

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2018A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2018A Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" herein.



\$153,670,000
CITY OF RIVERSIDE
REFUNDING SEWER REVENUE BONDS, SERIES 2018A

Dated: Date of Delivery

Due: August 1, as shown on inside cover

The captioned bonds (the "Series 2018A Bonds") are being issued by the City of Riverside, California (the "City") pursuant to Resolution No. 23375, adopted by the City Council of the City on October 23, 2018 (the "Fifth Supplemental Resolution"), which supplements and amends Resolution No. 21860, adopted by the City Council on July 14, 2009 (the "Master Resolution"). The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Fifth Supplemental Resolution, is hereinafter collectively referred to as the "Resolution."

The Series 2018A Bonds are issued to provide funds to (i) refinance all of the \$186,940,000 outstanding principal amount of City of Riverside Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds – Direct Payment to Issuer) (the "Series 2009B Bonds"), and (ii) pay the costs of issuing the Series 2018A Bonds. See "PLAN OF FINANCE."

The Series 2018A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Interest on the Series 2018A Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2019. Purchasers will not receive certificates representing their interest in the Series 2018A Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 2018A Bonds will be paid by U.S. Bank National Association, as fiscal agent (the "Fiscal Agent") to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 2018A Bonds. See "DESCRIPTION OF THE SERIES 2018A BONDS—General" and "APPENDIX F – BOOK-ENTRY ONLY SYSTEM."

The Series 2018A Bonds are special limited obligations of the City, payable solely from the Net Operating Revenues of the City's Sewer System (as defined herein) and other funds, assets and security as further described herein, and do not constitute general obligations or indebtedness of the City. The Series 2018A Bonds will be payable by the City on a parity with certain state revolving fund contracts previously entered into by the City and with the City of Riverside Sewer Revenue Bonds, Series 2015A (the "Series 2015A Bonds"). The City may issue Additional Bonds and Parity Debt (as defined herein) payable from Net Operating Revenues in the future. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Debt."

The Series 2018A Bonds are subject to redemption prior to maturity as described in this Official Statement. See "DESCRIPTION OF THE SERIES 2018A BONDS—Redemption Provisions."

The Series 2018A Bonds are special obligations of the City, payable solely from Net Operating Revenues and the other funds, assets and security pledged therefor. Neither the faith and credit nor the taxing power of the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2018A Bonds.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 2018A Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval as to their validity 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 and Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel. Nixon Peabody LLP is acting as counsel to the Underwriters. It is anticipated that the Series 2018A Bonds in definitive form will be available for delivery to DTC on or about November 27, 2018.

BofA Merrill Lynch

Citigroup

\$153,670,000
CITY OF RIVERSIDE
REFUNDING SEWER REVENUE BONDS, SERIES 2018A

MATURITY SCHEDULE

(BASE CUSIP†: 769047)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2019	\$2,905,000	5.000%	1.710%	102.205	HZ7
2020	3,580,000	5.000	1.870	105.143	JA0
2021	3,760,000	5.000	1.920	107.999	JB8
2022	3,950,000	5.000	1.990	110.621	JC6
2023	5,340,000	5.000	2.060	113.043	JD4
2024	5,620,000	5.000	2.140	115.211	JE2
2025	5,910,000	5.000	2.250	116.959	JF9
2026	6,210,000	5.000	2.360	118.436	JG7
2027	6,525,000	5.000	2.490	119.476	JH5
2028	6,865,000	5.000	2.600	120.414	JJ1
2029	7,215,000	5.000	2.750	119.000 ^C	JK8
2030	7,580,000	5.000	2.870	117.883 ^C	JL6
2031	7,970,000	5.000	2.990	116.778 ^C	JM4
2032	8,385,000	5.000	3.080	115.958 ^C	JN2
2033	8,810,000	5.000	3.120	115.595 ^C	JP7
2034	9,265,000	5.000	3.220	114.695 ^C	JQ5
2035	9,740,000	5.000	3.250	114.427 ^C	JR3
2036	10,240,000	5.000	3.300	113.981 ^C	JS1
2037	10,765,000	5.000	3.320	113.803 ^C	JT9
2038	11,260,000	4.000	3.730	102.172 ^C	JU6
2039	11,775,000	5.000	3.360	113.449 ^C	JV4

C: Priced to first optional redemption date of August 1, 2028, at par. † CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2018 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriters take any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the Series 2018A Bonds other than those 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 the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2018A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Series 2018A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact.

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

This Official Statement and the information contained in this Official Statement are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Series 2018A Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "FINANCIAL RESULTS OF THE SEWER SYSTEM," "RISK FACTORS" and "APPENDIX A – CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH 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. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2018A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2018A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2018A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE SERIES 2018A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2018A Bonds.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

William R. Bailey, III, Mayor
Mike Gardner, Councilmember, Ward 1
Andy Melendrez, Councilmember, Ward 2
Mike Soubirous, Councilmember, Ward 3
Chuck Conder, Councilmember, Ward 4
Chris Mac Arthur, Councilmember, Ward 5
Jim Perry, Councilmember, Ward 6
Steve Adams, Councilmember, Ward 7

CITY STAFF

Al Zelinka, City Manager
Lee Deesing, Assistant City Manager
Rafael Guzman, Assistant City Manager
Colleen J. Nicol, City Clerk
Edward Enriquez, Interim Chief Financial Officer/Treasurer
Kris Martinez, Public Works Director
Gary G. Geuss, City Attorney

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San Francisco, California

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U.S. Bank National Association
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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OFFICIAL STATEMENT

\$153,670,000
CITY OF RIVERSIDE
REFUNDING SEWER REVENUE BONDS, SERIES 2018A

INTRODUCTION

General

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City"), of the bonds captioned above (the "Series 2018A Bonds"). The Series 2018A Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009 (the "Master Resolution"), as heretofore amended and supplemented, and as amended and supplemented by the fifth supplemental resolution adopted by the City Council on October 23, 2018 providing for the issuance of the Series 2018A Bonds (the "Fifth Supplemental Resolution"). The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Fifth Supplemental Resolution, is hereinafter collectively referred to as the "Resolution." The City Charter, the Ordinance and the Resolution are hereinafter collectively referred to as the "Law."

In 1997, the City entered into two revolving fund loan program contracts (the "State Loans") with the State Water Resources Control Board ("SWRCB") to finance certain improvements of the Sewer System. As of June 30, 2018, \$1,446,699 in principal amount remained outstanding under the State Loans.

In 2009, the City issued and delivered its \$36,835,000 in aggregate principal amount of Sewer Revenue Bonds, Series 2009A (the "Series 2009A Bonds") issued pursuant to Resolution No. 21861 adopted by the City Council on July 14, 2009 (the "First Supplemental Resolution") and \$204,075,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2009B Taxable (Build America Bonds - Direct Payment to Issuer) (the "Series 2009B Bonds" and together with the Series 2009A Bonds, the "2009 Bonds") issued pursuant to Resolution No. 21862 adopted by the City Council on July 14, 2009 (the "Second Supplemental Resolution"). All of the Series 2009A Bonds have matured, and all of the Series 2009B Bonds remaining outstanding are being defeased and refunded by the Series 2018A Bonds.

In 2014, the City issued and delivered its \$50,000,000 in aggregate principal amount of Variable Rate Sewer Revenue Bonds, Series 2014A (the "Series 2014A Bonds") pursuant to the Master Resolution and Resolution No. 22704 adopted by the City Council on June 24, 2014 (the "Third Supplemental Resolution"). In 2015, the City issued and delivered its \$200,030,000 in aggregate principal amount of Sewer Revenue Bonds, Series 2015A (the "Series 2015A Bonds") pursuant to the Master Resolution and Resolution No. 22281 adopted by the City Council on

March 17, 2015 (the “Fourth Supplemental Resolution”), the proceeds of which were used to refinance all of the Series 2014A Bonds. As of June 30, 2018, \$200,030,000 in principal amount of Series 2015A Bonds remained outstanding.

The Series 2018A Bonds will be secured by and payable from Net Operating Revenues of the Sewer System on a parity with amounts payable under the State Loans, and with respect to the Series 2015A Bonds.

Bonds issued by the City pursuant to the Resolution on a parity with the Series 2018A Bonds, the Series 2015A Bonds and any Additional Bonds (described herein) are referred to herein as the “Bonds.” Under the terms of the contracts securing the State Loans and the Master Resolution, the State Loans are secured on a parity with the Bonds. The City reserves the right to issue and incur additional parity obligations that do not constitute Additional Bonds (“Parity Debt”) from time to time, secured by a pledge and charge on the Net Operating Revenues of the Sewer System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds and the State Loans, to the extent permitted by the Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Debt” herein for additional information.

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

Purpose of the Series 2018A Bonds

The Series 2018A Bonds are issued to provide funds to (i) refinance all of the Series 2009B Bonds, and (ii) pay the costs of issuing the Series 2018A Bonds. See “PLAN OF FINANCE.”

Official Statement Reflects Amended Terms of Master Resolution

The Fourth Supplemental Resolution provides for certain amendments to the Master Resolution to become effective when the Series 2009 Bonds and Series 2014A Bonds are no longer Outstanding. The Master Resolution also requires the written consent of the Owners of a majority of the aggregate amount of the Outstanding Bonds prior to the effectiveness of any such amendments. The consent requirement is deemed to be satisfied once the Series 2009 Bonds and Series 2014A Bonds are no longer Outstanding. Consent is not to be construed as having been given by the Underwriters.

As described under the heading “PLAN OF FINANCE,” the City will use a portion of the proceeds of the Series 2018A Bonds to defease the Series 2009B Bonds on the delivery date of the Series 2018A Bonds, at which time the conditions to effectiveness of the amendments will be satisfied and the amendments in the Fourth Supplemental Resolution will become effective. This Official Statement reflects the as-amended terms of the Master Resolution.

It should be noted, however, that the table showing historical and projected revenues, expenses and debt service coverage set forth under the caption “FINANCIAL RESULTS OF THE SEWER SYSTEM – Historical and Projected Revenues, Expenses and Coverage” presents historical debt service coverage calculated pursuant to the terms of the Master Resolution that were in effect prior to the issuance of the Series 2018A Bonds and projected debt service coverage calculated pursuant to the as-amended terms of the Master Resolution.

Security and Rate Covenant

Pursuant to the Law, the Series 2018A Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues of the Sewer System, Capacity Charges and other funds, assets and security described under the Resolution, on a parity with the Series 2015A Bonds, the existing State Loans and any other Bonds, including State Loans or Parity Debt, issued in the future.

The City has covenanted under the Resolution that, to the fullest extent permitted by law, the City will fix, prescribe, revise and collect rates, fees and charges for the Sewer System which will be at least sufficient to yield during each Fiscal Year Net Operating Revenues equal to 110% of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Operating Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. Sewer rates are established by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other State agency. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Sewer Rates and Fees" herein for a description of City's current and historic rates and charges.

The General Fund of the City is not liable for the payment of principal of the Series 2018A Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of principal of the Series 2018A Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the Series 2018A Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Sewer System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of principal of the Series 2018A Bonds, interest thereon and any premium upon redemption.

2018A Reserve Account Not Funded

Pursuant to the Resolution, a Reserve Account will be established as the 2018A Reserve Account with respect to the Series 2018A Bonds (the "2018A Reserve Account"). However, the Series 2018A Bond Reserve Requirement is \$0 and no amount will be deposited into the 2018A Reserve Account.

The Sewer System

The Sewer System serves an area of approximately 109.86 square miles, of which approximately 81.5 square miles are within the limits of the City. The Sewer System provides wastewater collection and treatment service to approximately 151,000 equivalent dwelling units in the City and in the Jurupa, Rubidoux and Edgemont Community Services Districts (collectively, the "CSDs"). Beginning in 2015, the City began adding new service accounts and providing wastewater collection and treatment services in the unincorporated community of Highgrove.

Wastewater from the City, the CSDs and Highgrove are treated at the Regional Water Quality Control Plant (“RWQCP”), which consists of numerous facilities, including two wastewater treatment plants. Wastewater treatment services at the RWQCP are provided to a population of over 313,000 in the City and over 121,000 in the CSDs. See “THE SEWER SYSTEM.”

The City recently completed an approximately \$200 million modernization of the RWQCP. See “THE SEWER SYSTEM – Capital Improvement Plans.”

Changes from Preliminary Official Statement

The Official Statement has been updated to reflect that, in Fiscal Year 2017-18, approximately 3% of the total revenues of the Sewer System were attributable to the Rubidoux Community Services District, to add a new table showing the City’s aggregate debt service requirements on outstanding Bonds (including the Series 2018A Bonds), and to update the table showing Riverside-San Bernardino Primary MSA Civilian Labor Force Employment and Unemployment (Annual Averages) (For Calendar Years 2013 Through 2017) in Appendix A.

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the Series 2018A Bonds to provide certain financial information and operating data relating to the Sewer System and to provide notices of the occurrence of certain enumerated events. See “CONTINUING DISCLOSURE” and “APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Summaries and References to Documents

Brief descriptions of the Series 2018A Bonds, the security and sources of payment therefor, the Sewer System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Series 2018A 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 audited financial statements of the City for the fiscal year ended June 30, 2017, is attached to this Official Statement as APPENDIX B. A copy of the most recent annual report of the City is available on the City’s website at www.riversideca.gov. Information set forth on such website is not incorporated by reference herein.

PLAN OF FINANCE

General

The Series 2018A Bonds are issued to provide funds to (i) refinance all of the Series 2009B Bonds, and (ii) pay the costs of issuing the Series 2018A Bonds. The Series 2009B Bonds being defeased and refunded are as follows:

City of Riverside
Sewer Revenue Bonds, Series 2009B Taxable
(Build America Bonds – Direct Payment to Issuer)

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number†</u>
2019 ⁽¹⁾	\$9,065,000	5.910%	769047 GZ8
2029	68,745,000	7.000	769047 HA2
2039	109,130,000	7.200	769047 HB0

(1) To be defeased only because maturity date coincides with redemption date of August 1, 2019, as described below.
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On the delivery date of the Series 2018A Bonds, the City will deposit a portion of the Series 2018A Bond proceeds in the Escrow Fund to be established under an Escrow Agreement, by and between the City and U.S. Bank National Association, as escrow agent. Amounts on deposit in the Escrow Fund on the closing date, together with interest to be earned on federal securities purchased with such amounts ("Escrow Securities"), will be sufficient to pay the redemption price, together with accrued interest to the date of redemption, of the outstanding Series 2009B Bonds on August 1, 2019. *Amounts held by the Escrow Agent under the Escrow Agreement for the Series 2009B Bonds are not available for payment of debt service on the Series 2018A Bonds.*

Grant Thornton LLP, Minneapolis, Minnesota, as verification agent, will review the sufficiency of the amounts deposited to the Escrow Fund for the defeasance and refunding of the Series 2009B Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the Series 2018A Bonds are as follows:

Sources:	
Principal Amount of Series 2018A Bonds	\$153,670,000.00
Plus Original Issue Premium	21,627,205.20
Plus Amounts Related to Series 2009B Bonds	<u>22,184,273.88</u>
Total Sources	\$197,481,479.08
Uses:	
Defeasance and Redeem Series 2009B Bonds	\$196,765,795.36
Costs of Issuance ⁽¹⁾	<u>715,683.72</u>
Total Uses	\$197,481,479.08

(1) Includes Underwriters' discount, legal fees, Municipal Advisor fees, Fiscal Agent fees, verification agent fees, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the Series 2018A Bonds.

Source: Underwriters.

DESCRIPTION OF THE SERIES 2018A BONDS

The following is a summary of certain provisions of the Series 2018A Bonds. Reference is made to the Series 2018A Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The summary provided herein is qualified by such reference. See "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

General

The Series 2018A 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 Series 2018A Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the Series 2018A Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2019, 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 Series 2018A 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 Series 2018A 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 Series 2018A Bond shall bear interest from the interest payment date before the date of authentication thereof unless it is authenticated during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it shall bear interest from the dated date of the Series 2018A Bonds.

So long as any Series 2018A Bond is registered in the name of Cede & Co., as nominee of DTC, procedures with respect to the transfer of ownership, redemption, and the payment of principal, redemption price, premium, if any, and interest on such Bond shall be in accordance with arrangements among the City, the Fiscal Agent and DTC. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2018A Bonds maturing on or before August 1, 2028, are not subject to optional redemption prior to maturity. The Series 2018A Bonds maturing on or after August 1, 2029 are subject to optional redemption by the City, from any source of available funds, as a whole or in part, on August 1, 2028 and any date thereafter, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

Selection of Series 2018A Bonds for Redemption. If less than all the Series 2018A Bonds are to be redeemed, the maturities of the Series 2018A Bonds to be redeemed shall 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 Series 2018A Bonds. If less than all of the Series 2018A Bonds of any maturity are to be redeemed prior to maturity, then the particular Series 2018A Bonds shall be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of Series 2018A Bonds to (i) the Owners of the Series 2018A 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 Series 2018A 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 Series 2018A Bonds.

With respect to any notice of optional redemption of the Series 2018A Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Series 2018A Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Fiscal Agent shall not be required to redeem such Series 2018A Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Fiscal Agent shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

When notice of redemption has been given as provided in the Resolution, the Series 2018A Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such Series 2018A Bonds at the place specified in such notice of redemption, such Series 2018A Bonds shall be redeemed and paid at said redemption price. If on the redemption date moneys for the redemption of the Series 2018A Bonds to be redeemed shall be available therefor, then from and after the redemption date, interest on the Series 2018A Bonds to be redeemed shall cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Fourth Supplemental Resolution provides for certain amendments to the Master Resolution to become effective when the Series 2009 Bonds and Series 2014A Bonds are no longer Outstanding. The Master Resolution also requires the written consent of the Owners of a majority of the aggregate amount of the Outstanding Bonds prior to the effectiveness of any such amendments. The consent requirement is deemed to be satisfied once the Series 2009 Bonds and Series 2014A Bonds are no longer Outstanding. Consent is not to be construed as having been given by the Underwriters.

As described under the heading "PLAN OF FINANCE," the City will use a portion of the proceeds of the Series 2018A Bonds to defease the Series 2009B Bonds on the delivery date of the Series 2018A Bonds, at which time the conditions to effectiveness of the amendments will be satisfied and the amendments in the Fourth Supplemental Resolution will become effective. This Official Statement reflects the as-amended terms of the Master Resolution.

Capitalized terms used but not defined herein are defined in APPENDIX C.

Pledge of Revenues

Pursuant to the Resolution, the Bonds of each Series (including the Series 2018A Bonds) are special limited obligations of the City and are secured by a pledge of and shall be 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 outstanding principal amount of the State Loans, the Series 2015A Bonds and any other Bonds or Parity Debt issued in the future. Under the Resolution, 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 on a parity with the State Loans in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein, and the Net Operating Revenues so pledged constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt on a parity with the State Loans. There is also 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 therein.

Gross Operating Revenues shall be applied to all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, be applied to the payment of the principal of (including any premium thereon) and interest on the State Loans, the Bonds and all Parity Debt, together with any sinking fund payments of the State Loans, the Bonds and Parity Debt and any reserve fund and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be retained in the Sewer Revenue Fund as a fund balance or surplus and may be used for any lawful purpose. The pledge of Net Operating Revenues under the Resolution shall be irrevocable until there are no longer Bonds Outstanding.

Definitions

The Resolution defines “**Net Operating Revenues**” as Gross Operating Revenues less Operating and Maintenance Expenses.

“**Gross Operating Revenues**” means all income and revenue received by the City during such period from the operation or ownership of the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues also shall include Capacity Charges and any amounts transferred from the Rate Stabilization Fund to the Sewer Revenue Fund during any Fiscal Year exclusive of any amounts transferred to the Rate Stabilization Fund in such fiscal year. Gross Operating Revenues shall not include any amounts transferred from the Sewer Revenue Fund to the Rate Stabilization Fund during any Fiscal Year.

“**Operating and Maintenance Expenses**” are defined as all reasonable and necessary costs paid or incurred by the City for maintaining and operating the Sewer System, including all

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

Limited Obligation

The General Fund of the City is not liable for the payment of principal of the Series 2018A Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of principal of the Series 2018A Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the Series 2018A Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Sewer System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of principal of the Series 2018A Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

The City has created the Sewer Revenue Fund pursuant to the Law, to secure the payment of the Bonds, Parity Debt and the State Loans. The Sewer Revenue Fund includes the Bond Service Account and the Renewal and Replacement Account. The Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Sewer Revenue Fund and all of the accounts and subaccounts therein are held and administered by the City Treasurer. The 2018A Reserve Account was created under the Fifth Supplemental Resolution to be held by the Fiscal Agent. See “– 2018A Reserve Account Not Funded.”

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

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

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

interest payment date falling within the next six months upon the State Loans, Parity Debt and all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment date). 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 set aside and deposit in the Principal Account an amount equal to at least (a) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series and Parity Debt having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one twelfth of the aggregate yearly amount of any Bond Obligation become due and payable on the Outstanding Bonds of all Series, the State Loans and Parity Debt having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series or Parity Debt shall be refunded or prepaid on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, than as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such funds moneys sufficient to pay (i) the Bond Obligations of all Bonds issued hereunder and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months and (ii) for the Bond Obligations with respect to Parity Debt not having semiannual or annual maturity dates, the amounts, if any, required by the terms of any Parity Debt documents to then be on deposit in the Principal Account. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made *pari passu* with the payments required to be placed in the Principal Account.

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

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

Excess Earnings Account. Following the transfers described above as required by the Resolution, the Treasurer will deposit in any excess earnings or rebate account established for the Series 2018A Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

Renewal and Replacement Account. Following the transfers described above as required by the Resolution, the Treasurer will set aside and deposit in the Renewal and Replacement Account 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. Any amounts in the Renewal and Replacement Account will be applied to acquisition and construction of renewals and replacements to the Sewer System to the extent provision therefor has not been made from other sources.

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

Application of Funds and Accounts. The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the Series 2018A Bonds as it will become due and payable (including accrued interest on any Series 2018A Bonds purchased or redeemed prior to maturity). The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the Series 2018A Bonds maturing by their terms on August 1 of the years in which Series 2018A Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the Series 2018A Bonds to be redeemed from amounts on deposit in the Principal Account.

Rate Covenant

The City has covenanted under the Resolution that, to the fullest extent permitted by law, the City will fix, prescribe, revise and collect rates, fees and charges for the Sewer System which will be at least sufficient to yield during each Fiscal Year Net Operating Revenues equal to 110% of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Operating Revenues from

such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant. For a definition of “Debt Service,” see APPENDIX C. See also “FINANCIAL RESULTS OF THE SEWER SYSTEM – Historical and Projected Revenues, Expenses and Coverage” herein for additional information regarding coverage.

Rate Stabilization Fund

Under the Resolution, the City agrees and covenants to maintain the Rate Stabilization Fund and to hold it separate and apart from other funds so long as any Bonds remain Outstanding. Moneys transferred to the Rate Stabilization Fund in accordance with the Resolution shall be held therein and applied in accordance with the Resolution. The City may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Sewer Revenue Fund for application in accordance with the Resolution or, in the event that all or a portion of the Bonds are discharged in accordance with the Resolution, transfer all or any portion of such amounts for application in accordance with the Resolution. Notwithstanding the foregoing, no moneys shall be transferred to the Rate Stabilization Fund in a given Fiscal Year if such transfer would prevent the City from meeting the requirements of the rate covenant for such Fiscal Year. See “– Rate Covenant” above.

As of June 30, 2018, the balance in the Rate Stabilization Fund was approximately \$1.0 million (unaudited). See “FINANCIAL RESULTS OF THE SEWER SYSTEM.”

2018A Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve account for any Series of Bonds issued thereunder. The Fifth Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2018A Reserve Account with respect to the Series 2018A Bonds an amount equal to the Series 2018A Bond Reserve Requirement until the Series 2018A Bonds are discharged in accordance with the Resolution. However, the Series 2018A Bond Reserve Requirement is \$0 and no amount will be deposited into the 2018A Reserve Account.

Moneys in the Reserve Accounts will secure only the payment of the appropriate series of Bonds and may be withdrawn solely (i) to pay principal of, including Mandatory Sinking Account Payment, if any, and interest on the appropriate series of Bonds in the event moneys in the Principal Account and the Interest Account are insufficient for payment of that series or (ii) to make the final principal and interest payment on all outstanding Bonds of appropriate series related to that reserve account. Whenever amounts are withdrawn from a Reserve Account, the amount in said account shall be restored as described elsewhere in this Official Statement.

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of, including Mandatory Sinking Account Payment, if any, premium, if any, and interest on the Series 2018A Bonds. In the event that a Reserve Account contains moneys in excess of the amount required to be maintained therein, all of the excess moneys will be transferred to the Sewer Revenue Fund.

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

withdrawal or downgrading of any rating of the appropriate series of Bonds then in effect. No such credit facility will be in place for the Series 2018A Bonds.

Additional Bonds and Parity Debt

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

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

(a) The Net Operating Revenues for the most recent audited Fiscal Year or any consecutive 12 calendar month period during the 18 calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Parity Debt, as the case may be, as evidenced by a special report prepared by an independent certified public accountant or firm of certified public accounts or by an independent financial consultant on file with the City, shall have produced a sum equal to at least 110% of the Debt Service for such Fiscal Year or 12 month period, as applicable; and

(b) The Net Operating Revenues for the most recent audited Fiscal Year or any consecutive twelve calendar month period during the 18 calendar month period preceding the date of the execution of such Parity Debt or the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year or 12 month period to increases or decreases in rates and charges for the Sewer System approved and in effect as of the date of calculation, as evidenced by a special report prepared by an independent certified public accountant or firm of certified public accountants or by an independent financial consultant on file with the City, shall have produced a sum equal to at least 110% of the Debt Service for such Fiscal Year or 12 month period, as applicable, plus the Debt Service which would have accrued on any Parity Debt executed or Bonds issued since the end of such Fiscal Year or 12 month period assuming such Parity Debt had been executed or Bonds had been issued at the beginning of such Fiscal Year or 12 month period plus the Debt Service which would have accrued had such Parity Debt been executed or Bonds been issued at the beginning of such Fiscal Year or 12 month period.

For definitions of capitalized terms used herein, see “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.”

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

requirements for the State Loans, the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents.

THE SEWER SYSTEM

General

The City's Public Works Department Wastewater Division ("Wastewater Division") is responsible for the collection of wastewater flows generated within the City. In addition, the Wastewater Division is responsible for operating the Regional Water Quality Control Plant ("RWQCP") and the wastewater treatment of flows from the City, as well as Jurupa, Rubidoux and Edgemont Community Services Districts (collectively, the "CSDs"). The City owns and operates the RWQCP facility in compliance with a National Pollution Discharge Elimination System Permit ("NPDES Permit") issued by the California Regional Water Quality Control Board, Santa Ana Division. The NPDES Permit sets forth strict regulatory treatment and water quality requirements for discharge to the Santa Ana River. In addition, the Wastewater Division is responsible for enforcement of federal, state and local pretreatment regulations pertaining to commercial and industrial wastewater discharged into the City's public sewer collection and conveyance system.

The Sewer System's collection and conveyance system encompasses more than 800 miles of gravity sewers and 19 wastewater lift stations. Wastewater treatment is carried out at the RWQCP, which provides preliminary, primary, secondary and tertiary treatment at a current rated capacity of 46 million gallons per day ("MGD"). The City recently completed a \$200 million major modernization of the RWQCP which included rehabilitation of existing treatment systems and the addition of new systems to increase capacity to 46 MGD. The modernization project ensures wastewater service levels can be maintained now and in the future to support the City's General Plan.

The Sewer System provides service to approximately 151,000 equivalent dwelling units that include the City, as well as the CSDs. Beginning in 2015, the City began adding new service accounts and providing wastewater collection and treatment services in the unincorporated community of Highgrove. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The Sewer System serves a total population of over 313,000 in the City and over 121,000 in the CSDs.

Organization and Management

The RWQCP and sewage collection and treatment facilities are operated on a 24-hour, seven days per week basis by the Public Works Director and a staff of 120 employees. The staff includes 30 plant operators, eight environmental compliance inspectors, five laboratory personnel, 34 treatment plant maintenance personnel, 22 collection system maintenance personnel, five engineering personnel, two construction contract administrators and administrative and office personnel. Staff performs routine maintenance functions in addition to operating the facilities.

The top administrators of the Sewer System are the Public Works Director and Deputy Public Works Director. Their biographies follow.

Kris Martinez, Public Works Director. Ms. Martinez was promoted to Public Works Director in 2015 from the position of General Services Director. She has been with the City since 1994. She received a BA from the University of California, Riverside and a Masters of Public Administration from California State University – San Bernardino.

Craig Justice, Deputy Public Works Director. Mr. Justice was hired as the Deputy Public Works Director in 2015. He had previously worked for the City in a similar capacity from 2006 to 2009. He has more than 30 years' experience with water/wastewater public utilities. He received a BS from San Jose State University and MBA from the University of Redlands. He is licensed by the State as a Grade V wastewater operator.

Development of Treatment Facilities at the RWQCP

The City's municipal wastewater treatment plant began operation in 1948. The original facilities at the RWQCP were constructed in 1946 and included two primary clarifiers, three low rate trickling filters, and an anaerobic sludge digestion facility. In 1953, two additional primary clarifiers were added and, in 1960, the City added 8 MGD of capacity. In 1967, the City added 10 MGD of primary and secondary capacity at the RWQCP. These facilities provided primary and secondary treatment of wastewater from the City residents at a total capacity of 26 MGD.

To meet the stricter water quality standards adopted by the California Regional Water Quality Control Board ("Regional Board") in 1974 and 1975 that required additional treatment of discharges from the wastewater treatment plants operated separately by the City, Jurupa Community Services District ("Jurupa"), Rubidoux Community Services District ("Rubidoux"), and Edgemont Community Services District ("Edgemont"), the CSDs and the City entered into successive agreements as described below. Although subject to future amendments between the parties, the current agreements between the City and CSDs do not have stated expiration dates. If a CSD were to terminate its agreement with the City, such CSD would need to fund, permit and construct a new plant for the treatment of its wastewater.

The 1976 Agreement. Advanced wastewater treatment was needed to meet the new discharge limits. To qualify for 87.5% Clean Water grant funding for the cost of the new advanced treatment facilities, the City, Jurupa, and Rubidoux agreed to regionalize the advanced treatment of their treatment plant discharge at a single regional plant. On December 1, 1976, the City entered into an Agreement for Regional Advanced Water Treatment (the "1976 Agreement") with Jurupa, Rubidoux and the Western Municipal Water District ("WMWD"). In 1978, the new Tertiary Filtration Plant built at the City's treatment plant became operational and was added to the wastewater treatment process to allow the RWQCP to meet the requirements of Title 22 of the California Administrative Code for "Non-restricted Recreational Impounds." After the initial construction, the City made several modifications that were required to meet the requirements of Title 22.

Under the 1976 Agreement, Jurupa and Rubidoux agreed to continue the primary and secondary treatment of effluent to be delivered to the Tertiary Filtration Plant. Plant capacity of 26 MGD was allocated among the parties at 22.2 MGD for the City, 2.3 MGD for Jurupa and 1.5 MGD for Rubidoux. Operation and maintenance costs, including expenses of ordinary and usual maintenance and operation are allocated in proportion to the actual volume of flow delivered to the plant for treatment, all as further provided in the 1976 Agreement.

The 1978 Agreement. On May 4, 1978, the City entered into an Agreement for Regional Primary and Secondary Wastewater Treatment (the "1978 Agreement"), with Jurupa, Rubidoux

and WMWD to construct additional primary and secondary facilities sufficient to receive an average daily flow of 3.8 MGD for the primary and secondary treatment of wastewater delivered by Jurupa and Rubidoux at the RWQCP. Under the 1978 Agreement, the City agreed to sell the capacity right of 2.3 MGD to Jurupa and 1.5 MGD to Rubidoux to deliver wastewater in quantity and quality as further provided in the 1978 Agreement. Jurupa and Rubidoux would no longer treat their own wastewater but would collect and send it to the RWQCP for treatment.

Under the 1978 Agreement, the City agreed to upgrade its existing primary and secondary treatment facilities at the RWQCP to operate the regional system in conjunction with the Tertiary Filtration Plant to meet the requirements of the Regional Board. This expansion provided additional primary clarifiers and activated sludge capacity within the activated sludge portion of the facility. Jurupa and Rubidoux agreed to pay the City for the “actual costs” of providing primary and secondary treatment capacity, or hydraulic capacity for secondary treated effluent. Under the 1978 Agreement, Jurupa and Rubidoux also agreed to pay operation and maintenance costs, to be allocated among the parties in proportion to the actual volume of flow delivered to the plant for treatment.

