-04. Lockheed Martin has funded approximately \$16.5 million of the costs to construct various treatment facilities.

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

The majority of the operating costs for the TCE and perchlorate treatment facilities is paid directly by Lockheed Martin, including the GAC and IX media replacement costs and major maintenance costs. However, certain operating costs are reimbursed by Lockheed Martin directly to the City. For fiscal year 2008-09, the amount of operating costs (City labor, power, lab analyses, and associated expenses) reimbursed by Lockheed Martin was \$1.25 million.

DBCP Settlement. In May 2001, the City settled a lawsuit it had brought against certain manufacturers and distributors of DBCP, a pesticide that the Environmental Protection Agency banned in the mid-1970s, that was detected in certain City-owned potable water wells. The forty-year settlement agreement with the DBCP Defendants, provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating GAC treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for DBCP. Construction of the existing treatment facilities was completed in fiscal year 2002-03. The construction costs funded by the DBCP Defendants is approximately \$4 million. For fiscal year 2008-09, the amount of operating costs reimbursed by the DBCP Defendants relating to these existing treatment facilities was \$822,000.

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

The settlement described in the previous paragraph did not extend to the City’s litigation against Exxon Mobil Corporation and certain additional defendants.

Environmental Matters

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

Drinking Water. The applicable drinking water standards for the Water System are provided in the California Domestic Water Quality and Monitoring Regulations, Title 22 of the California Administrative Code. These regulations incorporate the requirements of the U.S. Environmental Protection Agency in conformance with the Safe Drinking Water Act (PL 93-523). The standards specify water quality sampling frequencies and location as well as maximum concentrations of chemical constituents and are continuously revised and amended.

The Water System has an amended domestic water supply permit from the California Department of Health.

Recycled Water. The City’s recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the United States Environmental Protection Act, the California Water Code and regulations promulgated by the California Department of Health Services.

The City operates its recycled water system pursuant to RWQCB Order No. R8-2009-0052 (amending Order No. R8-2006-0009, NPDES No. CA0105350), which prescribes Waste Discharge and Producer/User Reclamation Requirements for the RWQCP for the discharge of tertiary treated wastewater to Reach 3 of the Santa Ana River and for the use of recycled water. Order No. R8-2006-0009, will expire on April 1, 2011. See also “ – New Sources of Supply” above for information about regulatory activity relating to the recycled water system.

Customers and Water Sales

The following table sets forth the number of metered customers and total water sold during the five fiscal years shown.

NUMBER OF METERED CUSTOMERS

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Residential	56,916	57,308	57,666	57,694	58,152
Commercial / Industrial	5,114	5,204	5,279	5,446	5,519
Other	<u>462</u>	<u>473</u>	<u>486</u>	<u>354</u>	<u>391</u>
Total - All Classes	<u>62,492</u>	<u>62,985</u>	<u>63,431</u>	<u>63,494</u>	<u>64,062</u>

The following table sets forth the total water sold, average daily production, maximum day distribution and average daily sales per capita during the five fiscal years shown.

WATER SOLD (In Millions of gallons)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Domestic	12,900	13,243	14,848	13,827	13,389
Commercial/Industrial	6,921	7,348	8,092	7,863	7,737
Wholesale Sales	132	137	149	463	371
Other	<u>898</u>	<u>865</u>	<u>931</u>	<u>725</u>	<u>736</u>
Total (1)	<u>20,851</u>	<u>21,593</u>	<u>24,020</u>	<u>22,878</u>	<u>22,233</u>

(1) Amounts shown are represented in millions of gallons)

WATER SALES AND DISTRIBUTION (In Millions of Gallons)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Water Sales ⁽¹⁾	20,719	21,456	23,871	22,415	21,862
Average Daily Production ⁽¹⁾	64.6	67.8	75.9	73.8	68.8
Maximum Day Distribution	112.1	118.8	109.2	111.3	105.8
Average Daily Sales per Meter (In Gallons)	908	950	1,039	970	942

(1) Excludes wholesale sales.

(2) Average Daily Production = Average Daily Distribution.

Customer Concentration

The following table identifies the category of land use for the top 10 customers of the Water System and their respective contributions to the Water System's annual revenues.

TOP TEN WATER CUSTOMERS Fiscal Year Ended June 30, 2009

<u>Water Customer</u>	<u>Water Revenues</u>	<u>Percent of Total Water Revenues</u>
Local Government	\$ 1,052,675	2.10%
Local University	794,421	1.59
Local School District	692,292	1.38
Local School District	511,555	1.02
Local Government	488,235	0.98
State Government	236,181	0.47
Corporation	207,825	0.42
Local University	139,707	0.28
Apartment Complex	133,380	0.27
Local Community College	<u>129,029</u>	<u>0.26</u>
Total	\$4,385,300	8.77%

The Water System has a diverse customer base with little exposure to customer concentration. The Water System's top 10 customers were responsible for a combined 8.77% of total retail revenues in fiscal year 2008-09. The Water System's five largest customers were responsible for approximately 7.07% of revenues in fiscal year 2008-09.

Wheeling Agreements

On April 21, 2009, the City and WMWD executed a "Cooperative Agreement for Water Production and Conveyance" (the "**Wheeling Agreement**"). Water delivery commenced April 1, 2009. Under the terms of the Wheeling Agreement, the City provides potable production and conveyance for approximately 4,208 AFY of Bunker Hill Basin water rights controlled by WMWD on a capacity available basis. In addition, the City could produce and convey additional water held by WMWD under a separate three-party agreement with WMWD and SBVMWD in a storage account in the Bunker Hill Basin. The current volume of water held under the storage agreement is estimated to be 6,000 acre-feet.

The Wheeling Agreement also allows for production and conveyance of non-potable water from the Riverside South Basin through the Riverside Canal for delivery to WMWD at its Jefferson Street pump station located at the terminus of the Riverside Canal. Production and conveyance for the potable and non-potable water is coordinated on a month-ahead basis, and is interruptible by the City without notice. The agreement also provides an option for the City to lease up to 1,000 acre-feet per year of the Bunker Hill rights controlled by WMWD for its own use.

The City expects to generate wholesale revenue of \$2,600,000 per year from the Wheeling Agreement. Through August 31, 2009, a total of \$1,020,352 has been invoiced for the period beginning April 1, 2009.

Projected Demand

The City recently completed a 2009 Water Supply Plan update to evaluate available supply options to serve future water demand, which is projected to increase 20% within the existing service area at ultimate build-out, assumed to occur by 2030. Ultimate water demand is projected to reach 99,200 AFY within the existing service area.

The increase in demand of approximately 20,000 AFY is projected to be met through existing groundwater rights, increased conservation and demand-side management (including offset of potable demand with recycled water at large landscape sites), and increased groundwater rights through participation in the Seven Oaks Dam Conservation Pool. See "New Sources of Supply" for a description of new water supply projects.

Billings and Collections

Residential and commercial customers are billed monthly. Bills are due and payable on presentation, and become delinquent after 21 days. Although the Utility is not subject to the jurisdiction of the CPUC or other agencies, collection activities for the City substantially conform with the requirements of the California Public Utilities Code Section 10010. After a bill is delinquent, a computer generated Urgent Notice is mailed allowing an additional 13 days to pay. If no payment is received, a 48 hour notice is delivered by Utility Field Service staff, and the customer is charged a \$20 fee for the cost to deliver the notice. If payment is not received by the specified date on the 48 hour notice, the City may disconnect water service approximately 5 days later. Before service is reinstated, the customer must pay the delinquent amount, pay a reconnection fee ranging between \$40 and \$75, and may be required to pay a customer deposit.

Uncollectible Accounts

Based on the average amount for the past five years, the City experienced less than 0.23% of uncollectible accounts, representing approximately \$100,600 of total billable revenue (\$41.6M). The following table shows the historical results of the utility's accounts receivable and collection efforts:

History of Billings and Collections As of June 30, (Dollars in Thousands)

Fiscal Year	Billings	Payments	Write Off as % of Billing	Write-Off	Ending Accounts Receivable Balance(1)
2009	\$50,837	\$50,926	0.419%	\$213	\$5,679
2008	46,951	46,196	0.260	122	5,981
2007	44,093	42,996	0.154	68	5,348
2006	34,925	34,393	0.115	40	4,319
2005	31,464	31,263	0.191	60	3,827

(1) The ending accounts receivable balance of any fiscal year is equal to the ending balance of the previous fiscal year plus billings minus payments minus write-offs. The ending accounts receivable balance at June 30, 2004 was \$3,686.

Industry Recognition - Gold Award for Exceptional Utility Performance – AMWA

In 2009 the Association of Metropolitan Water Agencies (“**AMWA**”) recognized the achievements of the City and awarded it with the Gold Award for Exceptional Utility Performance. The Gold award is presented to water utilities that have systematically applied effective utility management approaches to improve their product and services, increase community support and ensure strong and viable water systems long into the future. Applicants are judged by a panel of respected industry executives.

Award criteria was developed by a blue-ribbon panel of water and wastewater utility executives who put their time and experience into developing the nationally recognized Attributes of Effectively Managed Utilities and Keys to Management Success. The panel was commissioned by the U.S. Environmental Protection Agency, American Water Works Association, AMWA, and the other principal water sector associations. The panel’s work identified areas where effectively managed utilities focus to achieve successful outcomes in operations, infrastructure, customer satisfaction, community welfare, natural resource stewardship, and financial performance.

The Association of Metropolitan Water Agencies is an organization of the largest publicly owned drinking water systems in the United States and is the nation's only policy-making organization solely for metropolitan drinking water suppliers.

Water Rates and Charges

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

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

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

The monthly service charge for commercial customers is calculated on the basis of meter size, as well as whether the customer is located inside or outside of City limits. Such charges for service within the City range from \$10.09 for meters of five-eighths of an inch to

\$53.64 for two-inch meters. The rate for commercial customers ranges between \$1.64 and \$ 2.12 per 100 cubic feet of water in the summer and \$1.30 to \$1.79 per 100 cubic feet of water in the winter. The rate for industrial customers ranges between \$1.64 to \$2.12 per 100 cubic feet of water in the summer and \$1.30 to \$1.79 per 100 cubic feet of water in the winter.

The calculation basis of the monthly service charge for residential customers is the same as for commercial customers as discussed above. Such charges for service within the City range from \$11.99 for meters of five-eighths of an inch to \$63.84 for two-inch meters. The quantity rate is summarized in the following table.

QUANTITY WATER RATES FOR RESIDENTIAL CUSTOMERS⁽³⁾

<u>Quantity</u> ⁽¹⁾	<u>Summer Rate</u> ⁽²⁾	<u>Winter Rate</u> ⁽²⁾
First 15 ccf	\$1.04	\$1.03
16 - 35 ccf	1.71	1.54
36 - 60 ccf	2.59	1.06
Over 60 ccf	3.66	2.46

(1) ccf = 100 cubic feet per month.

(2) Per 100 cubic feet. Summer months are June through October; all other months are deemed winter months for rate purposes.

(3) Effective as of November 1, 2009.

There is a surcharge for customers outside of the City limits. At the present time, the surcharge rates are in effect for 3,713 customers outside the City. Revenues received from the surcharge were approximately \$1,177,000 for fiscal year 2008-09.

Water Conservation and Reclamation

In June 2004, the City began collecting a surcharge for Water Conservation and Reclamation programs. This surcharge was approved by City Council and was phased in over a three-year period with a 0.5% surcharge effective June 1, 2004, 1.0% effective June 1, 2005 and 1.5% effective June 1, 2006. The surcharge is used to fund programs: (a) to promote conservation, education and water-use efficiency; (b) to encourage the use of reclaimed water; and (c) for research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation. This surcharge is scheduled to be in effect for services rendered on or after June 1, 2004 through May 31, 2014.

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

PERCENTAGE INCREASE IN WATER RATES

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

Comparable Rates

Due to the City’s valuable water rights in local groundwater, its rates have historically been lower than surrounding communities. Based on current rates in effect as of June 30, 2009, the City’s average residential customer’s rates would be from 49% to 86% higher if served by the other local major water suppliers in the City of Riverside.

Connection Fees

Connection fees are collected by the City to pay for capital improvements attributable to new development. The City does not rely on revenue from connection fees to pay debt service on its outstanding obligations.

The current connection fees are summarized below:

CONNECTION FEES

<u>Description</u>	<u>Fee Amount</u>
3/4” meter	\$1,305
1” meter	1,320
1.5” meter	2,254
2” meter	2,294
3” meter	Est. cost of installation
Fire service connection	Est. cost of installation

Set forth in the following table is a five-year history of connection fee revenue received by the City.

CONNECTION FEE REVENUE
(in thousands)

<u>Fiscal Year</u>	<u>Connection Fee Revenues</u>
2004-05	\$9,428
2005-06	16,431
2006-07	12,420
2007-08	6,583
2008-09	3,980

Capital Improvement Program

Beginning July 1, 2009, the City estimates that it will invest up to \$150.6 million in capital improvements to the Water System over the next five years. The Capital Improvement Program will be funded with bond proceeds, rate revenues, grant funds, and contributions in aid of construction from developers. The improvements are needed to maintain system reliability, secure new water resources, serve new residential and commercial developments, relocate and replace facilities for transportation improvements and refurbish the water system. The City currently plans to finance \$130 million of the capital improvements with bond proceeds. The City is funding approximately \$80 million of the required capital improvements with proceeds of the 2009 Bonds, and expects to issue another \$50 million of bonds in the next five years, assuming a funding source is identified and incorporated into the rate plan.

The five-year plan incorporates portions of the Water Master, Water Supply, and Asset Management Plans, the first year of which is included in the annual operating budget that was adopted by the City Council on June 23, 2009. The Water System's Capital Improvement Program is categorized into three main sections: Water System Improvements, Recurring Projects and Other.

Water System Improvements totaling \$78.3 million include capital betterments and improvements to the Water System for constructing, reconstructing, replacing, extending and improving facilities to deliver water throughout the City's service area, including the construction of portions of recycled water system infrastructure and a 17 million gallon replacement reservoir. The Board and City Council have approved an enhanced infrastructure replacement program which provides for replacement of approximately five miles of distribution mains per year (increasing to twelve miles per year within this five-year capital plan period), to be financed by Water System revenues. The Capital Improvement Plan includes \$35.5 million over the five-year period for main replacements. Total transmission and distribution system expansion and improvements represent approximately 76% of the total Capital Improvement Program budget.