Under a certain agreement between WMWD and the City dated November 20, 1968, WMWD owns and controls the quantities of treated effluent derived from the City’s sewage which the City is obligated to discharge to the Santa Ana River. WMWD interests are not addressed under the 1976 Agreement and the 1978 Agreement.

1982 Expansion. In 1982, the City expanded the primary, secondary, and tertiary capacity at the RWQCP to 29.1 MGD. The expansion maximized the operational capability of the existing facilities and upgraded operation and maintenance capabilities and additional facilities were installed to solve operational problems associated with the tertiary filters.

1984 Agreement. In January 1984, the City entered into an Agreement for Wastewater Treatment (the “Edgemont Agreement”) with Edgemont to treat and dispose of wastewater from the Edgemont area at the RWQCP. Under the Edgemont Agreement, the City transferred 300,000 gallons per day capacity right to Edgemont, without affecting the rights of Jurupa or Rubidoux. Edgemont had the right to increase up to 700,000 gallons per day under the Edgemont Agreement, subject to payment of the City’s connection charges then in effect. A monthly service charge, based on the estimated operation and maintenance costs and the quantity of wastewater delivered, was to be paid by Edgemont, all as provided in the Edgemont Agreement. Through subsequent agreements, by 1990, Edgemont acquired a total capacity right of 740,000 gallons per day.

1986 and 1987 Expansions. The City undertook additional expansions in 1986 and 1987 and replaced the trickling filters at the RWQCP with new activated sludge and secondary clarifier facilities; added additional primary and secondary facilities to the original activated sludge facilities; and added new solids handling facilities to the RWQCP. These expansions increased the primary and secondary capacity at the RWQCP to 40 MGD. In 1990, new tertiary facilities were added to increase the tertiary capacity to match the existing primary and secondary treatment capacity of 40 MGD.

1990 Agreements. In the late 1980s, Jurupa and Rubidoux explored plans to build a separate wastewater treatment plant and exit from the existing regional treatment arrangement with the City. In February 1990, the City estimated that Jurupa and Rubidoux contributed approximately 15% of the flow into the RWQCP and paid approximately 15% of the costs at the RWQCP. To continue the existing financial arrangement, and to settle Jurupa’s and Rubidoux’s

outstanding obligations for the RWQCP upgrades needed to meet the then-current discharge limits, the City entered into separate agreements with Jurupa and Rubidoux in 1990 (collectively, the “1990 Agreements”).

On February 6, 1990, the City entered into Jurupa’s 1990 Agreement and agreed to increase Jurupa’s capacity right by 1.7 MGD, resulting in Jurupa’s total capacity rights of 4.0 MGD at the RWQCP. On February 13, 1990, the City entered into Rubidoux’s 1990 Agreement and agreed to increase Rubidoux’s capacity rights by 1.5 MGD. In 1989, Rubidoux had acquired an additional capacity of 0.055 MGD from the City. As a result, Rubidoux acquired total capacity rights of 3.055 MGD at the RWQCP. Under the 1990 Agreements with Jurupa and Rubidoux, the City committed to expand the capacity at RWQCP to meet the increased capacity agreed to by the City. In return, Jurupa and Rubidoux each agreed to pay the amounts specified in their respective 1990 Agreement.

On May 1, 1990, the City entered into Edgemont’s 1990 Agreement and agreed to increase Edgemont’s capacity right by another 150,000 gallons per day, with an additional option to purchase up to 600,000 gallons per day. The City’s agreement with Edgemont conditioned Edgemont’s option to purchase additional capacity rights on the availability of such additional capacity at the RWQCP. Edgemont’s acquired total capacity rights at the RWQCP are 0.89 MGD. Currently, the amounts paid by Jurupa, Rubidoux and Edgemont under these agreements are included as customer revenues. Amounts paid by the CSDs, as well as other customer categories, under these agreements are shown as customer revenues in the table under the caption “OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Customers” herein. See “THE SEWER SYSTEM – CSD Litigation and Settlements” below for a description of additional payment made by Edgemont. See also “OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Capacity Fees” for a summary of connection and capacity fees paid by customers, including CSDs.

The agreements with each of the CSDs provide for treatment at the RWQCP only; each CSD maintains its own collection system.

Subsequent Costs and Improvements at the RWQCP. When the 1990 Agreements were executed, the parties assumed that the amount of solids concentration in the influent treated at the RWQCP would stay at the relatively same levels. Since entering into the 1990 Agreements, there have been revised permit requirements and increased influent loading concentrations that have increased costs at the RWQCP. In May 1992, the Regional Board changed total inorganic nitrogen (“TIN”) for discharge from RWQCP to 13 mg/L from the previous limit of 20 mg/L under the City’s prior permit for a flow of up to 38 MGD. This change required the City to retrofit the activated sludge basins for the secondary treatment process for nitrogen removal. These retrofits were begun soon after the Regional Board requirements were instituted and completed in 2003. These updates are referred to as Secondary Upgrades Projects.

Since entering into the 1990 Agreements, the amount of solids concentration in the influent treated at the RWQCP steadily increased. The City believes that this is due to water conservation programs imposed by State and regional government agencies. As a result of influent solids concentration, to meet the TIN limits for discharge from the RWQCP to the Santa Ana River, the City evaluated its then-existing treatment capacity of 40 MGD. As identified in the 2008 Integrated Master Plan for Wastewater Collection and Treatment (“2008 Wastewater Master Plan”), the City determined that improvements were needed at the RWQCP to maintain and expand the 40 MGD flow capacity to 46 MGD in light of increased amount of solids concentration in the influent.

The RWQCP's current NPDES Permit includes an effluent TIN limit of 10 mg/L for discharge from the RWQCP, which is more stringent than the previous limit of 13 mg/L. The City incorporated the new 10 mg/L TIN permit limit into the design of the RWQCP Phase 1 Rehabilitation ("Phase 1") project that was based on the 2008 Wastewater Master Plan. Construction of the WQCP Phase 1 Plant expansion project started in 2012 and was completed June 2017, which increased the RWQCP capacity to 46 MGD.

Since 1978, the CSDs have contributed their proportionate share of the cost of certain capital projects that included replacing and upgrading systems and equipment at the RWQCP. Past capital projects included increasing treatment capacity, improving treatment efficiency and regulatory compliance, and the construction of the multi-million dollar head works project in the late 1990s. See, however, "THE SEWER SYSTEM –CSD Litigation and Settlements" for a description of litigation regarding each CSD's financial responsibility and cost contribution to the capital improvement costs at the RWQCP.

Wastewater Collection and Treatment Procedures at the RWQCP. The City's wastewater collection system is divided into five basins. The wastewater collection system includes over 800 miles of gravity sewers ranging in size from 6 to 51 inches in diameter. The system also includes 19 wastewater lift stations. Most of the wastewater lift stations are designed for flows of 100 to 2,000 gallons per minute ("gpm"). The City and each of the CSDs are responsible for the operation and maintenance of their own collection facilities. In 2015, the City added new service accounts to serve Highgrove. The City will provide wastewater collection and treatment services for these accounts in Highgrove.

The RWQCP is a 100 acre site that includes over 4,000 pieces of mechanical and electrical equipment used for wastewater treatment. The RWQCP consists of a common head works, flow equalization basins, two parallel primary / secondary liquid treatment trains and a common tertiary and solids handling facilities. Historically, these treatment trains were referred to as Plant 1 (MBR Plant) and Plant 2 (Activated Plant).

The sewage comes into the RWQCP at the head works where the flows from the City, as well as the CSDs are combined. The combined flow is passed through screens and grit removal basins, and air emitted from the headworks is scrubbed in a biofilter. Ferric chloride is added to wastewater leaving the headworks to inhibit hydrogen sulfide generation and improve sludge settling in the primary clarifiers. The resulting influent wastewater is shared between the Activated Plant and MBR Plant for treatment.

Primary clarifiers remove about 70% of the incoming total suspended solids and about half of the biochemical oxygen demand. The primary effluent flows by gravity to the flow equalization basins. The equalization basins capture wastewater so that it can be pumped back into the plant at a steady rate, which improves treatment efficiency. From the equalization basins, wastewater flows to either the Activated Plant aeration basins or the MBR Plant membrane bioreactor system. Wastewater is actively mixed with a large concentration of microorganisms to provide secondary or biological treatment. The wastewater effluent from the secondary treatment activated and MBR systems is combined and further treated by tertiary filtration to remove suspended solids that are not removed in the primary and secondary treatment processes. Tertiary treatment reduces the last step chlorine demand of the water and improves the disinfection process to remove pathogens before discharge to the Santa Ana River or distribution as recycled water. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Historical Wastewater Flows" herein for a discussion of increased load-based capacity at the RWQCP.

Since December 2010, the final effluent is discharged to the Santa Ana River or is distributed as recycled water for landscaping and other uses. Prior to 2010, the final effluent had been conveyed to the nearby Hidden Valley Wetlands before being discharged to the Santa Ana River. The 100-acre Hidden Valley Wetlands had been used in the 1990s and 2000s for further nitrogen treatment. A heavy storm in December 2010 significantly damaged the Hidden Valley Wetlands and redirected the Santa Ana River channel, destroying the effluent conveyance channel and lowering the riverbed, making conveyance channel repair practically impossible. At this time, no effluent flows to the Hidden Valley Wetlands and the City does not have any future plans to reconstruct the conveyance to the Hidden Valley Wetlands.

As part of the wastewater treatment process, a portion of the settled solids from the secondary clarifiers referred to as Waste Activated Sludge is thickened and blended with solids from the primary clarifiers, and further processed in an anaerobic digestion process. Currently, sludge dewatering centrifuges and screw presses are used to reduce the moisture content of sludge. The dewatering equipment is designed to use less energy and require less maintenance than a centrifuge. The dewatered solids that are about 20% solids are discharged to a truck loading facility for off-site land application as a soil amendment for non-food crops in Arizona. The RWQCP generates and requires the disposal of Class B digester sludge / biosolids. Originally, the RWQCP used sludge drying beds on 8 acres as part of its sludge disposal practice. The drying beds are no longer in service.

The digestion process creates bio-gas, one of the components of which is methane. Methane gas is used as a fuel source to produce electricity from a fuel cell system installed in 2016. About one-quarter of the RWQCP electricity needs is generated. Prior to installation of the fuel cell, three internal combustion co-engines were utilized for energy production. In January 2016 the internal combustion engines were decommissioned due to new South Coast Air Quality Management District air emissions regulations. Since 2007, the City has been accepting used restaurant grease and other organic material. This organic material increases bio-gas levels for energy generation and reduces the amount of material that goes to landfills. The added grease increases not only production but also the quality of methane gas. The "Grease-to-Gas" project has been recognized by numerous organizations in 2007 and 2008.

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

Capital Improvement Plans

The City recently completed an approximately \$200 million modernization of the RWQCP. These improvements to the RWQCP increased treatment capacity to 46 MGD (with additional expansion capability up to 52 MGD) and modernized the plant, thereby increasing the City's ability to absorb new connections from new development in the Sewer System's service area. These improvements are consistent with the City's capital improvement plans dating back to 2008, as updated from time-to-time thereafter, as described herein. In addition, as a result of these capital improvement and asset management plans, the City will be in full compliance with all currently known federal and State mandates, including the State mandate for 50% landfill diversion of biosolids by January 1, 2020.

The 2008 Wastewater Master Plan was prepared to identify and plan for needed expansion and replacement through 2025. The 2008 Wastewater Master Plan evaluated certain Sewer System facilities and made recommendations to upgrade, rehabilitate and replace them based on projected environmental regulations, population growth and evaluations contained in prior studies and ongoing plans. The 2008 Wastewater Master Plan developed a capital improvement plan and an asset management plan related to rehabilitation and replacement of aged facilities.

In March 2014, the City released a Capital Improvement Program and Rate Development Study (the “2014 Capital Improvement Plan”) to update the City’s 2008 Wastewater Master Plan and Capital Improvement Program. The 2014 Capital Improvement Plan specifically assessed and evaluated the schedule that reallocates the City’s needs and priorities and proposed a financial plan and rate structure for fiscal years 2014-15 through 2018-19. The 2014 Capital Improvement Plan identified and prioritized specific projects among the pipeline projects, lift stations improvements and collection system improvement projects. The 2014 Capital Improvement Plan also identified remaining components of Phase 1 at the RWQCP, and clarified the components of Phase 2 Rehabilitation (“Phase 2”) at the RWQCP.

The 2014 Capital Improvement Plan identified capital improvements to be made to the City’s collection system, as well as to the RWQCP for fiscal years 2014-15 through 2018-19. Based on the 2014 Rate Increase (defined below), the City identified \$78 million in capital projects for the collection system consisting of certain interceptors, upgrades to six lift stations and numerous pipeline projects throughout the City to alleviate capacity restrictions and reduce maintenance requirements. In addition, the City identified \$43 million in capital projects for the RWQCP that completes the Phase 1 improvements and begins the implementation of Phase 2 improvements, as well as other necessary plant improvements. Additional necessary improvements have been deferred to fiscal year 2019-20 and beyond. As a result, there will be additional replacements, modifications and rehabilitations of facilities at the RWQCP remaining after 2018-19. These improvements are expected to be further developed and refined in a future master plan and rate update project. See “FINANCIAL RESULTS OF THE SEWER SYSTEM – Historical and Projected Revenues, Expenditures and Coverage” herein for expected financial results through fiscal year 2022-23.

Actual components to be financed in Phase 1 and Phase 2, as well as the cost of such components and the timing of implementing such improvements may continue to change based on the City’s needs and priorities. The remaining components identified in the 2014 Capital Improvement Plan are expected to be financed with the proceeds of the Series 2015A Bonds, as well as operating revenues of the Sewer System and potential issuance of future debt.

Status of Implementing Capital Improvement Plans. In 2009, the City began the design of a large-scale rehabilitation project at the RWQCP, in two Phases. RWQCP Plant Phase 1 expansion addresses mainly the Plant 1 rehabilitation and improvements related to water treatment and solids handling. Construction of the Phase 1 improvements to Plant 1 started in 2012 and was completed in 2017. Prior to undertaking these projects, the City obtained all required approvals, including such requirements under the California Environmental Quality Act.

With this upgrade project, the RWQCP has been upgraded to an increased treatment capacity to 46 MGD (with additional expansion capability up to 52 MGD) and modernized the plant, thereby increasing the City’s ability to absorb new connections from new development in the Sewer System’s service area. Additional improvements in Phase 1 primarily address improvements regarding solids handling processes that substantially improve odor control and

add primary clarifiers, aeration basin, membrane bioreactor (“MBR”) system, chlorine contact basin, solids blending station, digesters, fats-oil- grease station, digester gas holder, digester gas flare, and equalization basins.

Although many existing facilities at the RWQCP have been rehabilitated or expanded in Phase 1, additional work will be necessary in other key facilities to reliably maintain the facilities. In connection with the preparation of the 2014 Capital Improvement Plan, the City conducted a condition assessment of the headworks, the Plant 2 secondary treatment facilities, the tertiary filters, and plant site improvements. Through that process, the City identified approximately \$43 million in necessary Phase 2 capital projects to be completed over the next 10 to 20 years. The near-term projects include: headworks rehabilitation, improvements to the Activated Plant (Plant 2), tertiary sand filter system assessment and replacement, installation of new sludge dewatering equipment, and the rehabilitation of filter piping and systems. During that time, part of Phase 2 is scheduled to commence but the 2014 Capital Improvement Plan extended the overall Phase 2 schedule to 10 to 20 years. The City also expects to replace influent metering systems, replace two major electrical switchgear installations; improve site security and improve flood protection to comply with regulatory requirements. See also “– Recycled Water Master Plan” below for a description of improvements being contemplated to increase recycled water deliveries.

For July 1, 2009 through June 30, 2012, the City identified approximately \$190 million in capital improvements that were to be financed from the 2009 Bond proceeds. The City experienced project design delays for Phase 1 due to the complexity of the project and the constraints of the pre-existing footprint. In March 2014, the City spent the remaining 2009 Bond proceeds. To provide financing for the remaining components of Phase 1, the City issued the Series 2014A Bonds. A portion of the Series 2015A Bonds proceeds were used to defease and redeem the outstanding principal amount of the Series 2014A Bonds.

To finance the costs of the projects to be completed through 2018-19, the City issued two series of Bonds. The Series 2014A Bonds represented the first series and the Series 2015A Bonds represented the second series. The 2008 Wastewater Master Plan and subsequent 2014 Capital Improvement Plan have been and are being funded from these Bond issuances.

In 2016, the City undertook a project to update the 2008 Wastewater Master Plan and 2014 Capital Improvement Plan. The 2016 Integrated Wastewater Master Plan (the “2016 Wastewater Master Plan”) is a comprehensive effort to further evaluate the wastewater collections and treatment infrastructure to identify needed improvements and to develop financing alternatives and sewer service rate structures that will be considered following fiscal year 2018-19, the last year of the current sewer rate plan. The prior capital improvement assessment work completed under the 2008 Wastewater Master Plan, including the Phase 2 improvements, have been incorporated. The 2016 Wastewater Master Plan is scheduled to be complete in the summer of 2019. The funding plan for the 2016 Wastewater Master Plan is projected to focus on a strategic balance between pay-go and debt considering the existing Sewer Fund debt service.

The current capital improvement program for the Sewer System is as follows:

Projected Capital Improvement Projects

Project Type/ Project Name	Adopted 2018-19	Adopted 2019-20	Proposed 2020-21	Proposed 2021-22	Proposed 2022-23	Total
Plant Capacity Replacements						
Plant 2 Activated Sludge Rehab. - Phase I	\$400,000	\$250,500	\$--	\$-	\$--	\$650,500
RWQCP Rehabilitation - Phase II	500,000	--	--	--	--	500,000
Tertiary System Rehab. - Phase I	--	400,000	3,000,000	--	--	3,400,000
Total Plant Capacity Replacements	\$900,000	\$650,500	\$3,000,000	--	--	\$4,550,500
Sewer Collection System Upgrades	\$1,000,000	--	--	--	--	\$1,000,000
TOTAL	\$1,900,000	\$650,500	\$3,000,000	\$--	\$--	\$5,550,500

A list of the top unfunded projects of the Sewer System follows. These items are not yet part of the City's 5-year Capital Improvement Plan for the Sewer System. However, the City believes it can fund these projects in a timely manner through a combination of available Series 2015A Bond proceeds and operating revenues or future rate increases that may occur.

Unfunded Projects Top Ten Unfunded Projects by Priority (Fiscal Year Ended June 30, 2018)

Project Name	Estimated Project Cost	Unfunded Amount
1. Plant 2 Activated Sludge Rehabilitation - Phase II	\$ 199,500	\$ 199,500
2. RWQCP Rehabilitation - Phase II	2,000,000	2,000,000
3. Dexter Water	1,200,000	1,200,000
4. Fairgrounds Wastewater	1,200,000	1,200,000
5. Wastewater Lift Stations	2,000,000	900,000
6. Wastewater Lift Station Projects - Phase II	5,200,000	5,200,000
7. Tertiary System Rehabilitation - Phase II	4,800,000	4,800,000
8. Phoenix Priority A, B and C Sewer Construction	4,945,000	4,945,000
9. Tequesquite Priority A, B and C Sewer Construction - Phase II	4,700,000	4,700,000
10. Arlanza Neighborhood Sewer Mains Rehab	4,800,000	4,800,000
TOTAL	\$31,044,500	\$29,944,500

Source: City of Riverside.

CSD Litigation and Settlements

Following the release of the 2008 Wastewater Master Plan, the City presented and discussed the City's plan with the representatives of the CSDs. Among the matters considered was the issue of financial contribution of the CSDs towards the rehabilitation and replacement costs related to the RWQCP ("CSD Costs for RWQCP"). The representatives of the City and the CSDs were not successful in reaching agreement as to each CSD's financial obligations related to CSD Costs for RWQCP.

On August 12, 2012, the City filed a Complaint for Declaratory Relief ("Complaint") in Riverside County Superior Court against Jurupa, Rubidoux and Edgemont seeking judicial determination of proportionate share of CSD Costs for RWQCP and to "pay their proportionate share of [CSD Costs for RWQCP]." On May 6, 2013, the City filed a First Amended Complaint for Declaratory Relief against the CSDs seeking judicial determination that the CSDs are obligated to pay their proportionate share of the "Master Plan Rehabilitation and Replacement Costs, the Increased Influent Concentration Costs and the Revised Permit Upgrade Costs based upon their obligations" under (i) the 1976 Agreement and the 1978 Agreement, as amended and

supplemented by subsequent agreements, the parties' past practices, and custom and usage in the industry, as to Jurupa and Rubidoux and (ii) the Edgemont Agreement, as amended in 1986 and as further amended, as to Edgemont. In June 2013, the CSDs filed their respective Answers to the City's First Amended Complaint. In addition, in February 2013, Jurupa filed a Cross-Complaint for breach of contract, unjust enrichment, negligence and damages against the City, and Rubidoux filed a Cross-Complaint alleging breach of contract, breach of covenant of good faith and fair dealing and implied contractual indemnity and seeking declaratory relief.

Under an Assignment, dated as of April 29, 2014, Edgemont agreed to pay \$1.75 million to the City and the City agreed to dismiss Edgemont from the City's Complaint. In addition, Edgemont agreed to assign to the City all treated effluent discharged from the RWQCP and not to oppose or object to the City's use of that effluent. The City also agreed to deduct the additional costs, if any, of treating and providing treated effluent, which may be useful for irrigation or other uses outside the RWQCP when calculating the treatment costs billed monthly and received annually under Edgemont's 1990 Agreement.

Under a Settlement Agreement and Mutual Release, dated December 8, 2015, Jurupa agreed to pay \$15.0 million to the City and the City agreed to dismiss Jurupa from the City's Complaint. In addition, Jurupa agreed to pay its fair share cost for future RWQCP renewal and rehabilitation projects and capital improvements required to address regulatory requirements and to maintain adequate service levels.

At this time, the City cannot predict the schedule or the outcome of the Complaint as to Rubidoux. The matter is in current litigation. The judge has recently rested the case and a judgement is forthcoming possibly by the end of 2018 or soon thereafter. In Fiscal Year 2017-18, approximately 3% of the total revenues of the Sewer System were attributable to Rubidoux.

Recycled Water Master Plan

The RWQCP currently produces approximately 31,800 acre-feet per year (AFY) of treated effluent and discharges almost the entire amount to the Santa Ana River. In May 2007, the City submitted an application to the SWRCB to divert up to 41,000 AFY of recycled water from the RWQCP. On May 20, 2008, SWRCB issued its Final Order Conditionally Approving Wastewater Change Petition, which provided for a gross allocation of the requested amount of recycled water, conditioned upon a minimum discharge into the Santa Ana River of 25,000 AFY. As of February 2014, approximately 6,600 AFY is available for diversion, but that amount is expected to grow over time with additional influent/effluent at the RWQCP. The facilities proposed in the 2006-07 Master Plan would have increased to approximately 46,400 AFY of treated effluent.

The City developed a Recycled Water Master Plan and supporting programmatic environmental impact report, both of which were adopted by the City Council in June 2007. On February 15, 2008, the Board of Public Utilities gave conceptual approval to a facilities plan that outlines specific infrastructure requirements to begin the significant expansion of recycled water projects within the City's service territory.

On September 9, 2008 the City Council conceptually approved the long-range development for the City's Recycled Water Program. To implement the Recycled Water Program, two City departments are involved in the production and distribution of recycled water. The Wastewater Division will be responsible for treating wastewater to recycled water meeting Title 22 requirements. The Wastewater Division will sell the recycled water to the Public Utilities Department Water Division at a mutually agreed upon rate. The Water Division, in turn, will be

responsible for the distribution of recycled water for ground water recharge and municipal purposes, as well as sales to retail customers.

To date, the City has upgraded the recycled water system with a backbone piping network to supply recycled water to the RWQCP for in plant uses. A new recycled water pump station has been constructed at the existing Chlorine Contact Basin No. 2. As of January 2011, this system produced up to 6,190 AFY of Title 22 recycled water. Upon completion of planned improvements, CCB No. 2 can be rated to produce up to 23,200 AFY of Title 22 recycled water. The pump station will be used to supply the onsite and off-site demands of recycled water at the peak hour demand of 4,800 gallons per minute (“GPM”). The pump station is expected to be constructed in such a way to permit simple expansion to a peak capacity of 18,000 GPM. The amount of recycled water distributed over the last 5 years has ranged from 161 to 206 AFY.

The City’s recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the U.S. Environmental Protection Agency, the California Water Code and regulations promulgated by the California Department of Public Health. The City operates its recycled water system pursuant to RWQCB Order No. R8-2013-0016 (amending Order No. R8-2009-0052, NPDES No. CA0105350), a permit that 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. The City also applied for a separate permit that delineates the responsibilities for producing and distributing recycled water between the Public Works Department and the Public Utilities Department. The new recycling permit for the Public Utilities Department was issued by the RWQCB in May 2013.

The City expects to construct certain capital improvements related to the distribution of recycled water. These improvements are expected to be financed in the future by the City’s Public Utilities Department through a combination of local and state grants, connection fees, and retail and wholesale commodity charges.

Environmental Compliance

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

To comply with federally mandated effluent quality and disposal criteria, the City must operate its wastewater treatment facility according to discharge limitations and reporting requirements set forth in the National Pollutant Discharge Elimination System discharge permits. The wastewater treatment plant meets the requirements of the City’s NPDES Permit. The existing NPDES Permit was issued on November 1, 2013 and will be subject to renewal in November 2018. The City has submitted its permit renewal application to the Santa Ana Regional Water Quality Control Board, and it is currently under review. The existing NPDES Permit will remain in effect while the renewal is being evaluated.

In addition to federal requirements, the City must comply with State requirements which are generally more stringent. The primary State law concerned with the control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended. The basic tenor of that act

sets policy that the waters of the State must be protected for use and enjoyment by the people of the State. The Porter-Cologne Act directly addresses the problem of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements.

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

Seismic Issues

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

Employee Relations

As of June 30, 2014, 128 City employees were assigned specifically to the Sewer System. Certain functions supporting Sewer System operations, including meter reading, customer billing and collections, are performed by the Public Utilities Department. Substantially all of the non-administrative City personnel assigned to the Sewer System are represented by the Service Employees International Union ("SEIU"). The City and SEIU are parties to a Memorandum of Understanding that expires on June 30, 2020. Portions of the administrative staff are also represented by the SEIU. The Sewer System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future.

Pension Plans

General. The City contributes to PERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. All permanent and temporary employees who work more than 1,000 hours are eligible to participate in PERS. Benefits vest after 5 years of service and vary based upon final yearly compensation or final compensation as the highest average annual pensionable compensation earned during a 36-month period, as applicable, pension plan, length of service, pension tier, and age at retirement. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries and acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. PERS maintains two pension plans (each, a "PERS Plan") for the City based on type of employee (i.e., a PERS Plan for "Safety Employees" and a separate PERS Plan for "Miscellaneous Employees"). Sewer System employees are considered Miscellaneous Employees and covered by the Miscellaneous Plan.

Implementation of GASB Nos. 68 and 71. In June 2012 and November 2013, the Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and*

Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (“GASB Statement No. 68”) and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 (“GASB Statement No. 71”)*, respectively. The primary objective of GASB Statement No. 68, as amended, is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 68, as amended, revised the accounting treatment of defined benefit pension plans, changing the way expenses and liabilities are calculated and how state and local government employers report those expenses and liabilities in their financial statements. Major changes include: (i) the inclusion of unfunded pension liabilities on the government’s balance sheet (previously, such unfunded liabilities were typically included as notes to the government’s financial statements); (ii) pension expense incorporates more rapid recognition of actuarial experience and investment returns and is no longer based on the employer’s actual contribution amounts; (iii) lower actuarial discount rates that are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities that are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns to will be recognized over a closed five-year smoothing period. The reporting requirements took effect in fiscal year 2014-15. Based on the adoption of the new accounting standards, beginning with the fiscal year 2014-15 actuarial valuation, the annual required contribution and the annual pension expense will be different. GASB Statement No. 68, as amended, changes the reporting and disclosure requirements for financial statement accounting purposes, but it does not change the City’s pension plan funding obligations.

Information shown in this section that has been sourced from a CalPERS Actuarial Valuation Report has not been prepared in accordance with GASB Statement No. 68, as amended. For a presentation of additional information that is required by GASB Statement No. 68, see the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, which is attached as APPENDIX B.

Actuarial Valuations. The staff actuaries at PERS prepare annually an actuarial valuation which covers a fiscal year ending approximately 15 months before the actuarial valuation is prepared. The actuarial valuations express the City’s required contribution rates in percentages of payroll, which percentages the City must contribute in the fiscal year immediately following the fiscal year in which the actuarial valuation is prepared. PERS rules require the City to implement the actuary’s recommended rates.

In calculating the annual actuarially recommended contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the PERS Plans, which include two components, the normal cost and the unfunded actuarial accrued liability (the “UAAL”). The normal cost represents the actuarial present value of benefits that PERS will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. The assumed rate of investment return utilized in the actuarial valuation is established by PERS and the City has no

ability to predict the assumed rate of return. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that PERS will fund under the PERS Plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the City owes to PERS under their respective PERS Plans.

PERS Actuarial Assumptions and Policies. In the aftermath of the economic downturn in 2008, the PERS Board has on several occasions adopted policies aimed at properly funding the pension system, while also attempting to lessen the resulting negative impacts on member agencies in the form of higher rates. These policies are used to set employer contribution rates for each city. While investment returns in the years since the economic downturn have largely reversed previous losses, the changes are designed to limit the possibility of the pension system becoming significantly underfunded in the future.

PERS Discount Rate Adjustment. On March 14, 2012, the PERS Board voted to lower the PERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "PERS Discount Rate") from 7.75% to 7.50%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over the next three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate went into effect July 1, 2018, for the City. Lowering the PERS Discount Rate likely means employers that contract with PERS to administer their pension plans (such as the City) will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the PEPPRA (defined below) will likely also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

PEPPRA. On September 12, 2012, the California Governor signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2012 ("PEPPRA") and that also amended various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibits employers from paying employer-paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period; and (v) caps pensionable income at \$110,100 (\$132,120 for employees not enrolled in Social Security) subject to Consumer Price Index increases. Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit. The City has implemented the requirements of PEPPRA in its tier 3 plans.

Funding Status. As of June 30, 2017, the date of the most recent actuarial valuation report, the market value of assets in the Miscellaneous Plan was approximately \$1,029,759,135, and the accrued liability was approximately \$1,317,421,178. The Miscellaneous Plan was

approximately 78.2% funded on a market value of assets basis as of June 30, 2017, with an Unfunded Liability of approximately \$287,662,043.

The Sewer System's total contribution to PERS including the unfunded liability as of June 30, 2018, 2017 and 2016 was \$2,119,952 (unaudited), \$2,113,251 and \$2,051,771, respectively. In addition, the Sewer System is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 (the "Pension Obligation Bonds"). The Sewer System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds as of June 30, 2018, 2017 and 2016 was \$2,386,903 (unaudited), \$2,820,809 and \$2,775,446, respectively, which is payable as Operating and Maintenance Expenses. That share is recorded as an outstanding obligation of the Sewer Revenue Fund and is amortized based on the amortization schedule of the Pension Obligation Bonds. 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" for the year ended June 30, 2017, which is attached as APPENDIX B to this Official Statement. More recent information as to the actuarial status of the City's Miscellaneous Plan has been provided in CalPERS Annual Valuation Report, dated July 2018, with respect to the City.

Trend information from fiscal year 2010-11 through 2013-14 for PERS funding is set forth below. As a result of the implementation of GASB Statement No. 68, this information is no longer reported by PERS. The following table shows actual pension cost, percentage of actual pension cost contributed and the net pension obligation for the Miscellaneous Plan.