The recurring projects in the Capital Improvement Program consist of water supply improvements totaling \$14.3 million during the five-year period. These include water stock, meters, system expansion for new customers and distribution system facilities, and represent approximately 9% of the total Capital Improvement Program budget. The majority of recurring new capital facilities to meet growth, such as meters and fire hydrants, are financed through system connection fees. Other projects totaling \$22.5 million include property acquisition, street improvements, and projects related to relocation and replacement of facilities for transportation improvements.

The Capital Improvement Program was developed in fiscal years 2007-08 and 2008-09. The City has not yet begun to update its Capital Improvement Program. The City is aware that, since adoption of the Capital Improvement Program, construction costs have generally declined as a result of the economic downturn, and, consequently, the City anticipates that the total cost of the Capital Improvement Program may also decline.

Seismic Issues

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

Proceeds of the 2009 Bonds will be used to finance the rehabilitation or replacement of the existing 16 million gallon Evans Reservoir, which has been identified as susceptible to damage from a major local earthquake. The seismic vulnerability of the Water System is further mitigated by a geographically diverse water supply system and a number of interconnections which allow the City to purchase water from other agencies in the event of a local disaster.

The City has not committed to maintain earthquake insurance on any of the facilities of the Water System.

Insurance

The Water System's insurance needs are handled by the Risk Management Section of the City Manager's Office. Liability and workers' compensation Internal Service Insurance fund balances are based on annual actuarial studies and reviews by the City's Risk Manager and an outside insurance consultant. The City, including the Water System, is self-insured for up to \$3 million for liability and up to \$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 \$20 million of excess liability coverage. 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 \$1 billion subject to a \$250,000 deductible for electric generating facilities, and \$50,000 for all other structures and facilities. All properties valued at over \$50,000 are insured at full replacement value based on periodic appraisals and annual Marshall Swift trend factor adjustment.

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

Water System Litigation

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Water Utility are incidental to the ordinary course of operations of the Water Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and

litigation will not have a materially adverse effect upon the financial position or results of operation of the Water Utility.

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

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. The City has settled with a number of the defendants, and the settlement has been approved by the court. There is no trial date for the remainder of the case. See “THE WATER SYSTEM – Water Quality Settlements” above.”

The City is also a plaintiff in a lawsuit against several entities that either owned or leased a property site in the City of Colton and City of Rialto that is contaminated by perchlorate. The lawsuit was filed on March 31, 2009, and no trial date has been set.

HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM

Transfers to the City’s General Fund

Contributions to the City’s General Fund of surplus funds of the Water System (after payment of operating and maintenance expenses and debt service on the Bonds and Parity Debt) are limited by the City Charter, amendment of which requires voter approval. Such transfers, as approved by the voters and adopted by the City Council on November 15, 1977, are limited to twelve equal monthly installments during each fiscal year, comprising a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfer to the City’s General Fund for the fiscal year ended June 30, 2009 was \$5,276,000. The budgeted transfer for the fiscal year ended June 30, 2010 is \$5,656,800. See “CONSTITUTIONAL LIMITATIONS – Proposition 218” for a discussion of issues relating to the General Fund transfer under Articles XIIC and XIID of the California Constitution.

Significant Accounting Policies

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

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

appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

For accounting policies specifically relating to the Water System, see the notes to the financial statements in Appendix B. See "FINANCIAL STATEMENTS" below.

Summary of Operations

The following table shows the Net Operating Revenues of the Water System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution, and has been prepared by the City based on audited financial statements for the Water System for fiscal years 2004-05 through 2008-09.

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

	Fiscal Year Ended June 30,				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating Revenues:					
Water Sales:					
Residential	\$20,043	\$22,336	\$28,396	\$30,046	\$32,368
Commercial	9,252	10,470	13,255	14,615	15,928
Other Sales	1,582	1,617	1,916	1,755	1,763
Wholesale Sales	142	151	164	206	802
Other Operating Revenues	<u>2,855</u>	<u>2,476</u>	<u>2,438</u>	<u>2,156</u>	<u>2,660</u>
Total Water Revenues	<u>33,874</u>	<u>37,050</u>	<u>46,169</u>	<u>48,778</u>	<u>53,521</u>
Interest Income	582	1,773	2,931	3,357	3,169
Contributions in Aid ⁽¹⁾	9,721	10,878	5,611	13,410	3,749
Non-Operating Revenues	<u>1,171</u>	<u>16,525</u>	<u>988</u>	<u>1,767</u>	<u>447</u>
Total Revenues	<u>\$45,348</u>	<u>\$66,226</u>	<u>\$55,699</u>	<u>\$67,312</u>	<u>\$60,886</u>
Operating Expenses:					
Field Operations	\$ 6,942	\$ 7,171	\$ 7,569	\$ 8,753	\$10,190
Production and Operations	13,181	13,516	15,050	16,336	16,102
Engineering	<u>6,313</u>	<u>6,341</u>	<u>6,842</u>	<u>8,738</u>	<u>9,347</u>
Total Expenses ⁽²⁾	<u>\$26,436</u>	<u>\$27,028</u>	<u>\$29,461</u>	<u>\$33,827</u>	<u>\$35,639</u>
Net Operating Revenues Available for Debt Service and Depreciation	<u>\$18,912</u>	<u>\$39,198</u>	<u>\$26,238</u>	<u>\$33,485</u>	<u>\$25,247</u>
Debt Service Requirements on Outstanding Bonds	\$6,636	\$7,665	\$7,754	\$8,630	\$11,201
Debt Service Coverage	2.85x	5.11x	3.38x	3.88x	2.25x

⁽¹⁾ The amounts reflected as "Contributions in Aid" reflect cash collections from a combination of connection fees by developers and grant funded projects. Of the amounts listed, \$2,398, \$80, \$ 411, \$10,357 and \$2,368 for the fiscal years 2004-05 through 2008-09, respectively, relates to grants received from others to construct water facilities.

⁽²⁾ Does not include contributions to City's General Fund of \$3,487,502, \$3,539,000, \$3,928,000, \$4,955,000 and \$5,276,000 for the fiscal years ended June 30, 2005, 2006, 2007, 2008 and 2009, respectively.

Audited Balance Sheet and Related Statements

The following table presents summaries of financial data relating to the Water System for fiscal years 2004-05 through 2008-09. This data is extracted from the City's Water Utility Audited Balance Sheets and Related Statements for such fiscal years. See "FINANCIAL STATEMENTS" below.

WATER FUND BALANCE SHEET
(Dollars In Thousands)

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009
ASSETS					
Utility plant:					
Source of supply	\$ 37,384	\$ 32,684	\$ 32,822	\$35,880	\$61,393
Pumping and treatment	24,983	29,435	36,750	41,991	44,553
Transmission and distribution	251,642	273,785	284,010	311,288	327,188
General and Intangible	<u>15,246</u>	<u>14,938</u>	<u>16,014</u>	<u>18,257</u>	<u>19,291</u>
	329,255	350,842	369,596	407,416	452,425
Less accumulated depreciation	<u>(100,212)</u>	<u>(106,971)</u>	<u>(114,190)</u>	<u>(122,340)</u>	<u>(131,552)</u>
	229,043	243,871	255,406	285,076	320,873
Construction in progress	12,656	6,663	27,067	31,878	24,407
Land	<u>0</u>	<u>3,891⁽¹⁾</u>	<u>3,923⁽¹⁾</u>	<u>7,682⁽¹⁾</u>	<u>10,809⁽¹⁾</u>
Total utility plant	<u>241,699</u>	<u>254,425</u>	<u>286,396</u>	<u>324,636</u>	<u>356,089</u>
Restricted assets	<u>8,537⁽²⁾</u>	<u>37,434⁽²⁾</u>	<u>23,310⁽²⁾</u>	<u>62,953⁽²⁾</u>	<u>34,793⁽²⁾</u>
Current assets:					
Cash and investments	15,911	33,765	40,127	29,577	29,679
Accounts receivable, net	5,853	7,947	7,128	17,578	10,266
Accrued interest receivable	217	327	399	260	146
Prepaid Expenses	<u>0</u>	<u>368</u>	<u>2</u>	<u>6</u>	<u>7</u>
Total current assets	<u>21,981</u>	<u>42,407</u>	<u>47,656</u>	<u>47,421</u>	<u>40,098</u>
Other non-current assets:					
Deferred pension costs	5,890	5,876	5,838	5,782	5,705
Deferred bond issuance / refunding costs	1,245	1,067 ⁽³⁾	1,003 ⁽³⁾	1,702 ⁽³⁾	1,624 ⁽³⁾
Advance to general fund	<u>48</u>	<u>28</u>	<u>20</u>	<u>0</u>	<u>0</u>
Total other non-current assets	<u>7,183</u>	<u>6,971</u>	<u>6,861</u>	<u>7,484</u>	<u>7,329</u>
Total assets	<u>\$279,400</u>	<u>\$341,237</u>	<u>\$364,223</u>	<u>\$442,494</u>	<u>\$438,309</u>
LIABILITIES AND FUND EQUITY					
Equity:					
Reserved for debt service	\$8,440	\$12,491	\$4,475 ⁽⁴⁾	\$4,862 ⁽⁴⁾	\$5,156 ⁽⁴⁾
Conservation & Reclamation Programs	132	337	853	1,394	1,888
Unreserved	15,870	35,344	39,707	37,884	30,911
Invested in capital assets, net of related debt	<u>175,041</u>	<u>180,708</u>	<u>208,882</u>	<u>230,347</u>	<u>237,188</u>
Total equity	<u>199,483</u>	<u>228,880</u>	<u>253,917</u>	<u>274,487</u>	<u>275,143</u>
Long-term obligations, less current portion	63,684	94,961 ⁽³⁾	91,568 ⁽³⁾	147,349 ⁽³⁾	143,522 ⁽³⁾
Non-current liabilities:					
Pension obligation	5,890	5,823	5,761	5,682	5,584
Arbitrage liability	0	0	416	0	0
Postemployment benefits payable	<u>0</u>	<u>0</u>	<u>0</u>	<u>250</u>	<u>526</u>
Total non-current liabilities	<u>5,890</u>	<u>5,823</u>	<u>6,177</u>	<u>5,932</u>	<u>6,110</u>
Current liabilities payable from restricted assets:					
Accrued interest payable	611	325	318	568	1,156
Conservation and Reclamation Programs payable	0	0	0	3	23
Current portion of long-term obligations	<u>4,075</u>	<u>4,300</u>	<u>4,355</u>	<u>4,375</u>	<u>4,415</u>
Total current liabilities payable from restricted assets	<u>4,686</u>	<u>4,625</u>	<u>4,673</u>	<u>4,946</u>	<u>5,594</u>
Current liabilities:					
Accounts payable	2,115	3,248	4,436	6,862	5,768
Other liabilities	<u>3,542</u>	<u>3,700</u>	<u>3,452</u>	<u>2,918</u>	<u>2,172</u>
Total current liabilities	<u>5,657</u>	<u>6,948</u>	<u>7,888</u>	<u>9,780</u>	<u>7,940</u>
Total equity and liabilities	<u>\$ 279,400</u>	<u>\$341,237</u>	<u>\$364,223</u>	<u>\$442,494</u>	<u>\$438,309</u>

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

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

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

(4) Beginning in fiscal year ended June 2008, a change was made to re-classify a portion of the Reserved for debt service to the Invested in capital assets, net of related debt. For comparison purposes, Fiscal year 2006-07 numbers were adjusted.

Outstanding Obligations of the Water System

The outstanding obligations of the City with respect to the Water System are described in “PLAN OF FINANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

WATER SYSTEM STRATEGIC PLAN

Strategic Plan

In October 2001, to adapt to the changing conditions in the water industry in California, a comprehensive Strategic Plan was adopted. The Board and City Council strongly believe in the following mission statement: *“The City of Riverside Public Utilities Department is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.”*

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

On July 11, 2008, the Riverside Board held a workshop to update the Ten Year Goals. As a result, the Riverside Board adopted the following (not in priority order) goals:

- Be recognized locally and nationally as the leader in clean energy and conservation
- Enhance and protect the financial health of Riverside Public Utilities
- Effectively protect and advocate Riverside Public Utilities interest in legislative and regulatory forums
- Become water independent
- Achieve a superior level of customer satisfaction and awareness that Riverside Public Utilities is owned by the customers it serves

In order to more expediently attain the Ten Year Goals, the Riverside Board has also adopted Three Year Strategic Goals and Objectives. To ensure maximum efficiency and improvements in operations, management determined that meeting every six months to review/revisit the existing goals/objectives was necessary to reflect any substantive changes in the utility operating environment. At the most recent management meeting, the following Three Year Strategic Goals and Objectives were developed and subsequently approved by the Riverside Board on September 18, 2009:

- Protect the financial health of Riverside Public Utilities
- Increase system reliability in electric and water
- Increase awareness of Riverside Public Utilities as a leader in utility and environmental stewardship
- Impact positively legislation and regulations at all levels of government
- Build and implement an independent IT Division in Riverside Public Utilities to meet the Department’s specialized utility industry needs

RISK FACTORS

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

The 2009 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of debt service on the 2009 Bonds, nor is the credit or taxing power of the City pledged for the payment of debt service on the 2009 Bonds. 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 the 2009 Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2009 Bonds under the Resolution

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 Water System serves an essential public purpose.

No Debt Service Reserve Accounts

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City is not funding a reserve account for either the 2009A Bonds or the 2009B Bonds. The owners of the 2009 Bonds have no rights to moneys in the Reserve Accounts established for other outstanding Bonds.

Demand and Usage

There can be no assurance that the local demand for services provided by the Water System will continue according to historical levels. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Operating Revenues sufficient to comply with the City's rate covenants. Such rate increases could increase the likelihood of nonpayment.

In addition, drought conditions and voluntary or mandatory conservation measures could decrease usage of the services of the Water System. Reduction in usage could require an

increase in rates or charges in order to produce Net Operating Revenues sufficient to comply with the City's rate covenants.

Water System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Water System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 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 water sold and delivered is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State of California limits or restricts such rates and charges. It is possible that future legislative changes could subject the rates or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements.

Casualty Risk

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

According to the City's Urban Water Management Plan dated December 2005, the City is located close to active earthquake faults, such as the San Andreas and San Joaquin faults. Earthquakes pose potential significant risks to the Water System, and could potentially result in water supply shortages and disruptions to the transmission/distribution systems. Groundwater produced from wells in the San Bernardino area is conveyed using two major transmission lines that cross several earthquake faults. In addition, harmful microorganisms could migrate into the

disruption system because of pipe breaks and/or damage to water disinfection facilities. Another potential hazard related to earthquake is soil liquefaction.