**CITY OF RIVERSIDE
MISCELLANEOUS PLAN**

Fiscal Year Ending June 30	Actual Pension Cost (APC) (in thousands)	Percentage of APC Contributed⁽¹⁾	Net Pension Obligation (Asset) (in thousands)
2011	\$16,888	92.4%	\$(55,253)
2012	21,661	92.8	(53,694)
2013	21,907	91.5	(51,825)
2014	22,361	90.1	(49,615)

(1) Because of the issuance of pension obligation bonds by the City in 2004 and 2005, accounting rules require that the city amortize the prepayment associated with the lump sum contribution to PERS from the bond proceeds over the life of the debt. As a result, the percentage of the APC contributed is less than 100%, with the remainder being accounted for by the amortization of the net pension asset. In each year shown in the table, the City has contributed 100% of the amount required by PERS as required by state law.

Source: City's audited annual financial reports for fiscal years ending June 30, 2011 through 2014.

Contribution Rates and Pension Tiers. The following table shows the minimum percentage of salary which the City was responsible for contributing as the employer rate to PERS from fiscal year 2013-14 through fiscal year 2018-19 to satisfy its retirement funding obligations for the Miscellaneous Plan.

**CITY OF RIVERSIDE
SCHEDULE OF MINIMUM EMPLOYER CONTRIBUTION RATES**

<u>Valuation Date June 30</u>	<u>Affects Contribution Rate for Fiscal Year</u>	<u>Miscellaneous Plan⁽¹⁾</u>
2011	2013-14	18.314%
2012	2014-15	18.994
2013	2015-16	21.012
2014	2016-17	22.978
2015	2017-18	25.044
2016	2018-19	28.033

(1) Represents a blended rate for all three tiers of employees.
Source: PERS Actuarial Reports for June 30, 2011 through June 30, 2016.

City employees' contribution rates in pension tiers 1 and 2 are 9% for public safety employees and 8% for miscellaneous employees, calculated as a percentage of their monthly earnings. The City pays the employees' contribution to PERS for both miscellaneous and safety employees in pension tier 1 hired before specific dates as outlined in the following table. For any employee hired on or after those dates, the employee pays their full share. This second tier of pension benefits also included a change in the number of years' salary utilized to compute the retirement benefit and, for certain bargaining units, a change to the formula used to calculate the benefit amount. For tier 3 employees, their contribution is set at 50% of the normal cost, not to exceed 8% for miscellaneous employees and 12% for safety employees, as required by PEPRA.

Beginning January 1, 2019 and January 1, 2020, general SEIU employees will contribute an additional 1%, respectively to the employee share such that the City no longer will be responsible for the employee contribution.

Cost sharing beyond what is outlined in existing MOUs is not permitted until the expiration of those contracts. All employee bargaining units' MOUs have expired since PEPRA became effective and all of their tier three members are therefore now paying 50% of the normal cost as required by PEPRA.

The following table details the three pension tiers applicable to the City's active employees categorized as Miscellaneous.

**CITY OF RIVERSIDE
PENSION TIERS FOR CITY EMPLOYEES**

<u>Pension Plan</u>	<u>Pension Formula</u>	<u>Benefit Calculation⁽²⁾</u>	<u>Effective Date – Formula and Benefit Calculation</u>	<u>Effective Date – Employees Paying Employee Share</u>
Miscellaneous	Tier 1: 2.7% @ 55	Tier 1: 1 Year	--	January 1, 2018 ⁽³⁾
	Tier 2: 2.7% @ 55	Tier 2: 3 Years	December 16, 2011	October 19, 2011
	Tier 3: 2.5% @ 67 ⁽¹⁾	Tier 3: 3 Years	January 1, 2013	January 1, 2013

(1) The Miscellaneous plan mandated by PEPR is commonly known as the “2.0% @ 62 Plan”, however the maximum benefit that can be earned under the plan is 2.5% at age 67.

(2) The Benefit Calculation refers to the number of years of salary included in the calculation of the amount to which the retirement benefit is applied. In the case of one year, the highest year of salary is utilized. In the case of three years, the highest consecutive three years is utilized.

(3) SEIU employees currently pay 6.0% of PERS costs, and will increase percentage up to 8.0% by 2021. Effective January 1, 2018, IBEW and unrepresented employees contribute 2.0% of PERS costs per year, increasing each year to a total of 8.0% by 2021. Source: *City of Riverside*.

Other Post-Employment Benefits (OPEB)

The City contributes to two single-employer defined benefit healthcare plans: a Stipend Plan and the Implied Subsidy Plan. The plans provide other post-employment health care benefits (“OPEB”) for eligible retirees and beneficiaries. For a description of each employee association and applicable benefits, see “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE FOR THE FISCAL YEAR ENDED JUNE 30, 2017.”

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements, including SEIU. The Sewer System formerly contributed to the Stipend Plan for employees of the SEIU. However, negotiated agreements with SEIU terminated contributions by the Sewer System effective as of July 1, 2011. The recently negotiated agreement with SEIU does not include contributions to the Stipend Plan.

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 Sewer System’s healthcare plans and, as such, an implicit subsidy exists. The Sewer System’s contributions to the Implied Subsidy Plan are established by the City Council. The Sewer System is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

Effective for the fiscal year ended June 30, 2018, the Governmental Accounting Standards Board (GASB) issued its Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“OPEB”). This statement requires a Net OPEB liability to now be reported on the face of the financial statements, similar to the Net Pension Liability recently added through GASB 68. GASB 75 Statement requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For the fiscal year ended June 30, 2018, the OPEB expense recorded for the Sewer fund was \$179,694.

See “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE FOR THE FISCAL YEAR ENDED JUNE 30, 2017,” for additional details.

Insurance

The Sewer System's insurance needs are handled by the Risk Management Division of the Finance Department. Liability and workers' compensation Internal Service Insurance fund balances are based on annual actuarial studies and reviews by the City's Risk Manager and an outside insurance consultant. The City, including the Sewer System, is self-insured for \$3 million for liability and \$3 million for workers' compensation. The City has joined with a group of other municipalities under the California Municipal Excess Liability (CAMEL) Program to participate in an insurance policy that provides excess coverage of \$20 million for liability. The City also has an insurance policy that provides excess coverage with a \$25 million limit for workers' compensation. The City maintains property insurance on most City real property holdings with a limit of \$1 billion subject to a \$50,000 deductible. All properties valued at over \$100,000 are insured at full replacement value based on periodic appraisals and annual CPI adjustment.

OPERATING INFORMATION RELATED TO THE SEWER SYSTEM

Customers

The following table sets forth the actual revenues collected from residential, commercial, industrial, community service districts and other charges from customers since Fiscal Year 2007-08.

CITY OF RIVERSIDE Revenues by Customer Category Fiscal Years 2007-08 through 2017-18

<u>Fiscal Year</u>	<u>Residential Accounts</u>	<u>Commercial Accounts</u>	<u>Industrial Accounts</u>	<u>Community Service Districts⁽²⁾</u>	<u>Other Charges for Services</u>	<u>Total⁽⁴⁾</u>
2007-08	\$13,894,300	\$4,658,156	\$976,222	\$2,438,146	\$558,392	\$22,525,216
2008-09	13,834,657	4,479,982	1,032,877	3,494,251	463,826	23,305,593
2009-10	17,338,883	4,762,338	1,352,909	3,367,647	350,058	27,171,835
2010-11	21,762,173	5,946,204	1,549,518	2,846,065 ⁽³⁾	459,992	32,563,952
2011-12	25,267,285	7,039,190	1,671,961	3,153,850	411,774	37,544,060
2012-13	28,727,013	8,016,851	1,985,728	4,461,742 ⁽³⁾	372,504	43,563,838
2013-14	31,185,034	8,826,526	2,064,876	3,459,466	414,071	45,949,973
2014-15	34,099,456	9,257,105	2,804,221	3,552,840	411,695	50,125,317
2015-16	37,361,734	8,894,533	3,510,964	3,335,237	347,590	52,540,058
2016-17	40,798,249	10,380,803	3,388,961	4,927,379	360,808	59,856,200
2017-18 ⁽¹⁾	44,518,562	11,794,877	3,226,621	4,916,151	417,179	64,873,390

(1) Fiscal Year 2017-18 numbers are unaudited.

(2) Includes customer accounts in Highgrove.

(3) Reflects 10 months of billing and reconciliation credit in fiscal year 2010-11 due to an error in year-end accounting that resulted in 2 months of revenues not being accrued back to that year. The accrual errors were corrected in fiscal year 2012-13, causing that year's number to be larger.

(4) Fiscal years 2008-09 through 2017-18 differ from the amounts shown under "Charges for service" under the caption "FINANCIAL RESULTS OF THE SEWER SYSTEM - Summary of Operations" due to the use of cash collections as a basis for this table.

Source: City of Riverside.

The customer category represented as "Community Service Districts" in the above table includes wastewater service revenue from the CSDs for wastewater treatment services provided as set forth in their respective agreements with the City. For wastewater treatment services provided to Jurupa, Rubidoux and Edgemont, the City has a capacity arrangement with each

CSD. As a result, rates and charges specifically noted in such agreements govern the City's revenues realized rather than the rates and charges related to the City's Sewer System as further described in this Official Statement. As to Highgrove, the City's existing agreement to provide wastewater service within the Highgrove unincorporated area allows for the collection of the City's rates and charges in effect with respect to the Sewer System as described herein. In addition, the existing billing and collection procedures of the City will apply to customers within Highgrove. See "– Historical Wastewater Flows" below for additional information regarding the CSD contracts. See also "THE SEWER SYSTEM – Development of Treatment Facilities at the RWQCP" and "– CSD Litigation and Settlements."

Sewer Rates and Fees

General. Title 14 of the Riverside Municipal Code sets forth regulations governing the City's Sewer System, including provisions for sewer service charges and sewer pumping surcharges. Residential units are charged flat monthly amounts with a pumping surcharge applied to certain geographic areas where pumping is required in order for the wastewater to reach the RWQCP. Industrial and commercial facilities sewer service charges are based on water usage and the resulting quantity and type of discharge. Industrial and commercial accounts are assigned to service classes that match the process costs required for treating their discharge. The Wastewater Division employs waste inspectors and laboratory personnel who perform a random testing program on discharge. Because of this monitoring program commercial accounts have improved the composition of their discharge through improved operations or pretreatment programs.

History of Rate Changes Since 1993. On December 22, 1992, the City Council adopted Resolution No. 17964 which established new sewer service rates and pumping surcharges effective as of January 1, 1993 for billings rendered on or after February 1, 1993. The sewer rates approved on December 22, 1992, remained in effect until the 2008 Rate Increase described below.

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

2014 Rate Increase. Pursuant to Resolution No. 22683, adopted on May 13, 2014 ("2014 Rate Increase"), the City Council considered and approved new rates and charges applicable to residential, commercial and industrial customers. Prior to adopting the 2014 Rate Increase, the City commissioned a rate study to assess the adequacy of the City's sewer user rates and capacity fees for current and future operations and maintenance costs, as well as capital costs expected to be incurred during fiscal years 2014-15 through 2018-19. The rate study used the City's fiscal year 2013-14 operating and maintenance budget as the basis for future expenses. The rate study also developed user rates to distribute the costs of operating and maintenance, as well as capital improvement and rehabilitation costs to all the users based on wastewater flow and strength characteristics. As part of the rate study, the rates charged to customers of Jurupa, Rubidoux and Edgemont, as well as the unincorporated community of Highgrove, were also evaluated.

For purposes of the 2014 Rate Increase, the 2014 rate study assumed no future capital contribution from the CSDs. Following the resolution of the currently pending lawsuit filed by the City against the CSDs, the City expects to apply any capital contributions from the CSDs to offset the scheduled rate increases to the City's customers or to apply such amounts from the CSDs to cash fund a portion of the remaining capital costs of the RWQCP, however no final determination has been made at this time. For a discussion on the City's litigation against the CSDs and related settlements, see "THE SEWER SYSTEM –CSD Litigation and Settlements" above. See also "THE SEWER SYSTEM – Development of Treatment Facilities at the RWQCP" for a description of regional wastewater treatment program development. See also "CONSTITUTIONAL LIMITATIONS – Articles XIIC and XIID of the State Constitution" herein for additional information.

The key findings of the rate study made several recommendations. As to the rates and charges of the Sewer System, the rate study concluded that an annual user rate increase of 8.5% will be required in each year of the study period to fund the activities of the Sewer System. The 2014 rate study also recommended increasing capacity fees. To implement these increases, the City has sent and published notices as required under existing laws. The 2014 Rate Increase permitted rate increases by the City Council, effective July 1, 2014 through June 30, 2019; however, the City Council chose to leave rates unchanged for Fiscal Year 2018-19 from the prior year.

Potential Future Rate Increases. The City currently anticipates commencing a rate increase process in accordance with Proposition 218 in Fiscal Year 2020-21 (with new rates taking effect beginning in Fiscal Year 2021-22) and again in Fiscal Year 2022-23 (with new rates taking effect beginning in Fiscal Year 2023-24). However, no future rate increases have been assumed for purposes of the City's projected debt service coverage set forth in this Official Statement.

Historical and Current Rates. The following table summarizes the current and historic basic single family and flat commercial customer's monthly sewer rates and pumping surcharge, if applicable, since 1993.

CITY OF RIVERSIDE
Monthly Sewer Rates for
Basic Single-Family Dwelling Customers and
Flat Commercial Customers Rate Schedules
1993 through 2018

Effective Date	Monthly Sewer Rate	Percent Increase	Pumping Surcharge ⁽¹⁾	Percent Increase
1/1/1993 through 6/30/2009	\$13.05	n/a	\$1.92	n/a
<i>2008 Rate Increase:</i>				
7/1/2009	\$16.55	26.82%	\$2.56	33.33%
7/1/2010	20.55	21.17	3.18	24.22
7/1/2011	23.55	14.60	3.65	14.78
7/1/2012	26.55	12.74	4.11	12.60
7/1/2013	28.55	7.53	4.42	7.54
<i>2014 Rate Increase:</i>				
7/1/2014	\$30.98	8.51%	\$4.80	8.59%
7/1/2015	33.62	8.52	5.21	8.54
7/1/2016	36.48	8.50	5.66	8.63
7/1/2017	39.59	8.53	6.14	8.48
7/1/2018 ⁽²⁾	39.59	--	6.14	--

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

(2) Although an approximately 8.5% rate increase was permissible pursuant to the 2014 Rate Increase, the City Council chose to leave rates unchanged for Fiscal Year 2018-19 from the prior year.

Source: *City of Riverside*.

Additional Monthly Charge for Commercial and Industrial Customers. Commercial customers are charged based on each one hundred cubic feet (“CCF”) or portion of CCF of water used and the type of commercial use.

All commercial customers will continue to be charged a minimum monthly rate equal to the single family dwelling rate so that a commercial customer’s monthly billing cannot be less than the single family dwelling rate. Industrial customers will continue to be subject to a monthly charge based on Flow (per CCF), Chemical Oxygen Demand (per pound) and Total Suspended Solids (per pound).

Capacity Fees

Title 14 of the Riverside Municipal Code sets forth regulations governing the City’s Sewer System and provides that any person desiring a permit to connect property to a City sewer shall pay for off-site trunk lines and general plant facilities required for the disposal of sanitary sewage in an amount established by the City Council by resolution. Such fees and charges are referred to as “sewer connection fees” or “Capacity Charges” in this Official Statement.

A Capacity Charge is a one-time fee for a new, additional or larger connection to the Sewer System within the City. Capacity Charges are not treated as operating income for financial reporting purposes but are deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage, all as provided in the Resolution. Pursuant to State law, Capacity

Charges are applied only to capital expansion, bonds, contracts, or other indebtedness of the Sewer System related to expansion. Capacity Charges are primarily collected on new construction within the service area and revenues therefrom vary based upon construction activity.

The following table sets forth the total amount of connection fees received since Fiscal Year 2007-08.

**CITY OF RIVERSIDE
Total Connection Fee Revenues
for Fiscal Years 2007-08 through 2017-18**

Fiscal Year	City Connection Fees	CSDs Connection Fees	Total Connection Fee Revenues
2007-08	\$2,171,044	\$501,231	\$2,672,275
2008-09	(63,786) ⁽¹⁾	845,640	781,854
2009-10	716,549	41,053 ⁽²⁾	757,602
2010-11	533,363	41,923 ⁽²⁾	575,286
2011-12	1,056,991	41,053 ⁽²⁾	1,098,044
2012-13	1,023,658	41,053 ⁽²⁾	1,064,711
2013-14	2,643,253	41,053 ⁽²⁾⁽³⁾⁽⁴⁾	2,684,306
2014-15	1,802,665	41,053 ⁽²⁾⁽⁴⁾	1,843,718
2015-16	618,455 ⁽⁵⁾	41,053 ⁽²⁾⁽⁴⁾	659,508
2016-17	2,976,609	328,553 ⁽⁴⁾	3,305,162
2017-18 ⁽⁶⁾	1,477,007	105,868	1,582,875

- (1) Reflects net amount of connection fees projected for fiscal year 2008-09, taking into account refunds of previously collected connection fees attributable to expired building permits.
- (2) Reflects actual amounts currently being paid by CSDs for capital costs. But see "THE SEWER SYSTEM –CSD Litigation and Settlements" for a description of pending litigation.
- (3) Does not include amounts paid by Edgemont or Jurupa in settlement of claims made by the City, as described under "THE SEWER SYSTEM –CSD Litigation and Settlements" herein.
- (4) Does not reflect \$64,815 in deferred capacity charges from a contract settlement that were recognized as Miscellaneous Income.
- (5) Excludes \$269,503 in connection fees remitted to the Sewer Fund through operating transfers.
- (6) Fiscal Year 2017-18 numbers are unaudited.

Source: City of Riverside.

On June 1, 1980, the City Council adopted Resolution No. 14226 which established sewer connection fees. Until 2008, the City Council had not increased such fees. In addition, the City Council adopted Resolution No. 20400 on April 22, 2003 and Resolution No. 21085 on December 6, 2005 to reduce sewer connection fees for specific property uses identified in such resolutions. Pursuant to Resolution No. 21713, adopted on September 23, 2008, the City Council considered and approved increases to Capacity Charges applicable to residential, commercial and industrial customers. The increased rates were effective on July 1, 2009 as to residential and commercial customers and on December 1, 2008 as to industrial customers.

Pursuant to Resolution No. 22684, adopted on May 13, 2014, the City Council considered and approved increases to Capacity Charges as to residential, commercial, institutional and industrial customers, effective on July 1, 2014.

In addition to approving increased Capacity Charges, the City Council also adopted a new basis for the assessment of Capacity Charges in some cases. As was the case under the 2008 Rate Increase, the Capacity Charge (and now referred to as Capacity Fee) basis for residential development will continue to be charged on a per unit basis. Similarly, commercial and industrial

developments will continue to be assessed on the usable floor space of buildings constructed. The Capacity Fee would be based on the amount of flow and composition of the sewage to be contributed to the Sewer System by the category of development. As a result, effective July 1, 2014 through June 30, 2019 under the 2014 Rate Increase, the Capacity Fee for commercial developments will continue to be based on usable floor space and depend on the category of use.

Residential and Commercial Customers. The following table sets forth the existing and increased Capacity Fee for residential and commercial customers. Effective July 1, 2015 as approved under the 2014 Rate Increase, all amounts from July 1, 2014 will be adjusted by Engineering News Record Construction Cost Index for Los Angeles or 20 City Average.

**CITY OF RIVERSIDE
Capacity Fee
For Residential and Commercial Customers**

<u>User Rate Categories</u>	<u>Effective 7/1/2018</u>	<u>Basis Per/Units</u>
Residential Sewer Capacity Charge/Capacity Fee		
Basic Multi-Family Dwelling Unit	\$3,869	Unit
Basic Single-Family Dwelling Unit	\$4,284	Unit
Commercial Sewer Capacity Charge/Capacity Fee		
Basic Commercial (Flat Rate)	\$4,148	Unit
Commercial Sewer Capacity Charge/Capacity Fee Structure		
Department & Retail Stores	\$ 251	1,000 S.F.
Hotels & Motels	1,570	Unit
Laundromats	10,679	1,000 S.F.
Laundries	9,745	1,000 S.F.
Markets	2,407	1,000 S.F.
Mortuaries	6,566	1,000 S.F.
Professional Offices	416	1,000 S.F.
Repair Shops & Service Stations	4,701	1,000 S.F.
Restaurants	10,367	1,000 S.F.
Other Commercial	692	1,000 S.F.
Hospitals	1,710	1,000 S.F.
Churches & Halls	1,743	1,000 S.F.
Schools "B"	570	1,000 S.F.
Other Commercial "A"	1,799	1,000 S.F.
Other Commercial "B"	432	1,000 S.F.
Warehouse	120	1,000 S.F.

Source: City of Riverside.

Industrial Customers - Supplemental Capacity Charge. For industrial developments, at the time of receiving a building permit, a one-time Capacity Charge would be determined based upon anticipated Flow, Chemical Oxygen Demand and Total Suspended Solids quantities. In addition, if the development is anticipated to discharge in excess of 33.5 CCF of flow, 150 pounds of COD or 150 pounds of TSS per day, then the development will be required to pay a Supplemental Capacity Charge monthly. At this time, the City serves 14 industrial customers and expects that a limited number of new industrial customers will be added in the future.

The following table sets forth the Supplemental Capacity Charge for industrial customers. Effective July 1, 2015, the Supplemental Capacity Fee will be increased annually by the Engineering News Record Construction Cost Index for Los Angeles or 20 City Average.

**CITY OF RIVERSIDE
Supplemental Capacity Charge for
Industrial Customers**

Effective Date	Flow ⁽¹⁾	Chemical Oxygen Demand ⁽²⁾	Total Suspended Solids ⁽³⁾
12/1/2008	\$1.14	\$0.27	\$0.10
7/1/2009	1.18	0.28	0.11
7/1/2010	1.21	0.29	0.11
7/1/2011	1.25	0.30	0.11
7/1/2012 to 6/30/2014	1.29	0.31	0.12
7/1/2014	1.31	0.31	0.12
7/1/2015	1.31	0.31	0.12
7/1/2016	1.34	0.32	0.13
7/1/2017	1.39	0.33	0.13
7/1/2018	1.42	0.36	0.16

(1) For each 1 CCF/day in excess of 33.5 CCF/day.

(2) For each 1 lb./day in excess of 150 lbs/day.

(3) For each 1 lb./day in excess of 150 lbs/day.

Source: City of Riverside.

Comparative Rates and Charges

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

**CITY OF RIVERSIDE
Comparative Residential Monthly Sewer Service Charges
and Connection Fees – Regional
As of July 1, 2018**

Service Provider	Monthly Sewer Service Charge	Typical Sewer Connection Fee
Inland Empire Utilities Agency (Ontario)	\$18.39	\$6,624
City of San Bernardino	23.10	3,500
Eastern Municipal Water District	24.83	2,768
City of Redlands	25.03	3,130
Rubidoux Community Services District	25.68	5,200
City of Colton	34.33	2,800
Jurupa Community Services District	37.45	7,464
City of Riverside	39.59	4,284
City of Corona	45.60	4,644
Elsinore Valley Municipal Water District	45.87	8,961
Western Municipal Water District	49.41	3,121

Source: City of Riverside.

The following table provides a comparison of annual and monthly sewer charges for single family residences within the Sewer System's service area to other cities and districts within the State as of July 1, 2018.

CITY OF RIVERSIDE
Comparison of Total Sewer Service Charges
for Single-Family Residences – Select Statewide Utilities
As of July 1, 2018

Entity	System Average Dry Weather Flow (mg/d) ⁽¹⁾	Annual Sewer Service Charge ⁽¹⁾	Monthly Sewer Service Charge	Treatment Level ⁽¹⁾⁽²⁾	Property Tax Income ⁽³⁾
City of Riverside	26	\$475	\$39.59	5	No
City of San Diego	140	572	47.71	2	No
City of Los Angeles	329 ⁽⁴⁾⁽⁵⁾	552	45.99	4	No
East Bay MUD	56	307	25.55	4	No
Sacramento Regional County Sanitation District	111 ⁽⁵⁾	444	37.00	3	Yes
Orange County Sanitation District	185	335	27.92	3	Yes
Los Angeles County	399 ⁽⁵⁾	183	15.25	4	Yes

(1) Source: Information obtained from respective entities listed.

(2) Treatment Level Categories:

"1" - Primary treatment.

"2" - Advanced primary or primary with some secondary treatment.

"3" - Secondary treatment

"4" - Advanced secondary or secondary with some tertiary treatment.

"5" - Tertiary treatment.

(3) Source: Wastewater User Charge Survey Report by the State Water Resources Control Board.

(4) City of Los Angeles includes the average dry weather flow from four treatment plants: Hyperion, Terminal Island, LA/Glendale and Tilman.

(5) Source: Information obtained from Carollo.

Principal Users

The ten principal users of the Sewer System and their respective charges for fiscal year 2017-18 are listed below. Sewer service charges are determined on an individual case basis for large users who discharge in excess of 25,000 gallons per day of equivalent sanitary waste. Rates are determined by formula based on quantity and quality of sewage discharged. Based on the total revenues of \$67,758,000 (unaudited) for fiscal year 2017-18, eight of the ten principal users

represent less than 1.00% of the total revenues, and the charges of the ten principal users, combined, represent less than 7.30% of the total revenues.

**CITY OF RIVERSIDE
Principal Users
Fiscal Year 2017-18**

Name of Account	Industry	Revenues	% of Total Revenues⁽¹⁾
Stremick's Heritage	Commercial	\$1,133,646	1.67%
University of California at Riverside	Education	706,238	1.04
Cal Baptist University	Education	485,525	0.72
County of Riverside	Government	445,911	0.66
OSI Industries, LLC	Commercial	439,938	0.65
Kroger Company	Commercial	424,224	0.63
Riverside Community Hospital	Healthcare	362,942	0.53
Pepsi Beverages Company	Commercial	337,274	0.50
Carbonlite Industries	Industrial	305,357	0.45
Riverside Unified School District	Education	284,972	0.42
Total		\$4,926,028	7.27%

(1) Based on total revenues for Fiscal Year 2017-18 of \$67,758,000 (unaudited).
Source: City of Riverside Public Works Department.

Historical Wastewater Flows

The table below presents wastewater flows through the treatment plant since Fiscal Year 2007-08, expressed as the average daily flow and peak flow for each fiscal year. The reduction in flows over this period reflect water consumption reductions in response to the City's water conservation efforts.

**Regional Water Quality Control Plant
Historical Wastewater Flows
Average, Peak Demand and System Capacity
Fiscal Years 2007-08 through 2017-18
(In MGD)**

Fiscal Year	Average Daily Flow	Peak Flow	System Capacity
2007-08	32.29	35.44	40
2008-09	31.63	37.63	40
2009-10	30.25	36.34	40
2010-11	30.00	52.79*	40
2011-12	29.05	33.87	40
2012-13	28.15	34.14	40
2013-14	28.35	35.06	40
2014-15	28.36	31.46	40
2015-16	24.69	29.97	40
2016-17	27.20	45.39*	40
2017-18	26.97	31.75	46

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

Flow Projections Used to Develop the 2014 Rate Increase. The 2014 Capital Improvement Plan included wastewater flow projections for the years 2010 to 2035, developed

upon the Integrated Master Plan and other available information. Flows for the City beyond fiscal year 2012-13 were projected using a value of 77 gallons per capita per day, a lower per capital flow rate than experienced in prior years and reflected both water conservation and then economic conditions. Based on the current capacity rights of the CSDs and a 46 MGD total influent flow at the RWQCP, the RWQCP is calculated to have 38.06 MGD of available capacity serve the City and Highgrove in the future. Projected flows for the City and Highgrove for 2035 were 29.9 MGD and 2.2 MGD, respectively.

Projected CSDs' flows were initially based on actual fiscal year 2012-13 flows and projected increase of flows generated by each CSD. The projected increases used for the CSDs are several years old and have not been updated. CSDs' flows to the RWQCP are capped at the current contractual capacities as shown in the following table.

COMMUNITY SERVICE DISTRICTS
Capacity Rights and Projected Maximum Flow Period
(In MGD)

Name	Current Contract Maximum Flow	Forecasted Time to Maximum Flow
Jurupa	4.00	2030
Rubidoux	3.06	2025
Edgemont	0.89	2032

Due to increased water conservation efforts over the last five years, the annual increases in flows that were typical in the 1990s and into the 2000s have leveled off since completion of the Integrated Wastewater Master Plan ("IWWMP") and lower than projected flows have been observed since then. Flows for the City beyond fiscal year 2012-13 were projected using a value of 77 gallons per capita per day ("GPCD"), which is the average of the 2012 and 2013 per capita flows. In 2015, the mandate to reduce water consumption by 25% in response to drought conditions in the State of California brought wastewater generation down to 65 GPCD. Flows for the CSDs were projected from the actual 2013 flows using the previous annual flow increase for each CSD as derived from the IWWMP. In addition, the CSD's flows to the RWQCP were capped at the current contractual amounts shown above. The projected Highgrove flow for 2035 was limited to one-half of the previously agreed capacity allocation of 4.4 MGD.

The City is currently in the process of updating the IWWMP. The project commenced in January 2017 and is expected to be completed by June 2019. Updated flow data from published wastewater master plans from each CSD will be included in this assessment.

The following sets forth a summary of actual flow data for the City and the CSDs since Fiscal Year 2009-10.

CITY OF RIVERSIDE
Regional Water Quality Control Plant
Historical Wastewater Flows
Fiscal Years 2009-10 through 2017-18
(In MGD)

Fiscal Year Ending	City of Riverside			Community Service Districts			Total
	Domestic ⁽¹⁾	Commercial	Industrial	Jurupa	Rubidoux	Edgemont	
2010	16.0	7.8	0.79	3.0	2.0	0.53	30.1
2011	16.0	7.9	0.85	3.0	2.0	0.52	30.2
2012	14.9	7.6	0.88	3.0	2.0	0.50	29.2
2013	15.5	7.9	0.88	3.0	2.2	0.51	30.4
2014	17.2	7.4	0.67	3.0	2.0	0.51	30.8
2015	14.8	7.2	0.76	3.2	2.0	0.52	28.5
2016	12.4	6.1	0.64	3.1	2.0	0.52	24.8
2017	14.0	6.8	0.72	3.3	2.0	0.54	27.4
2018	13.9	6.8	0.71	3.1	1.9	0.55	27.0

(1) Based on the 2014 Capital Improvement Plan, assumes 74% flow to treatment as domestic / residential source.
Source: City of Riverside Public Works Department.

Billing and Collection; Delinquencies

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

Bills are due and payable on presentation, and become delinquent after 21 days. Accounts that have not paid their bills by the delinquency date receive an urgent notice providing an additional 10 days to pay. If payment is not made by this due date, a 48-hour turn-off notice is sent, providing two additional business days for payment. If payment is not received by this deadline, metered service (Water and/or Electric) will be turned off due to non-payment. Metered service is not restored until payment of past-due balances and applicable reconnection fees is made.

Public Utilities manages delinquencies of amounts billed for the City's Sewer, Water, Electric and Refuse utilities. Delinquencies from inactive accounts are turned over to a collection agency 90 days after account closure. Due to a combination of customer deposit, credit and collection programs and the fact that non-payment of the single-bill results in a "cross-default" among the City's Sewer, Water, Electric and Refuse utilities, the average delinquency rate for the Sewer System has been approximately 0.41% over the last five years. As of June 30, 2018, the delinquency rate for Fiscal Year 2017-18 were approximately \$270,000 (unaudited), representing approximately 0.46% of revenues billed.

FINANCIAL RESULTS OF THE SEWER SYSTEM

Transfers to the City's General Fund

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

Investment Policy and Controls

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

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

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

Significant Accounting Policies

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

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

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

value on the date contributed. For accounting policies specifically relating to the Sewer System, see the notes to the financial statements in APPENDIX B.

Summary of Operations

The following table sets forth the historical summary of operations based on audited financial statements of the City related to the Sewer System for fiscal years 2013-14 through 2016-17 and unaudited actuals for the fiscal year 2017-18. The following historical summary of operations has not been prepared to indicate Net Operating Revenues available for debt service as contemplated in the Master Resolution but has been prepared to reflect the actual historic operating results.