According to the City's Urban Water Management Plan dated December 2005, some of the Water System's wells are located within the flood plains of the Santa Ana River, and are therefore subject to flooding. The Seven Oaks Dam upstream will reduce the magnitude, frequency and vulnerability of wells to flooding, while increasing available water rights. Floods may lead not only to physical damage and/or loss of water infrastructure, but also water contamination. The City has implemented measures to minimize the risk of groundwater contamination as a result of flooding.

Certain Other Limitations on Fees and Charges

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

Proposition 218

See "CONSTITUTIONAL LIMITATIONS – Proposition 218" for a discussion of certain issues relating to the City's historical compliance with Articles XIIC and XIID of the California Constitution.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" 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.

Risks Relating to Build America Bonds

The City must comply with certain requirements of the Internal Revenue Code of 1986, as amended (the “**Code**”) in order for the 2009B Bonds to be treated as qualified bonds and to continue to be eligible for the refundable credits. The City has covenanted to comply with each of these requirements. However, failure by the City to comply with these requirements may result in a delay or forfeiture of all or a portion of the refundable credits 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 execution and delivery of the 2009B Bonds. Should such an event occur, the 2009B Bonds are not subject to extraordinary prepayment and will remain outstanding until maturity or until prepaid under one of the other prepayment provisions contained in the Indenture.

In addition, it is important to note that Build America Bonds are a new product introduced by the American Recovery and Reinvestment Act, which was signed into law on February 17, 2009. As such, the City can provide no assurance that future legislation or clarifications or amendments to the Code, if enacted into law, or future court decisions will not reduce or eliminate the refundable credits with respect to the 2009B Bonds. In such event, the 2009B Bonds would be subject to redemption prior to their maturity. The refundable credits do not constitute a full faith and credit guarantee of the United States government, but are required to be paid by the Treasury under the American Recovery and Reinvestment Act. If the City is obligated to issue refunding obligations in order to prepay the 2009B Bonds prior to their maturity, the City would be subject to the various risks attendant to issuance of refunding obligations, including higher-than-desired interest rates, duplicative transaction costs and, if the City were to purchase a financial guaranty insurance policy with respect to the 2009B Bonds, foregone surety costs.

Risks Relating to the 2008A Standby Bond Purchase Agreement

The 2008A Standby Bond Purchase Agreement has a scheduled termination date of May 13, 2011. If the City were to fail to renew or provide a substitute for the 2008A Standby Bond Purchase Agreement prior to the termination date, the 2008A Bonds would be subject to purchase by Bank of America, N.A. under the 2008A Standby Bond Purchase Agreement and the City would be obligated to repay Bank of America, N.A. over an approximately five-year period. In such event, the City could be obligated to increase rates to repay Bank of America, N.A. and such rate increases could increase the likelihood of nonpayment of water service charges by customers.

CONSTITUTIONAL LIMITATIONS

Article XIII B

Article XIII B 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 XIII B 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 XIII B 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 XIII B.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an ad valorem tax, a special tax or an assessment, imposed by a (local government) upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

Specifically, under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a

majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would

reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, 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.

Proposition 218 and the City Water Rates. The City's water rate structure as of November 1, 2006 (see "THE WATER SYSTEM – Water Rates and Charges" above) was adopted by Resolution No. 21148 on March 28, 2006, prior to the Supreme Court's decision in *Bighorn*. The City took the following actions to meet the requirements of Proposition 218:

- Notices were sent to property owners on bill inserts with monthly bills (beginning on April 2, 2008 and continuing through May 1, 2008), which was at least 45 days prior to a scheduled 6/20/2008 public hearing.
- A protest hearing was conducted on 6/20/2008.

No protests were received and the 2006 adoption of Resolution No. 21148 was validated in accord with Proposition 218's requirements. The City will continue to comply with the provisions of Proposition 218 in connection with future rate increases.

Water Utility Revenue Transfer Under the City Charter. As described in "HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM," Section 1304 of the Riverside City Charter requires the Water System to transfer, in monthly installments, an amount not to exceed 11.5% of the gross operating revenues of the Water Utility ("**Revenue Transfer**"). This requirement has been in the City Charter since 1907, when the City's charter was approved and adopted by the electorate. Prior to 1968, the Water Utility was obligated to transfer, after all required expenditures had been made at the end of each fiscal year, all excess funds. In 1968, the electorate approved a change requiring a transfer of 11.5% of gross operating revenues. In 1977, the electorate approved a change to an amount "not to exceed" 11.5% of gross operating revenues.

The holdings in *Bighorn* and *Fresno* make it clear that the City's water service charges are property-related fees or charges that must comply with Article XIID. This means that the revenues derived from these charges may not exceed the cost to the City of providing the related services. To the City's knowledge, no California appellate court has considered whether payments like the Revenue Transfer are a cost of providing the related service. As of the date of this Official Statement, no claim has been filed with the City regarding the legality of including the Revenue Transfer as a cost of providing the related services and no litigation has been threatened. The statute of limitations for filing a claim is one year from the date that the City collected a Water Service Charge that was used to make the Revenue Transfer payments. Further, under the court's holding in *Ardon v City of Los Angeles*, 174 Cal.App.4th 369 (2009) (under review), class claims are not permitted in local tax refund cases. The Court recognized

the need for fiscal predictability and strict legislative control over refund claims at the local as well as State level and held that constitutional protections apply to general as well as specific claiming statutes, including the Government Claims Act, thus protecting tax refund claims asserted against local agencies.

If a court were to conclude that the Revenue Transfer is not a cost of providing the service of the Water System, then the Water System might be required to revise its rates and charges to eliminate the revenues needed to pay the Revenue Transfers, and the Water System could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Water System most likely would require the City to return the challenged Revenue Transfer and the Water System would be prohibited from making any future Revenue Transfers.

Because the Water System is primarily resourced by local groundwater supplies, and the City perfected its rights to such water in the lawsuit entitled *Western Municipal Water District et al. vs. East San Bernardino County Water District et al.* (Riverside County Superior Court No. 784726, April 17, 1969), the City, in lieu of a Revenue Transfer, is contemplating leasing these water rights to the Water System, in an amount not to exceed 11.5% of the Water System's annual operating revenues.

Conclusion. It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

Future Initiatives

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

TAX MATTERS

2009A Bonds. In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, 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 calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2009A Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, 2009A Bondowners should consult their tax advisors regarding whether interest on the 2009A Bonds is included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a 2009A Bond (the first price at which a substantial amount of the 2009A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2009A Bond (to the extent the redemption price at maturity is bigger than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2009A Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2009A Bondowner will increase the 2009A Bondowner's basis in the applicable 2009A Bond. The amount of original issue discount that accrues to the owner of the 2009A Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2009A Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the City and others and others and is subject to the condition that the City and others comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), that must be satisfied subsequent to the issuance of the 2009A Bonds to assure that interest on the 2009A Bonds (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the 2009A Bonds (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2009A Bonds. The City and others have covenanted to comply with all such requirements.

The amount by which a 2009A Bondowner's original basis for determining loss on sale or exchange in the applicable 2009A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2009A Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2009A Bond premium reduces the 2009A Bondowner's basis in the applicable 2009A Bond (and the amount of Tax-Exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2009A Bond premium may result in a 2009A Bondowner realizing a taxable gain when a 2009A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2009A Bond to the Owner. Purchasers of the 2009A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2009A Bond premium.

An owner who acquires a 2009A Bond for an amount that is greater than the sum of all amounts payable on the 2009A Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased such 2009A Bond at a premium. An owner

of a 2009A Bond generally may elect to amortize such premium using a constant yield method over the remaining term of the 2009A Bond. Any such election shall apply to all debt instruments (other than debt instruments the interest on which is excludable from gross income) held at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without consent of the IRS. Special rules may apply if a 2009A Bond is subject to call prior to maturity at a price in excess of its redemption price at maturity.

The Internal Revenue Service (the “**IRS**”) has initiated an expanded program for the auditing of Tax-Exempt bond issues, including both random and targeted audits. It is possible that the 2009A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2009A Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, that Congress or the IRS might change the Code (or interpretation thereof) subsequent to the issuance of the 2009A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2009A Bonds or their market value.

It is possible that subsequent to the issuance of the 2009A Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state, or local tax treatment of the 2009A Bonds or the market value of the 2009A Bonds. No assurance can be given that subsequent to the issuance of the 2009A Bonds such changes or interpretations will not occur.

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2009A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest on the 2009A Bonds (and original issue discount) for federal income tax purposes with respect to any 2009A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2009A Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2009A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2009A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2009A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2009A Bonds.

A copy of the proposed form of opinion of Bond Counsel for the 2009A Bonds is attached to this Official Statement as Appendix E.

2009B Bonds. The City has elected to issue the 2009B Bonds as Build America Bonds for purposes of Section 54AA of the Code for which the City is allowed a refundable credit which, with respect to any interest payment date for the 2009B Bond, is equal to 35% of the amount of interest payable on the 2009B Bond with respect to such date. The City will elect 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. UNDER NO CIRCUMSTANCES WILL THE OWNERS

OF THE 2009B BONDS RECEIVE OR BE ENTITLED AT ANY TIME TO A CREDIT AGAINST THE TAX IMPOSED BY THE CODE. The City cannot ensure that it will receive such a refundable credit at any time and in any given amount.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2009B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but is exempt from State of California personal income tax.

Except for certain exceptions, the difference between the issue price of a 2009B Bond (the first price at which a substantial amount of the 2009B Bond of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2009B Bond (to the extent the redemption price at maturity is bigger than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the 2009B Bond Owner will increase the 2009B Bond Owner's basis in the 2009B Bond. 2009B Bond holders should consult their own tax advisor with respect to taking into account any original issue discount on the 2009B Bonds.

The holders of the 2009B Bonds that have a basis in the 2009B Bonds that is greater than the principal amount of the 2009B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

The qualification of the 2009B Bonds and receipt of the refundable credit for purposes of Section 54AA of the Code is subject to the condition that the City and others comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2009B Bonds to assure that the 2009B Bonds qualify as Build America Bonds under Section 54AA for which the City has made an irrevocable election to receive a refundable credit. Failure to comply with such requirements of the Code might result in the City not receiving such a refundable credit, possibly retroactive to the date of issue of the 2009B Bonds. The City has covenanted to comply with all such requirements.

The IRS has initiated an expanded program for the auditing of bond issues, including both random and targeted audits. It is possible that the 2009B Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2009B Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, that Congress or the IRS might change the Code (or interpretation thereof) subsequent to the issuance of the 2009B Bonds to the extent that it adversely affects the status of the 2009B Bonds as Build America Bonds for purposes of Section 54AA of the Code for which the City is entitled to a refundable credit or the 2009B Bond market value.

It is possible that subsequent to the issuance of the 2009B Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state, or local tax treatment of the 2009B Bonds or the market value of the 2009B Bonds. No assurance can be given that subsequent to the issuance of the 2009B Bonds such changes or interpretations will not occur.

The federal tax and State of California personal income tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. The ownership and disposal of the 2009B Bond and the accrual or receipt

of interest with respect to the 2009B Bond may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. ANY FEDERAL TAX ADVICE CONTAINED HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE. THE FEDERAL TAX ADVICE CONTAINED HEREIN WITH RESPECT TO THE 2009B BONDS WAS WRITTEN TO SUPPORT THE PROMOTING AND MARKETING OF THE 2009B BONDS. BEFORE PURCHASING ANY OF THE 2009B BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES RELATING TO THE 2009B BONDS AND THE TAXPAYER'S PARTICULAR CIRCUMSTANCES.

A copy of the proposed form of opinion of Bond Counsel for the 2009B Bonds is attached hereto as Appendix E.

VERIFICATION OF MATHEMATICAL ACCURACY

The Arbitrage Group, Inc., as Verification Agent, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the amounts deposited in the 1998 Escrow Fund, without interest earnings, to pay the Redemption Price, together with accrued interest to the date of redemption, of the remaining 1998 Bonds approximately 30 days after the pricing of the 2009A Bonds.

The Arbitrage Group, Inc., as Verification Agent, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the amounts deposited in the 2001 Escrow Fund, without interest earnings, to pay (i) the principal of and interest due on the Refunded 2001 Bonds through October 1, 2011 and (ii) pay the Redemption Price, together with accrued interest to the redemption date, of the Refunded 2001 Bonds chosen for redemption on October 1, 2011.

See "THE PLAN OF FINANCE."

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2009 Bonds are subject to the unqualified approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Bond Counsel has not undertaken any responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds and express no opinion relating thereto. An opinion 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. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City. Nossaman LLP is acting as counsel to the Underwriter.

The payment of the fees and expenses of Bond Counsel, Disclosure Counsel, Underwriter's 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 actual knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 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

The financial statements of the City of Riverside Water Utility as of and for the year ended June 30, 2009 (the “**2009 Financial Statements**”) 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 including its report in Appendix B. The Auditor’s review in connection with the 2009 Financial Statements included in Appendix B included events only as of June 30, 2009 and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the 2009 Financial Statements.

RATINGS

Fitch Ratings Group has assigned a municipal bond rating of “AA” to the 2009 Bonds, Standard & Poor’s Credit Market Services, a division of the McGraw Hill Companies, Inc., has assigned a municipal bond rating of “AA+” to the 2009 Bonds, and Moody’s Investors Service has assigned a municipal bond rating of “Aa3” to the 2009 Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2009 Bonds may have an adverse effect on the market price or marketability of the 2009 Bonds.

UNDERWRITING

The 2009 Bonds are being purchased by E. J. De La Rosa & Co., Inc. as underwriter (the “**Underwriter**”). The Underwriter has agreed, subject to certain conditions, to purchase all of the 2009 Bonds described on the inside cover page of this Official Statement as follows:

2009A Bonds: The Underwriter has agreed to purchase the 2009A Bonds at an aggregate purchase price of \$35,491,268.30 (which is equal to the par amount of the 2009A Bonds, less an underwriter’s discount of \$143,527.50 and plus a net original issue premium of \$3,739,795.80).

2009B Bonds: The Underwriter has agreed to purchase the 2009B Bonds at an aggregate purchase price of \$66,972,740.80 (which is equal to the par amount of the 2009B Bonds, less an underwriter’s discount of \$305,055.00 and less an original issue discount of \$512,204.20).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2009 Bonds to certain dealers (including dealers depositing 2009 Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than such public offering prices.

FINANCIAL ADVISOR

The City has retained Public Financial Management Inc., of San Francisco, California, as financial advisor (the “**Financial Advisor**”) in connection with the issuance and delivery of the 2009 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor is contingent upon the issuance and delivery of the 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 Water System (the “**Annual Report**”) by not later than 270 days following the end of the City’s fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2008-09 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board (“**MSRB**”). The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in “APPENDIX D - Form of Continuing Disclosure Certificate.” These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The City has not failed to comply in any material respects with a previous undertaking under the Rule to provide annual reports or notices of material events in the last five years.

MISCELLANEOUS

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

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Paul C. Sundeen
Treasurer

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

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APPENDIX A

CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

The 2009 Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Water System. The information set forth below is included in the Official Statement for background purposes only.

General Description and Background

Incorporated in October 11, 1883, the City of Riverside is a charter city that now functions under a Council/Manager form of government. A seven member City Council is elected by ward, with the Mayor, elected at large. The City Manager is appointed by the City Council.

Riverside County, which encompasses 7,303 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of California, Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the South by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 24 incorporated cities in Riverside County.

Riverside County's varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, the San Jacinto mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts, such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

Population

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2005 to 2009:

CITY OF RIVERSIDE, RIVERSIDE COUNTY AND STATE OF CALIFORNIA Estimated Population

<u>Year (January 1)</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>
2005	286,239	1,882,812	36,675,346
2006	288,933	1,962,801	37,114,598
2007	291,611	2,034,840	37,559,440
2008	296,191	2,078,601	37,883,992
2009	300,430	2,107,653	38,292,687

Source: State of California Department of Finance, Demographic Research Unit.

Commerce

Total taxable sales during the first three quarters of calendar year 2008 in the City were reported to be \$3,140,594,000, a 12.44% decrease over the total taxable sales of \$3,586,680,000 reported during the first three quarters of calendar year 2007. The valuations of taxable transactions in the City are presented in the following table. Annual figures are not yet available for 2008.

**CITY OF RIVERSIDE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2003	3,355	\$3,210,160	7,707	\$3,974,583
2004	3,803	3,718,999	7,967	4,603,769
2005	3,981	4,019,963	7,664	4,950,254
2006	3,990	4,082,977	7,237	5,034,072
2007	3,812	3,888,251	7,427	4,789,554

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

Total taxable sales during the first three quarters of calendar year 2008 in the County were reported to be \$19,811,695,000, a 8.48% decrease over the total taxable sales of \$21,646,541,000 reported during the first three quarters of calendar year 2007. The valuations of taxable transactions in the County are presented in the following table. Annual figures are not yet available for 2008.

**COUNTY OF RIVERSIDE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2003	18,300	\$16,030,952	40,833	\$21,709,135
2004	20,642	18,715,949	42,826	25,237,148
2005	22,691	20,839,212	44,222	28,256,491
2006	23,322	21,842,345	43,672	29,816,237
2007	22,918	21,242,516	45,279	29,023,609

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

Employment and Industry

The City is included in the Riverside-San Bernardino-Ontario labor market area. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 14.2% in September 2009, down from a revised 14.6% in August 2009, and above the year-ago estimate of 9.1%. This compares with an unadjusted unemployment rate of 12.0% for California and 9.5% for the nation during the same period. The unemployment rate was 14.7% in Riverside County, and 13.6% in San Bernardino County.

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

RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA (RIVERSIDE COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	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%
<u>Wage and Salary Employment:</u> ⁽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	1,178,700	1,240,300	1,285,000	1,287,300	1,238,700

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

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

Source: State of California Employment Development Department.

Major Employers

The table below shows the 10 largest employers in the City.

CITY OF RIVERSIDE LARGEST EMPLOYERS (As of January 1, 2009)

<u>Employer</u>	<u>Number of Employees</u>	<u>% of Total City Employment⁽¹⁾</u>
University of California Riverside	6,470	4.7%
Riverside Unified School District	4,000	2.9
City of Riverside	2,569	1.9
Riverside Community College	2,000	1.5
Alvord Unified School District	1,669	1.2
Riverside Community Hospital	1,600	1.2
Press-Enterprise Co.	1,090	0.8
Parkview Community Hospital	1,000	0.7
Kaiser Permanente	900	0.7
Riverside Medical Clinic	<u>600</u>	<u>0.4</u>
Total	21,898	16.0%

(1) Based on total City employment of 137,200.

Source: City of Riverside, Development Department (as presented in the City's 2009 Comprehensive Annual Financial Report).

The following table lists the largest employers within the County:

**COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of September 2009)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Corrections Dept	Norco	State Govt-Correctional Institutions
Crossroads Truck Dismantling	Mira Loma	Automobile Wrecking (Whls)
Desert Sands Unified School District	La Quinta	Schools
Eisenhower Medical Ctr	Rancho Mirage	Hospitals
Eisenhower Medical Ctr	Rancho Mirage	Laboratories-Medical
Fantasy Springs Resort Casino	Indio	Bowling Centers
Handsome Rewards	Perris	Internet & Catalog Shopping
Hemet Valley Medical Ctr	Hemet	Hospitals
Hub International Of CA Ins	Riverside	Insurance
J W Marriott-Desert Spgs Resrt	Palm Desert	Hotels & Motels
Kaiser Permanente	Riverside	Physicians & Surgeons
La Quinta Resort & Club	La Quinta	Resorts
Morongo Casino Resort & Spa	Cabazon	Casinos
Mountain & Dunes Golf Courses	La Quinta	Golf Courses-Private
Pechanga Development Corp	Temecula	Casinos
Riverside City Council	Riverside	Government Offices-City, Village & Twp
Riverside Community Hospital	Riverside	Hospitals
Riverside County Regional Med	Moreno Valley	Hospitals
Riverside Forklift Training	Riverside	Trucks-Industrial (Whls)
Robertson's Ready-Mix	Corona	Concrete-Ready Mixed
Starcrest Of California	Perris	Internet & Catalog Shopping
Starcrest Products-California	Perris	Gift Shops
Sun World Intl LLC	Coachella	Fruits & Vegetables-Growers & Shippers
University Of Cal-Riverside	Riverside	Schools-Universities & Colleges Academic
Watson Pharmaceuticals Inc	Corona	Marketing Programs & Services

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2009 2nd Edition

Construction Activity

The following is a five-year summary of the valuation of building permits issued in the City. During the first nine months of calendar year 2009, the City issued building permits for 48 single-family (valued at \$12,156,839) and 23 multi-family (valued at \$711,339) residential units. During this same time, non-residential permits were valued at \$59,707,392.

CITY OF RIVERSIDE Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Permit Valuation</u>					
New Single-family	\$205,436.7	\$333,223.8	\$200,821.0	\$88,770.6	\$23,168.9
New Multi-family	23,610.9	44,223.8	32,498.8	59,369.5	24,410.6
Res. Alterations/Additions	<u>22,225.7</u>	<u>22,817.8</u>	<u>17,139.3</u>	<u>18,372.3</u>	<u>16,864.6</u>
Total Residential	251,273.3	400,265.4	250,459.2	166,512.4	64,444.1
New Commercial	161,598.7	107,106.2	118,436.2	117,693.6	55,156.5
New Industrial	14,593.8	26,909.5	35,584.2	45,943.6	13,778.9
New Other	32,324.4	35,436.2	26,905.6	27,857.2	11,023.8
Com. Alterations/Additions	<u>40,374.2</u>	<u>56,320.9</u>	<u>63,389.1</u>	<u>67,889.5</u>	<u>59,695.9</u>
Total Nonresidential	248,891.2	225,772.7	244,315.3	259,383.9	139,655.2
<u>New Dwelling Units</u>					
Single Family	820	1,442	847	342	69
Multiple Family	<u>282</u>	<u>521</u>	<u>286</u>	<u>599</u>	<u>216</u>
TOTAL	1,102	1,963	1,133	941	285

Source: Construction Industry Research Board, *Building Permit Summary*

The following is a five-year summary of the valuation of building permits issued in the County.

COUNTY OF RIVERSIDE Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Permit Valuation</u>					
New Single-family	\$5,997,513.2	\$6,243,791.7	\$4,412,255.1	\$2,207,519.5	\$1,214,753.0
New Multi-family	404,615.9	407,432.1	431,580.9	238,315.9	243,741.9
Res. Alterations/Additions	<u>135,176.6</u>	<u>164,312.5</u>	<u>158,099.4</u>	<u>141,997.0</u>	<u>118,488.7</u>
Total Residential	6,537,305.6	6,815,536.3	5,001,935.4	2,587,832.4	1,576,983.5
New Commercial	580,057.8	552,666.9	648,065.7	682,331.0	539,943.4
New Industrial	203,311.9	120,367.6	288,352.6	184,505.6	70,410.8
New Other	334,001.0	344,703.2	290,006.3	240,767.0	138,765.2
Com. Alterations/Additions	<u>222,495.5</u>	<u>274,337.7</u>	<u>303,408.9</u>	<u>350,539.1</u>	<u>292,693.8</u>
Total Nonresidential	1,339,866.1	1,292,075.4	1,529,833.4	1,458,142.7	1,041,813.1
<u>New Dwelling Units</u>					
Single Family	29,478	29,994	20,692	9,763	3,815
Multiple Family	<u>4,748</u>	<u>4,140</u>	<u>4,519</u>	<u>2,690</u>	<u>2,104</u>
TOTAL	34,226	34,134	25,211	12,453	5,919

Source: Construction Industry Research Board, *Building Permit Summary*

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

CITY OF RIVERSIDE Effective Buying Income 2004 through 2008

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying_ Income</u>
2004	City of Riverside	\$4,303,175	\$38,787
	Riverside County	29,468,208	40,275
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Riverside	\$4,510,655	\$39,461
	Riverside County	32,004,438	41,326
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Riverside	\$4,823,975	\$41,469
	Riverside County	35,656,620	43,490
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Riverside	\$5,065,658	\$43,161
	Riverside County	38,631,365	45,310
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Riverside	\$5,318,760	\$45,059
	Riverside County	40,935,408	46,958
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for 2004; Claritas Demographics for 2005 and after.

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 61 elementary and middle schools and high schools. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Indian High School, a federally-run school for Native Americans.

Transportation

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

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

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

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

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**



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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2008 and, in our report dated October 3, 2008, we expressed an unqualified opinion on those financial statements.

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

As discussed in Note 1 to the financial statements, the financial statements of the City of Riverside, California, Water Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside, California, Water Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Water Utility, as of June 30, 2009 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information. 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.



To the Honorable City Council and Board of Public Utilities
City of Riverside
Page 2

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman Me Cann P.C.

San Jose, California
October 29, 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Water Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Water Utility (Utility) for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 52 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2009 and 2008 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base and the effects of rate increases offset by a decrease in consumption.

- Retail sales, net of reserve/recovery were \$49,591 and \$46,164 for the years ended June 30, 2009 and 2008, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans, offset by a 2.5% reduction in retail consumption.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2009 and 2008 by \$275,143 and \$274,487, respectively. Of this amount, \$30,911 and \$37,884, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2009 and 2008 increased by \$656 and \$20,570 from fiscal years ended June 30, 2008 and 2007, respectively. The 2009 increase was significantly impacted by the effects of the Special Item (see Note 8).
- As of June 30, 2009 and 2008, unrestricted equity represented over 67% and 88% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The **Balance Sheets** present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the Utility is improving or deteriorating.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

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

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 56 to 67 of this report.

UTILITY FINANCIAL ANALYSIS

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by \$275,143 and \$274,487 at the close of the fiscal years 2009 and 2008, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2009, 2008 and 2007:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2009	2008	2007
Current and other assets	\$ 82,220	\$ 117,858	\$ 77,827
Capital assets	356,089	324,636	286,396
Total assets	438,309	442,494	364,223
Long-term debt outstanding	143,522	147,349	91,568
Other liabilities	19,644	20,658	18,738
Total liabilities	163,166	168,007	110,306
Invested in capital assets, net of related debt	237,188	230,347	208,882
Restricted	7,044	6,256	5,328
Unrestricted	30,911	37,884	39,707
Total equity (net assets)	\$ 275,143	\$ 274,487	\$ 253,917

ASSETS

Fiscal Year 2009 Total assets of \$438,309 reflect a decrease of \$4,185 (1.0%), mainly due to the following:

- Current and other assets, which comprise of restricted and unrestricted assets, reflect a net decrease of \$35,638 due to the use of \$28,284 of bonds proceeds for capital projects. Accounts receivable from other utilities and governments decreased by \$7,032 primarily due to the reduction of a receivable from the State of California for reimbursement for capital construction projects.
- The increase in net capital assets (Utility plant) of \$31,453 was a result of significant investment in the pipeline replacement program, system expansion and improvements, and construction of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 50 of this report.

Fiscal Year 2008 Total assets of \$442,494 reflect an increase of \$78,271 (21.5%), due to a \$38,240 increase in net capital assets (Utility plant) primarily relating to the pipeline replacement program, system expansion and improvements, and construction of treatment facilities (of which approximately 50% was funded by the State of California Proposition 50 grant funds). Current and other assets reflect a net increase of \$40,031 due to the issuance of the 2008 Water Revenue Series B Bonds which resulted in an increase in bond proceeds offset by the use of bond proceeds for capital projects and a decrease in operating cash used for capital construction projects eligible for reimbursement from the State.

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

LIABILITIES

Fiscal Year 2009 The Utility's total liabilities were \$163,166, a decrease of \$4,841 (2.9%), due to the following:

- Long-term debt outstanding decreased by \$3,827 due to principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.
- Other liabilities decreased by \$1,014 primarily from a \$911 decrease in payables and accrued liabilities.

Fiscal Year 2008 The Utility's total liabilities increased by \$57,701 (52.3%) to \$168,007. Long-term debt outstanding increased by \$55,781 primarily due to the issuance of the 2008 Water Revenue Series B Bonds offset by principal repayments. Other liabilities increased by \$1,920 due to an increase in accounts payable and accrued liabilities offset by a decrease in customer deposits.

EQUITY (NET ASSETS)

Fiscal Year 2009 The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$275,143, an increase of \$656 (less than 1.0%), is comprised of the following:

- The largest portion of the Utility's equity is \$237,188 (86.2%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion increased by \$6,841 (3.0%) over prior fiscal year due to the amount of capital assets constructed or purchased that were not bond financed. The Water Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the Balance Sheets must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled \$7,044 (2.6% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by \$788 from prior fiscal year primarily due to increases in Water Conservation and Reclamation program assets.
- The unrestricted portion totaled \$30,911 (11.2% of total equity), a decrease of \$6,973, primarily attributable to the results of positive operations offset by the effects of the Special Item (see Note 8) and the use of unrestricted equity to fund capital projects. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

Fiscal Year 2008 Total Water fund equity increased \$20,570 (8.1%) to \$274,487. The largest portion of the equity, \$230,347 (83.9%), is represented by investment in capital assets, which increased by \$21,465 (10.3%) due to the amount of capital assets constructed or purchased that were not bond funded. The restricted portion increased by \$928 primarily due to increases in Water Conservation and Reclamation program assets. The unrestricted portion decreased by \$1,823 due to positive operating results for fiscal year 2008, offset by the use of unrestricted equity to fund capital projects and additional debt service reserves.