HISTORICAL SUMMARY OF OPERATIONS Fiscal Years ended June 30, 2014 through June 30, 2017 (Audited) and Fiscal Year ended June 30, 2018 (Unaudited) (in Thousands of Dollars)

	2014	2015	2016	2017	2018 ⁽¹⁾
Operating revenues:					
Charges for services	\$46,162	\$50,336	\$52,664	\$59,735	\$ 65,081
Operating expenses:					
Personnel services	9,916	8,806	8,574	9,673	11,814
Contractual services	1,470	1,878	2,706	1,154	1,721
Maintenance and operation	7,486	7,505	8,244	8,891	8,567
General	6,119	5,065	8,348	5,683	4,591
Materials and supplies	3,440	3,498	3,501	3,260	3,876
Claims/insurance	499	386	490	1,260	855
Depreciation and amortization	6,861	6,856	7,025	7,734	13,621
Total operating expenses	35,791	33,994	38,888	37,655	45,045
Operating income (loss)	10,371	16,342	13,776	22,080	20,036
Net operating revenues (expenses)					
Interest income	827	684	586	798	998
Other	1,691	71	379	831	24
Gain (loss) on retirement of capital assets	(11)	(19)	(2)	(28)	(12)
Capital improvement fees	2,684	1,843	660	3,305	1,583
Interest expense and fiscal charges	(4,583)	(1,579)	(1,090)	(650)	(8,172)
Total non-operating revenues (expenses)	608	1,000	533	4,256	(5,579)
Income before capital contributions and transfers	10,979	17,342	14,309	26,336	14,457
Capital cash contributions	-	-	-	-	32
Noncash capital contributions	-	-	-	-	-
Transfers in	14	-	261	-	-
Transfers out	-	-	-	(900)	(900)
Change in net position	10,993	17,342	14,570	25,436	13,589
Net position - beginning, as previously reported	159,990	170,983	165,525	180,095	205,531
Prior period adjustment	-	(22,800)	-	-	-
Net position - ending	170,983	165,525	180,095	205,531	219,120

(1) Fiscal Year 2017-18 numbers are unaudited.

Source: City's audited financial statements for Fiscal Years 2013-14 through 2016-17, City of Riverside for Fiscal Year 2017-18.

Reserves

In November 2016, the City adopted the Sewer Enterprise Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy classifies the Wastewater Division's reserves into three main categories, and various subcategories therein. The Reserve Policy is monitored during the fiscal year with monthly and quarterly financial reports prepared by City finance staff. The Reserve Policy is also reviewed during the City's two-year budget process and updated, if needed, a minimum one every three years as needed.

The operating/maintenance (working capital) component of the reserves established under the Reserve Policy is set at a minimum level of 60 days of operating and maintenance expenses, with a target level of 120 days. Additional reserve levels are established as restricted reserve, debt service, capital construction, heavy equipment replacement and emergency capital.

The following table shows cash balances in the various reserve funds held for the Sewer System as of June 30, 2017 and June 30, 2018 (unaudited). These reserves are available for use by the Sewer System, but are not pledged to the holders of the Series 2018A Bonds and may be changed in the future.

Reserve Category	June 30, 2017 (Audited)	June 30, 2018 (Unaudited)
Restricted Reserve	\$3,700,000	\$3,700,000
Operating/Maintenance (Working Capital) ⁽¹⁾	7,033,898	23,474,881
Debt Service ⁽²⁾	28,747,102	33,665,119
System Improvement/Capital Construction	15,820,000	15,820,000
Heavy Equipment Replacement	340,000	340,000
Emergency Capital and Equipment	6,300,000	10,000,000
Total	\$61,941,000	\$87,000,000

(1) The large portion of the change in operating/maintenance (working capital) can be attributed to \$13.5 million moved from the Rate Stabilization Fund to cash in fiscal year 2017-18.

(2) Debt Service relates to funds held by City for anticipated debt service on Series 2015A Bonds and Series 2009B Bonds, a portion of which will be released upon the refunding of the Series 2009B Bonds.

Source: City of Riverside.

Outstanding Long-Term Obligations

As shown below, as of June 30, 2018, the City had outstanding State Loans in the aggregate principal amount of \$1,446,699, the Series 2009B Bonds in the aggregate principal amount of \$195,665,000, and the Series 2015A Bonds in the aggregate principal amount of \$200,030,000. Except as to these outstanding obligations, no other Parity Debt will be outstanding upon the issuance of the Series 2018A Bonds. The following table sets forth a summary of currently outstanding obligations secured by the Net Operating Revenues.

CITY OF RIVERSIDE
Outstanding Sewer System Obligation
as of June 30, 2018⁽¹⁾

Obligation	Outstanding Principal	Maturity Year
State Contract – Headworks Project	\$469,113	2018-19
State Contract – Cogeneration Project	<u>977,586</u>	2020-21
Subtotal	1,446,699	
Series 2009B Bonds	195,665,000	2039-40
Series 2015A Bonds	<u>200,030,000</u>	2040-41
Subtotal	395,695,000	
Total	\$397,141,699	

(1) Does not include Sewer System's allocable portion of pension obligation bonds issued by the City, which is treated as an Operation and Maintenance Cost. See "–Historical and Projected Revenues, Expenses and Coverage."
Source: *City of Riverside*.

Historical and Projected Revenues, Expenses and Coverage

The following table sets forth the Sewer System's historical and projected revenues, expenditures and debt service coverage ratios over a ten-year period, with Fiscal Years 2013-14 through 2017-18 showing historical actuals, and Fiscal Years 2018-19 through and 2022-23 showing projections.

The preparation of the projections was based upon certain assumptions and forecasts with respect to conditions that may occur in the future. While the City believes that these assumptions and forecasts are reasonable for the purposes of the projected selected operating data, it makes no representations that they will in fact occur and the City does not assume any responsibility for the failure to meet such projections. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the City's ability to make timely payment of the principal of and interest on the Bonds, including the 2018 Bonds, may be materially adversely affected.

CITY OF RIVERSIDE
Historical and Projected Revenues, Expenses and Coverage
Fiscal Years 2013-14 through 2017-18 (Actuals)
and Fiscal Years 2018-19 through 2022-23 (Projected)
(Except Coverage, In Thousands of Dollars)

	Audited			Estimated		Projected				
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Gross Operating Revenues⁽¹⁾:										
Charges for Services										
User Fee	\$42,703	\$46,783	\$49,329	\$54,808	\$60,165	\$59,546	\$60,082	\$60,622	\$61,168	\$61,719
Community Service Districts	3,459	3,553	3,335	4,927	4,916	3,589	3,788	3,954	4,109	4,202
<i>Subtotal Charge for Services</i>	<i>46,162</i>	<i>50,336</i>	<i>52,664</i>	<i>59,735</i>	<i>65,081</i>	<i>63,135</i>	<i>63,870</i>	<i>64,576</i>	<i>65,277</i>	<i>65,921</i>
Interest income	827	684	586	798	998	1,135	1,086	1,059	1,010	938
Connection fees ⁽²⁾	2,684	1,843	660	3,305	1,583	1,775	1,788	1,801	1,814	1,828
Nonoperating rev./reimbs./Other ⁽³⁾	1,691	71	15,379	831	24	802	808	814	819	825
Total Gross Operating Revenue	51,364	52,934	69,289	64,669	67,686	66,847	67,552	68,250	68,920	69,512
Operating and Maintenance Expense:										
Personnel services ⁽⁴⁾	10,127	9,028	8,797	9,928	12,334	14,841	15,818	16,298	16,800	17,164
Contractual services	1,470	1,878	2,706	1,154	1,721	1,744	1,640	1,681	1,723	1,766
Maintenance and operation	7,486	7,505	8,244	8,891	8,567	9,455	9,585	9,873	10,188	10,497
General	6,119	5,065	8,348	5,683	4,591	5,129	5,341	5,708	5,936	6,079
Materials and supplies	3,440	3,498	3,501	3,260	3,876	4,075	4,081	4,183	4,287	4,394
Claims/Insurance	499	386	490	1,260	855	1,562	471	438	474	508
Total O&M Expense⁽⁵⁾	29,141	27,360	32,086	30,176	31,944	36,806	36,936	38,181	39,408	40,408
Net Operating Revenue⁽¹⁾	22,223	25,574	37,203	34,493	35,742	30,041	30,616	30,069	29,512	29,104
Debt Service Components⁽⁶⁾										
State Loans	817	817	817	817	817	817	340	340	-	-
Series 2009 Bonds ⁽⁷⁾	17,866	17,834	17,821	17,813	17,803	11,893	-	-	-	-
Series 2014A Bonds	-	298	-	-	-	-	-	-	-	-
Series 2015A Bonds ⁽⁸⁾	--	--	-	-	-	11,252	14,530	14,528	14,528	14,529
Series 2018A Bonds	--	--	-	-	-	-	11,749	10,916	10,913	10,910
Total Debt Service	18,683	18,949	18,638	18,630	18,620	23,962	26,619	25,784	25,441	25,439
Debt Service Coverage Tests										
Net Revenues Available for Debt Service - Projected	--	--	--	--	--	\$30,041	\$30,616	\$30,069	\$29,512	\$29,104
Net revenues Available for Debt Service - Historical⁽¹⁾	\$20,532	\$25,503	\$21,824	\$33,662	\$35,718	\$29,239	--	--	--	--
Rate Stabilization Fund balance ⁽⁹⁾	9,360	7,785	14,500	14,500	1,000	1,000	--	--	--	--
Coverage without Rate Stabilization Fund Contribution	1.10	1.35	1.17	1.81	1.92	1.25	1.15	1.17	1.16	1.14
Coverage with Rate Stabilization Fund Balance⁽¹⁾	1.60	1.76	1.95	2.59	1.97	1.26	--	--	--	--

(1) The Fourth Supplemental Resolution provides for certain amendments to the Master Resolution to become effective when the Series 2009 Bonds and Series 2014A Bonds are no longer Outstanding. As described under the heading "PLAN OF FINANCE," the City will use a portion of the proceeds of the Series 2018A Bonds to defease the Series 2009B Bonds on the delivery date of the Series 2018A Bonds, at which time the conditions to effectiveness of the amendments will be satisfied and the amendments in the Fourth Supplemental Resolution will become effective. This Official Statement reflects the as-amended terms of the Master Resolution; however, the historical information contained in this table was calculated pursuant to the terms of the Master Resolution as in effect prior to the effectiveness of the amendments contained in the Fourth Supplemental Resolution. Generally, the amendments reduced debt service coverage from 125% to 110% of Net Operating Revenues, added Capacity Charges to Gross Operating Revenues, and excluded amounts on deposit in the Rate Stabilization Fund from Gross Operating Revenues.

(2) Prior to the amendments to the Master Resolution described in footnote (1), connection fees were not included in definition of "Gross Operating Revenues," but were available for purposes of the debt service coverage test. See Footnote (1) for additional details.

(3) Fiscal year 2015-16 includes the Jurupa Community Service District Settlement of \$15,000,000.

(4) Includes pension bond expense allocated to Sewer Revenue Fund. This amounted to approximately \$2.4 million for Fiscal Year 2017-18.

(5) Excludes depreciation expense.

(6) All debt service numbers are shown on a cash/budget basis. May not tie to Comprehensive Annual Financial Report accounting methods which include accruals and expense period adjustments.

(7) Series 2009 Debt service includes Build America Bonds' subsidy; fiscal year 2018-19 debt service includes August 1, 2018, subsidy and pro rata portion of February 1, 2019, subsidy.

(8) Series 2015A debt service includes capitalized interest through June 1, 2018 which reduces August 1, 2018 interest payment.

(9) Sets forth Rate Stabilization Fund balance as of June 30 for the respective year. Approximately \$13.5 million was moved from the Rate Stabilization Fund to cash in fiscal year 2017-18.

Source: City of Riverside.

Debt Service Requirements for Outstanding Bonds

The following table sets forth the debt service on the outstanding Bonds, including the Series 2018A Bonds. The table does not include debt service on the State Loans.

Fiscal Year Ending June 30	2015 Bonds			2018 Bonds			Total 2018 Debt Service	Total ⁽²⁾
	Principal	Interest	Total 2015 Debt Service	Principal	Interest	Total 2018 Debt Service		
2019 ⁽¹⁾	--	\$4,822,700	\$4,822,700	--	--	--	\$4,822,700	
2020	\$5,010,000	9,520,150	14,530,150	\$2,905,000	\$8,844,213	\$11,749,213	26,279,363	
2021	5,265,000	9,263,275	14,528,275	3,580,000	7,336,150	10,916,150	25,444,425	
2022	5,535,000	8,993,275	14,528,275	3,760,000	7,152,650	10,912,650	25,440,925	
2023	5,820,000	8,709,400	14,529,400	3,950,000	6,959,900	10,909,900	25,439,300	
2024	6,120,000	8,410,900	14,530,900	5,340,000	6,727,650	12,067,650	26,598,550	
2025	6,430,000	8,097,150	14,527,150	5,620,000	6,453,650	12,073,650	26,600,800	
2026	6,760,000	7,767,400	14,527,400	5,910,000	6,165,400	12,075,400	26,602,800	
2027	7,110,000	7,420,650	14,530,650	6,210,000	5,862,400	12,072,400	26,603,050	
2028	7,475,000	7,056,025	14,531,025	6,525,000	5,544,025	12,069,025	26,600,050	
2029	7,855,000	6,672,775	14,527,775	6,865,000	5,209,275	12,074,275	26,602,050	
2030	8,260,000	6,269,900	14,529,900	7,215,000	4,857,275	12,072,275	26,602,175	
2031	8,685,000	5,846,275	14,531,275	7,580,000	4,487,400	12,067,400	26,598,675	
2032	9,130,000	5,400,900	14,530,900	7,970,000	4,098,650	12,068,650	26,599,550	
2033	9,595,000	4,932,775	14,527,775	8,385,000	3,689,775	12,074,775	26,602,550	
2034	10,090,000	4,440,650	14,530,650	8,810,000	3,259,900	12,069,900	26,600,550	
2035	10,605,000	3,923,275	14,528,275	9,265,000	2,808,025	12,073,025	26,601,300	
2036	11,150,000	3,379,400	14,529,400	9,740,000	2,332,900	12,072,900	26,602,300	
2037	11,660,000	2,867,450	14,527,450	10,240,000	1,833,400	12,073,400	26,600,850	
2038	12,200,000	2,329,250	14,529,250	10,765,000	1,308,275	12,073,275	26,602,525	
2039	12,825,000	1,703,625	14,528,625	11,260,000	813,950	12,073,950	26,602,575	
2040	13,485,000	1,045,875	14,530,875	11,775,000	294,375	12,069,375	26,600,250	
2041	14,175,000	354,375	14,529,375	--	--	--	14,529,375	
Total	\$195,240,000	\$129,227,450	\$324,467,450	\$153,670,000	\$96,039,238	\$249,709,238	\$574,176,688	

(1) Excludes August 1, 2018 principal and interest payment.

(2) Does not include debt service on State Loans.

Source: *The Underwriters*.

RISK FACTORS

The purchase of the Series 2018A Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

Series 2018A Bonds Are Limited Obligations

The General Fund of the City is not liable for the payment of any Series 2018A Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any Series 2018A Bonds, any premium thereon upon redemption prior to maturity or their interest. No owner of any Series 2018A Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any Series 2018A Bonds and any premium upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Series 2018A Bonds, interest thereon and any premium upon redemption.

Limitations on Remedies; Bankruptcy

The enforceability of the rights and remedies of the owners of the Series 2018A 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.

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance and delivery of the Series 2018A Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. Remedies may be limited since the Sewer System serves an essential public purpose.

2018A Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City has established a debt service reserve account for the Series 2018A Bonds, but the Series 2018A Bond Reserve Requirement is \$0. Consequently, no amounts will be deposited into such debt service reserve account. The owners of the Series 2018A Bonds have no rights to moneys in the Reserve Accounts established for other Outstanding Bonds.

Demand and Usage; Drought

There can be no assurance that the local demand for services provided by the Sewer System will continue according to historical levels. In addition, drought conditions and voluntary

or mandatory water conservation measures have decreased and could further decrease usage of the services of the Sewer System or increase the cost of wastewater treatment (an Operating and Maintenance Expense) if more restrictive regulatory measures are required to be met. See “THE SEWER SYSTEM – Development of Treatment Facilities at the RWQCP” for a discussion of facilities installed and constructed to meet various regulatory requirements. See also “OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Historical Wastewater Flows” for additional information.

Reduction in the level of demand or usage or continued economic downturn that produces less than currently projected increase in demand or 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. Such rate increases could increase the likelihood of nonpayment.

Sewer System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Sewer System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Series 2018A 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 Series 2018A Bonds, and State Loans 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. Proposition 218, which added Articles XIII C and XIII D to the California Constitution, affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See “CONSTITUTIONAL LIMITATIONS.”

In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Operating Revenues in the amounts required to pay principal and interest on the Series 2018A Bonds. Any remedies available to the owners of the Bonds, including the Series 2018A 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. In addition to the possible limitations on the ability of the City to comply with its covenants under the Resolution, the rights and obligations under the Series 2018A Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against government entities in the state of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Resolution, including its covenants to generate sufficient Net Operating Revenues, as a

consequence of the application of Article XIIC and Article XIID to make the payments of principal of and interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the Bondholders. The voter approval requirements reduce the flexibility of the City Council to deal with fiscal problems by raising revenue and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements. See “CONSTITUTIONAL LIMITATIONS” herein for additional information regarding Articles XIIC and XIID to the California Constitution.

Notwithstanding the foregoing, the City has covenanted to fix, prescribe and collect rates and charges for the services and facilities of the Sewer System, at a level at least sufficient to meet its debt service requirements, as set forth under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant.” Although the City expects that sufficient Gross Operating Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that such imposition will result in the generation of Gross Operating Revenues and, in turn, Net Operating Revenues, in the amounts required to pay the principal of and interest on the Bonds. The City’s covenant does not constitute a guarantee that sufficient Net Operating Revenues will be available to pay the principal of and interest on the Bonds. The current sewer rates have been approved by the City Council and have been imposed in compliance with Articles XIIC and XIID to the California Constitution.

Statutory and Regulatory Impact

Laws and regulations governing transmission, treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, State and local levels. Compliance with these laws and regulations may be costly and, as more stringent standards are developed, these costs will likely increase. In addition, claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from Gross Operating Revenues or from other legally available sources.

In addition, the City is subject to various other laws and regulations that could adversely impact Net Operating Revenues. For example, SB 998, enacted in 2018, will impose certain restrictions on the City’s ability to turn off water connections to customers for non-payment of water charges. Because the City bills customers for water and sewer services on the same bill, restrictions on the ability of the City to turn off water connections may increase delinquencies for both the City’s water system and the Sewer System in the future.

Although the City has covenanted in the Resolution to fix, prescribe and collect rates and charges for the sewer service during each Fiscal Year sufficient to yield the debt service coverage required by the Resolution, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net Operating Revenues in the amounts required by the Resolution and to pay debt service on the Bonds, including the Series 2018A Bonds.

Rate Regulation

The authority of the City to impose and collect rates and charges for wastewater collection and treatment services is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State of California limits or restricts such rates and charges. It is possible that future legislative changes could subject the rates or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements. See, however, a description of the existing arrangements related to customers of certain Community Service Districts provided under the caption “OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Customers” herein.

Greenhouse Gas Emissions

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

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

In general, the South Coast Air Quality Management District administers and enforces all local, state and federal emissions regulations. The City believes that it is in material compliance with all federal, state and local emissions regulations.

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 Sewer System 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 Sewer System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. The City does not currently maintain and it has not committed to maintain earthquake or flood insurance on the Sewer System’s facilities.

Earthquake. The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Sewer System facilities, including the San Andreas and San Joaquin faults. Earthquakes pose potential significant risks to the Sewer System, and could potentially result in disruptions to the transmission/distribution systems. Another potential hazard related to earthquakes is soil liquefaction. A number of transmission mains are located in potential liquefaction zones.

Flood. According to the City's Urban Water Management Plan dated June 2016, some of the Sewer System's facilities are located within the flood plains of the Santa Ana River and are therefore subject to flooding. Floods may lead to physical damage and/or loss of infrastructure. The City has implemented measures to minimize the risk of groundwater contamination as a result of flooding.

Risks Relating to the Water Supply

Residential units are charged flat monthly amounts with a pumping surcharge applied to certain geographic areas where pumping is required in order for the wastewater to reach the RWQCP. Industrial and commercial facilities sewer service charges are based on water usage and the resulting quantity and type of discharge. See "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Sewer Rates and Fees," herein. The ability of the Sewer System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that is currently subject to drought conditions. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the Sewer System could impact the Net Operating Revenues available to pay the principal of and interest on the Series 2018A Bonds.

Although the Sewer System has experienced a decreasing amount of wastewater flows, based on the rate increases implemented effective July 1, 2014, as well as the additional rate increases under the 2014 Rate Increase, under current estimates, the City does not expect Sewer System operations and Net Operating Revenues to be materially adversely affected if the customers are ordered to conserve up to 20% of its annual water supply. In addition, commercial and industrial customers are charged rates based on CCF of water used. As a result, in the event of significant water conservation, any rates based on CCF of water flow could be adversely impacted. The City anticipates, however, that reductions in Net Operating Revenues could be offset in part by reductions in the amount of sewage collected and treated by the RWQCP, which would reduce operational expenses. See also "OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Historical Wastewater Flows" for additional information.

Security of the Sewer System

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

Military conflicts and terrorist activities may adversely impact the operations and finances of the Sewer System. The City continually plans and prepares for emergency situations and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Sewer System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Sewer System could require the City to increase expenditures for repairs to the Sewer System significantly enough to adversely impact the City's ability to pay debt service on the Series 2018A Bonds.

Cybersecurity

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "Systems Technology").

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City's Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage.

The City's IT Department provides support for the wastewater division's electronic system cyber security. This includes audits and recommended improvements to facility hardware and software to keep systems up to date with the latest cyber treat tools.

Energy Costs

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

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

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 has been to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges, i.e., rates. At this time, the City's Sewer System does not have any agreements with large customers that would be impacted by this decision.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State, or that the City Council (with voter approval) will not enact amendments to the City's Charter, in a manner that could result in a reduction of the Net Operating Revenues and, therefore, increase the risk of nonpayment of debt service on the Series 2018A Bonds. See, for example, "CONSTITUTIONAL LIMITATIONS – Articles XIIC and Article XIID of the State Constitution."

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2018A Bonds or, if a secondary market exists, that the Series 2018A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the Series 2018A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2018A 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 Series 2018A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

CONSTITUTIONAL LIMITATIONS

Article XIII B of the State Constitution

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 its service charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The City has covenanted in the Resolution that it will prescribe rates and charges sufficient to provide for payment of principal of and interest on the Bonds in each year. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant” herein.

Articles XIII C and XIII D of the State Constitution

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”).

On November 2, 2010, California voters approved Proposition 26, the so-called “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that

Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

“(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

(2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

...

(6) A charge imposed as a condition of property development.

(7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

Property-Related Fees and Charges. Under Article XIID, 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.

Initiative Power. 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 Articles XIIC and XIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s 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 be 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 Article XIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal. 4th 409, 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 capacity 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* (2005) 127 Cal.App.4th 914, 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* (2006) 39 Cal.4th 205, 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 Sewer Rates. The City's proposed increases to the sewer rate structure as of July 1, 2014 was adopted under Resolution No. 22683 on May 13, 2014. In each instance, 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 (at least 45 days prior to a scheduled public hearing);
- published a notice in a local newspaper; and
- a protest hearing was conducted prior to acting on the resolutions that implemented the rate increase.

Resolution No. 22683 was adopted on May 16, 2014 and validated in accordance with Proposition 218's requirements. The City will continue to comply with the provisions of Proposition 218 in connection with future rate increases.

Reduction or Repeal of Taxes, Fees and Charges. Article XIII C also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives that reduce or repeal local taxes, assessments, fees or charges currently in place.

Future Initiatives

Articles XIII B, XIII C, XIII D and Propositions 26 and 218 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

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is exempt from State personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the Series 2018A Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District 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 Series 2018A Bonds to assure that interest on the Series 2018A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Series 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2018A Bonds. The District has covenanted to comply with all such requirements.

The amount by which a Series 2018A Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2018A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Series 2018A Bond Owner's basis in the applicable Series 2018A Bond (and the amount of tax-exempt interest received with respect to the Series 2018A Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2018A Bond Owner realizing a taxable gain when a Series 2018A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2018A Bond to the Owner. Purchasers of the Series 2018A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 Series 2018A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2018A Bonds might be affected as a result of such an audit of the Series 2018A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2018A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2018A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2018A BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE SERIES 2018A BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES 2018A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES 2018A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2018A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE SERIES 2018A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES 2018A BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Series 2018A Bonds terminates upon their delivery and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Relating and the Tax Certificate relating to the Series 2018A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any Series 2018A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Series 2018A Bonds and the accrual or receipt of interest on the Series 2018A 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 Series 2018A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Series 2018A Bonds.

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

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 2018A Bonds are subject to the unqualified approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Said opinion in substantially the form attached as APPENDIX E will be delivered at the time of delivery of the Series 2018A Bonds. Certain legal matters will be passed upon for the City by the City Attorney and by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP. The payment of the fees and expenses of Bond Counsel, Disclosure Counsel and counsel to the Underwriters is contingent upon the closing of the sale of the Series 2018A Bonds.

LITIGATION

No Litigation Relating to Series 2018A Bonds. At the time of delivery and payment for the Series 2018A Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the Series 2018A Bonds or the power and authority of the City to issue the Series 2018A Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the Series 2018A Bonds.

Litigation Relating to Sewer System. Pending lawsuits and other claims against the City with respect to the Sewer System are incidental to the ordinary course of operations of the Sewer System and are largely covered by the City's self-insurance program. In the opinion of the Wastewater Division's management and the City Attorney, such lawsuits and claims will not have a materially adverse effect upon the financial position of the Sewer System. However, investors are directed to the discussion relating to the litigation brought by the City against the CSDs relating to the Sewer System's capital improvement plans. See "THE SEWER SYSTEM – CSD Litigation and Settlements."

FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report for the City's fiscal year ended June 30, 2017 have been audited by Macias Gini & O'Connell LLP, the City's independent auditor (the "Auditor"), as stated in its Independent Auditor's Report, dated October 31, 2017, which is included in APPENDIX B. The City has not requested the consent of the Auditor, nor has the Auditor consented, to the inclusion of the basic financial statements or the Independent Auditor's Report in the Comprehensive Annual Financial Report in APPENDIX B. The Auditor has not been engaged to perform, and has not performed, since the date of its Independent Auditor's Report included in APPENDIX B, any procedures on the basic financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this official statement.

RATINGS

Moody's Investors Service, Inc. and S&P Global Ratings, a Standard & Poor's Financial Services LLC business, have assigned their ratings of "A1" and "AA-," respectively, to the Series 2018A Bonds. Such ratings reflect only the views of such organizations and an explanation of the

significance of such ratings may be obtained only from the agencies. There is no assurance such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2018A Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. (together, the “Underwriters”), have agreed, subject to certain conditions, to purchase the Series 2018A Bonds from the City at a price of \$174,954,804.24 (which reflects \$342,400.96 in Underwriters’ discount and \$21,627,205.20 in original issue premium) and to make a bona fide public offering of the Series 2018A Bonds at not in excess of the initial public offering prices. The Underwriters will be obligated to purchase all of the Series 2018A Bonds if any Series 2018A Bonds are purchased. The Underwriters may offer and sell the Series 2018A Bonds to certain dealers and others at prices lower than the respective initial public offering prices listed in this Official Statement, and the public offering prices may be changed from time to time by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the Series 2018A Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, “Fidelity”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

MUNICIPAL ADVISOR

The City has retained NHA Advisors, LLC of San Rafael, California, as municipal advisor (the “**Municipal Advisor**”) in connection with issuance and sale of the Series 2018A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent financial advisory

firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Municipal Advisor is contingent upon the remarketing of the Series 2018A Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2018A Bonds to provide certain financial information and operating data relating to the Sewer System (the “Annual Report”) by not later than 270 days following the end of the City’s fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the fiscal year ended June 30, 2018, and to provide notices of the occurrence of certain enumerated events as required by Securities and Exchange Commission Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as amended (the “Rule”). The specific nature of the information to be contained in the annual report or the notices of enumerated events is summarized under the caption “APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters in complying with the Rule.

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

In the past, to assist the City and its related governmental entities in meeting their continuing disclosure obligations, the City retained certain corporate trust banks to act as dissemination agent. The City and its related governmental entities have not, on a handful of occasions during the past five years, fully complied, in all material respects, with their disclosure undertakings. On certain occasions in the last five years, the City did not timely file notice of rating changes to bond insurers and liquidity providers for City debt obligations.

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

VERIFICATION OF MATHEMATICAL ACCURACY

Grant Thornton LLP, a firm of independent certified public accountants, will deliver to the City, on or before the settlement date of the Series 2018A Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Series 2009B Bonds and (b) the mathematical

computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Grant Thornton LLP relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Grant Thornton LLP has relied on any information provided to it by the City's retained advisors, consultants or legal counsel. Grant Thornton LLP was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

MISCELLANEOUS

References are made in this Official Statement to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Resolution and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the City Clerk at the City of Riverside, 3900 Main Street, Riverside, California 92522.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the Series 2018A Bonds.

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Edward Enriquez
Interim Chief Financial Officer/Treasurer

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APPENDIX A

CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION

The Series 2018A 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 Sewer System. The information set forth below is included in this Official Statement for background purposes only.

General

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

The County and the County of San Bernardino cover 27,400 square miles, a land area larger than the State of Virginia. As of 2017, the County had a population estimated at 2,384,783 and San Bernardino County had a population estimated at 2,160,256. With a population of over 4.4 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“**MSAs**”) in the United States. The County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

Municipal Government

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

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

Services and Facilities

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

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

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

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

Population

As of January 1, 2018, the population of the City was estimated to be 325,850, an increase of approximately 0.8% over the estimated population of the City in 2017. The following table presents population data for both the City and County.

POPULATION		
<u>Year</u>	<u>City of Riverside</u>	<u>Riverside County</u>
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2010	302,597	2,179,692
2011	307,207	2,212,874
2012	311,332	2,239,715
2013	316,162	2,266,549
2014	318,511	2,291,093
2015	321,655	2,317,924
2016	324,696	2,347,828
2017	323,190	2,382,640
2018	325,860	2,415,955

Sources: 1950-2010 U.S. Census; 2011-2018 California Department of Finance (Demographic Research Unit).

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.”

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2013 through 2017.

CITY OF RIVERSIDE, RIVERSIDE COUNTY, STATE OF CALIFORNIA AND UNITED STATES EFFECTIVE BUYING INCOME (For Calendar Years 2013 Through 2017)

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2013	City of Riverside	\$5,109,313	\$43,916
	Riverside County	40,293,518	44,784
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Riverside	\$5,265,573	\$44,724
	Riverside County	41,199,300	45,576
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Riverside	\$5,877,205	\$47,791
	Riverside County	45,407,058	48,674
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Riverside	\$6,044,091	\$49,179
	Riverside County	47,509,909	50,287
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Riverside	\$6,556,518	\$53,659
	Riverside County	51,784,973	54,014
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735

Source: The Nielsen Company (US), Inc.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 65 elementary 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.