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

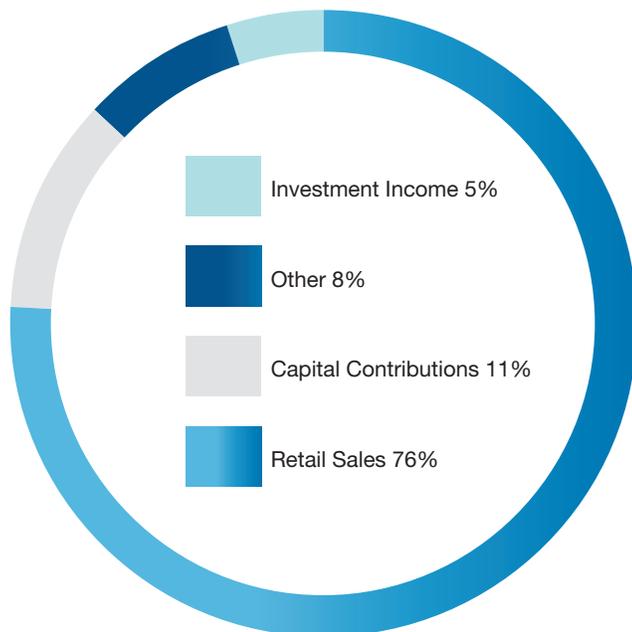
The Water Utility's overall increase in equity of \$656 and \$20,570 during fiscal years 2009 and 2008, respectively, was due to positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

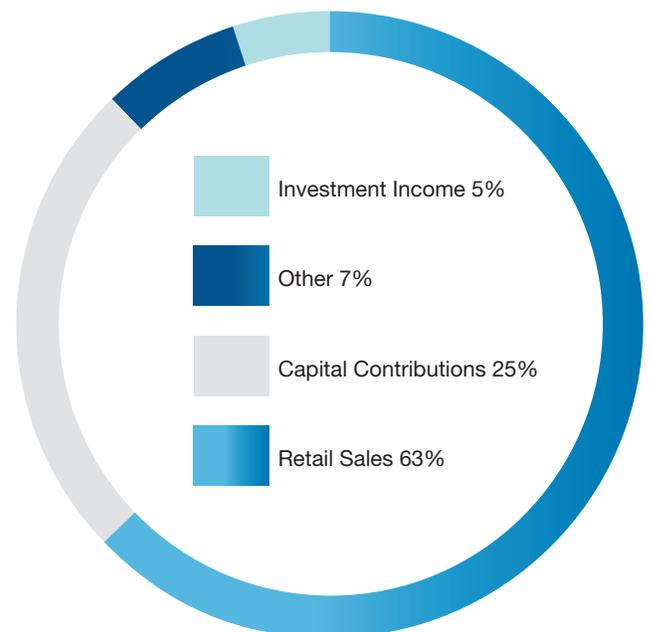
	2009	2008	2007
Revenues:			
Retail sales, net	\$ 49,591	\$ 46,164	\$ 43,403
Other revenues	5,311	5,206	4,491
Investment income	3,169	3,357	2,931
Capital contributions	7,148	18,116	20,074
Total revenues	65,219	72,843	70,899
Expenses:			
Operations and maintenance	29,678	27,795	23,449
Purchased energy and water	6,401	6,316	6,233
Depreciation	9,771	8,806	7,783
Interest expense and fiscal charges	7,049	4,401	4,469
Total expenses	52,899	47,318	41,934
Transfers to the City's general fund	(5,276)	(4,955)	(3,928)
Special item	(6,388)	-	-
Changes in equity	656	20,570	25,037
Equity, July 1	274,487	253,917	228,880
Equity, June 30	\$ 275,143	\$ 274,487	\$ 253,917

REVENUES BY SOURCES

June 30, 2009



June 30, 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

Fiscal Year 2009 Total revenues of \$65,219 decreased by \$7,624 (10.5%) from prior fiscal year, due to the following major changes:

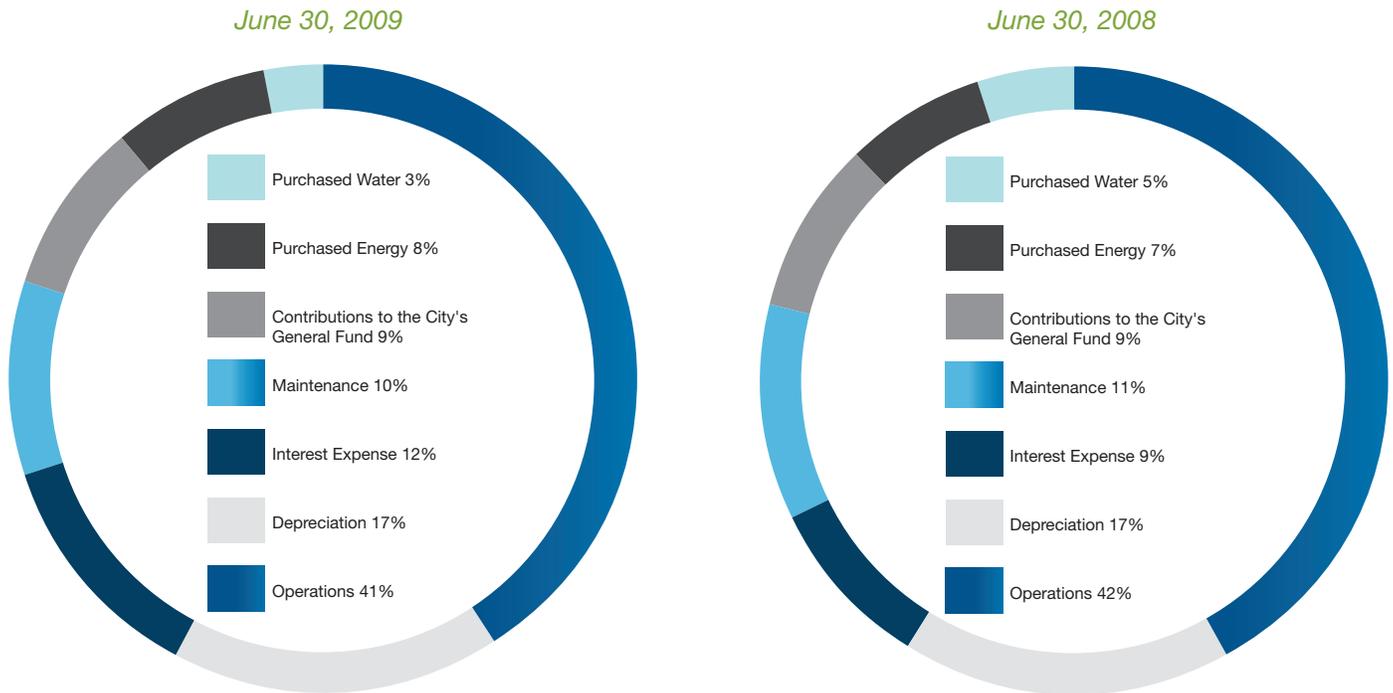
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled \$49,591, an increase of \$3,427 (7.4%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 76.0% of total revenues. The increase in retail sales was primarily due to a 10.0% rate increase that became effective November 1, 2008 as part of the SAFE W.A.T.E.R. Plan, offset by a 2.5% decrease in retail consumption.
- Other revenues of \$5,311 increased by \$105 (2.0%) predominantly due to an increase in wholesales sales attributed to our Wheeling agreement.
- Investment income of \$3,169 reflects a decrease of \$188 (5.6%), due to an overall decrease of \$644 in the fair market value and interest from investments, offset by an increase of \$456 on interest earned on bond construction cash.
- Capital contributions were \$7,148 and reflect a decrease of \$10,968 (60.5%), primarily due to a decrease of \$7,512 in contributions from State grants for reimbursable capital project costs, decreases of \$1,307 in non-cash developer contributions, and \$1,558 from developers for construction projects due to the slowdown in development related activities.

Fiscal Year 2008 Total revenues of \$72,843 increased by \$1,944 (2.7%) from prior fiscal year, due to the following major changes:

- Net retail sales were \$46,164, 63.3% of total revenues, reflecting an increase of \$2,761 (6.4%) in net retail sales from the prior fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2007 as part of the SAFE W.A.T.E.R. Plan, offset by a 6.1% decrease in retail consumption.
- Other revenues of \$5,206 increased by \$715 (15.9%) predominantly due to gains on the sale of assets.
- Investment income of \$3,357 reflects an increase of \$426 (14.5%), primarily due to a net increase in the fair market value of investments.
- Capital contributions were \$18,116 and reflect a decrease of \$1,958 (9.8%), primarily due to an increase of \$10,047 in contributions from State grants for reimbursable capital project costs, offset by a decrease of \$6,168 in non-cash contributions for treatment facilities from settlement agreements with parties responsible for contaminating the Water Utility's ground water resources, and a decrease of \$5,837 in construction projects funded by developers.

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

EXPENSES BY SOURCES



Fiscal Year 2009 Total expenses were \$52,899, an increase of \$5,581 (11.8%), due to the items discussed below:

- Operations and maintenance costs were \$29,678, and reflect an increase of \$1,883 (6.8%), primarily due to increases in personnel-related expenses and general operating expenses. Overall purchased energy and water costs were consistent with prior year; however, electricity costs increased \$928 due to pumping water from deeper ground levels due to ongoing drought conditions. Although the Utility did not purchase any water in the current year, it recorded \$1,823 (\$843 lower than prior year) primarily for over-pumping its entitlement in local ground water in previous years and to pay availability charges related to pumping rights.
- Interest expense and fiscal charges were \$7,049, and reflect an increase of \$2,648 (60.2%), due to a full year of interest costs associated with the 2008 Water Revenue Series B bonds.
- Depreciation expense of \$9,771 increased \$965 (11.0%) primarily due to the completion of \$45,307 of capital projects that were included as depreciable capital assets.

Fiscal Year 2008 Total expenses were \$47,318, reflecting an increase of \$5,384 (12.8%), due to an increase in personnel-related expenses, professional service costs, maintenance expenses and the cost of electricity and gas necessary for operations, offset by a reduction in purchased water costs.

TRANSFERS

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

Fiscal Year 2009 The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or \$5,276, an increase of \$321, primarily the result of a \$2,761 increase in retail sales for fiscal year 2008. See also Note 8 regarding a Special Item transaction with the City's general fund.

Fiscal Year 2008 Transfers to the City's general fund of \$4,955 increased by \$1,027, primarily the result of increased retail sales of \$9,102 for fiscal year 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2009	2008	2007
Source of supply	\$ 49,485	\$ 24,719	\$ 22,266
Pumping	13,534	11,451	7,641
Treatment	19,843	20,613	20,293
Transmission and distribution	226,454	217,071	195,557
General	5,542	5,253	3,680
Land	10,809	7,682	3,923
Intangible	6,015	5,969	5,969
Construction in progress	24,407	31,878	27,067
Total	\$ 356,089	\$ 324,636	\$ 286,396

Fiscal Year 2009 The Water Utility's investment in capital assets, net of accumulated depreciation was \$356,089, an increase of \$31,453 (9.7%). The increase resulted primarily from the following significant capital projects:

- \$6,642 for continued pipeline replacement programs.
- \$23,638 for system expansion and improvements including pump station replacements, reservoir construction and facilities rehabilitation.
- \$4,129 for completion of the John W. North Treatment facility which will greatly increase the water supply and was one of the recommended system improvements in the SAFE W.A.T.E.R. Plan.
- \$2,661 for property acquisitions for future reservoirs, booster stations and other system expansion or improvement projects (see Note 8).

Fiscal Year 2008 Investment in capital assets, net of accumulated depreciation, for the Water Utility increased \$38,240 (13.4%), for a total of \$324,636. Major capital projects included \$6,156 for continued pipeline replacement programs, \$10,768 for system expansion and improvements to water facilities, and \$20,463 for the John W. North Treatment facility.

DEBT ADMINISTRATION

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

	2009	2008	2007
Revenue bonds	\$ 149,020	\$ 153,395	\$ 99,515
Contracts payable	949	964	974
Less:			
Current portion	(4,565)	(4,525)	(4,505)
Unamortized deferred bond refunding costs	(3,101)	(3,198)	(2,510)
Unamortized capital appreciation	(427)	(938)	(1,629)
Unamortized bond premium (discount)	1,646	1,651	(277)
Total	\$ 143,522	\$ 147,349	\$ 91,568

MANAGEMENT'S DISCUSSION AND ANALYSIS: WATER

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.25, 3.88, and 3.38 at June 30, 2009, 2008, and 2007, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2009 Total long-term debt decreased by \$3,827 (2.6%) to a total of \$143,522, due to \$3,787 of principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

Fiscal Year 2008 Long-term debt of \$147,349 increased by \$55,781 (60.9%), due to the May 15, 2008 issuance of the 2008 Water Revenue Series B Bonds in the amount of \$58,235, offset by \$4,364 of principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 62 to 66 of this report.

CREDIT RATINGS

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

ECONOMIC FACTORS AND RATES

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

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

The Utility is impacted by the recent economic decline affecting virtually all industries in the United States, with retail consumption decreasing 2.5% and 6.1% in fiscal years 2009 and 2008, respectively, over the previous year levels. In addition, the water revenues are dependent on weather conditions, with significant wet weather years impacting revenue as residents reduce water used for outdoor landscaping.

The state has reduced water exports from northern to southern California which has significantly increased the costs for imported water. With completion of the John W. North Water Treatment Plant, Riverside is water independent and does not expect any increase costs to its customers due to the curtailment of water deliveries to Southern California. This new plant created a new source of supply and the City has executed an agreement with another local water supplier which is expected to produce additional revenue of \$1.5 to \$2.0 million per year.