Employment

The City is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 4.5 percent in August 2018, down from a revised 4.6 percent in July 2018. This compares with an unadjusted unemployment rate of 4.3 percent for California and 3.9 percent for the nation during the same period. The unemployment rate was 4.7 percent in Riverside County, and 4.2 percent 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 PRIMARY MSA
CIVILIAN LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT (ANNUAL AVERAGES)
(For Calendar Years 2013 Through 2017)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Civilian Labor Force ⁽¹⁾	1,893,100	1,921,000	1,956,900	1,984,900	2,022,100
Employment	1,706,800	1,765,300	1,828,200	1,866,600	1,918,600
Unemployment	186,300	155,700	128,600	118,300	103,600
Unemployment Rate	9.8%	8.1%	6.6%	6.0%	5.1%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	14,500	14,400	14,800	14,600	14,400
Mining and Logging	1,200	1,300	1,300	900	900
Construction	70,000	77,600	85,700	92,000	97,000
Manufacturing	87,300	91,300	96,100	98,600	98,700
Wholesale Trade	56,400	58,900	61,600	62,800	63,700
Retail Trade	164,800	169,400	174,300	178,000	182,100
Transportation, Warehousing and Utilities	78,500	86,600	97,400	107,300	120,200
Information	11,500	11,300	11,400	11,500	11,300
Finance and Insurance	26,200	26,600	26,900	26,700	26,200
Real Estate and Rental and Leasing	15,600	16,300	17,000	17,900	18,200
Professional and Business Services	131,900	138,700	147,400	145,000	147,200
Educational and Health Services	187,600	194,800	205,100	214,300	224,800
Leisure and Hospitality	135,900	144,800	151,700	160,200	165,700
Other Services	41,100	43,000	44,000	44,600	45,600
Federal Government	20,300	20,200	20,300	20,400	20,600
State Government	27,800	28,200	28,700	29,700	30,700
Local Government	177,100	180,400	184,400	192,200	198,600
Total All Industries	1,247,700	1,303,800	1,368,100	1,416,700	1,465,900

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

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

Source: *State of California Employment Development Department.*

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

**CITY OF RIVERSIDE – LARGEST EMPLOYERS
As of June 30, 2017**

<u>Employer Name</u>	<u>Number of Employees</u>	<u>% of Total City-wide Employment</u>
County of Riverside	11,865	8.1%
University of California	8,686	6.0
Riverside Unified School District	4,000	2.7
Kaiser	3,484	2.4
City of Riverside	2,429	1.7
California Baptist University	2,285	1.6
Riverside Community Hospital	2,200	1.5
Alvord Unified School District	1,800	1.2
UTC Aerospace Systems	1,200	0.8
Parkview Community Hospital	<u>897</u>	<u>0.6</u>
Total	38,846	26.6%

Source: City of Riverside (as presented in the City's 2017 Comprehensive Annual Financial Report).

**COUNTY OF RIVERSIDE – LARGEST EMPLOYERS
(LISTED ALPHABETICALLY)
As of September, 2018**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Amazon Fulfillment Ctr	Moreno Valley	Distribution Centers (whls)
Corrections Dept	Norco	Government Offices-State
Desert Regional Medical Ctr	Palm Springs	Hospitals
EisenhowerHealth	Rancho Mirage	Hospitals
Fantasy Springs Resort Casino	Indio	Casinos
Ferrellgas	Beaumont	Gas-Propane-Refilling Stations
Ferrellgas	Thermal	Gas-Propane-Refilling Stations
Ferrellgas	Perris	Gas-Propane-Refilling Stations
Ferrellgas	Idyllwild	Gas-Propane-Refilling Stations
Hemet Valley Medical Ctr	Hemet	Hospitals
Indio Bingo Palace & Casino	Indio	Resorts
Kleinfelder Construction Svc	Riverside	Engineers-Structural
La Quinta Golf Course	La Quinta	Golf Courses
La Quinta Resrt-Club A Waldorf	La Quinta	Resorts
Pechanga Resort & Casino	Temecula	Casinos
Riverside Community Hospital	Riverside	Hospitals
Riverside University Health	Moreno Valley	Hospitals
Robertsons	Corona	Concrete-Ready Mixed
Southwest Healthcare System	Murrieta	Hospitals
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products	Perris	Gift Shops
Sun World Intl LLC	Coachella	Fruits & Vegetables-Wholesale
Universal Protection Svc	Palm Desert	Security Guard & Patrol Service
US Air Force Dept	March Arb	Military Bases
Wachter Inc	Riverside	Electric Contractors

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2018 2nd Edition.

Construction Activity

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

CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2013 Through 2017 (Valuation in Thousands of Dollars)

<u>Permit Valuation</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
New Single-family	\$ 50,863	\$ 61,311	\$ 53,858	\$ 48,459	\$ 46,666
New Multi-family	19,861	9,418	41,207	19,428	53,944
Res. Alterations/Additions	<u>8,710</u>	<u>10,291</u>	<u>11,870</u>	<u>12,335</u>	<u>19,471</u>
Total Residential	\$ 79,434	\$ 81,020	\$ 106,935	\$ 80,222	\$120,080
New Commercial/Industrial	\$ 41,505	\$ 14,206	\$ 19,856	\$ 23,804	\$ 97,799
New Other	11,677	2,914	11,334	78,523	14,861
Com. Alterations/Additions	<u>74,249</u>	<u>45,548</u>	<u>51,812</u>	<u>67,779</u>	<u>49,539</u>
Total Nonresidential	\$127,433	\$ 62,668	\$ 83,002	\$170,106	\$162,198
<u>New Dwelling Units</u>					
Single Family	200	144	223	219	172
Multiple Family	<u>219</u>	<u>155</u>	<u>411</u>	<u>254</u>	<u>535</u>
TOTAL	419	299	634	473	707

Source: City of Riverside Community Development Department.

COUNTY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2013 Through 2017 (Valuation in Thousands of Dollars)

<u>Permit Valuation</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
New Single-family	\$1,138,739	\$1,296,553	\$1,313,085	\$1,526,768	\$1,670,542
New Multi-family	138,636	178,117	110,459	106,292	109,309
Res. Alterations/Additions	<u>98,220</u>	<u>147,082</u>	<u>113,200</u>	<u>126,475</u>	<u>123,567</u>
Total Residential	\$1,375,594	\$1,621,751	\$1,536,743	\$1,759,535	\$1,903,418
New Commercial/Industrial	\$405,023	\$358,997	\$392,308	\$642,463	\$965,629
New Other	141,185	128,667	204,555	583,003	104,352
Com. Alterations/Additions	<u>369,503</u>	<u>197,675</u>	<u>314,605</u>	<u>371,217</u>	<u>363,712</u>
Total Nonresidential	\$884,320	\$685,338	\$911,645	\$1,596,682	\$1,433,691
<u>New Dwelling Units</u>					
Single Family	4,716	5,007	5,007	5,662	6,265
Multiple Family	<u>1,427</u>	<u>1,931</u>	<u>1,189</u>	<u>1,039</u>	<u>1,070</u>
TOTAL	6,143	6,938	6,196	6,701	7,335

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

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

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

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

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

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

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF RIVERSIDE, CALIFORNIA



YEAR ENDED
JUNE 30, 2017

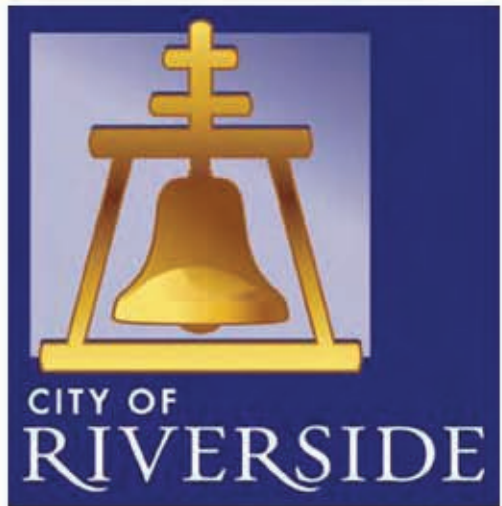


**CITY OF RIVERSIDE, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2017**

**Prepared by the Finance Department
Adam Raymond, Chief Financial Officer/Treasurer**

3900 Main Street, Riverside, California 92522 (951) 826-5660

This report was printed on recycled stock



**CITY OF RIVERSIDE
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED JUNE 30, 2017**

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**CITY OF RIVERSIDE
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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October 31, 2017

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2017.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a rational basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Macias Gini & O'Connell LLP, a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion on the City's financial statements for the fiscal year ended June 30, 2017. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The independent audit of the financial statements of the City was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards/grants. These reports are available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with this section. The City's MD&A can be found immediately following the independent auditor's report.

Profile of the City of Riverside

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County, about 60 miles east of Los Angeles. The City currently occupies a land area of 81.507 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council, but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Housing Authority, Riverside Public Financing Authority, Riverside Municipal Improvements Corporation and the Successor Agency, which was formed to hold the assets of the former Redevelopment Agency; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in note 1 in the Notes to Basic Financial Statements.

The annual budget serves as the foundation for the City's financial planning and control. Consistent with the City's Charter, the City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 25 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 75.

Local economy: The City is located in Inland Southern California, which consists of Riverside and San Bernardino Counties (the "MSA"). The population of Inland Southern California, at approximately 4.2 million, is larger than 24 states. The City leads the Inland Southern California in most measures of economic power, including population, income, employment, bank deposits, assessed valuation, office space and college enrollment. The population of the City is 326,792 which places it as the 12th largest in Southern California.

Unemployment in the MSA is currently at 6.1% down from 6.6% for the same period last year with modest improvements in the real estate and home building sectors.

The MSA is projected to grow in future years because land values continue to remain well below those in Los Angeles, Orange and San Diego Counties. Among the City's challenges is a lack of available space for manufacturing and industrial development within current boundaries.

Goals and Vision: Through various strategic planning workshops the City Council identified the following seven strategic priorities for the City:

- **Enhanced Customer Service – Improved quality of life**
- **Economic Development – Continue to develop an economically vibrant City**
- **Community Services – Provide appealing, accessible and safe venues**
- **City Transportation Program – Continue to develop efficient transportation systems and provide affordable options for community mobility**
- **Improve Housing Diversity and Options**
- **Improve Teamwork and Communication**
- **Reduce Taxpayer Liability and Reduce Costs Wherever Possible**

As a result of the development of the seven strategic priorities, the Riverside 2.0 Strategic Plan was formed to implement the vision. The purpose of the Riverside 2.0 Strategic Plan is to advance the City of Riverside's mission statement: *The City of Riverside is committed to providing high quality municipal services to ensure safe, inclusive, and livable community.* Additionally, the Riverside 2.0 Strategic Plan is intended to advance *Seizing Our Destiny* which is Riverside's community-driven campaign that builds on the city's existing strengths to create an even better place to live, work and play for future generations. The Seizing Our Destiny Campaign was developed by City officials and civic leaders and encompasses a 20-year strategic vision that mobilizes the skills and resources of a broad cross-section of Riverside toward one common goal – a better community for us all. The goal, or Vision, has four primary aspects for Riverside:

- **Nurture Intelligent Growth**
- **Catalyst for Innovation**
- **Location of Choice**
- **Evolve as a Unified City**

Riverside 2.0 also includes five effective government principles that are reinforced through management's actions:

- **Accountability**
- **Transparency**
- **Responsiveness**
- **Financial Prudence**
- **Decisiveness**

The City is in the initial implementation phase of the Strategic Plan and provides the City Council with periodic updates until the goals of the Strategic Plan have been fully implemented which is anticipated to be in several years.

Long-term financial planning: For the fiscal year (FY) 2016-17 and 2017-18 Budget Cycle, the City's first two-year budget in the context of a five-year financial plan was presented. It is a process designed to bring enhanced transparency to the City's finances, operations and strategic goals both internally with employees and departments, and externally with the residents and businesses. For the first time, the City's budget included a comprehensive Five-Year Capital Improvement Program (CIP) document as a separate section which serves as a framework for policy decisions on the two-year budget as well as in the future. Among other things, the five-year plan allows the City to illustrate fiscal impacts of budget decisions on the General Fund Reserves through June 30, 2021.

The first two years included anticipated funding source for 87 projects in FY 2016-17 and 70 projects in FY 2017-18. The funded CIP projects are incorporated into the City's proposed FY 2016-18 Biennial Budget. The last three years of the CIP plan, from FY 2018-19 through 2020/21, contain projects that are anticipated to be funded during the term of the Five-Year CIP Plan.

The CIP two-year budget is \$93 million for FY 2016-17 and \$65 million for FY 2017-18. The CIP five-year plan presents a \$348 million planned CIP revenue and expenditure budget for FY 2016-17 through FY 2020-21. The proposed CIP responds to the needs of our residents to ensure the streets, public buildings, sewer, water, and electric infrastructure, and parks are well maintained and operated for optimum health and safety, added value, increased efficiency and functionality, enhanced attractiveness and beautification, and compliance to legal mandates. The CIP document places equal emphasis on planning for new projects as well as improving and preserving existing capital assets.

Also for the first time, the City's CIP document includes a list of Unfunded CIP Projects. This is an initial attempt to identify and quantify the City's true CIP needs - not only in the short term, but also in the long term. Although the list is comprehensive and reflects a good assessment of the City's needs, it is by no means a complete list as more work needs to be done in the coming years to refine this list, create guidelines to prioritize projects, and prepare a strategic approach to fund and complete these unfunded projects.

Measure Z: Measure Z is a one-cent transaction and use tax, with revenues going directly to the City of Riverside. Measure Z was approved by voters on November 8, 2016 to help pay for critical unfunded City programs and services, such as public safety, prevention of homelessness, road maintenance and tree trimming, recreation and parks, and more. The one-cent increase in sales tax is estimated to generate between \$48 million and \$52 million annually specifically for the City of Riverside's General Fund, which pays for most services.

The City began receiving these revenues in May-June 2017, with the anticipated collection of approximately \$12 million in FY 2016-17 and the entire years' worth of \$50 million in FY 2017-18. On May 16, 2017, the City Council approved a Measure Z Spending Plan, which appropriated \$9.5 million in FY 2016-17 and \$20.5 million in FY 2017-18 to cover the projected General Fund shortfalls and increase the General Fund Reserves to 15% in the first year, and 20% in the second year.

General Fund Restructuring: As part of the Mid-Cycle Budget Update, staff analyzed all General Fund activity and determined that restructuring of the General Fund for FY 2017-18 was required in order to provide for greater transparency between true General Fund activity and other financial activity that has historically been in the General Fund. New funds have been established for Civic

Entertainment and Special Districts. While the majority of these items are self-supported by specific revenues, certain operations will require a General Fund operating transfer to ensure expenditures are supported by revenues. These changes reduce the size of the General Fund by approximately \$19.1 million, from \$275.7 million based on projections to \$256.6 million. This may reduce the transfer of Measure Z funds to the General Fund at the end of FY 2017-18 to maintain a 20% reserve

Finally, staff consolidated three separate debt funds into one general government debt fund. While this does not reduce the size or financial requirements of the General Fund, it was a necessary measure to ensure transparency.

Financial policies: Fiscal policies establish framework for managing the City's financial resources and safeguarding the City's assets in compliance with relevant regulatory mandates, industry standards, and best practices. Maintaining healthy reserves in the General Fund, and other Funds as well, is a critical component of the City's sound financial management practices. As a result, the City formally adopted a General Fund, Water Fund, Sewer Fund and Electric Fund reserve policy; the City is in the process of adopting a Self-Insurance Trust Fund reserve policy. The policy establishes minimum required reserve balances for each of those funds.

The City's General Fund Reserve Policy, adopted by the City Council on September 6, 2016, requires maintaining the General Fund reserve at 15%. The City Council set an aspiration goal of the General Fund Reserve at 20%; this goal was recently reaffirmed through adoption of the "Responsible Spending Vision Pledge" on October 4, 2016.

Budget Engagement Commission (BEC): On January 10, 2017, the City Council adopted the final reading of an ordinance to establish the BEC. The purpose of BEC is to advise the City Council on spending and policy priorities based on the information received through quarterly financial and performance reports, including revenues from Measure Z. The BEC will also work with staff to maximize public engagement on municipal budgetary issues.

The BEC is composed of 18 members, consisting of 1) nine resident members, with seven nominated by each of the Council members to represent each of the City's wards, and two Citywide nominations made by the Mayor; and 2) nine business members, with seven nominated by each of the Council members who own a business in their ward or live in their ward or own a business in any ward, and two Citywide nominations made by the Mayor. BEC members were appointed on February 14, 2017.

Awards and Acknowledgements

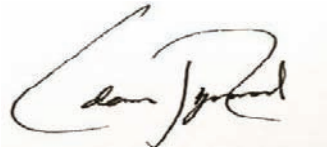
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Program) to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-eighth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

Budget Presentation Award: The City received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2016. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and oversight from the City Manager's Office. We would like to express our appreciation to all members of the department who assisted and contributed to its preparation. Credit also must be given to the Budget Engagement Commission and Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam Raymond", is written on a light-colored rectangular background.

Adam Raymond
Chief Financial Officer/City Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Riverside
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ORGANIZATION CHART



LEGISLATIVE OFFICIALS

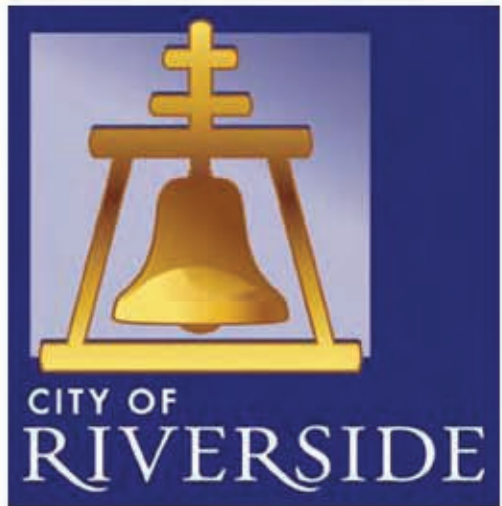
Rusty Bailey	Mayor
Mike Gardner	Councilmember – Ward 1
Andy Melendrez	Councilmember – Ward 2
Mike Soubirous	Councilmember – Ward 3
Chuck Conder	Councilmember – Ward 4
Chris Mac Arthur	Councilmember – Ward 5
Jim Perry	Councilmember – Ward 6
Steve Adams	Councilmember – Ward 7

CITY OFFICIALS

John A. Russo	City Manager*
Alex Nguyen	Assistant City Manager
Al Zelinka	Assistant City Manager
Marianna Marysheva	Assistant City Manager

Colleen J. Nicol	City Clerk*
Gary Geuss	City Attorney*
Sergio G. Diaz	Chief of Police
Lea Deesing	Chief Innovation Officer
Rafael Guzman	Community & Economic Development Director
Adam Raymond	Chief Financial Officer/Treasurer
Michael Moore	Fire Chief
Kris Martinez	Public Works Director
Stephanie Holloman	Human Resources Director
Tonya Kennon	Library Director
Alex Nguyen	Interim Museum & Cultural Affairs Director
Adolfo Cruz	Parks, Recreation & Community Svcs. Director
Girish Balachandran	General Manager - Public Utilities
Carl Carey	General Services Director

*Appointed by City Council





Certified
Public
Accountants

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Riverside, California (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 -18, pension schedule of changes in net pension liability and related ratios during the measurement period on page 67, pension schedule of plan contributions on page 68 and other post-employment benefits schedules of funding progress on page 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules and other information, such as the introductory and statistical section as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Newport Beach, California
October 31, 2017

Management's Discussion and Analysis (Unaudited)

As management of the City, we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page i of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars (0,000).

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include the activities of the City and three blended component units, which consist of the Riverside Housing Authority, Riverside Public Financing Authority, and the Riverside Municipal Improvements Corporation. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government. The Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is also included as a fiduciary component unit since it would be misleading to exclude the Successor Agency due to the nature and significance of the relationship between the City and the Successor Agency. The activity of the Successor Agency is reported with the City's fiduciary

funds, which is not included in the government-wide statements since the resources of those funds are *not* available to support the City's own programs.

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

The government-wide financial statements can be found on pages 19-20 of this report.

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

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

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

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Capital Outlay Fund, which are major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 71-77 in this report.

The City adopted an annual appropriated budget for its General Fund for the Year ended June 30, 2017. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 21-25 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements (*business-type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 79-88 in this report.

The basic proprietary fund financial statements can be found on pages 26-30 of this report.

Fiduciary funds Fiduciary funds are used to account for situations where the City's role is purely custodial. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on page 31-32 of this report, and the combining statement for the agency fund can be found on page 90.

Notes to Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Basic Financial Statements begin on page 33 of this report.

Government-wide Financial Analysis

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

(Amounts presented in Thousands)

	Governmental Activities		Business type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 267,671	\$ 273,925	\$ 709,575	\$ 736,950	\$ 977,246	\$ 1,010,875
Capital assets, net	1,356,278	1,377,609	1,834,007	1,778,027	3,190,285	3,155,636
Total assets	1,623,949	1,651,534	2,543,582	2,514,977	4,167,531	4,166,511
Deferred Outflows of Resources	178,732	131,318	103,067	98,835	281,799	230,153
Current liabilities	64,559	76,188	138,896	162,967	203,455	239,155
Long-term liabilities	828,551	772,609	1,418,369	1,416,469	2,246,920	2,189,078
Total liabilities	893,110	848,797	1,557,265	1,579,436	2,450,375	2,428,233
Deferred Inflows of Resources	64,455	92,935	47,854	58,836	112,309	151,771
Net position:						
Net investment in capital assets	1,102,409	1,123,910	702,844	654,870	1,805,253	1,778,780
Restricted	104,853	106,488	93,570	85,526	198,423	192,014
Unrestricted	(362,146)	(389,278)	245,116	235,144	(117,030)	(154,134)
Total net position	\$ 845,116	\$ 841,120	\$ 1,041,530	\$ 975,540	\$ 1,886,646	\$ 1,816,660

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,886,646 at June 30, 2017, an increase of \$69,986 from June 30, 2016.

By far the largest portion of the City's net position of 96% reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net position 11% represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$245,116 is held by the business-type activities and \$(362,146) net deficit is held by the governmental activities.

Unrestricted net position in the amount of \$(117,030), a decrease of 24% from prior year, is the change in resources available to fund City programs to citizens and debt obligations to creditors. The negative unrestricted net position is primarily the result of the reporting of the City's net pension liability in accordance with an accounting standards issued by the Government Accounting Standards Board (GASB) that relates to pension activity; Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.

Governmental activities increased the City's net position by \$3,996 to \$845,116 for the year ended June 30, 2017, accounting for 6% of the City's total increase in net position. The primary result of this increase is due to an increase in deferred outflows related to the City's pension obligations which are changes in total pension liability and fiduciary net position that are to be recognized in future pension expense. Governmental activities operating results is discussed on page 9 and business-type operating results is discussed on page 12.

On the following page is a condensed summary of activities of the City's governmental and business-type operations for the period ended June 30, 2017 with the prior fiscal year presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid in understanding the results of the current year's activities.

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(Amount presented in Thousands)

	Governmental		Business type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charge for services	\$ 57,340	\$ 46,354	\$ 517,941	\$ 493,094	\$ 575,281	\$ 539,448
Operating Grants and Contributions	19,374	16,321	3,751	2,322	23,125	18,643
Capital Grants and Contributions	7,617	31,216	24,151	18,868	31,768	50,084
General Revenues:						
Sales taxes	75,883	60,976	-	-	75,883	60,976
Property taxes	59,526	55,545	-	-	59,526	55,545
Other taxes and fees	39,394	39,651	-	-	39,394	39,651
Investment income	6,145	729	2,650	6,888	8,795	7,617
Other	2,195	12,185	14,662	22,666	16,857	34,851
Total Revenues	<u>267,474</u>	<u>262,977</u>	<u>563,155</u>	<u>543,838</u>	<u>830,629</u>	<u>806,815</u>
Expenses:						
General government	45,110	24,483	-	-	45,110	24,483
Public safety	160,665	161,284	-	-	160,665	161,284
Highways and streets	38,585	38,836	-	-	38,585	38,836
Culture and recreation	48,806	47,762	-	-	48,806	47,762
Interest on long-term debt	16,028	16,387	-	-	16,028	16,387
Electric	-	-	317,335	307,925	317,335	307,925
Water	-	-	62,189	57,769	62,189	57,769
Sewer	-	-	38,305	39,978	38,305	39,978
Airport	-	-	1,998	1,799	1,998	1,799
Refuse	-	-	21,953	21,652	21,953	21,652
Transportation	-	-	4,221	4,113	4,221	4,113
Public parking	-	-	5,448	5,141	5,448	5,141
Total expenses	<u>309,194</u>	<u>288,752</u>	<u>451,449</u>	<u>438,377</u>	<u>760,643</u>	<u>727,129</u>
Increase (decrease) in net position	(41,720)	(25,775)	111,706	105,461	69,986	79,686
Transfers, net	45,716	41,216	(45,716)	(41,216)	-	-
Total changes in net position	<u>3,996</u>	<u>15,441</u>	<u>65,990</u>	<u>64,245</u>	<u>69,986</u>	<u>79,686</u>
Net position - beginning	<u>841,120</u>	<u>825,679</u>	<u>975,540</u>	<u>911,295</u>	<u>1,816,660</u>	<u>1,736,974</u>
Net position - ending	<u>\$ 845,116</u>	<u>\$ 841,120</u>	<u>\$ 1,041,530</u>	<u>\$ 975,540</u>	<u>\$ 1,886,646</u>	<u>\$ 1,816,660</u>

Governmental activities. Total net position for governmental activities increased by \$3,996 from prior year. Governmental activities net position in the prior fiscal year increased by \$15,441. Key elements of this year's activity in relation to the prior year are as follows:

Revenues:

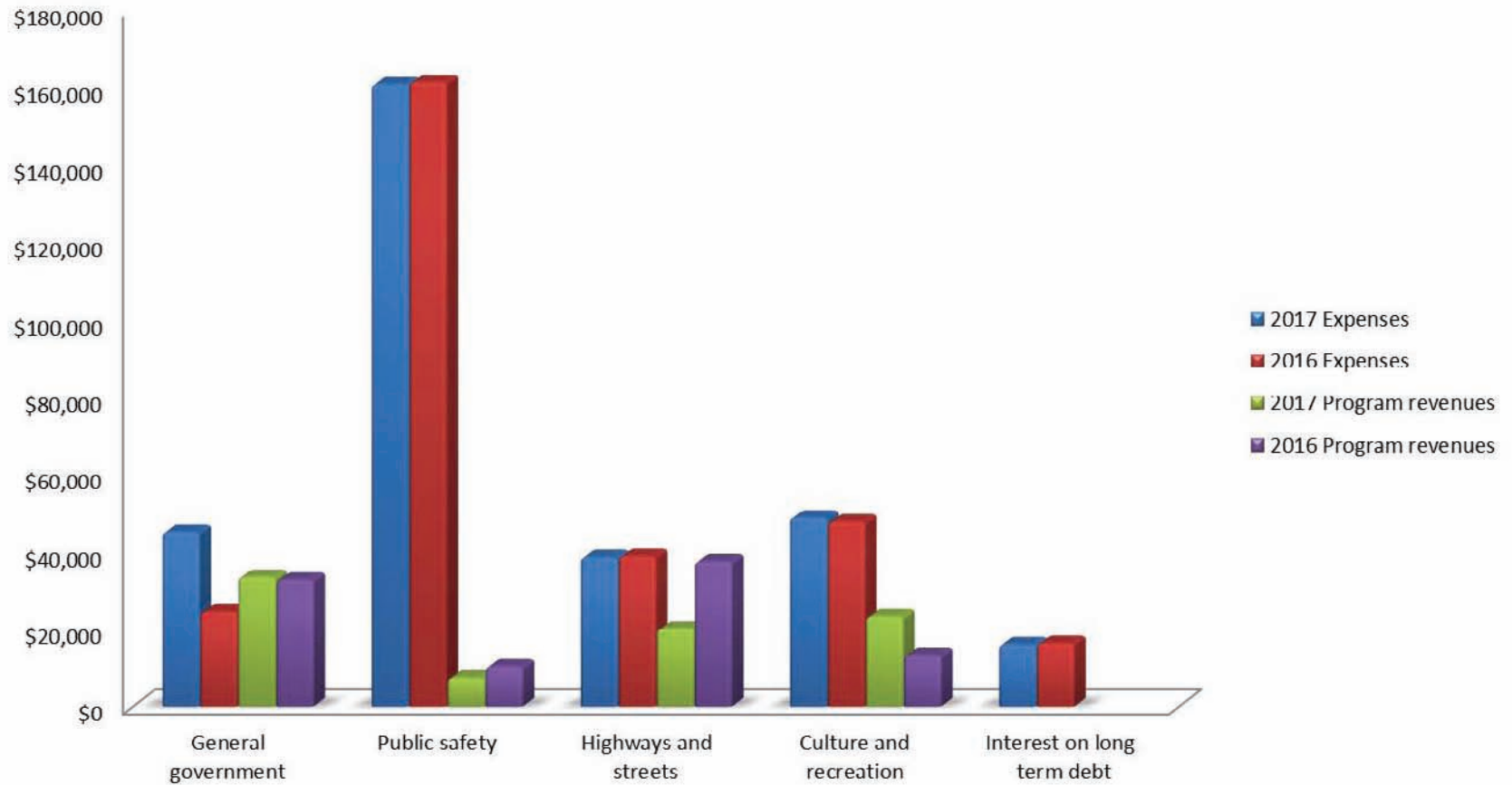
- While variances between years exist for the various revenue categories, the total net increase was approximately \$4.5 million or 2%, which is largely attributable to a decrease in capital grants and contributions offset by significant increases in sales tax and charges for services. Capital grants and contributions decreased by approximately \$23.6 million or 76%. The largest component of the decrease relates to capital outlay projects. Specifically, the City completed several major grade separation projects in the prior fiscal year such as Streeter and Riverside Avenue grade separations. Prior year expenses for these grade separation projects account for \$14.4 million of the decrease.
- The City experienced increases in charges for services from its Convention Center and the Riverside Municipal Auditorium in the amounts of \$1.3 million and \$1.42 million, respectively. In addition, revenues were up almost \$1.0 million on residential development fees which coincides with recent increases in the economic outlook. As the result of Measure Z, a one cent sales tax initiative that was approved by voters in November 2016, the City experienced a significant increase in sales tax revenue of \$14.9 million of which \$12.0 million is directly related to the passing and implementation of Measure Z.

Expenses:

- While variances between years exist for the various expense functions, the total net increase was approximately \$20.0 million or 7%. This is primarily related to an increase of approximately \$17.9 million in pension expense related to the annual recording of the City's pension liability. Increases in other expense categories were minimal and in line with anticipated results.

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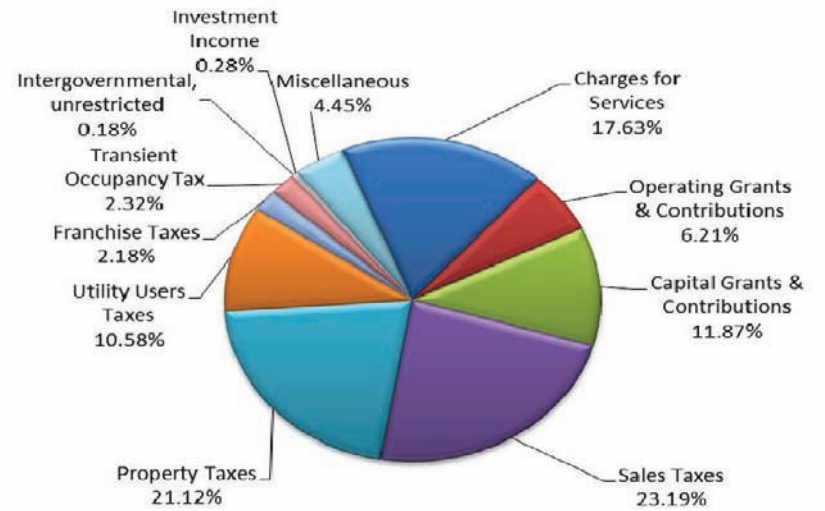
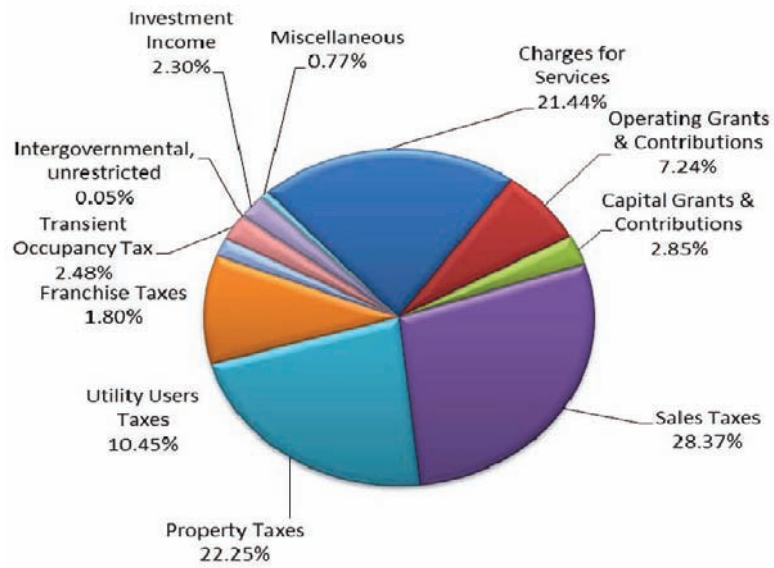
Program Revenues and Expenses – Governmental Activities – Fiscal Year Comparison 2017 vs. 2016



Revenues by Source – Governmental Activities – Fiscal Year Comparison 2017 vs. 2016

2017

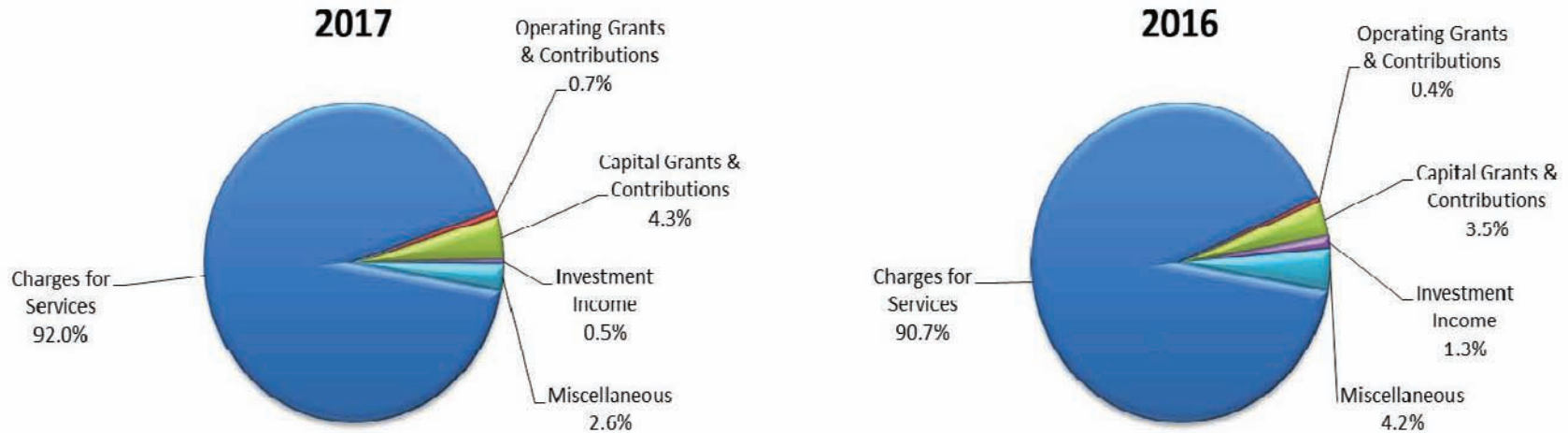
2016



Business-type activities. The net position of business-type activities increased by \$65,990 accounting for a 6% increase in total net position. The net position of business-type activities increased by \$65,990 in the prior year. Key elements of this year’s activity in relation to the prior year are as follows:

- Charges for services increased by \$24,847 or 5%. The Electric Utility experienced an increase in charges for services of approximately \$11.5 million primarily in the areas of retail sales, transmission and other operating revenue. Retail sales increased \$4.1 million due to increased consumption brought on by warmer weather. Transmission revenue increased \$2.6 million due to the City’s high voltage specific utility rate and other operating revenue increased \$5.5 million due to an increase in proceeds on the sale of renewable energy credits and on the sale of cap and trade allowances. In addition, Water Utility and Sewer charges for services were up approximately \$4,300 and \$7,100 million, respectively. The increase in Water Utility revenues was a result of increased consumption after the lifting of State water restriction mandates and warmer weather during the summer season. Sewer revenues increased \$7,071 primarily as a result of an 8% increase in sewer rates and significant infrastructure improvements and developments that came online during the year.
- Overall expenses increased by \$13,072 primarily as the result of increased expenses in the Electric and Water Fund of \$9,410 and \$4,420, respectively, were directly related to increases in energy and water distribution costs.

Revenues by Source – Business-Type Activities – Fiscal Year Comparison



Financial Analysis of the City's Funds

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

The following table summarizes the balance sheet of the City's General, Capital Outlay, and Other Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

(Amounts presented in Thousands)

	General Fund		Capital Outlay Fund		Other Governmental Funds		Total Governmental Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
Total assets	\$ 125,798	\$ 106,710	\$ 23,681	\$ 29,387	\$ 100,635	\$ 124,654	\$ 250,114	\$ 260,751
Total liabilities	\$ 36,536	\$ 33,042	\$ 2,559	\$ 5,132	\$ 10,440	\$ 12,702	\$ 49,535	\$ 50,876
Deferred inflows of resources								
Unavailable revenue	6,192	8,090	3,176	5,582	37,688	37,535	47,056	51,207
Fund balances								
Nonspendable	26,168	23,094	-	-	1,601	1,619	27,769	24,713
Restricted	2,651	3,067	17,946	18,673	50,930	72,798	71,527	94,538
Assigned	14,968	9,922	-	-	-	-	14,968	9,922
Unassigned	39,283	29,495	-	-	(24)	-	39,259	29,495
Total fund balance	83,070	65,578	17,946	18,673	52,507	74,417	153,523	158,668
Total liabilities, deferred inflows and fund balances	\$ 125,798	\$ 106,710	\$ 23,681	\$ 29,387	\$ 100,635	\$ 124,654	\$ 250,114	\$ 260,751

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$153,523 a decrease of \$5,145 compared to the prior year. Additionally, 18% of the fund balance \$27,769 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$71,527 or 47% of fund balance is *restricted*, which represents the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors. \$14,968 or 10% of fund balance is constrained by the City's intent to utilize fund balance for specific purposes, which is reported within the fund balance classification *assigned*. The remainder of the fund balance is *unassigned*, meaning it is available for spending at the City's discretion. The City's governmental funds reported combined total assets of \$250,114 at June 30, 2017, a decrease of \$10,637 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$96,591, a decrease of \$5,492. Other Governmental Funds was the primary contributor to the decrease in overall assets and deferred inflows. A loan payoff in the form of an advance to the Successor

Agency was received earlier than anticipated from a hotel development project in the amount of \$17.9 million. Additional other similar recurring loan payments were received in the current year that contributed to the additional decrease in total asset receivables. This was offset to a small degree by an increase in total assets for the General Fund primarily due to an increase in cash and investments and increased sales tax revenue.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$83,070 in comparison to \$65,578 in the prior year. The portion of fund balance classified as unassigned was \$39,283 set aside for future economic contingencies.

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

Unrestricted net position of the Electric, Water and Sewer Funds at the end of the year amounted to \$207,042, \$27,550, and \$18,614 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$203,050, \$36,569, and \$5,093, respectively. The increase in unrestricted net position of the Electric and Sewer Fund was the result of increased operating activities. The decrease in unrestricted net position for the Water Fund is primarily a result of operating activities as described below.

Electric Fund operating results experienced an increase in charges for services of \$11,536 or 3.3%, primarily from the effects of an increase in retail load as a result of warmer than normal temperature. Retail sales (residential, commercial, industrial, and other sales) represent 84.4% of total revenues. Retail sales, net of reserve/recovery were \$308,790 and \$304,486 for years ended June 30, 2017 and 2016, respectively. The increase in sales was primarily due to increased customer consumption; increased voltage utility specific rate per the annual filing with the Federal Energy Regulatory Commission; increased proceeds on sale of renewable energy credits and on the sale of cap and trade allowances. Operating expenses increased \$9,814 or 3.50%, which primarily relates to a non-cash pension expense credit of \$5 million in the prior year as a result of pension accounting standards. In addition, in the current year, the City's refinancing of pension obligation bonds resulted in an allocated increase of \$2.6 million for the Electric Utility's share of the obligation.

The Water Fund reported higher operating results, with retail sales higher than the previous year's results by \$4,304. Retail sales (residential, commercial, industrial, and other sales) represent 87.2% of total revenues. Retail sales, net of reserve/recovery were \$54,596 and \$50,195 for the years ended June 30, 2017 and 2016, respectively. The increase in retail sales was primarily due to the lifting of water restriction mandates and warmer weather during the summer season. Distribution expenses were higher which primarily relates to a pension expense credit of \$1.8 million in the prior year as a result of pension accounting standards. In addition, there was an increase in production costs resulting from higher consumption and general operating expenses.

Net position of the Sewer Fund increased by \$25,436 and \$14,570 for the years ended June 30, 2017 and 2016, respectively. Operating revenues increased by \$7,071 or 13.4% primarily as a result of an annual rate increase of 8% and increased sewer connection fees related to infrastructure building unit development. In addition, operating expenses decreased by \$1,233 compared to prior year boosting the funds net position.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>217,236</u>	<u>237,996</u>	<u>238,018</u>	<u>\$22</u>
Expenditures:				
General Government	19,664	22,016	16,451	5,565
Public Safety	158,246	167,773	162,868	4,905
Highways & Streets	19,815	21,747	17,504	4,243
Culture & Recreation	37,986	42,570	40,440	2,130
Capital Outlay	227	7,979	3,361	4,618
Debt Service	<u>19,214</u>	<u>50,359</u>	<u>49,463</u>	<u>896</u>
Total Expenditures	<u>255,152</u>	<u>312,444</u>	<u>290,087</u>	<u>22,357</u>
Deficiency of Revenue Under Expenditures	(37,916)	(74,448)	(52,069)	22,379
Other Financing Sources	<u>35,560</u>	<u>69,491</u>	<u>69,561</u>	<u>70</u>
Net Change in Fund Balances	<u>(2,356)</u>	<u>(4,957)</u>	<u>17,492</u>	<u>22,449</u>
Beginning Fund Balance	<u>65,578</u>	<u>65,578</u>	<u>65,578</u>	<u>-</u>
Ending Fund Balance	<u><u>63,222</u></u>	<u><u>\$60,621</u></u>	<u><u>\$83,070</u></u>	<u><u>\$22,449</u></u>

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs. In addition, final budgeted expenditures increased from the amount originally budgeted as a result of grant related appropriations made during the year.

Actual amounts differed from the final fund budget as follows:

Actual expenditures were less than final budgeted amounts by approximately \$22.4 million. This is primarily associated with unspent appropriations for grants, capital projects and other special programs that were not completed during the year (which are carried over to the next fiscal year).

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of June 30, 2017 amounted to \$3,190,285 (net of accumulated depreciation). This investment includes land, intangibles, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$34,649 (a decrease of \$21,331 for governmental activities and an increase of \$55,980 for business-type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of a tertiary treatment plant of \$291 million; \$12 million in Water Utility upgrades primarily related to system expansion and improvements, and continued pipeline replacement programs; and \$39 million in Electric Utility capital improvements primarily related to improvements to the Electric system in the form of substations, transformers, neighborhood streetlights and distribution line extensions and replacements to serve customers.

Construction in progress totaled \$125,244 at June 30, 2017 a decrease of \$266,268 or 68.0%. The decrease in construction in progress is primarily related to the completion and capitalization of an upgrade to the City's Water Quality Control Plant in the amount of \$291 million. The main construction project still in process is the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's 230 KV Transmission Substation. Depreciation expense during the fiscal year was \$48,564 for governmental activities and \$58,249 for business-type activities.

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

(Amount presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$343,918	\$342,792	\$80,246	\$63,839	\$424,164	\$406,631
Construction in progress	44,310	41,535	80,934	349,977	125,244	391,512
Buildings	115,087	119,786	471,137	187,285	586,224	307,071
Improvements other than Buildings	197,482	205,750	1,123,191	1,101,988	1,320,673	1,307,738
Machinery and equipment	22,971	25,075	37,080	34,228	60,051	59,303
Intangibles	131	175	41,419	40,710	41,550	40,885
Infrastructure	632,379	642,496	-	-	632,379	642,496
Total	\$1,356,278	\$1,377,609	\$1,834,007	\$1,778,027	\$3,190,285	\$3,155,636

Additional information on the City's capital assets can be found in note 5 on page 43-44 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,661,144 which includes bonded debt of \$1,478,820.

City of Riverside's Long-Term Debt

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$11,513	\$12,567	\$ -	\$ -	\$11,513	\$12,567
Pension Obligation Bonds	92,592	101,000	-	-	92,592	101,000
Certificates of Participation	156,516	181,429	-	-	156,516	181,429
Lease Revenue Bonds	37,854	39,398	-	-	37,854	39,398
Revenue Bonds	-	-	1,180,345	1,208,851	1,180,345	1,208,851
Loans Payable	41,325	43,482	-	-	41,325	43,482
Notes Payable	-	-	35,255	37,793	35,255	37,793
Capital Leases	17,193	12,006	6,209	4,694	23,402	16,700
Landfill Capping	-	-	5,390	5,686	5,390	5,686
Water Acquisition Rights	-	-	938	938	938	938
Compensated Absences	22,790	22,444	8,279	8,120	31,069	30,564
Claims liability	44,945	43,269	-	-	44,945	43,269
Total	\$424,728	\$455,595	\$1,236,416	\$1,266,082	\$1,661,144	\$1,721,677

The City's total debt decreased by \$60,533 or 3.64% during the current fiscal year. The net decrease is primarily related to principal obligation payments on bonded debt.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total adjusted assessed valuation. The legal debt limit was \$720,357 at June 30, 2017, which applies only to general obligation debt. At June 30, 2017, the City had \$11,513 of general obligation debt, resulting in available legal debt capacity of \$708,844.

Additional information on the City's long-term debt can be found in note 6 beginning on page 44 of this report.

Economic Factors and Next Year's Budget and Rates

- Unemployment in the City of Riverside is 6.1% as compared to 6.5% for the prior year.
- The required employer normal cost contribution rates as a percentage of payroll for the City's retirement program will be changing effective July 1, 2017. Additionally, beginning with Fiscal Year 2017-18 CalPERS will collect employer contributions toward the plan's unfunded liability as dollar amounts instead of prior method of a contribution rate combined with the normal cost rate. As a result, the following lists the two required contribution components per plan as follows :
 - Miscellaneous Plan – 22.978% to 12.136%. Unfunded Liability Payment of \$15,126,070.
 - Safety Plan – 34.836% to 19.867%. Unfunded Liability Payment of \$11,912,989.

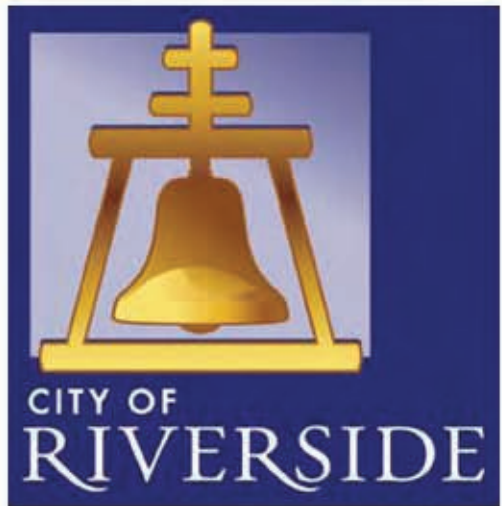
At the time of the two-year budget preparation for the fiscal year 2016-17 and 2017-18 budget cycle, the economic outlook for the City was considered to be stable. However, there were significant structural shortfalls projected over the next five fiscal years in the General Fund. The City's administration has implemented balancing measures to address the fiscal challenges that will replenish the General Fund Reserve over a five year period. In addition, the City successfully passed a one cent sales tax initiative (Measure Z). The one-cent increase in the City's sales tax rate from 7.75% to 8.75% authorized by Measure Z took effect on April 1, 2017. It is anticipated Measure Z will generate an additional \$51.5 million per year in sales tax revenue.

The Budget Engagement Commission (BEC), a group of city residents and business owners appointed to represent the community in advising the City Council on budget matters, held seven meetings to review staff's recommendations for Measure Z spending and to formulate its own proposal for the City Council's consideration. During these meetings, the BEC heard presentations and comments about spending priorities and community needs from city staff, other commissions and boards, and the public. On May 9, 2017, the BEC presented its recommendations to City Council. The recommendation included a five-year plan for spending \$218 Million on community needs. The City Council heard presentations from city staff and public comments recommending spending priorities. On May 16, 2017, the City Council adopted a five-year spending plan for Measure Z revenue. The spending plan addresses 33 of the community's critical needs with 6 major categories: Public Safety; Fiscal Discipline/Responsibility; Quality of Life; Critical Operating Needs; Facility Capital Needs and Technology.

The General Fund Budget for fiscal year 2017 of approximately \$267 million was adopted. It represents an increase from the prior year of approximately 4.0%, largely related to increased personnel costs associated with new labor agreements, CalPERS increases and increases related to the Riverside Convention Center and Municipal Auditorium.

Request for information

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



City of Riverside
Statement of Net Position
June 30, 2017
(amounts expressed in thousands)

Assets	Governmental	Business-type	Total
	Activities	Activities	
Cash and investments	\$ 129,686	\$ 387,368	\$ 517,054
Receivables, net	87,705	57,824	145,529
Inventory	6,000	2,622	8,622
Prepaid items	2,623	31,355	33,978
Deposits	300	1,272	1,572
Internal balances	16,814	(16,814)	-
Restricted assets:			
Cash and cash equivalents	-	71,741	71,741
Cash and investments at fiscal agent	13,740	158,619	172,359
Other	-	990	990
Advances to Successor Agency Trust Fund	7,531	4,665	12,196
Land and improvements held for resale	3,272	-	3,272
Regulatory assets	-	9,933	9,933
Land and other capital assets not being depreciated	388,228	182,672	570,900
Capital assets (net of accumulated depreciation)	968,050	1,651,335	2,619,385
Total assets	<u>1,623,949</u>	<u>2,543,582</u>	<u>4,167,531</u>
Deferred Outflows of Resources			
Changes in derivative values	15,955	21,038	36,993
Charge on refunding	4,192	16,446	20,638
Pension contributions, changes in assumptions and differences in experience	158,585	65,583	224,168
Total deferred outflows of resources	<u>178,732</u>	<u>103,067</u>	<u>281,799</u>
Liabilities			
Accounts payable and other current liabilities	31,627	20,326	51,953
Accrued interest payable	2,652	14,990	17,642
Unearned revenue	2,164	1,440	3,604
Deposits	7,750	6,748	14,498
Derivative instruments	20,366	30,718	51,084
Decommissioning liability	-	64,674	64,674
Noncurrent liabilities:			
Due within one year	51,791	38,725	90,516
Due in more than one year	372,937	1,197,691	1,570,628
OPEB obligation	19,427	15,497	34,924
Net pension liability	384,396	166,456	550,852
Total liabilities	<u>893,110</u>	<u>1,557,265</u>	<u>2,450,375</u>
Deferred Inflows of Resources			
Regulatory charges	-	16,602	16,602
Pension contributions, changes in assumptions and differences in experience	64,455	31,252	95,707
Total deferred inflows of resources	<u>64,455</u>	<u>47,854</u>	<u>112,309</u>
Net Position			
Net investment in capital assets	1,102,409	702,844	1,805,253
Restricted for:			
Expendable:			
Capital projects	25,270	-	25,270
Debt service	-	57,220	57,220
Economic development	17,956	-	17,956
Landfill capping	-	1,738	1,738
Public works	16,220	-	16,220
Housing	43,830	-	43,830
Programs and regulatory requirements	-	34,612	34,612
Nonexpendable	1,577	-	1,577
Unrestricted	(362,146)	245,116	(117,030)
Total net position	<u>\$ 845,116</u>	<u>\$ 1,041,530</u>	<u>\$ 1,886,646</u>

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

City of Riverside
Statement of Activities
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
Governmental activities:								
General government	\$ 45,110	\$ (17,189)	\$ 27,441	\$ 5,620	\$ 393	\$ 5,533	\$ -	\$ 5,533
Public safety	160,665	8,730	1,167	4,564	1,760	(161,904)	-	(161,904)
Highways and streets	38,585	4,752	5,930	8,965	5,224	(23,218)	-	(23,218)
Culture and recreation	48,806	3,707	22,802	225	240	(29,246)	-	(29,246)
Interest on long-term debt	16,028	-	-	-	-	(16,028)	-	(16,028)
Total governmental activities	<u>309,194</u>	<u>-</u>	<u>57,340</u>	<u>19,374</u>	<u>7,617</u>	<u>(224,863)</u>	<u>-</u>	<u>(224,863)</u>
Business type activities:								
Electric	317,335	-	366,066	-	19,684	-	68,415	68,415
Water	62,189	-	62,627	-	3,525	-	3,963	3,963
Sewer	38,305	-	59,735	-	-	-	21,430	21,430
Airport	1,998	-	1,578	-	161	-	(259)	(259)
Refuse	21,953	-	22,567	-	-	-	614	614
Transportation	4,221	-	359	3,751	781	-	670	670
Public parking	5,448	-	5,009	-	-	-	(439)	(439)
Total business type activities	<u>451,449</u>	<u>-</u>	<u>517,941</u>	<u>3,751</u>	<u>24,151</u>	<u>-</u>	<u>94,394</u>	<u>94,394</u>
Total	<u>\$ 760,643</u>	<u>-</u>	<u>\$ 575,281</u>	<u>\$ 23,125</u>	<u>\$ 31,768</u>	<u>\$ (224,863)</u>	<u>\$ 94,394</u>	<u>\$ (130,469)</u>
General revenues:								
Taxes:								
Sales						75,883	-	75,883
Property						59,526	-	59,526
Utility users						27,958	-	27,958
Franchise						4,814	-	4,814
Transient occupancy tax						6,622	-	6,622
Intergovernmental, unrestricted						145	-	145
Investment income						6,145	2,650	8,795
Miscellaneous						2,050	14,662	16,712
Subtotal						<u>183,143</u>	<u>17,312</u>	<u>200,455</u>
Transfers, net						45,716	(45,716)	-
Total general revenues and transfers						<u>228,859</u>	<u>(28,404)</u>	<u>200,455</u>
Change in net position						3,996	65,990	69,986
Net position - beginning						841,120	975,540	1,816,660
Net position - ending						<u>\$ 845,116</u>	<u>\$ 1,041,530</u>	<u>\$ 1,886,646</u>

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

City of Riverside
Balance Sheet
Governmental Funds
June 30, 2017
(amounts expressed in thousands)

Assets	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Cash and investments	\$ 59,347	\$ 14,352	\$ 37,466	\$ 111,165
Cash and investments at fiscal agent	1,943	9	11,788	13,740
Receivables (net of allowance for uncollectibles)				
Interest	23	64	118	205
Property taxes	4,274	-	-	4,274
Sales tax	20,360	-	-	20,360
Utility billed	1,210	-	-	1,210
Accounts	6,525	2,858	60	9,443
Intergovernmental	4,050	6,398	3,861	14,309
Notes	1	-	37,244	37,245
Prepaid items	2,599	-	24	2,623
Deposits	300	-	-	300
Due from other funds	1,722	-	-	1,722
Advances to other funds	22,715	-	-	22,715
Advances to Successor Agency Trust Fund	554	-	6,977	7,531
Land & improvements held for resale	175	-	3,097	3,272
Total assets	<u>\$ 125,798</u>	<u>\$ 23,681</u>	<u>\$ 100,635</u>	<u>\$ 250,114</u>
Liabilities				
Accounts payable	\$ 9,291	\$ 627	\$ 941	\$ 10,859
Accrued payroll	19,072	-	-	19,072
Retainage payable	1	41	161	203
Intergovernmental	149	-	-	149
Unearned revenue	273	1,891	-	2,164
Deposits	7,750	-	-	7,750
Due to other funds	-	-	1,415	1,415
Advances from other funds	-	-	7,923	7,923
Total liabilities	<u>36,536</u>	<u>2,559</u>	<u>10,440</u>	<u>49,535</u>
Deferred Inflows of Resources				
Unavailable revenue	6,192	3,176	37,688	47,056
Total deferred inflows of resources	<u>6,192</u>	<u>3,176</u>	<u>37,688</u>	<u>47,056</u>
Fund Balances				
Nonspendable:				
Inventories, prepaids and deposits	2,899	-	24	2,923
Advances	23,269	-	-	23,269
Permanent fund principal	-	-	1,577	1,577
Restricted for:				
Housing and redevelopment	175	-	24,098	24,273
Debt service	1,884	-	6,455	8,339
Transportation and public works	-	17,946	16,232	34,178
Other purposes	592	-	4,145	4,737
Assigned to:				
General government	2,387	-	-	2,387
Public safety	2,357	-	-	2,357
Highways and streets	1,032	-	-	1,032
Culture and recreation	728	-	-	728
Continuing projects	8,464	-	-	8,464
Unassigned	39,283	-	(24)	39,259
Total fund balances	<u>83,070</u>	<u>17,946</u>	<u>52,507</u>	<u>153,523</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 125,798</u>	<u>\$ 23,681</u>	<u>\$ 100,635</u>	<u>\$ 250,114</u>

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

City of Riverside
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017
(amounts expressed in thousands)

Total fund balances - governmental funds \$ 153,523

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds. 1,348,644

Deferred refunding charges are not available resources and, therefore, are not reported in the funds. 4,192

Deferred amounts on pensions related to contributions after the measurement date 155,649

Deferred amounts on pensions related to the net difference between projected and actual earnings on pension plan investments (63,095)

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. 47,056

Accrued interest payable for the current portion of interest due on various debt issues has not been reported in the governmental funds. (2,652)

Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.

Bonds	\$ (140,150)	
Certificates of participation	(155,350)	
Capital leases	(17,193)	
Loan payable	(41,325)	
Bond premiums	(2,975)	
OPEB obligation	(18,523)	
Net pension liability	(377,006)	
Compensated absences	(22,354)	
		(774,876)

The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The following related items have been reflected in the Statement of Net Position.

Net fair value of interest rate swaps	\$ (20,366)	
Deferred amount related to the hedgeable portion of the derivative instrument	15,955	
		(4,411)

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. (18,914)

Net position of governmental activities \$845,116

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

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 174,803	\$ -	\$ -	\$ 174,803
Licenses and permits	9,815	-	4,640	14,455
Intergovernmental	7,318	10,643	13,479	31,440
Charges for services	31,384	-	-	31,384
Fines and forfeitures	1,975	-	1	1,976
Special assessments	4,443	956	2,179	7,578
Rental and investment income	2,768	25	1,925	4,718
Miscellaneous	5,512	136	1,604	7,252
Total revenues	<u>238,018</u>	<u>11,760</u>	<u>23,828</u>	<u>273,606</u>
Expenditures				
Current:				
General government	16,451	-	4,199	20,650
Public safety	162,868	-	844	163,712
Highways and streets	17,504	-	-	17,504
Culture and recreation	40,440	-	203	40,643
Capital outlay	3,361	9,487	18,152	31,000
Debt service:				
Principal	44,225	-	28,475	72,700
Interest	5,209	-	10,906	16,115
Bond issuance costs	29	-	-	29
Total expenditures	<u>290,087</u>	<u>9,487</u>	<u>62,779</u>	<u>362,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(52,069)</u>	<u>2,273</u>	<u>(38,951)</u>	<u>(88,747)</u>
Other financing sources (uses)				
Transfers in	76,948	-	17,573	94,521
Transfers out	(13,497)	(3,000)	(32,308)	(48,805)
Issuance of long-term debt	-	-	31,578	31,578
Capital lease financings	2,109	-	-	2,109
Proceeds from the sale of capital assets	4,001	-	198	4,199
Total other financing sources (uses)	<u>69,561</u>	<u>(3,000)</u>	<u>17,041</u>	<u>83,602</u>
Net change in fund balances	17,492	(727)	(21,910)	(5,145)
Fund balances - beginning	65,578	18,673	74,417	158,668
Fund balances - ending	<u>\$ 83,070</u>	<u>\$ 17,946</u>	<u>\$ 52,507</u>	<u>\$ 153,523</u>

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

City of Riverside
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ (5,145)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current year, depreciation exceeded capital asset additions, as listed below:

Capital asset additions	\$ 28,766	
Depreciation expense	<u>(47,650)</u>	(18,884)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position. (3,025)

Revenues related to prior years that are available in the current fiscal year are reported as revenue in the governmental funds. In contrast, revenues that are earned but unavailable in the current year are deferred in the governmental funds. For government-wide reporting, revenue is recognized when earned, regardless of availability. The amount reflects the timing differences for revenue recognition. (4,151)

The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds immediately report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below:

Principal repayments	\$ 72,700	
Net pension liability	(1,064)	
Net OPEB obligation	(1,480)	
Compensated absences	(361)	
Interest	888	
Issuance of long-term debt	<u>(37,405)</u>	33,278

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities. 1,923

Change in net position of governmental activities \$ 3,996

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

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget		Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final				Original	Final		
Revenues									
Taxes	\$ 166,691	\$ 176,691	\$ 174,803	\$ (1,888)	Public safety:				
Licenses and permits	9,825	9,825	9,815	(10)	Police	97,798	105,026	100,555	4,471
Intergovernmental	1,520	10,441	7,318	(3,123)	Fire	50,064	52,386	52,215	171
Charges for services	26,350	26,513	31,384	4,871	Animal regulation	3,409	3,511	3,128	383
Fines and forfeitures	1,737	1,737	1,975	238	Building and zoning inspection	2,481	2,356	2,408	(52)
Special assessments	4,504	4,504	4,443	(61)	Street lighting	4,494	4,494	4,562	(68)
Rental and investment income	4,024	4,024	2,768	(1,256)	Total public safety	158,246	167,773	162,868	4,905
Miscellaneous	2,585	4,261	5,512	1,251	Highways and streets	19,815	21,747	17,504	4,243
Total revenues	217,236	237,996	238,018	22	Culture and recreation				
					Library	7,554	8,534	8,076	458
Expenditures					Museum & cultural affairs	12,792	13,675	14,306	(631)
General government:					Parks, recreation & community services	17,640	20,361	18,058	2,303
Mayor	989	1,105	1,078	27	Total culture and recreation	37,986	42,570	40,440	2,130
Council	1,705	1,707	1,719	(12)	Capital outlay	227	7,979	3,361	4,618
Manager	6,378	6,253	6,379	(126)	Debt service:				
Attorney	5,415	5,908	4,689	1,219	Principal	13,620	44,765	44,225	540
Clerk	1,873	1,868	1,661	207	Interest	5,404	5,404	5,209	195
Community development	15,382	15,376	13,130	2,246	Bond issuance costs	190	190	29	161
Human resources	3,871	4,452	3,289	1,163	Total debt service	19,214	50,359	49,463	896
General services	21,290	21,411	21,798	(387)	Total expenditures	255,152	312,444	290,087	22,357
Finance	13,164	13,658	13,429	229	Deficiency of revenue under expenditures	(37,916)	(74,448)	(52,069)	22,379
Innovation & technology	11,562	12,243	11,002	1,241	Other financing sources (uses)				
Subtotal	81,629	83,981	78,174	5,807	Transfers in	45,075	44,902	76,948	32,046
Allocated expenditures	(61,965)	(61,965)	(61,723)	(242)	Transfers out	(13,648)	(13,648)	(13,497)	151
Total general government	19,664	22,016	16,451	5,565	Issuance of long-term debt	-	31,145	-	(31,145)
				continued	Capital lease financings	-	2,959	2,109	(850)
					Proceeds from the sale of capital assets	4,133	4,133	4,001	(132)
					Total other financing sources	35,560	69,491	69,561	70
					Net change in fund balance	(2,356)	(4,957)	17,492	22,449
					Fund balance, beginning	65,578	65,578	65,578	-
					Fund balance (deficit), ending	\$ 63,222	\$ 60,621	\$ 83,070	\$ 22,449

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

City of Riverside
Statement of Net Position
Proprietary Funds
June 30, 2017
(amounts expressed in thousands)