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

REQUESTS FOR INFORMATION

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

BALANCE SHEETS: WATER

ASSETS	June 30, 2009	June 30, 2008
	(in thousands)	
UTILITY PLANT:		
Source of supply	\$ 61,392	\$ 35,880
Pumping	20,782	18,219
Treatment	23,772	23,772
Transmission and distribution	327,189	311,288
General	13,275	12,288
	<u>446,410</u>	<u>401,447</u>
Less accumulated depreciation	(131,552)	(122,340)
	<u>314,858</u>	<u>279,107</u>
Land	10,809	7,682
Intangible	6,015	5,969
Construction in progress	24,407	31,878
	<u>356,089</u>	<u>324,636</u>
TOTAL UTILITY PLANT (Note 3)		
	<u>356,089</u>	<u>324,636</u>
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	5,156	4,862
Cash and investments at fiscal agent (Note 2)	27,726	56,694
	<u>32,882</u>	<u>61,556</u>
TOTAL RESTRICTED NON-CURRENT ASSETS		
	<u>32,882</u>	<u>61,556</u>
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,705	5,782
Deferred bond issuance costs	1,624	1,702
	<u>7,329</u>	<u>7,484</u>
TOTAL OTHER NON-CURRENT ASSETS		
	<u>7,329</u>	<u>7,484</u>
TOTAL NON-CURRENT ASSETS		
	<u>396,300</u>	<u>393,676</u>
CURRENT ASSETS:		
<i>Unrestricted assets:</i>		
Cash and cash equivalents (Note 2)	29,679	29,577
Accounts receivable, less allowance for doubtful accounts 2009 \$99; 2008 \$121	5,580	5,860
Accounts receivable, other utilities and governments, less allowance for doubtful accounts 2009 \$115; 2008 \$179	4,686	11,718
Accrued interest receivable	146	260
Prepaid expenses	7	6
	<u>40,098</u>	<u>47,421</u>
TOTAL UNRESTRICTED CURRENT ASSETS		
	<u>40,098</u>	<u>47,421</u>
<i>Restricted assets:</i>		
Cash and cash equivalents (Note 2)	1,761	1,249
Conservation and Reclamation Programs receivable	150	148
	<u>1,911</u>	<u>1,397</u>
TOTAL RESTRICTED CURRENT ASSETS		
	<u>1,911</u>	<u>1,397</u>
TOTAL CURRENT ASSETS		
	<u>42,009</u>	<u>48,818</u>
TOTAL ASSETS		
	<u>\$ 438,309</u>	<u>\$ 442,494</u>

* See accompanying notes to the financial statements

BALANCE SHEETS: WATER

EQUITY AND LIABILITIES	June 30, 2009	June 30, 2008
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	\$ 237,188	\$ 230,347
Restricted for:		
Debt service (Note 5)	5,156	4,862
Conservation and Reclamation Programs	1,888	1,394
Unrestricted	30,911	37,884
Total equity	<u>275,143</u>	<u>274,487</u>
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	<u>143,522</u>	<u>147,349</u>
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Notes 1 and 4)	5,584	5,682
Postemployment benefits payable (Notes 1 and 4)	526	250
Total other non-current liabilities	<u>6,110</u>	<u>5,932</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,156	568
Conservation and Reclamation Programs payable	23	3
Current portion of long-term obligations (Note 4)	4,415	4,375
Total current liabilities payable from restricted assets	<u>5,594</u>	<u>4,946</u>
CURRENT LIABILITIES:		
Accounts payable	5,768	6,862
Accrued liabilities	1,461	2,142
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	561	626
Total current liabilities	<u>7,940</u>	<u>9,780</u>
Total liabilities	<u>163,166</u>	<u>168,007</u>
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	<u>\$ 438,309</u>	<u>\$ 442,494</u>

* See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY: WATER

	For the Fiscal Years Ended June 30,	
	2009	2008
	(in thousands)	
OPERATING REVENUES:		
Residential sales	\$ 32,368	\$ 30,046
Commercial sales	15,928	14,615
Other sales	1,763	1,755
Wholesale sales	802	206
Conservation and Reclamation Programs	934	825
Other operating revenue	3,128	2,408
	<hr/>	<hr/>
Total operating revenues before (reserve)/recovery	54,923	49,855
Reserve for uncollectible, net of bad debt recovery	(468)	(252)
	<hr/>	<hr/>
Total operating revenues, net of (reserve)/recovery	54,455	49,603
	<hr/>	<hr/>
OPERATING EXPENSES:		
Operations	23,647	21,971
Maintenance	5,590	5,540
Purchased energy	4,578	3,650
Purchased water	1,823	2,666
Conservation and Reclamation Programs	441	284
Depreciation	9,771	8,806
	<hr/>	<hr/>
Total operating expenses	45,850	42,917
	<hr/>	<hr/>
Operating income	8,605	6,686
	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES):		
Investment income	3,169	3,357
Interest expense and fiscal charges	(7,049)	(4,401)
Gain (loss) on sale of capital assets	(598)	164
Gain on sale of land	34	12
Other	1,011	1,591
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(3,433)	723
	<hr/>	<hr/>
Income before contributions and transfers	5,172	7,409
	<hr/>	<hr/>
Capital contributions	7,148	18,116
Transfers out - contributions to the City's general fund	(5,276)	(4,955)
	<hr/>	<hr/>
Total capital contributions and transfers out	1,872	13,161
	<hr/>	<hr/>
Income before special item	7,044	20,570
	<hr/>	<hr/>
SPECIAL ITEM:		
Intra-entity property acquisition	(6,388)	-
	<hr/>	<hr/>
Increase in equity	656	20,570
	<hr/>	<hr/>
EQUITY, BEGINNING OF YEAR	274,487	253,917
	<hr/>	<hr/>
EQUITY, END OF YEAR	\$ 275,143	\$ 274,487
	<hr/>	<hr/>

* See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS: WATER

For the Fiscal Years
Ended June 30,
2009 2008
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers and users	\$	54,045	\$ 48,533
Cash paid to suppliers and employees		(37,948)	(31,450)
Other receipts		1,011	1,591
Net cash provided by operating activities		17,108	18,674
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers out - contributions to the City's general fund		(5,276)	(4,955)
Intra-entity property acquisition		(6,388)	-
Principal paid on pension obligation bonds		(98)	(79)
Net cash used by non-capital financing activities		(11,762)	(5,034)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of utility plant		(37,714)	(42,031)
Proceeds from the sale of utility plant		128	306
Principal paid on long-term obligations		(4,390)	(4,364)
Interest paid on long-term obligations		(6,582)	(3,820)
Proceeds from revenue bonds, including premium		-	120,430
Deposit to escrow account for advance bond refunding		-	(60,300)
Bond issuance costs		-	(1,435)
Capital contributions		11,871	3,531
Net cash provided (used) by capital and related financing activities		(36,687)	12,317
CASH FLOWS FROM INVESTING ACTIVITIES:			
Reduction in advances to the City's general fund		-	20
Purchases of investment securities		684	27
Income from investments		3,281	3,080
Net cash provided by investing activities		3,965	3,127
Net increase (decrease) in cash and cash equivalents		(27,376)	29,084
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$54,356 and \$14,722 at June 30, 2008 and June 30, 2007, respectively, reported in restricted accounts)			
		83,933	54,849
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$26,878 and \$54,356 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)			
	\$	56,557	\$ 83,933
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$	8,605	\$ 6,686
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		9,771	8,806
Amortization of deferred charges-pension costs		77	56
(Decrease) increase in allowance for uncollectible accounts		(86)	87
(Increase) in accounts receivable		(726)	(693)
(Increase) in prepaid expenses		(1)	(4)
(Decrease) increase in accounts payable		(1,095)	2,427
(Decrease) increase in accrued liabilities		(681)	183
Increase in postemployment benefits payable		276	250
Increase in Conservation & Reclamation Programs		23	-
(Decrease) in customer deposits		(66)	(715)
Other receipts		1,011	1,591
Net cash provided by operating activities	\$	17,108	\$ 18,674
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Capital contributions - capital assets		3,399	4,706
Decrease in fair value of investments		-	(1)

* See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$2,737 at June 30, 2009, and \$2,961 at June 30, 2008.

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

UTILITY PLANT AND DEPRECIATION

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

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

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

RESTRICTED ASSETS

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

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

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2009, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

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

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2009 and 2008, respectively, was \$561 and \$626 (including \$109 and \$104, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the City is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2009 and 2008. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was \$1,266 at June 30, 2009, and \$1,993 at June 30, 2008, and is included in accrued liabilities in the accompanying Balance Sheets.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

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

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INSURANCE PROGRAMS

The Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2009, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2009 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were \$380 and \$490 for the years ended June 30, 2009 and 2008, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June 30, 2009 and 2008, was 14.17 percent and 13.29 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2009 and 2008, was \$2,138 and \$1,842, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2009, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of \$60,000, of which the Water Utility's share is \$5,890 as reflected in the accompanying Balance Sheet as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with PERS. The balance in deferred pension costs as of June 30, 2009 and 2008 was \$5,705 and \$5,782, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

OTHER POSTEMPLOYMENT BENEFITS

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

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Water Utility currently contributes to a bargaining unit through the Service Employee's International Union General Trust (SEIUG). 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-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Water Utility 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.

The contribution requirements of the Water Utility for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The Water Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Water Utility's Implied Subsidy Plan are established by the City Council. The Water Utility 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 Water Utility'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 Water Utility's OPEB liability as of June 30, 2009 and 2008 was \$526 and \$250, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2009 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years ended June 30, 2009 and 2008, the Water Utility transferred 11.5 percent of gross operating revenues, or \$5,276 and \$4,955, respectively.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2009 and 2008, consist of the following (in thousands):

	June 30, 2009	June 30, 2008
	(Fair Value)	
Equity interest in City Treasurer's investment pool	\$ 36,596	\$ 35,688
Investments at fiscal agent	24,691	54,260
	<hr/>	<hr/>
	61,287	89,948
Deposits with financial institutions	3,035	2,434
	<hr/>	<hr/>
Total cash and investments	<u>\$ 64,322</u>	<u>\$ 92,382</u>

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

	June 30, 2009	June 30, 2008
Unrestricted cash and cash equivalents	\$ 29,679	\$ 29,577
Restricted cash and cash equivalents	6,917	6,111
Restricted cash and investments at fiscal agent	27,726	56,694
	<hr/>	<hr/>
Total cash and investments	<u>\$ 64,322</u>	<u>\$ 92,382</u>

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

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 312	\$ 312	\$ -	\$ -	\$ -
Investment contracts ¹	24,379	19,961	-	-	4,418
City Treasurer's investment pool ²					
Money market funds	4,199	4,199	-	-	-
Federal agency securities	20,155	4,163	3,120	12,872	-
Corp medium term notes	3,166	-	1,065	2,101	-
State investment pool	9,076	9,076	-	-	-
Total	<u>\$ 61,287</u>	<u>\$ 37,711</u>	<u>\$ 4,185</u>	<u>\$ 14,973</u>	<u>\$ 4,418</u>

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

Investment Type	Total	Rating as of Year End	
		AAA	Unrated
Held by fiscal agent			
Money market funds	\$ 312	\$ 312	\$ -
Investment contracts	24,379	-	24,379
City Treasurer's investment pool ²			
Money market funds	4,199	-	4,199
Federal agency securities	20,155	20,155	-
Corp medium term notes	3,166	3,166	-
State investment pool	9,076	-	9,076
Total	<u>\$ 61,287</u>	<u>\$ 23,633</u>	<u>\$ 37,654</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	Balance, As of 6/30/07	Additions	Retirements/ Transfers	Balance, As of 6/30/08	Additions	Retirements/ Transfers	Balance, As of 6/30/09
Source of supply	\$ 32,822	\$ 3,058	\$ -	\$ 35,880	\$ 25,942	\$ (430)	\$ 61,392
Pumping	14,053	4,166	-	18,219	2,563	-	20,782
Treatment	22,697	1,075	-	23,772	-	-	23,772
Transmission and distribution	284,010	27,901	(623)	311,288	16,313	(412)	327,189
General	10,045	2,407	(164)	12,288	1,400	(413)	13,275
Depreciable utility plant	363,627	38,607	(787)	401,447	46,218	(1,255)	446,410
Less accumulated depreciation:							
Source of supply	(10,556)	(610)	5	(11,161)	(779)	33	(11,907)
Pumping	(6,412)	(356)	-	(6,768)	(480)	-	(7,248)
Treatment	(2,404)	(755)	-	(3,159)	(770)	-	(3,929)
Transmission and distribution	(88,453)	(6,251)	487	(94,217)	(6,630)	112	(100,735)
General	(6,365)	(833)	163	(7,035)	(1,112)	414	(7,733)
Accumulated depreciation	(114,190)	(8,805)	655	(122,340)	(9,771)	559	(131,552)
Net depreciable utility plant	249,437	29,802	(132)	279,107	36,447	(696)	314,858
Land	3,923	3,759	-	7,682	3,127	-	10,809
Intangible	5,969	-	-	5,969	46	-	6,015
Construction in progress	27,067	44,888	(40,077)	31,878	41,930	(49,401)	24,407
Nondepreciable utility plant	36,959	48,647	(40,077)	45,529	45,103	(49,401)	41,231
Total utility plant	\$ 286,396	\$ 78,449	\$ (40,209)	\$ 324,636	\$ 81,550	\$ (50,097)	\$ 356,089

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	As of 6/30/2007	Additions	Reductions	As of 6/30/2008	Additions	Reductions	As of 6/30/2009	Due Within One Year
Revenue bonds	\$ 95,099	\$ 117,527	\$ (61,716)	\$ 150,910	\$ -	\$ (3,772)	\$ 147,138	\$ 4,415
Pension obligation	5,761	-	(79)	5,682	-	(98)	5,584	119
Postemployment benefits payable	-	250	-	250	276	-	526	-
Water stock acquisition rights	974	-	(10)	964	-	(15)	949	150
Arbitrage liability	416	9	(425)	-	-	-	-	-
Total long-term obligations	\$ 102,250	\$ 117,786	\$ (62,230)	\$ 157,806	\$ 276	\$ (3,885)	\$ 154,197	\$ 4,684

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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

Contracts Payable

	June 30, 2009	June 30, 2008
Water Stock Acquisitions: Payable on demand to various water companies	\$ 949	\$ 964
Total contracts payable	949	964

Revenue Bonds Payable

\$69,840 1991 Water Revenue Bonds: \$25,900 serial capital appreciation bonds due in annual installments from \$3,235 to \$3,240 through October 1, 2010 (partially advance refunded in 1998)	6,475	9,710
\$30,965 1998 Water Refunding/Revenue Bonds: \$15,055 serial bonds due in annual installments from \$315 to \$3,690 through October 1, 2013, interest from 4.70 percent to 5.38 percent; \$10,155 term bonds due October 1, 2018, interest at 5.0 percent; \$5,755 term bonds due October 1, 2027 (partially advance refunded in 2005)	20,405	20,705
\$20,000 2001 Water Revenue Bonds: \$10,070 serial bonds due in annual installments from \$435 to \$585 through October 1, 2016, interest from 3.75 percent to 4.75 percent; \$4,345 term bonds due October 1, 2026 and \$5,585 term bonds due October 1, 2031 were advance refunded in 2005	4,030	4,445
\$60,300 2008 Water Refunding/Revenue Series A Bonds: \$60,300 variable rate bonds due in annual installments from \$425 to \$3,950 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 25, 2009 was 3.6 percent)	59,875	60,300
\$58,235 2008 Water Revenue Series B Bonds: \$19,890 serial bonds due in annual installments from \$1,210 to \$2,585 from October 1, 2016 through October 1, 2028, interest from 4.0 percent to 5.0 percent; \$11,810 term bonds due October 1, 2033, interest at 5.0 percent; \$26,535 term bonds due October 1, 2038, interest at 5.0 percent	58,235	58,235
Total water revenue bonds payable	149,020	153,395
Total water revenue bonds and contracts payable	149,969	154,359
Unamortized deferred bond refunding costs	(3,101)	(3,198)
Unamortized capital appreciation	(427)	(938)
Unamortized bond premium	1,646	1,651
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation, and bond premium	148,087	151,874
Less current portion	(4,565)	(4,525)
Total long-term water revenue bonds and contracts payable	\$ 143,522	\$ 147,349

Annual debt service requirements to maturity, as of June 30, 2009, are as follows (in thousands):

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
Principal	\$ 4,565	\$ 4,615	\$ 4,740	\$ 4,970	\$ 5,200	\$ 21,049	\$ 19,275	\$ 23,160	\$ 28,085	\$ 34,310	\$ 149,969
Interest	5,939	5,892	5,939	5,709	5,289	23,255	19,677	15,675	10,638	4,235	102,248
Total	\$ 10,504	\$ 10,507	\$ 10,679	\$ 10,679	\$ 10,489	\$ 44,304	\$ 38,952	\$ 38,835	\$ 38,723	\$ 38,545	\$ 252,217

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.25 and 3.88 at June 30, 2009 and 2008, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

PRIOR YEAR DEFEASANCE OF DEBT

In prior years the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. At fiscal year ended June 30, 2009, \$13,320 of bonds outstanding is considered defeased.

2008 WATER REFUNDING/REVENUE BONDS

The City entered into a refunding transaction during the prior 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 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.

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 notional values of the original swaps remained in place. The transaction was completed (as described below), and the variable rates received on the VRDNs as of June 30, 2009 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, only the terms of the transaction are described.

On May 7, 2008 \$60,300 of Water Refunding/Revenue Series A Bonds were sold with a true interest cost of 3.22% to refund \$60,300 of previously outstanding 2005 Water Refunding/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 ARS and mitigate exposure to the volatile ARS market.

On May 15, 2008, the Water Utility also issued \$58,235 of Water Revenue Series B Bonds to finance additional capital projects of the City's Capital Improvement Program of the Water System. Series B is comprised of: \$19,890 serial bonds, with principal payments from October 1, 2016 through October 1, 2028 ranging from \$1,210 to \$2,585 at interest rates between 4.0 percent and 5.0 percent; \$11,810 term bonds, maturing on October 1, 2033 with interest rate at 5.0 percent; \$26,535 term bonds, maturing on October 1, 2038 with interest rate at 5.0 percent.

INTEREST RATE SWAPS ON REVENUE BONDS

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds the City entered into interest rate swap agreements in connection with its \$60,300 2005 Water Refunding/Revenue Series A Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20%.

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 \$425 to \$3,950 until the debt is completely retired in fiscal year 2036.

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

The bonds and the related swap agreements for the 2008 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2009, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(2.50962%)
Net interest rate swap payments		0.69038%
Variable-rate bond coupon payments		2.72754%
Synthetic interest on bonds		3.41792%

Fair value: As of June 30, 2009, in connection with all swap agreements, the transactions had a total negative fair value of (\$4,265). 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, 2009, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase Bank was rated A+ 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 counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2009, 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 variable rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the City if the counterparty's credit quality falls below "BBB-" as issued by Standards & 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.

NOTES TO THE FINANCIAL STATEMENTS: WATER

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

Swap payments and associated debt: As of June 30, 2009, 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
2010	\$ 425	\$ 1,622	\$ 410	\$ 2,457
2011	450	1,609	407	2,466
2012	800	1,587	402	2,789
2013	825	1,565	396	2,786
2014	850	1,542	390	2,782
2015-2019	5,575	7,306	1,849	14,730
2020-2024	12,700	5,932	1,502	20,134
2025-2029	14,200	4,038	1,022	19,260
2030-2034	16,275	1,943	492	18,710
2035-2036	7,775	108	27	7,910
Total	\$ 59,875	\$ 27,252	\$ 6,897	\$ 94,024

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2008 Refunding/Revenue Series A Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series B Bonds and the 1998 Revenue Bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. LITIGATION

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

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

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

NOTE 7. CONSTRUCTION COMMITMENTS

As of June 30, 2009, the Water Utility had major commitments of approximately \$8,663 with respect to unfinished capital projects, of which \$8,000 is expected to be funded by bonds and \$663 funded by rates.

NOTE 8. SPECIAL ITEM

On December 6, 2005, the City Council adopted a resolution approving a fair market value transfer to the General Fund of approximately 190 acres out of a 227-acre parcel owned by the Utility's Water Fund. The transfer was facilitated by a loan from the Electric Fund to the General Fund. The transfer was intended to assist in the collaborative development of the property in conjunction with other entities, which have now been hampered by the current economic downturn that is particularly impacting the construction industry.

On June 16, 2009, the Water Utility reacquired the 190-acres from the City and rescinded the original transaction. The City's Water Utility desires to improve its groundwater resources which are critically important to avoid dependence on high-priced imported water. The Utility anticipates using the property for projects such as water production and groundwater replenishment facilities that will be critical to the City's use of the Riverside Groundwater Basin.

The Utility reacquired the land for a price of \$8,980. The original and current carrying value of the land in the Water Utility's capital assets remains at \$2,592. The balance between the purchase price and the carrying value of \$6,388 is recorded as a special item.

KEY HISTORICAL OPERATING DATA: WATER

WATER SUPPLY (acre feet)

	2008/09	2007/08	2006/07	2005/06	2004/05
Pumping	76,830	80,974	85,299	76,605	73,732
Purchases	0	1,643	2,092	2,670	4,137
Total:	76,830	82,617	87,391	79,275	77,869
Percentage pumped	100.00%	98.0%	97.6%	96.6%	94.7%
System peak day (gallons)	105,780,000	111,300,000	109,200,000	118,782,000	112,094,000

WATER USE

	2008/09	2007/08	2006/07	2005/06	2004/05
Number of meters as of year end					
Residential	58,152	57,694	57,666	57,308	56,916
Commercial/Industrial	5,519	5,446	5,279	5,204	5,114
Other	391	354	486	473	462
Total:	64,062	63,494	63,431	62,985	62,492
*CCF sales					
Residential	17,898,798	18,483,522	19,848,653	17,702,717	17,245,315
Commercial/Industrial	10,342,284	10,510,953	10,817,783	9,822,196	9,252,639
Other	983,553	970,239	1,243,927	1,157,130	1,199,448
Subtotal:	29,224,635	29,964,714	31,910,363	28,682,043	27,697,402
Wholesale	496,601	618,552	199,845	182,987	177,851
Total:	29,721,236	30,583,266	32,110,208	28,865,030	27,875,253

*(CCF equals 100 cubic feet)

WATER FACTS

	2008/09	2007/08	2006/07	2005/06	2004/05
Average annual CCF per residential customer	308	320	345	312	308
Average price (\$/CCF) per residential customer	\$1.80	\$1.63	\$1.43	\$1.26	\$1.16
Debt service coverage ratio	2.25	3.88	3.38	5.11	2.85
Employees ¹	167	167	165	137	130

¹Approved positions

KEY HISTORICAL OPERATING DATA: WATER

2008/2009 WATER REVENUE AND RESOURCES



- Other Sales 3¢
- Investment Income 5¢
- Other Revenues 19¢
- Commercial Sales 24¢
- Residential Sales 49¢



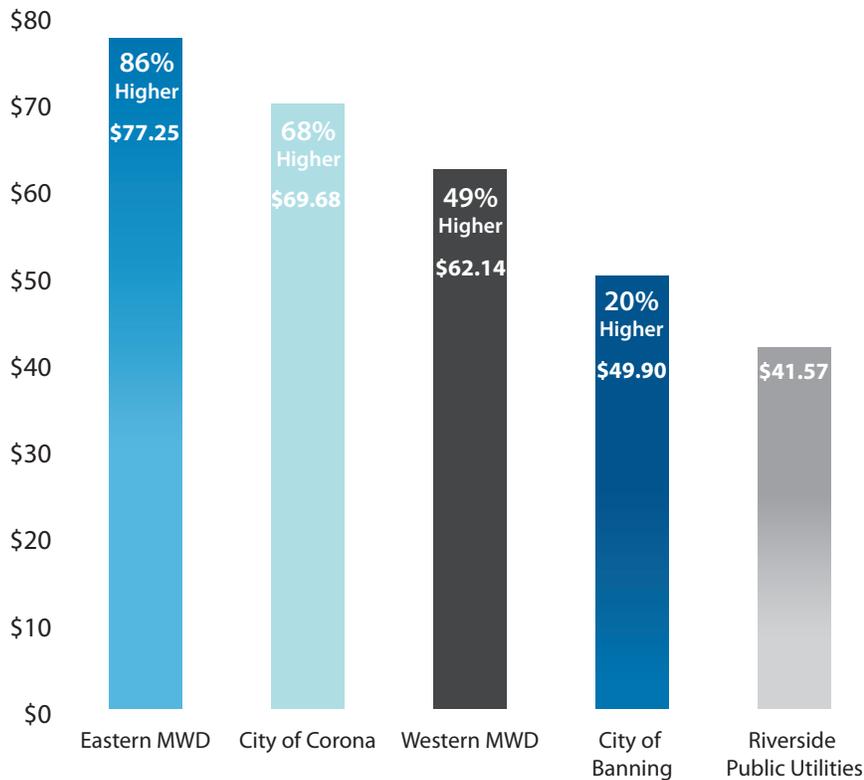
- Water Supply 3¢
- Additional Reserves 7¢
- Transfers to the City's General Fund* 8¢
- Additions & Replacements to the System 12¢
- Debt Services 17¢
- Operations & Maintenance 53¢



- Purchased Water 0%
- Riverside Basin Wells 42%
- San Bernardino Basin Wells 58%

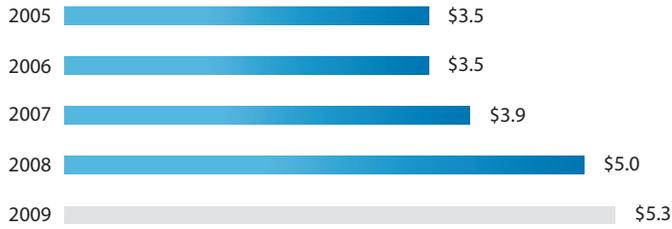
* BASED ON TRANSFER OF 11.5% OF FISCAL YEAR 2007/2008 REVENUES.

RESIDENTIAL WATER RATE COMPARISON – 26 CCF PER MONTH (AS OF JUNE 30, 2009)

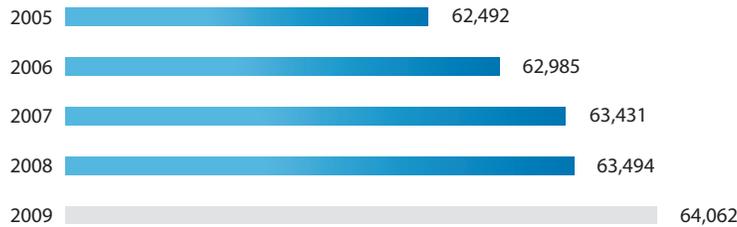


KEY HISTORICAL OPERATING DATA: WATER

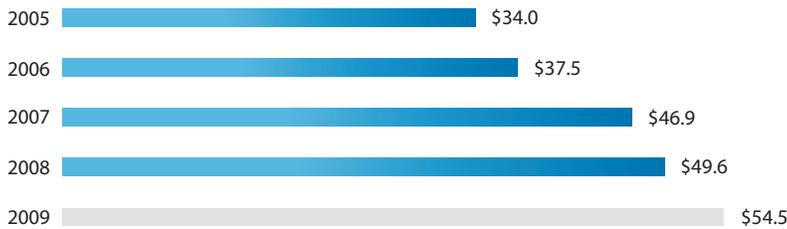
GENERAL FUND TRANSFER *(in millions)*



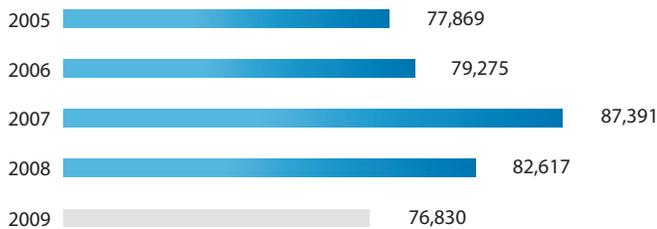
NUMBER OF METERS AT YEAR END



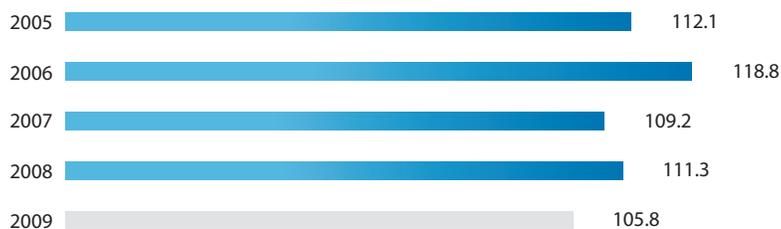
TOTAL OPERATING REVENUE *(in millions)*



PRODUCTION *(in acre feet)*



PEAK DAY DEMAND *(in million gallons)*



WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	300,430
Service Area Size (square miles)	73.8
System Data:	
Smallest pipeline	2.0"
Largest pipeline	72.0"
Miles of pipeline	993
Number of domestic wells	55
Number of active reservoirs	15
Total reservoir capacity (gallons)	99,990,000
Number of treatment plants	7
Number of treatment vessels	99
Miles of canal	14
Number of fire hydrants	7,523
Daily average production (gallons)	68,812,439
2008-2009 Peak day (gallons):	105,780,000
7/2/08, 101 degrees	
Historical peak (gallons):	118,782,000
8/9/05, 99 degrees	

BOND RATINGS

FITCH RATINGS	AA
STANDARD & POOR'S	AA+

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

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

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

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

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

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

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

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

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

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

“Business Day” means, except as otherwise provided in a Supplemental Resolution with respect to a Series of Bonds, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which

commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized to be closed.