Assets	Business-type Activities - Enterprise Funds						Governmental Activities-Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds		
Current assets:							
Cash and investments	\$ 255,496	\$ 63,503	\$ 61,941	\$ 6,428	\$ 387,368	\$ 18,521	
Receivables (net allowances for uncollectibles)							
Interest	891	231	218	30	1,370	43	
Utility billed	14,604	3,606	3,050	1,038	22,298	-	
Utility unbilled	16,411	3,329	2,295	774	22,809	-	
Accounts	4,415	1,504	415	1,767	8,101	23	
Intergovernmental	2	1,670	772	802	3,246	593	
Inventory	1,097	-	1,525	-	2,622	6,000	
Prepaid items	22,234	164	30	-	22,428	-	
Deposits	1,272	-	-	-	1,272	-	
Due from other funds	183	78	-	-	261	-	
Restricted assets:							
Cash and cash equivalents:							
Rate stabilization cash and cash equivalents	-	-	14,500	-	14,500	-	
Other restricted cash and cash equivalents	47,133	8,370	-	1,738	57,241	-	
Public benefit programs receivable	927	63	-	-	990	-	
Total current assets	364,665	82,518	84,746	12,577	544,506	25,180	
Non-current assets:							
Restricted assets:							
Cash and investments at fiscal agent	82,941	2,283	73,395	-	158,619	-	
Regulatory assets	3,056	-	1,596	5,281	9,933	-	
Prepaid items - non-current	8,927	-	-	-	8,927	-	
Advances to other funds	-	-	4,986	-	4,986	3,538	
Advances to Successor Agency Trust Fund	4,665	-	-	-	4,665	-	
Capital assets:							
Land	37,845	20,484	2,737	19,180	80,246	458	
Intangible assets, non-depreciable	10,651	10,841	-	-	21,492	-	
Intangible assets, depreciable	20,950	3,528	119	-	24,597	219	
Accumulated depreciation - intangible assets, depreciable	(3,808)	(820)	(42)	-	(4,670)	(88)	
Buildings	61,054	19,662	490,365	35,903	606,984	4,065	
Accumulated depreciation - buildings	(9,004)	(6,216)	(112,743)	(7,884)	(135,847)	(597)	
Improvements other than buildings	920,657	602,935	143,134	29,253	1,695,979	1,315	
Accumulated depreciation - improvements other than buildings	(341,187)	(198,705)	(21,535)	(11,361)	(572,788)	(369)	
Machinery and equipment	41,774	14,847	16,418	23,578	96,617	11,307	
Accumulated depreciation - machinery and equipment	(21,776)	(12,556)	(8,375)	(16,830)	(59,537)	(8,676)	
Construction in progress	51,636	13,973	15,161	164	80,934	-	
Total non-current assets	868,381	470,256	605,216	77,284	2,021,137	11,172	
Total assets	1,233,046	552,774	689,962	89,861	2,565,643	36,352	
Deferred Outflows of Resources							
Changes in derivative values	17,157	3,881	-	-	21,038	-	
Charge on refunding	9,772	6,674	-	-	16,446	-	
Pension contributions, changes in assumptions and differences in experience	38,247	13,542	8,490	5,304	65,583	2,936	
Total deferred outflows of resources	65,176	24,097	8,490	5,304	103,067	2,936	

Continued

City of Riverside
Statement of Net Position
Proprietary Funds
June 30, 2017
(amounts expressed in thousands)

Liabilities	Business-type Activities - Enterprise Funds					Governmental Activities-Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	
Current liabilities:						
Accounts payable	11,497	2,667	4,273	1,307	19,744	1,344
Retainage payable	162	193	227	-	582	-
Unearned revenue	51	185	3	1,201	1,440	-
Deposits	5,996	752	-	-	6,748	-
Due to other funds	-	-	-	307	307	261
Capital leases - current	806	210	-	-	1,016	-
Water stock acquisitions - current	-	150	-	-	150	-
Notes payable - current	-	837	774	1,014	2,625	-
Landfill capping - current	-	-	-	250	250	-
Claims and judgments - current	-	-	-	-	-	10,765
Compensated absences - current	4,177	1,394	976	517	7,064	302
Current liabilities payable from restricted assets:						
Revenue bonds	13,795	5,415	8,410	-	27,620	-
Decommissioning liability	8,607	-	-	-	8,607	-
Accrued interest	5,215	1,619	8,156	-	14,990	-
Total current liabilities	<u>50,306</u>	<u>13,422</u>	<u>22,819</u>	<u>4,596</u>	<u>91,143</u>	<u>12,672</u>
Non-current liabilities:						
Revenue bonds	547,122	184,949	420,654	-	1,152,725	-
Notes payable	-	12,927	1,446	18,257	32,630	-
Capital leases	3,098	2,095	-	-	5,193	-
Advances from other funds	12,312	4,439	2,821	2,182	21,754	1,562
Decommissioning liability	56,067	-	-	-	56,067	-
Derivative instruments	22,525	8,193	-	-	30,718	-
Claims and judgments	-	-	-	-	-	34,180
Water stock acquisitions	-	788	-	-	788	-
Landfill capping	-	-	-	5,140	5,140	-
Compensated absences	808	288	78	41	1,215	134
OPEB obligation	7,905	3,266	2,320	2,006	15,497	904
Net pension liability	96,193	34,465	21,980	13,818	166,456	7,390
Total non-current liabilities	<u>746,030</u>	<u>251,410</u>	<u>449,299</u>	<u>41,444</u>	<u>1,488,183</u>	<u>44,170</u>
Total liabilities	<u>796,336</u>	<u>264,832</u>	<u>472,118</u>	<u>46,040</u>	<u>1,579,326</u>	<u>56,842</u>
Deferred Inflows of Resources						
Regulatory charges	-	111	16,491	-	16,602	-
Pension contributions, changes in assumptions and differences in experience	17,685	6,510	4,312	2,745	31,252	1,360
Total deferred inflows of resources	<u>17,685</u>	<u>6,621</u>	<u>20,803</u>	<u>2,745</u>	<u>47,854</u>	<u>1,360</u>
Net Position						
Net investment in capital assets	229,432	269,789	150,891	52,732	702,844	7,634
Restricted for debt service	16,510	6,068	34,642	-	57,220	-
Restricted for landfill capping	-	-	-	1,738	1,738	-
Restricted for programs and regulatory requirements	31,217	2,011	1,384	-	34,612	-
Unrestricted	207,042	27,550	18,614	(8,090)	245,116	(26,548)
Total net position (deficit)	<u>\$ 484,201</u>	<u>\$ 305,418</u>	<u>\$ 205,531</u>	<u>\$ 46,380</u>	<u>\$ 1,041,530</u>	<u>\$ (18,914)</u>

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

City of Riverside
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds					Governmental Activities-Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	
Operating revenues:						
Charges for services	\$ 366,066	\$ 62,627	\$ 59,735	\$ 29,513	\$ 517,941	\$ 24,381
Operating expenses:						
Personnel services	46,931	12,890	9,673	8,907	78,401	4,517
Contractual services	6,971	1,909	1,154	6,354	16,388	1,474
Maintenance and operation	190,626	8,857	8,891	7,284	215,658	2,615
General	13,061	14,409	5,683	4,533	37,686	2,444
Materials and supplies	865	744	3,260	1,462	6,331	303
Claims/Insurance	899	397	1,260	258	2,814	10,231
Depreciation and amortization	32,642	14,320	7,734	3,959	58,655	915
Total operating expenses	291,995	53,526	37,655	32,757	415,933	22,499
Operating income (loss)	74,071	9,101	22,080	(3,244)	102,008	1,882
Non-operating revenues (expenses):						
Operating grants	-	-	-	3,751	3,751	-
Interest income	1,809	17	798	26	2,650	76
Other	7,174	1,838	831	1,370	11,213	5
Gain (loss) on retirement of capital assets	420	61	(28)	(309)	144	29
Capital improvement fees	-	-	3,305	-	3,305	-
Interest expense and fiscal charges	(25,340)	(8,663)	(650)	(863)	(35,516)	(69)
Total non-operating revenues (expenses)	(15,937)	(6,747)	4,256	3,975	(14,453)	41
Income (loss) before capital contributions and transfers	58,134	2,354	26,336	731	87,555	1,923
Cash capital contributions	2,367	3,313	-	887	6,567	-
Noncash capital contributions	17,317	212	-	55	17,584	-
Transfers in	-	-	-	825	825	-
Transfers out	(39,230)	(5,673)	(900)	(738)	(46,541)	-
Change in net position	38,588	206	25,436	1,760	65,990	1,923
Net position (deficit) - beginning	445,613	305,212	180,095	44,620	975,540	(20,837)
Net position (deficit) - ending	\$ 484,201	\$ 305,418	\$ 205,531	\$ 46,380	\$ 1,041,530	\$ (18,914)

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

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Cash flows from operating activities:						
Cash received from customers and users	\$ 366,039	\$ 62,443	\$ 58,934	\$ 28,753	\$ 516,169	\$ 23,818
Cash paid to employees for services	(55,359)	(19,945)	(9,609)	(8,754)	(93,667)	(2,805)
Cash paid to other suppliers of goods or services	(212,409)	(18,232)	(21,541)	(19,932)	(272,114)	(17,377)
Other receipts	7,174	794	916	1,776	10,660	5
Net cash provided by operating activities	<u>105,445</u>	<u>25,060</u>	<u>28,700</u>	<u>1,843</u>	<u>161,048</u>	<u>3,641</u>
Cash flows from noncapital financing activities:						
Transfers in	-	-	-	825	825	-
Transfers out	(39,230)	(5,673)	(900)	(738)	(46,541)	-
Operating grants	-	-	-	3,751	3,751	-
Receipts on interfund advances	683	101	1,044	100	1,928	5,394
Payments on interfund advances	(712)	(306)	-	(276)	(1,294)	(1,021)
Net cash (used) provided by noncapital financing activities	<u>(39,259)</u>	<u>(5,878)</u>	<u>144</u>	<u>3,662</u>	<u>(41,331)</u>	<u>4,373</u>
Cash flows from capital and related financing activities:						
Purchase of capital assets	(27,999)	(18,634)	(28,604)	(2,213)	(77,450)	(1,493)
Proceeds from the sale of capital assets	426	92	-	19	537	29
Principal paid on long-term obligations	(14,109)	(5,180)	(9,577)	(976)	(29,842)	-
Interest paid on long-term obligations	(26,274)	(8,522)	(18,978)	(863)	(54,637)	(69)
Capital improvement fees	-	-	3,305	-	3,305	-
Capital lease proceeds	-	2,305	-	-	2,305	-
Capital contributions	2,285	2,913	-	887	6,085	-
Net cash (used) for capital and related financing activities	<u>(65,671)</u>	<u>(27,026)</u>	<u>(53,854)</u>	<u>(3,146)</u>	<u>(149,697)</u>	<u>(1,533)</u>
Cash flows from investing activities:						
Sale and (purchase) of investments	9,452	-	(95)	(13)	9,344	(10)
Interest from investments	1,568	(32)	798	26	2,360	76
Net cash (used) provided by investing activities	<u>11,020</u>	<u>(32)</u>	<u>703</u>	<u>13</u>	<u>11,704</u>	<u>66</u>
Net change in cash and cash equivalents	<u>11,535</u>	<u>(7,876)</u>	<u>(24,307)</u>	<u>2,372</u>	<u>(18,276)</u>	<u>6,547</u>
Cash and cash equivalents, beginning (including \$41,847 for Electric, \$8,491 for Water, \$128,379 for Sewer and \$413 for Other Enterprise Funds in restricted accounts.)						
	<u>291,094</u>	<u>82,032</u>	<u>174,143</u>	<u>5,794</u>	<u>553,063</u>	<u>11,974</u>
Cash and cash equivalents, ending (including \$47,133 for Electric, \$10,653 for Water, \$87,895 for Sewer and \$1,738 for Other Enterprise Funds in restricted accounts.)						
	<u>\$ 302,629</u>	<u>\$ 74,156</u>	<u>\$ 149,836</u>	<u>\$ 8,166</u>	<u>\$ 534,787</u>	<u>\$ 18,521</u>

Continued

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

						Continued
				Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
	Electric	Water	Sewer			
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating Income (loss)	\$ 74,071	\$ 9,101	\$ 22,080	\$ (3,244)	\$ 102,008	\$ 1,882
Other receipts	7,174	794	831	1,370	10,169	5
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	32,642	14,320	7,734	3,959	58,655	915
Changes in assets, liabilities and deferred inflows/outflows of resources:						
Utility billed receivable	(225)	(385)	(143)	(11)	(764)	-
Utility unbilled receivable	(502)	(281)	(233)	(27)	(1,043)	-
Accounts receivable	(225)	816	(322)	(360)	(91)	(2)
Intergovernmental receivable	-	(772)	(103)	(494)	(1,369)	(561)
Inventory	-	-	4	-	4	(86)
Prepaid and deposit items	(2,775)	4	(29)	-	(2,800)	-
Benefit programs receivable	(30)	39	-	-	9	-
Regulatory assets	-	-	150	406	556	-
Accounts payable	(1,687)	638	(1,160)	475	(1,734)	(224)
Retainage payable	47	160	(108)	-	99	-
Other payables	465	499	117	99	1,180	55
Deposits payable	956	213	-	-	1,169	-
Landfill capping	-	-	-	(296)	(296)	-
Claims and judgments	-	-	-	-	-	1,676
Net pension liability and related changes in deferred outflows and inflows of resources	(247)	(86)	(53)	(34)	(420)	(19)
Deferred regulatory charges	-	-	(65)	-	(65)	-
Decommissioning liability	(4,219)	-	-	-	(4,219)	-
Net cash provided by operating activities	<u>\$ 105,445</u>	<u>\$ 25,060</u>	<u>\$ 28,700</u>	<u>\$ 1,843</u>	<u>\$ 161,048</u>	<u>\$ 3,641</u>
Schedule of noncash financing and investing activities:						
Capital Contributions - capital assets	\$ 17,317	\$ 212	\$ -	\$ 55	\$ 17,584	\$ -
Payment on note payable including interest offset by rent credit	-	1,044	-	-	1,044	-
Loss on retirement of capital assets	-	-	(28)	(328)	(356)	-
Borrowing under capital lease	902	-	-	-	902	-
Proceeds of refunding debt	-	-	-	-	-	-

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

City of Riverside
Statement of Net Position/(Deficit)
Fiduciary Funds
June 30, 2017
 (amounts expressed in thousands)

	Successor Agency Private-Purpose Trust Fund	Agency Fund
Assets		
Cash and investments	\$ 34,428	\$ 3,181
Cash and investments at fiscal agent	13,236	5,068
Receivables:		
Interest	113	8
Accounts	109	-
Notes	3,164	-
Direct financing lease receivable	16,675	-
Deposits	2	-
Property tax receivables	-	34
Land and improvements held for resale	9,899	-
Capital assets:		
Land	185	-
Equipment	6	-
Accumulated depreciation - equipment	(6)	-
Total assets	<u>77,811</u>	<u>8,291</u>
Liabilities		
Accounts payable	10	-
Accrued interest	3,995	-
Advances from other funds	12,196	-
Bonds payable	217,147	-
Notes payable	4,728	-
Held for bond holders	-	8,291
Total liabilities	<u>238,076</u>	<u>8,291</u>
Deferred Inflows of Resources		
Deferred charge on refunding	1,261	-
Total deferred inflows of resources	<u>1,261</u>	<u>-</u>
Net Position/(Deficit)		
Held by Successor Agency	(161,526)	-
Total net position/(deficit)	<u><u>\$ (161,526)</u></u>	<u><u>\$ -</u></u>

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

City of Riverside
Statement of Changes in Net Position/(Deficit)
Fiduciary Fund - Private-Purpose Trust Fund
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Successor Agency Private-Purpose Trust Fund
	<u> </u>
Additions	
Property tax revenue	\$ 30,019
Miscellaneous	222
Total additions	<u>30,241</u>
Deductions	
Professional services and other deductions	1,861
Redevelopment projects	464
Interest expense	11,433
Total deductions	<u>13,758</u>
Change in Net Position/(Deficit)	16,483
Net position/(deficit) - beginning	(178,009)
Net position/(deficit) - ending	<u>\$ (161,526)</u>

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

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Blended Component Units

Riverside Housing Authority (Housing Authority) was established in 2006 by the City. The Housing Authority's primary purpose is to provide safe and sanitary housing accommodations for persons with low or moderate income. The Housing Authority's activity has been combined with that of the primary government because City Council members serve as the Housing Authority's commissioners and because the City is financially accountable and operationally responsible for all matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. Pursuant to Assembly Bill 1X 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies were dissolved effective February 1, 2012. Subsequently, the City became the Successor Agency to the Redevelopment Agency. The Parking Authority of the City of Riverside was added as an additional member of the Public Financing Authority on August 14, 2012. The Public Financing Authority's activity has been combined with that of the primary government because City Council members serve as the Public Financing Authority's board members and because the Public Financing Authority exclusively provides financing assistance to the primary government. The City is also financially accountable and operationally responsible for all matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The

Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. The activity of the Municipal Improvements Corporation has been combined with that of the primary government because three members of the City Council serve as the Municipal Improvements Corporation's directors and because the Municipal Improvements Corporation exists to serve exclusively the primary government. The City is financially accountable and operationally responsible for all matters.

Fiduciary Component Unit

Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is a separate legal entity, which was formed to hold the assets and liabilities of the former Redevelopment Agency pursuant to City Council actions taken on March 15, 2011 and January 10, 2012. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency. The nature and significance of the relationship between the City and the Successor Agency is such that it would be misleading to exclude the Successor Agency from the City's financial statements. The Successor Agency is presented herein in the City's fiduciary funds as a private-purpose trust fund.

Complete financial statements are prepared for the Riverside Public Financing Authority and the Successor Agency to the Redevelopment Agency of the City of Riverside, which can be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522 or online at www.riversideca.gov.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

The government-wide, proprietary and private-purpose trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds report only assets and liabilities and therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered to be available if they are generally collected within 60 days after year end, except for revenue associated with neglected property abatement which is eleven (11) months and except for grant revenue, including reimbursement received from

Transportation Uniform Mitigation Fees, which is six (6) months. Grant revenue is recognized if received within six (6) months of year end to enable the matching of revenue with applicable expenditures. Expenditures generally are recorded when a liability is incurred under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds:

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

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

Internal service funds account for self-insurance, central stores and central garage on a cost reimbursement basis.

Fiduciary funds include private-purpose trust and agency funds. The private-purpose trust fund accounts for assets and activities of the dissolved Redevelopment Agency, which is accounted for in the Successor

Agency Trust. The agency fund is used to account for special assessments that service no-commitment debt.

The permanent fund is a governmental fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs. Non-expendable net position on the Statement of Net Position includes \$1.6 million of permanent fund principal which are considered nonexpendable.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Governmental Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach.

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 except for investments in investment contracts which are recorded at contract value. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer

are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

E. Restricted Cash and Investments

Certain proceeds of long-term indebtedness, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Restricted cash and investments also include cash set aside for nuclear decommissioning, public benefit programs, regulatory requirements and rate stabilization because their use is legally restricted to a specific purpose. Unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Allowance for Doubtful Accounts

Management determines the allowance for doubtful accounts by analyzing customer accounts for all balances over 60 days old. The allowance for doubtful accounts is then adjusted at fiscal year-end based on the amount equal to the annual uncollectible accounts. Utility customer closed accounts are written off when deemed uncollectible. Recoveries to utility customer receivables previously written off are recorded when received. For non-utility accounts receivables, delinquent notices after 60 days are sent to customers with outstanding balances. After 120 days, accounts still outstanding are referred to the City's collection agency. As of June 30, 2017, the City had an allowance for doubtful account balance of \$5,922.

G. Land and Improvements Held for Resale

Land and improvements held for resale were generally acquired for future development projects. The properties are carried at the lower of cost or net realizable value.

H. Inventory

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

I. Prepaid Items

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

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental activities and business-type activities of the government-wide financial statements and in the proprietary funds and the fiduciary private-purpose trust fund statements of net position. The government defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed for proprietary funds. For the year ended June 30, 2017, business-type activities capitalized net interest costs of \$20,572 in the government-wide financial statements. Total interest expense incurred by the business-type activities before capitalization was \$56,088.

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

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

K. Compensated Absences

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

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain

employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity. The General, Electric and Water funds have been primarily used to liquidate such balances.

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

L. Derivative Instruments

The City's derivative instruments are accounted for in accordance with Government Accounting Standards Board Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, which requires the City to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are reported as deferrals in the statements of net position.

The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The City had debt that was layered with "synthetic fixed rate" swaps, which was refunded in 2008 and 2011. The balance of the deferral account for each swap is included as part of the deferred charge on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. The negative fair value of the interest rate swaps related to the new hedging relationship has been recorded and deferred on the statement of net position. See Note 9 for further discussion related to the City's interest rate swaps.

Various transactions permitted in the Utility's Power Resources Risk Management Policies may be considered derivatives, including energy and/or gas transactions for swaps, options, forward arrangements and congestion revenue rights. The City has determined that all of its contracts including congestion revenue rights fall under the scope of "normal purchases and normal sales" and are exempt from GASB 53.

M. Long-Term Obligations

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities columns in the government-wide financial statements and in the proprietary funds and

fiduciary private-purpose trust fund statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established trust accounts to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of September 2014, submitted by Southern California Edison (SCE) and accepted by the Nuclear Regulatory Commission (NRC), the Electric Utility has fully funded the San Onofre Nuclear Generating Station ("SONGS") decommissioning liability.

The Electric Utility has set aside \$70,324 in cash investments with the trustee and \$6,590 in an internally designated decommissioning reserve as the Electric Utility's estimated share of the decommissioning cost of SONGS as of June 30, 2017. With the recent retirement of SONGS units 2 and 3, there is much uncertainty as to future unknown costs to decommission SONGS. Although management believes the current cost estimate is the upper bound of decommissioning obligations, the Electric Utility has conservatively decided to continue to set aside \$1,581 per year in an unrestricted designated cash reserve for unexpected costs not contemplated in the current estimates.

On February 23, 2016, the City Council adopted a resolution authorizing the commencement of SONGS decommissioning effective June 7, 2013. This resolution allows the Electric Utility to access the decommissioning trust funds to pay for its share of decommissioning costs. As of June 30, 2017, the Electric Utility has paid to date \$18,887 in decommissioning obligations, of which \$9,899 has been reimbursed by the trust funds with the balance to be reimbursed in the next fiscal year.

The plant site easement at San Onofre terminates May 2024. The plant must be decommissioned and the site restored by the time the easement terminates.

N. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the self-insurance internal service fund. As of June 30, 2017, the City had an obligation related to claims and judgments which is reflected as a liability on the government-wide statements and is more fully described in Note 7.

O. Fund Equity

In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance is the portion of fund balance that cannot be spent due to form. Examples include inventories, prepaid amounts, long-term loans, and notes receivable, unless the proceeds are restricted, committed or assigned. Also, amounts that must be maintained intact legally or contractually, such as the principal of a permanent fund are reported within the nonspendable category.
- Restricted fund balance is the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors.
- Committed fund balance is the portion of fund balance that can only be used for specific purposes due to formal action of the City Council through adoption of a resolution prior to the end of the fiscal year. Once adopted, the limitation imposed by resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. No amounts have been reported within this category of fund balance.
- Assigned fund balance reflects the City's intended use of resources. Intent can be expressed by the City Council or by an official to which the City Council delegates the authority. On February 22, 2011, the City Council approved a policy whereby the authority to assign fund balance was delegated to the City's chief financial officer, which authorized the assignment of fund balance for specific programs or purposes in accordance with City Council directives. The City also uses budget and finance policy to authorize the assignment of fund balance, which is

done through the adoption of the budget and subsequent budget amendments throughout the year.

- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the City's policy is to use restricted amounts before unrestricted amounts. Within unrestricted resources, committed resources are used first followed by assigned resources, and finally unassigned resources.

P. Net Position

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

Q. Interfund Transactions

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

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as advances and, for governmental fund types, are equally offset by nonspendable fund balance to indicate that the receivable is not in spendable form.

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

R. Unearned Revenue

Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

S. Unavailable Revenue

Unavailable revenue arises only under a modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available.

T. Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position and the balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore will not be recognized as an expense or expenditure until that time.

Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are *not* recognized as an inflow of resources (revenue) until that time.

U. Regulatory Assets and Deferred Regulatory Charges

In accordance with GASB Statement No. 62, enterprise funds that are used to account for rate-regulated activities are permitted to defer certain expenses and revenues that would otherwise be recognized when incurred, provided that the City is recovering or expects to recover or refund such amounts in rates charged to its customers. Accordingly, regulatory assets and/or deferred regulatory charges have been recorded in the Electric, Water, Sewer and Refuse funds.

V. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the

counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On January 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent after December 10. The second installment is due February 1 and is delinquent after April 10. The City generally accrues only those taxes, which are received within sixty days after the year-end. Under the Teeter plan, the County of Riverside has responsibility for the collection of delinquent taxes and the City receives 100% of the levy.

W. Use of Estimates

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

X. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Riverside California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Y. New Accounting Pronouncements

Effective June 30, 2017, the accompanying financial statements reflect the implementation of Governmental Accounting Standards Board Statement No. 77 (GASB 77), *Tax Abatement Disclosures*. The primary objective of GASB 77 is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand 1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and 2) the impact those abatements have on a government's financial position and economic condition. The City implemented this Statement resulting in additional disclosures (Note 17).

Effective July 1, 2016, the accompanying financial statements reflect the implementation of Governmental Accounting Standards Board Statement No. 82 (GASB 82), *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73*. The primary objective of GASB 82 is to address certain issues that have been raised with respect to Statements No. 67 *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan members) contribution requirements. The City implemented this Statement resulting in revisions to the presentation of payroll-related measures in certain pension schedules presented as required supplementary information.

2. Legal Compliance - Budgets

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

Biannually, during the period December through February, department heads prepare estimates of required appropriations for the following two-year budget

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(amounts expressed in thousands)

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

3. Cash and Investments

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

Investments	\$ 564,521
Investments at fiscal agent	<u>186,633</u>
	<u>751,154</u>
Cash on hand and deposits with financial institutions	64,899
Non-negotiable certificates of deposit	<u>1,014</u>
	<u>\$ 817,067</u>

The amounts are reflected in the statements of net position of the government-wide and fiduciary fund financial statements:

Cash and investments	\$ 517,054
Restricted cash and cash equivalents	71,741
Restricted cash and investments at fiscal agent	<u>172,359</u>
Total per statement of net position	761,154
Fiduciary fund cash and investments	37,609
Fiduciary fund cash and investments with fiscal agent	<u>18,304</u>
	<u>\$ 817,067</u>

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

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income

from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first \$250 or by collateral held in the pledging bank's trust department in the name of the City.

Authorized Investments

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

	<u>Max</u> <u>Maturity</u>	<u>Max % of</u> <u>Portfolio</u>
Local Agency Investment Fund (State Pool)	N/A	100%
Money Market Funds	N/A	20%
Mutual Funds	N/A	20%
Joint Powers Authority Pools	N/A	N/A
Corporate Medium Term Notes	5 Years	30%
Municipal Bonds	5 Years	30%
Negotiable Certificates of Deposit	5 Years	30%
Mortgage Pass-Through and Asset-Backed Securities	5 Years	20%
Certificates of Deposit Placement Services	5 Years	15%
Collateralized Time Deposits	5 Years	15%
Federally Insured Time Deposits	5 Years	15%
Supranational Securities	5 Years	15%
Federal Agency Securities	5 Years	N/A
U.S. Treasury Notes/Bonds	5 Years	N/A
Repurchase Agreements	1 Year	N/A
Commercial Paper of "prime" quality	270 Days	25%
Bankers' Acceptances	180 Days	10%
Reverse Repurchase Agreements	92 Days	20%

Investments in Corporate Medium Term Notes may be invested in securities rated "A" or better by at least two nationally recognized statistical rating agencies. No more than 5% of the market value of the portfolio may be invested in any single issuer.

Investments in Negotiable Certificates of Deposit exceeding federal deposit insurance limits shall be issued by institutions which have long-term debt obligations rated "A" (or the equivalent) or better and short-term debt obligations, if any, rated "A1" (or the equivalent) or better by at least two

nationally recognized statistical rating agencies. No more than 5% of the market value of the portfolio may be invested in any single issuer of negotiable or non-negotiable certificates of deposit.

Investments in Commercial Paper may be invested in securities rated "A1" (or the equivalent) or higher by at least one nationally recognized statistical rating agency. In addition, debt other than Commercial Paper, if any, issued by corporations in this category must be rated at least "A" (or the equivalent) or better by at least one nationally recognized statistical rating agency. No more than 5% of the market value of the portfolio may be invested in any single issuer. For purposes of this issuer limitation, holdings of Commercial Paper shall be combined with holdings of Corporate Medium-Term Notes. No more than 25% of the total market value of the portfolio may be invested in Commercial Paper. No more than 10% of the outstanding Commercial Paper of any single issuer may be purchased.

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

Investments Authorized by Debt Agreements

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

- Securities of the U.S. Government and its sponsored agencies
- Bankers' Acceptances rated in the single highest classification
- Commercial Paper rated AA or higher at the time of purchase
- Investments in money market funds rated in the single highest classification, except for certain debt proceeds which have no minimum rating requirement
- Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody's and S&P
- Investment Agreements

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

Disclosures Relating to Fair Value Measurement and Application

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The City does not value any of its investments using Level 1 and Level 3 inputs.

The City has the following recurring fair value measurements as of June 30, 2017:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 86,372	\$ -	\$ 86,372	\$ -
Federal Agency Securities	10,149	-	10,149	-
U.S. Treasury Notes/Bonds	310,871	-	310,871	-
Corp. Medium Term Notes	17,291	-	17,291	-
Negotiable Certificates of Deposits	11,189	-	11,189	-
Held by Fiscal Agent				
Money Market Funds	84,176	-	84,176	-
Commercial Paper	2,243	-	2,243	-
U.S. Treasury Notes/Bonds	12,901	-	12,901	-
Federal Agency Securities	15,472	-	15,472	-
Corp. Medium Term Notes	11,421	-	11,421	-
Total	562,085	\$ -	\$ 562,085	\$ -
Investments not subject to fair value hierarchy:				
State Investment Pool	178,308			
Investment Contracts	10,761			
Total Investments	\$ 751,154			

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of

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(amounts expressed in thousands)

the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Funds	\$ 86,372	\$ 86,372	\$ -	\$ -	\$ -
Federal Agency Securities	10,149	10,149	-	-	-
U.S. Treasury Notes/Bonds	310,871	45,910	99,286	165,675	-
Corp. Medium Term Notes	17,291	8,749	8,542	-	-
State Investment Pool	128,649	128,649	-	-	-
Negotiable Certificates of Deposit	11,189	3,723	4,479	2,987	-
Held by Fiscal Agent					
Money Market Funds	84,176	84,176	-	-	-
State Investment Pool	49,659	49,659	-	-	-
Investment Contracts	10,761	-	-	-	10,761
Commercial Paper	2,243	2,243	-	-	-
U.S. Treasury Notes/Bonds	12,901	9,627	3,274	-	-
Federal Agency Securities	15,472	13,780	1,326	366	-
Corp. Medium Term Notes	11,421	3,998	7,423	-	-
Total	\$ 751,154	\$ 447,035	\$ 124,330	\$ 169,028	\$ 10,761

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

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

	Total	Ratings as of Year End			
		AAA	AA	A	Unrated
Money Market Funds	\$ 86,372	\$ -	\$ 81,272	\$ 5,100	\$ -
Federal Agency Securities	10,149	10,149	-	-	-
U.S. Treasury Notes/Bonds	310,871	310,871	-	-	-
Corp. Medium Term Notes	17,291	3,533	11,954	1,804	-
State Investment Pool	128,649	-	-	-	128,649
Negotiable Certificates of Deposits	11,189	-	-	-	11,189
Held by Fiscal Agent					
Money Market Funds	84,176	59,255	-	24,921	-
State Investment Pool	49,659	-	-	-	49,659
Investment Contracts	10,761	-	-	-	10,761
Commercial Paper	2,243	-	-	2,243	-
U.S. Treasury Notes/Bonds	12,901	12,901	-	-	-
Federal Agency Securities	15,472	15,472	-	-	-
Corp. Medium Term Notes	11,421	-	-	11,421	-
Total	\$ 751,154	\$ 412,181	\$ 93,226	\$ 45,489	\$ 200,258

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. For fiscal year ended June 30, 2017, the City did not have any investments in any one issuer (other than U.S. Treasury securities, money market funds, and external investment pools) that represent 5% or more of total City investments.

Custodial Credit Risk

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

The pledge to secure deposits is administered by the California Commissioner of Business Oversight. Collateral is required for demand deposits at 110% of all deposits not covered by federal depository insurance (FDIC) if obligations of the United States and its agencies, or obligations of the State or its

City of Riverside
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For the year ended June 30, 2017

(amounts expressed in thousands)

municipalities, school districts, and district corporations are pledged. Collateral of 150% is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the City. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however the trust department of the same institution may hold them.

Written custodial agreements are required to provide, among other things, that the collateral securities are held separate from the assets of the custodial institution.