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

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

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

“**City**” means the City of Riverside, California.

“**City Clerk**” means the City Clerk of the City.

“**City Council**” or “**Council**” means the City Council of the City.

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

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

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

“**Designated Investments**” means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. With respect to the 2009 Bonds, “Designated Investments” means the following:

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

(b) repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over collateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent for the 2009 Bonds or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent shall have

perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent for the 2009 Bonds to liquidate the collateral;

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

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

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

(f) 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.

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

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

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

“Fiscal Agent” means with respect to any Series of Bonds, the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series and which may be the Treasurer, and any successor appointed in accordance with the Resolution.

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

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

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

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

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

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

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

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

“Maximum Annual Debt Service” shall mean, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purpose of computing Maximum Annual Debt Service:

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

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

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

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

(e) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Parity Debt and

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

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

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

(2) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a fixed interest rate with respect to such Bonds and Subordinate Swap by the City, the interest on such Bonds shall be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap; and

(g) if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America, provided that this paragraph shall not take effect while any of the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2008A Bonds, and the 2008B Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps).

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

“**Moody’s**” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to

refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

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

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

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

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

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

“Net Operating Revenues” means Gross Operating Revenues, less Operating and Maintenance Expenses. However, provided that the following shall not take effect while any of the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2008A Bonds, and the 2008B Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), **“Net Operating Revenues”** will mean Gross Operating Revenues, less Operating and Maintenance Expenses, plus, for the purposes of determining compliance with the paragraph in the Resolution under the caption **“Rates and Charges”** only, the amounts on deposit as of the date of determination in any unrestricted funds of the Water System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

“1991 Bonds” means the City’s Water Revenue Bonds, Issue of 1991.

“1998 Bonds” means the City’s Water Refunding/Revenue Bonds, Issue of 1998.

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

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

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

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

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

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

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

“Rating Agencies” means either or both of Fitch and Standard & Poor’s, and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.

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

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

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

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

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

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

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

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

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

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating

agency, then the term “Standard & Poor’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

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

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

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

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

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

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

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

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

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

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

“**Subordinate Swap Provider**” means, with respect to each Subordinate Swap, the entity (other than the City and, if applicable, the Fiscal Agent) that is a party thereto, and its permitted successors and assigns, whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to “A2” and “A” from at least two nationally recognized credit rating agencies, or whose payment obligations under the Subordinate Swap are enhanced by a credit support provider or other similar entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to “A2” and “A” from at least two nationally recognized

credit rating agencies and whose credit enhancement of the Subordinate Swap Provider's obligations under the Subordinate Swap are pursuant to a guaranty or other form of credit enhancement (including, but not limited to, contingent swap counterparty arrangements, transfer/novation arrangements or option arrangements acceptable to the Treasurer or any duly authorized designee of the Treasurer designated by the Treasurer in writing to act on behalf of such officer for such purpose (such acceptance to be evidenced by the execution and delivery of any such Subordinate Swap)).

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

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

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

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

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

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

"2001 Bonds" means the City's Water Revenue Bonds, Issue of 2001.

"2008A Bonds" means the City's Variable Rate Refunding Water Revenue Bonds, Issue of 2008A.

"2008B Bonds" means the City's Variable Rate Refunding Water Revenue Bonds, Issue of 2008B.

"2009A Bonds" means the City's Water Revenue/Refunding Bonds, Issue of 2009A (Tax-Exempt).

"2009B Bonds" means the City's Water Revenue Bonds, Issue of 2009B (Federally Taxable—Build America Bonds).

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

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

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

Revenues; Funds and Accounts

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

interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City pledges, places a charge upon and assigns all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt. There are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

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

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

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

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

- (a) Water Revenue Bonds, Principal Account (the “Principal Account”); and
- (b) Water Revenue Bonds, Interest Account (the “Interest Account”);

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

(3) Water Revenue Bonds, Surplus Account (the “Surplus Account”).

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

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

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

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

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

(A) **Interest Account.** As soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness) is on deposit in such account, (b) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and (c) only after all deposits have been made for such month in the Principal Account as provided in the immediately following paragraph and the Reserve Accounts as provided below, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates)

and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as provided in clause (c) of this paragraph. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service account to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account with respect to the Bonds.

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

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

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

(B) Following the transfers required by the immediately preceding paragraph, the Treasurer shall, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount provided for in clause (c) under "Interest Account" above.

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

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

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

Application of Funds and Accounts.

(A) ***Bond Service Account.***

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

(ii) **Principal Account.**

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

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

destroyed by that Fiscal Agent and a certificate of destruction shall be delivered to the Treasurer by the Fiscal Agent for such Series.

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

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

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

Establishment, Funding and Application of Redemption Account. The Treasurer shall establish, maintain and hold in trust a special account within the Water Revenue Fund designated as the “Redemption Account.” All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds shall, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account shall be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer shall, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Account shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

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

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

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

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

Covenants

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

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

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

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

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

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

Against Sale; Eminent Domain. The City covenants that the Water System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Water Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, the Bonds and any Parity

Debt and of any amounts due with respect to the Subordinate Obligations, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt and to pay all amounts due under the Subordinate Obligations or which otherwise would impair the rights of the Owners or the Subordinate Providers with respect to the Net Operating Revenues or the operation of the Water System. If any substantial part of the Water System is sold, the payment therefor shall, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Water System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

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

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

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

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

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

No Free Service. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no water or other service from the Water System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no such water or other service shall be rendered to any such public agency or any private corporation or Person at rates lower than those charged other Persons for similar service,

except that charges to the City for water used for facilities of the City may be made at rates lower than those charged private Persons. No building or other real property of the Water System shall be furnished free to any such public agency or any private Person or corporation, but each of the foregoing shall pay the reasonable rental value of any property so used. Reasonable and proper charges for service rendered or quarters furnished to the Water System shall be paid to the City from the Water Revenue Fund. The City shall maintain and enforce valid regulations for the payment of bills for water service. Such regulations shall at all times during such period provide that the City shall, to the extent permitted by law, discontinue water service to any user whose water bill has not been paid within the time fixed by said regulations.

Rates and Charges. The City shall prescribe, revise and collect such rates and charges for the services, facilities and water of the Water System during each Fiscal Year which, after making allowances for contingencies and error in estimates, shall be at least sufficient to pay the following amounts in the order set forth:

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

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

Provided that the following shall not take effect while any of the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2008A Bonds, and the 2008B Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), for purposes of calculating the interest due under (b) above, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

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

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

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

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

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

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

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

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

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

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

amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by the Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

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

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

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

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

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

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

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

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

Amendments

Amendments Permitted.

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

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

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

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

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

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

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

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

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

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

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

Defeasance

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;

(b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or

(c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable to any provider of a Credit Facility under the Resolution by the City and all sums payable to all Subordinate Providers by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer shall cause an accounting for such period or periods as the City may request to be prepared and filed with the City and shall cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

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

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

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

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

(b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as

such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

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

Events of Default; Remedies

Events of Default. Each of the following events shall be an Event of Default under the Resolution:

- (a) Default by the City in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);
- (b) Default by the City in the due and punctual payment of the interest on any Bond;
- (c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution (other than covenants, conditions or agreements for the exclusive benefit of one or more of the Subordinate Providers) or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
- (d) Destruction or damage to any substantial part of the Water System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);
- (e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the Water System or any substantial part of the City's property, or to the taking possession by any such official of the Water System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;
- (f) The-entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the Water System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City of its affairs; or
- (g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

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

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee shall be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Resolution on any Owner; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the City Clerk.

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsections (e), (f) or (g) above, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration the City shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys in the Resolution specifically pledged for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequences.

No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

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

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

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders under the Resolution or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence in the Resolution, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

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

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

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$31,895,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue/Refunding Bonds
Issue of 2009A
(Tax-Exempt)

\$67,790,000
CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds
Issue of 2009B
(Federally Taxable - Build America Bonds)

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the CITY OF RIVERSIDE (the “**City**”) in connection with the execution and delivery of the bonds captioned above (the “**Bonds**”) relating to the City’s Water public utility system (the “**Water System**”). The Bonds are being executed and delivered pursuant to Resolution No. 17664, adopted by the City Council of the City on January 8, 1991, as previously amended and supplemented, and as amended and supplemented by a seventh supplemental resolution adopted by the City Council on November 17, 2009, providing for issuance of the Bonds (as amended and supplemented, the “**Resolution**”).

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is 270 days after the end of the City’s fiscal year (currently April 1 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means E. J. De La Rosa & Co., Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2010, with the report for the 2008-09 fiscal year (although the Annual Report for fiscal year 2008-09 may consist of the Official Statement), provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) 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 the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Water System may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The Water System’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Water System’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained

in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Water System for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.

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

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

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

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

(vi) Description of any Additional Bonds and Parity Debt issued during the immediately preceding fiscal year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) 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 are 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) 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) Unscheduled draws on debt service reserves reflecting financial difficulties.

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(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 law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S Bank National Association. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

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 the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

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 Annual Report or 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 Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder 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.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent 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 they 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 have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) 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 shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: December 22, 2009

CITY OF RIVERSIDE

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Riverside

Name of Issue: City of Riverside Water Revenue/Refunding Refunding Bonds,
Issue of 2009A (Tax-Exempt)

City of Riverside Water Revenue Bonds, Issue of 2009B
(Federally Taxable – Build America Bonds)

Date of Issuance: December 22, 2009

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated December 22, 2009. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____

Its: _____

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Upon the issuance of the 2009 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Date of Delivery]

City of Riverside
Riverside, California

*Re: \$31,895,000 City of Riverside Water Revenue/Refunding Bonds Issue of 2009A
(Tax-Exempt)*

*\$67,790,000 City of Riverside Water Revenue Bonds Issue of 2009B
(Federally Taxable - Build America Bonds)*

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the "City") of the \$31,895,000 aggregate principal amount of the City's Water Revenue/Refunding Bonds Issue of 2009A (Tax-Exempt) (the "2009A Bonds") and \$67,790,000 City of Riverside, California Water Revenue Bonds Issue of 2009B (Federally Taxable - Build America Bonds) (the "2009B Bonds" and together with the 2009A Bonds, the "Bonds"). The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the "Ordinance"), and Resolution No. 17664 adopted by the City Council on January 8, 1991, as supplemented, including as supplemented by Resolution No. 21935 adopted by the City Council on November 17, 2009 (collectively, the "Resolution").

In rendering the opinions set forth below, we have examined the Constitution and statutes of the State of California, the Charter, the Ordinance and the Resolution, certified copies of the proceedings of the City, and other information submitted to us relative to the issuance and sale by the City of the Bonds. We have examined originals, or copies identified to our satisfaction as being true copies, of the Charter, the Ordinance, the Resolution and the Tax Certificates relating to the Bonds, opinions of counsel to the City, certificates of the City and others, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraphs of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificates, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause

the interest on the 2009A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution and each Tax Certificate may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

We express no opinion herein with respect to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained in the Bonds or the Resolution.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal income tax law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

Based on and subject to the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds constitute the valid and binding special revenue obligations of the City.
2. The Resolution was duly adopted at meetings of the City Council of the City.
3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Resolution. The general fund of the City is not liable for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest.
4. Additional Bonds and other Parity Debt of the City have been and may from time to time hereafter be issued under the Resolution which are payable from Net Operating Revenues on a parity basis with the Bonds.
5. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Series 2009A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. With respect to corporations, Series 2009A Bondholders should consult their tax advisors regarding whether interest on the 2009A Bonds will be included as an adjustment in the calculation of alternative minimum taxable income. The foregoing opinion is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2009A Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2009A Bonds to be included in gross

income for federal income tax purposes retroactive to the date of issuance of the 2009A Bonds. The City has covenanted to comply with all such requirements.

6. The difference between the issue price of a 2009A Bond (the first price at which a substantial amount of the 2009A Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2009A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2009A Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2009A Bond owner will increase the 2009A Bond owner's basis in the applicable 2009A Bond. Original issue discount that accrues for the 2009A Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 5 above) and is exempt from State of California personal income tax.

7. The amount by which a 2009A Bondholder's original basis for determining loss on sale or exchange in the applicable 2009A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2009A Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2009A Bond premium reduces the 2009A Bondholder's basis in the applicable 2009A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2009A Bond premium may result in a 2009A Bondholder realizing a taxable gain when a 2009A Bond is sold by the holder for an amount equal to or less (under certain circumstances) than the original cost of the 2009A Bond to the holder.

8. Under existing statutes, regulations, rulings and judicial decisions, interest on the Series 2009B Bonds is **not** excluded from gross income for federal income tax purposes under Section 103 of the Code.

9. Except for certain exceptions, the difference between the issue price of a Series 2009B Bond (the first price at which a substantial amount of the Series 2009B Bonds of the maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Series 2009B Bond (to the extent the redemption price at maturity is bigger than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the Series 2009B Bondholder will increase the Series 2009B Bondholder's basis in the Series 2009B Bond.

10. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Except as set forth in paragraphs 5 through 10 above, we express no opinion as to any tax consequences related to the Bonds. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Bondholders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Resolution and the Tax Certificates and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any 2009A Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Any federal tax advice contained herein with respect to the Series 2009B Bonds is not intended or written to be used, and it cannot be used, for the purpose of avoiding penalties under the Code. The federal tax advice contained herein with respect to the Series 2009B Bonds was written to support the promoting and marketing of the Series 2009B Bonds. Before purchasing any of the Series 2009B Bonds, all potential purchasers should consult their independent tax advisors with respect to the tax consequences relating to the Series 2009B Bonds and the taxpayer's particular circumstances.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur, and we disclaim any obligation to update this opinion. Our engagement as Bond Counsel terminates upon the issuance of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged or undertaken to review, confirm or verify, and therefore express no opinion herein as to, the accuracy, completeness, fairness or sufficiency of any of the statements in the Official Statement or any exhibits or appendices thereto or any other offering material relating to the Bonds. In addition, we have not been engaged to and therefore express no opinion as to the compliance by the City or the underwriter with any federal or state statute, regulation or ruling with respect to the sale or distribution of the Bonds.

Respectfully submitted,

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “**Bonds**”). The 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“**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 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the 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.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the 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 Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security Bonds will be printed and delivered to DTC.

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

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