Investment in State Investment Pool

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

4. Direct Financing Lease Receivable

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

<u>Fiscal Year</u>		
2018	\$	2,598
2019		2,625
2020		2,659
2021		2,692
2022		2,724
Thereafter		<u>8,368</u>
Total Due		21,666
Less: Amount applicable to interest		<u>(4,991)</u>
Total direct financing lease receivable	\$	<u><u>16,675</u></u>

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2017.

	<u>Beginning Balance</u>	<u>Additions/ Transfers In</u>	<u>Deletions/ Transfers Out</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 342,792	\$ 1,906	\$ (780)	\$ 343,918
Construction in progress	41,535	14,298	(11,523)	44,310
Total capital assets not depreciated	<u>384,327</u>	<u>16,204</u>	<u>(12,303)</u>	<u>388,228</u>
Capital assets being depreciated:				
Buildings	183,596	4,245	(4,200)	183,641
Improvements other than buildings	309,836	4,568	-	314,404
Machinery and equipment	92,067	3,985	(6,551)	89,501
Intangibles, depreciable	219	-	-	219
Infrastructure	998,997	14,779	-	1,013,776
Total capital assets being depreciated	<u>1,584,715</u>	<u>27,577</u>	<u>(10,751)</u>	<u>1,601,541</u>
Less accumulated depreciation for:				
Buildings	(63,810)	(4,744)	-	(68,554)
Improvements other than buildings	(104,086)	(12,836)	-	(116,922)
Machinery and equipment	(66,992)	(6,044)	6,506	(66,530)
Intangibles, depreciable	(44)	(44)	-	(88)
Infrastructure	(356,501)	(24,896)	-	(381,397)
Total accumulated depreciation	<u>(591,433)</u>	<u>(48,564)</u>	<u>6,506</u>	<u>(633,491)</u>
Total capital assets being depreciated, net	<u>993,282</u>	<u>(20,987)</u>	<u>(4,245)</u>	<u>968,050</u>
Governmental activities capital assets, net	<u>\$ 1,377,609</u>	<u>\$ (4,783)</u>	<u>\$ (16,548)</u>	<u>\$ 1,356,278</u>

**City of Riverside
Notes to Basic Financial Statements
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	Beginning Balance	Additions/ Transfers In	Deletions/ Transfers Out	Ending Balance
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 63,839	\$ 16,407	\$ -	\$ 80,246
Intangibles, non-depreciable	21,492	-	-	21,492
Construction in progress	349,977	93,641	(362,684)	80,934
Total capital assets not depreciated	435,308	110,048	(362,684)	182,672
Capital assets being depreciated:				
Buildings	315,379	291,605	-	606,984
Improvements other than buildings	1,633,910	63,199	(1,130)	1,695,979
Machinery and equipment	89,273	9,293	(1,949)	96,617
Intangibles, depreciable	21,433	3,164	-	24,597
Total capital assets being depreciated	2,059,995	367,261	(3,079)	2,424,177
Less accumulated depreciation for:				
Buildings	(128,094)	(7,753)	-	(135,847)
Improvements other than buildings	(531,922)	(41,963)	1,097	(572,788)
Machinery and equipment	(55,045)	(6,078)	1,586	(59,537)
Intangibles, depreciable	(2,215)	(2,455)	-	(4,670)
Total accumulated depreciation	(717,276)	(58,249)	2,683	(772,842)
Total capital assets being depreciated, net	1,342,719	309,012	(396)	1,651,335
Business-type activities capital assets, net	<u>\$ 1,778,027</u>	<u>\$ 419,060</u>	<u>\$ (363,080)</u>	<u>\$ 1,834,007</u>

Depreciation expense was charged to various functions as follows:

Governmental activities:	
General government	\$ 5,178
Public safety	5,683
Highway and streets, including general infrastructure	25,833
Culture and recreation	11,870
Total depreciation expense - governmental activities	<u>\$ 48,564</u>

Business-type activities:	
Electric	\$ 32,642
Water	14,320
Sewer	7,734
Airport	707
Refuse	1,324
Transportation	530
Public Parking	992
Total depreciation expense - business-type activities	<u>\$ 58,249</u>

6. Long-Term Obligations

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligations bond	\$ 12,567	\$ -	\$ (1,054)	\$ 11,513	\$ 1,110
Pension obligation bonds	101,000	31,578	(39,986)	92,592	12,830
Certificates of participation	181,429	-	(24,913)	156,516	5,645
Lease revenue bonds	39,398	-	(1,544)	37,854	1,485
Loan payable	43,482	-	(2,157)	41,325	2,222
Capital leases	12,006	7,955	(2,768)	17,193	3,741
Compensated absences	22,444	14,128	(13,782)	22,790	13,993
Claims liability	43,269	10,284	(8,608)	44,945	10,765
	<u>\$ 455,595</u>	<u>\$ 63,945</u>	<u>\$ (94,812)</u>	<u>\$ 424,728</u>	<u>\$ 51,791</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds	\$ 1,208,851	\$ -	\$ (28,506)	\$ 1,180,345	\$ 27,620
Notes payable	37,793	-	(2,538)	35,255	2,625
Capital leases	4,694	2,305	(790)	6,209	1,016
Landfill capping	5,686	-	(296)	5,390	250
Water stock acquisition rights	938	-	-	938	150
Compensated absences	8,120	7,091	(6,932)	8,279	7,064
	<u>\$ 1,266,082</u>	<u>\$ 9,396</u>	<u>\$ (39,062)</u>	<u>\$ 1,236,416</u>	<u>\$ 38,725</u>

Business-type activities:

The following debt has been issued for the purpose of generating capital resources for use in acquiring or constructing municipal facilities or infrastructure projects.

Long-Term Obligations at June 30, 2017:

Revenue Bonds:

Principal Outstanding

Electric

\$141,840 2008 Electric Refunding/Revenue Bonds; Series A & C. The bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed

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rate of 3.1% and 3.2% for the Series A & C bonds, respectively. See Note 9 for information on the swap agreements. Bonds are due in annual installments from \$700 to \$7,835 through October 1, 2035. \$112,515

\$209,740 2008 Electric Revenue Bonds; Series D fixed rate bonds, 3.6% to 5.0%, due in annual installments from \$3,460 to \$25,345 through October 1, 2038. 209,740

\$34,920 2009 Electric Refunding/Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.0%, due in annual installments from \$1,150 to \$7,035 through October 1, 2018. The bonds refunded the 1998 series and partially refunded the 2001 series. 2,490

\$140,380 2010 Electric Revenue Bonds; Series A and B fixed rate bonds, 3% to 7.65%, due in annual installments from \$95 to \$33,725 through October 1, 2040. 140,285

\$56,450 2011 Electric Revenue Refunding Bonds; Series A. The bonds were issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see Note 9. Bonds are due in annual installments from \$725 to \$5,175 through October 1, 2035. 41,925

\$79,080 2013 Electric Revenue Refunding Bonds; Series A fixed rate bonds, 3% to 5.25%, due in annual installments from \$795 to \$12,685 through October 1, 2043. 46,560

Subtotal 553,515
 Add: Unamortized bond premium 7,402
 Subtotal \$560,917

Water

\$58,235 2008 Water Revenue Bonds; Series B fixed rate bonds, 4.0% to 5.0%, due in annual installments from \$1,210 to \$7,505 through October 1, 2038. \$56,625

\$31,895 2009 Water Refunding/Revenue Bonds; Series A fixed rate bonds, 3.0% to 5.0%, due in annual

installments from \$2,360 to \$4,335 through October 1, 2020. The bonds refunded the 1998 series and partially refunded the 2001 series. 9,760

\$67,790 2009 Water Revenue Bonds; Series B fixed rate bonds, 5.1% to 6.3%, due in annual installments from \$2,475 to \$4,985 through October 1, 2039. 67,790

\$59,000 2011 Water Refunding/Revenue Bonds; Series A. The bonds were issued at a variable rate; however the City entered into an agreement to convert to a fixed rate of 3.2%. For information on the swap agreements see Note 9. Bonds are due in annual installments from \$600 to \$3,950 through October 1, 2035. 54,125

Subtotal 188,300
 Add: Unamortized bond premium 2,064
 Subtotal \$190,364

Sewer

\$240,910 2009 Sewer Revenue Bonds; Series A & B fixed rate bonds, 4% to 7.2%, due in annual installments from \$5,555 to \$13,350 through August 1, 2039. \$204,075

\$200,030 2015 Sewer Revenue Bonds; Series A fixed rate bonds, 4% to 5%, due in annual installments from \$4,790 to \$14,175 through August 1, 2040. 200,030

Subtotal 404,105
 Add: Unamortized bond premium 24,959
 Subtotal \$429,064

Total Revenue Bonds \$1,180,345

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

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(amounts expressed in thousands)

Fiscal Year	Electric Utility Fund			Water Utility Fund		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 13,795	\$ 24,279	\$ 38,074	\$ 5,415	\$ 7,577	\$ 12,992
2019	14,445	23,636	38,081	5,635	7,352	12,987
2020	14,995	23,066	38,061	5,865	7,120	12,985
2021	15,535	22,506	38,041	6,080	6,889	12,969
2022	16,085	21,922	38,007	6,320	6,658	12,978
2023-2027	90,180	99,426	189,606	35,270	29,439	64,709
2028-2032	110,540	78,362	188,902	42,730	21,747	64,477
2033-2037	136,375	51,229	187,604	51,960	12,229	64,189
2038-2042	136,440	15,509	151,949	29,025	1,648	30,673
2043-2047	5,125	259	5,384	-	-	-
Premium	7,402	-	7,402	2,064	-	2,064
Total	<u>\$ 560,917</u>	<u>\$ 360,194</u>	<u>\$ 921,111</u>	<u>\$ 190,364</u>	<u>\$ 100,659</u>	<u>\$ 291,023</u>

Fiscal Year	Sewer Utility Fund		
	Principal	Interest	Total
2018	\$ 8,410	\$ 18,900	\$ 27,310
2019	13,515	18,488	32,003
2020	14,075	17,929	32,004
2021	10,820	17,372	28,192
2022	11,345	16,844	28,189
2023-2027	65,630	75,336	140,966
2028-2032	83,340	57,623	140,963
2033-2037	106,035	34,919	140,954
2038-2042	90,935	8,174	99,109
Premium	24,959	-	24,959
Total	<u>\$ 429,064</u>	<u>\$ 265,585</u>	<u>\$ 694,649</u>

General Obligation Bonds – Governmental Activities:	<u>Principal Outstanding</u>
\$20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from \$410 to \$1,740 through August 1, 2024.	\$ 11,390
Add: Unamortized bond premium	<u>123</u>
Total General Obligation Bonds	<u>\$11,513</u>

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

Fiscal Year	Principal	Interest	Total
2018	\$ 1,110	\$ 544	\$ 1,654
2019	1,195	492	1,687
2020	1,290	436	1,726
2021	1,380	373	1,753
2022	1,475	306	1,781
2023-2027	4,940	418	5,358
Premium	123	-	123
Total	<u>\$ 11,513</u>	<u>\$ 2,569</u>	<u>\$ 14,082</u>

Pension Obligation Bonds – Governmental Activities:	<u>Principal Outstanding</u>
\$89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from \$1,125 to \$10,715 through June 1, 2023.	\$ 50,840
\$30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments \$630 to \$3,860 through June 1, 2020.	10,135
\$31,960 2017 Taxable Pension Obligation Bonds Series A; 1.25% to 3.125%, due in annual installments from \$2,910 to \$3,580 through June 1, 2027. The refunding transaction resulted in an economic gain of approximately \$1,000.	<u>31,960</u>
Less: Bond Discount	<u>343</u>
Total Pension Obligation Bonds	<u>\$92,592</u>

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

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Notes to Basic Financial Statements
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(amounts expressed in thousands)

Fiscal Year	Principal	Interest	Total
2018	\$ 12,830	\$ 4,263	\$ 17,093
2019	13,985	3,679	17,664
2020	13,760	3,023	16,783
2021	11,875	2,360	14,235
2022	12,855	1,775	14,630
2023-2027	27,630	2,177	29,807
Discount	(343)	-	(343)
Total	\$ 92,592	\$ 17,277	\$ 109,869

Fiscal Year	Principal	Interest	Total
2018	\$ 5,645	\$ 5,897	\$ 11,542
2019	5,825	5,694	11,519
2020	6,120	5,468	11,588
2021	6,420	5,232	11,652
2022	6,625	4,984	11,609
2023-2027	37,130	20,827	57,957
2028-2032	45,250	12,961	58,211
2033-2037	42,335	4,086	46,421
Premium	1,166	-	1,166
Total	\$ 156,516	\$ 65,149	\$ 221,665

Certificates of Participation – Governmental Activities: Principal Outstanding

\$19,945 2006 Galleria at Tyler Public Improvements Certificates of Participation; 4.0% to 5.0%, due in annual installments from \$435 to \$1,270 through September 1, 2036. \$17,040

\$128,300 2008 Riverside Renaissance Certificates of Participation; issued at a variable rate; however, the City entered into an agreement to convert to a fixed rate of 3.4%. For information on the swap agreement see Note 9. Due in annual installments from \$2,900 to \$7,200 through March 1, 2037. 105,700

\$35,235 2013 Pavement Rehab Certificates of Participation; 4.0% to 5.0%, due in annual installments from \$1,285 to \$2,855 through June 1, 2034. 32,610

Subtotal 155,350
 Plus: Unamortized bond premium 1,166
 Total Certificates of Participation \$156,516

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

Lease Revenue Bonds – Governmental Activities: Principal Outstanding

On August 15, 2012, the City issued the Series 2012A Lease Revenue Refunding Bonds in the amount of \$41,240. The bonds were issued to refinance the 2003 Certificates of Participation. Interest on the bonds is payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2013. The rate of interest varies from 2% to 5% per annum depending on maturity date. Principal is payable in annual installments ranging from \$1,295 to \$2,840 commencing November 1, 2013 and ending November 1, 2033. \$35,825

Add: Unamortized bond premium 2,029
 Total Lease Revenue Bonds – Governmental Activities \$37,854

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

City of Riverside
Notes to Basic Financial Statements
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Fiscal Year	Principal	Interest	Total
2018	\$ 1,485	\$ 1,588	\$ 3,073
2019	1,560	1,511	3,071
2020	1,640	1,431	3,071
2021	1,725	1,347	3,072
2022	1,810	1,259	3,069
2023-2027	9,940	4,963	14,903
2028-2032	12,090	2,474	14,564
2033-2037	5,575	225	5,800
Premium	2,029	-	2,029
Total	\$ 37,854	\$ 14,798	\$ 52,652

Fiscal Year	Principal	Interest	Total
2018	\$ 2,222	\$ 1,282	\$ 3,504
2019	2,283	1,220	3,503
2020	2,365	1,139	3,504
2021	2,430	1,073	3,503
2022	2,505	999	3,504
2023-2027	11,217	3,965	15,182
2028-2032	13,054	2,127	15,181
2033-2037	5,249	253	5,502
Total	\$ 41,325	\$ 12,058	\$ 53,383

Loans Payable – Governmental Activities:

2012 financing arrangement in the amount of \$4,000 for the construction of Ryan Bonaminio Park at the Tequesquite Arroyo. The debt will be paid with resources from the General Fund in semi-annual debt service payments of approximately \$468 per year over a 10 year period, which includes interest at an annualized rate of 3.05%.

Principal
Outstanding

\$ 2,151

On July 19, 2012, the City secured financing in the amount of \$41,650 with BBVA Compass Bank for the renovation and expansion of the Riverside Convention Center. In March 2014, the financing arrangement with BBVA was increased to \$44,650. The financing consists of an initial 21-month variable rate interest only period during construction that has a swap transaction layered over the remaining 20-year amortization resulting in a “synthetic fixed” rate of 3.24% for 20 of the 22 years. For information on the swap agreement see Note 9. At the end of the construction period, principal and interest are due on the first of each month, with equal payments each year of approximately \$2,850.

39,174

Total Loans Payable – Governmental Activities

\$41,325

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

Notes Payable – Enterprise Funds:

Principal
Outstanding

Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of \$339, beginning January 29, 2003 through January 29, 2021

\$ 1,290

Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of \$477, beginning November 6, 1999 through November 6, 2018

930

Public parking fund loan for Fox Entertainment Plaza project, 3.85%, payable in net annual installments of \$1,747, beginning June 16, 2011 through December 16, 2031

19,271

In 2014, the Water fund purchased property from Hillwood Enterprises, L.P. (Hillwood). The property was subsequently leased back to Hillwood, which is to be developed into a logistics center. In consideration of the costs to purchase the property the Water fund will make payments to Hillwood in the form of a credit equal to Hillwood’s rental payments to the Water fund for the first 15 years of the lease. Rent will commence the earlier of when Hillwood starts construction of the logistic center or May 20, 2016.

13,764

Total notes payable – Enterprise Funds

\$35,255

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(amounts expressed in thousands)

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

Fiscal Year	Sewer Fund		Total
	Principal	Interest	
2018	\$ 774	\$ 43	\$ 817
2019	788	28	816
2020	326	14	340
2021	332	7	339
Total	<u>\$ 2,220</u>	<u>\$ 92</u>	<u>\$ 2,312</u>

Fiscal Year	Public Parking Fund		Total
	Principal	Interest	
2018	\$ 1,014	\$ 732	\$ 1,746
2019	1,054	693	1,747
2020	1,095	652	1,747
2021	1,138	609	1,747
2022	1,182	565	1,747
2023-2027	6,634	2,100	8,734
2028-2032	7,154	706	7,860
Total	<u>\$ 19,271</u>	<u>\$ 6,057</u>	<u>\$ 25,328</u>

Fiscal Year	Water Fund		Total
	Principal	Interest	
2018	\$ 837	\$ 228	\$ 1,065
2019	873	214	1,087
2020	910	198	1,108
2021	947	183	1,130
2022	986	166	1,152
2023-2027	5,559	560	6,119
2028-2030	3,652	92	3,744
Total	<u>\$ 13,764</u>	<u>\$ 1,641</u>	<u>\$ 15,405</u>

Contracts – Enterprise Funds:

Water stock acquisition rights payable on demand to various water companies

Principal
Outstanding

\$938

Letters of Credit:

The City's 2008 Certificates of Participation and 2008 Electric Revenue Bonds (Series A and C) require an additional layer of security between the City and the purchaser of the bonds. The City has entered into the following letters of credit ("LOC") in order to provide liquidity should all or a portion of the debt be optionally tendered to the remarketer without being successfully remarketed:

Debt Issue	LOC Provider	LOC Expiration Date	Annual Commitment Fee
2008 Certificates of Participation	Bank of America, N.A.	2018	0.400%
2008A Electric Revenue Bonds	Barclays Bank, PLC	2021	0.325%
2008C Electric Revenue Bonds	Barclays Bank, PLC	2021	0.325%

To the extent that remarketing proceeds are insufficient or not available, tendered amounts will be paid from drawings made under an irrevocable direct-pay letter of credit.

Liquidity advances drawn against the LOC that are not repaid will be converted to an installment loan with principal to be paid quarterly not to exceed a 5-year period. The City would be required to pay annual interest equal to the highest of 8.0%, the Prime Rate plus 2.50%, the Federal Funds Rate plus 2.50% and 150% of the yield on the 30-year U.S. Treasury Bond. No amounts have ever been drawn against the three letters of credit due to a failed remarketing.

The various indentures allow the City to convert the mode of the debt in the case of a failed remarketing.

Capital Leases:

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

The assets acquired through capital leases are as follows:

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(amounts expressed in thousands)

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Buildings and improvements	\$ 1,103	\$ -
Machinery and equipment	20,610	5,715
Subtotal	21,713	5,715
Less: Accumulated depreciation	(8,756)	(1,821)
Total	<u>\$ 12,957</u>	<u>\$ 3,894</u>

The future minimum lease obligations as of June 30, 2017 were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2018	\$ 4,067	\$ 1,141
2019	3,761	1,141
2020	2,581	1,128
2021	2,581	819
2022	2,021	819
Thereafter	3,380	1,664
Total minimum lease payments	18,391	6,712
Less: Amount representing interest (rates ranging from 1.2% to 9%)	(1,198)	(503)
Total capital lease payable	<u>\$ 17,193</u>	<u>\$ 6,209</u>

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2017:

<u>Governmental long-term obligations:</u>	
Certificates of participation	\$ 8,767
Total	<u>\$ 8,767</u>
<u>Enterprise funds:</u>	
Electric	\$ 10,801
Sewer	16,459
Total	<u>\$ 27,260</u>

The City has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios also approximate the relationship of

debt service to pledged revenue for the remainder of the term of the commitment.

<u>Description of Pledged Revenue</u>	<u>Pledged Revenue (net of expenses, where required)</u>	<u>Payments (all of debt secured by this revenue)</u>	<u>Ratio for FY 06/30/16</u>
Electric revenues	\$ 117,206	\$ 39,585	\$ 2.96
Water revenues	27,818	13,610	2.04
Sewer revenues	48,416*	28,631	1.69

* Includes cash set-aside in a rate stabilization account in accordance with applicable bond covenants.

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

Landfill Capping:

State and Federal laws and regulations require the City to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. To comply with these laws and regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City. The capacity used at June 30, 2017 was 100%. The remaining post closure period is currently 13 years.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. All potential costs have been recognized in the financial statements. However, there is the potential for these estimates to change due to inflation, deflation, technology, or change in laws or regulations. The City is recovering such costs in rates charged to its customers. The portion of costs to be recovered through future rates is classified as a regulatory asset and will be amortized over future periods.

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and

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natural disasters. Property insurance coverage has a limit of \$1,000,000, with a deductible of \$100. Earthquake and flood insurance coverage has a limit of \$25,000, with a deductible of 5% for earthquake and \$100 for flood. Workers' compensation insurance coverage has a limit of \$25,000, with a self-insured retention of \$3,000 per occurrence. The City carries commercial liability insurance in the amount of \$20,000 for general and auto liability claims greater than \$3,000. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss.

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

Changes in the self-insurance fund's claims liability amounts are:

Unpaid claims, June 30, 2015	\$ 38,795
Incurred claims (including IBNR's)	14,581
Claim payments and adjustments	<u>(10,107)</u>
Unpaid claims, June 30, 2016	43,269
Incurred claims (including IBNR's)	10,284
Claim payments and adjustments	<u>(8,608)</u>
Unpaid claims, June 30, 2017	<u><u>\$ 44,945</u></u>

8. Other Long-Term Obligations

Changes in Long-Term Obligations: Below is a summary of changes in long-term obligations during the fiscal year for the former Redevelopment Agency, which is accounted for in the Successor Agency Trust (a fiduciary fund):
 Successor Agency Trust:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency Bonds	\$ 226,290	\$ -	\$ (9,143)	\$ 217,147	\$ 8,920
Notes Payable	5,093	-	(365)	4,728	418
	<u>\$ 231,383</u>	<u>\$ -</u>	<u>\$ (9,508)</u>	<u>\$ 221,875</u>	<u>\$ 9,338</u>

Redevelopment Agency Bonds:

Principal
Outstanding

<p>\$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; \$1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from \$100 to \$145 through Feb. 1, 2003; and \$4,175 term bonds, 8.0%, due in annual installments from \$155 to \$450 through Feb. 1, 2018 (portion not refunded).</p>	\$ 25
<p>\$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2% to 5% due in annual installments from \$545 to \$2,230 through Oct. 1, 2024.</p>	14,200
<p>\$4,810 State of California Dept. of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; \$310 serial bonds 1.20% to 1.42% through Oct.1, 2004; \$620 term bonds at 3.090% due Oct. 1, 2008; \$1,110 term bonds at 4.340% due Oct. 1, 2014 and \$2,770 term bonds at 5.480% due Oct. 1, 2024.</p>	2,330
<p>\$8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from \$20 to \$590 through Aug. 1, 2025; \$4,980 term bonds at 4.5% due Aug. 1, 2029; \$410 term bonds at 4.375% due Aug. 1, 2037.</p>	8,145
<p>\$14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, \$4,050 term bonds at 5.2% due Aug. 1, 2017; \$10,800 term bonds at 5.8% due Aug. 1, 2028.</p>	11,150
<p>\$89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from \$50 to \$3,210 through Aug. 1, 2025; \$17,955 term bonds at</p>	

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4.5% due Aug. 1, 2030; \$47,775 term bonds at 5.0% due Aug. 1, 2037. 85,355

\$43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, \$15,740 term bonds at 5.24% due Aug. 1, 2017; \$28,135 term bonds at 5.89% due Aug. 1, 2032. 29,625

On October 16 2014, the Successor Agency to the Redevelopment Agency of the City of Riverside issued 2014 Subordinate Tax Allocation Refunding Bonds (Series A and B) in the amount of \$62,980. The bonds were issued to refund certain obligations of the former Redevelopment Agency of the City of Riverside. Interest is due semi-annually on March 1 and September 1, commencing March 1, 2015. Principal is due in annual installments from \$160 to \$4,745 through September 1, 2034. The rate of interest varies from 0.6% to 5% per annum.

Subtotal 54,995
 Add: Unamortized bond premium 205,825
 Total Redevelopment Agency Bonds 11,322
\$217,147

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 8,920	\$ 10,222	\$ 19,142
2019	9,320	9,778	19,098
2020	9,830	9,288	19,118
2021	10,805	8,762	19,567
2022	11,405	8,197	19,602
2023-2027	58,550	31,787	90,337
2028-2032	47,175	18,308	65,483
2033-2037	43,045	7,087	50,132
2038-2042	6,775	169	6,944
Premium	11,322	-	11,322
Total	<u>\$ 217,147</u>	<u>\$ 103,598</u>	<u>\$ 320,745</u>

Notes Payable – Successor Agency:

Principal Outstanding

These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, subject to recording of completion.

2,987

HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning Aug. 1, 1999 of \$110 to \$420 through Aug. 1, 2018.

810

Smith's Food & Drug Centers Inc., 6% payable in variable installments, subject to payment of annual Community Facilities District assessment.

931

Total Notes Payable – Successor Agency

\$ 4,728

Remaining debt service will be paid by the Successor Agency Trust from future property tax revenues. Annual debt service requirements to maturity are as follows:

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Fiscal Year	Principal	Interest	Total
2018	\$ 418	\$ 332	\$ 750
2019	451	317	768
2020	34	307	341
2021	38	304	342
2022	42	300	342
2023-2027	1,217	1,423	2,640
2028-2032	471	1,238	1,709
2033-2037	777	933	1,710
2038-2042	1,280	430	1,710
Total	\$ 4,728	\$ 5,584	\$ 10,312

As a result of action by the State of California to dissolve all redevelopment agencies in the state, the Successor Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream provided to the Successor Agency that represents only that portion of tax increment that is necessary to pay the enforceable obligations approved by the California Department of Finance.

For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios for the Successor Agency also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required) *	Annual Debt Service Payments (all of debt secured by this revenue)	Debt Service Coverage Ratio for FY 06/30/17
Property Taxes:			
Non-Housing	\$ 50,230	\$ 14,052	3.57
Housing	9,580	2,442	3.92

* The computations above are based on the total tax increment generated for the year ended June 30, 2017 for each project area that had been pledged as collateral for the Bonds. As discussed above, only a portion of tax increment has been actually remitted to the Successor Agency and reported as revenue in the accompanying financial statements.

Assessment Districts and Community Facilities Districts Bonds
(Not obligations of the City):

As of June 30, 2017, the City has several series of Assessment District and Community Facility District Bonds outstanding in the amount of \$44,170. Bonds were issued for improvements in certain districts and are long-term obligations of the property owners. The City Treasurer acts as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.

9. Derivative Instruments

Interest Rate Swaps

The City has six cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were employed as a hedge against debt that was refunded in 2008 and 2011 and against debt issued in 2012. The balance of the deferral account for each swap is included as part of the deferred charge on refunding associated with the new bonds. The swaps were also employed as a hedge against the new debt. Hedge accounting was applied to that portion of the hedging relationship, which was determined to be effective. Hedge accounting was also applied to the swap associated with the debt issued in 2012, which was also determined to be effective.

The following is a summary of the derivative activity for the year ended June 30, 2017:

	Notional Amount	Fair Value as of 06/30/17	Change in Fair Value for Fiscal Year
Governmental activities			
2008 Renaissance Certificates of Participation	\$ 105,700	\$ (19,499)	\$ 9,019
2012 Convention Center Financing	36,712	(867)	2,079
Business-type activities			
2008 Electric Refunding/Revenue Bonds Series A	68,525	(7,665)	4,319
2008 Electric Refunding/Revenue Bonds Series C	41,975	(7,441)	3,680
2011 Electric Refunding/Revenue Bonds Series A	41,925	(7,419)	3,676
2011 Water Refunding/Revenue Bonds Series A	54,125	(8,193)	4,205

Objective: In order to lower borrowing costs as compared to fixed-rate bonds, the City entered into interest rate swap agreements in connection with its \$141,840 2008 Electric Revenue Bonds (Series A and C), \$56,450 2011 Electric Revenue Bonds, \$59,000 2011 Water Revenue Bonds and \$128,300

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2008 Certificates of Participation (“COP”). Also, in 2012, the City entered into an additional interest rate swap agreement in connection with the Convention Center financing with BBVA Compass Bank.

Terms: Per the existing swap agreements, the City pays a counterparty a fixed payment and receives a variable payment computed as 62.68% of the London Interbank Offering Rate (“LIBOR”) one month index plus 12 basis points for the Electric and Water swaps. For the COP swap, the City pays a fixed payment and receives a variable payment computed as 63.00% of the LIBOR one month index plus 7 basis points. The Convention Center financing consists of an initial 21-month variable rate interest only period during construction, which swaps to a fixed rate for the remaining 20-year amortization whereby the City will pay a fixed payment and will receive a variable payment computed as 65.01% of the LIBOR one month index plus 150 basis points. The lease interest rate on the Convention Center has a cap at the lesser of 12% or the highest rate permitted by applicable law whereas the related swap does not have a cap. The swaps have notional amounts equal to the principal amounts stated above. The notional value of the swaps and the principal amounts of the associated debt decline by \$975 to \$7,200 until the debt is completely retired in fiscal year 2037.

The bonds and the related swap agreements for the 2008A Electric Revenue Bonds mature on October 1, 2029, 2008C Electric and 2011A Electric and 2011A Water Revenue/Refunding Bonds mature on October 1, 2035. The 2008 Certificates of Participation mature on March 1, 2037. The loan with BBVA Compass Bank will be paid in full on April 1, 2034.

As of June 30, 2017, rates were as follows:

	2008 Electric Refunding/ Revenue Bonds Series A	2008 Electric Refunding/ Revenue Bonds Series C	2011 Electric Refunding/ Revenue Bonds Series A
	Rates	Rates	Rates
Interest rate swap:			
Fixed payment to counterparty	3.11100%	3.20400%	3.20100%
Variable payment from counterparty	-0.40870%	-0.40948%	-0.32275%
Net interest rate swap payments	2.70230%	2.79452%	2.87825%
Variable rate bond coupon payments	0.32339%	0.32271%	0.22165%
Synthetic interest rate on bonds	3.02569%	3.11723%	3.09990%

	2011 Water Refunding/ Revenue Bonds Series A	2008 Renaissance COPs	2012 Convention Center Financing
	Rates	Rates	Rates
Interest rate swap:			
Fixed payment to counterparty	3.20000%	3.36200%	3.36200%
Variable payment from counterparty	-0.31124%	-0.37380%	-0.37380%
Net interest rate swap payments	2.88876%	2.98820%	2.98820%
Variable rate bond coupon payments	0.30060%	0.34689%	0.34689%
Synthetic interest rate on bonds	3.18936%	3.33509%	3.33509%

Fair Value: As of June 30, 2017, in connection with all swap arrangements, the transactions had a combined net negative fair value of (\$51,084). 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: The City is not exposed to credit risk on the swaps because those swaps have a negative fair value. The swap counterparties, Bank of America, N.A., Bank of America Corp. and J.P. Morgan Chase & Co. were rated A+, BBB+ and A- respectively by Standard & Poor’s. To mitigate the potential for credit risk for these swaps, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties’ rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2017, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: The city is exposed to basis risk on its pay-fixed interest rate swap and rate cap hedging derivative instruments because the variable-rate payments received by the city on these hedging derivative instruments are based on a rate or index other than interest rates the city pays on its hedged variable-rate debt. 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,

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

Swap payments and associated debt: As of June 30, 2017, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same, for their term are summarized in the following table. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>Variable-Rate Bonds</u>				
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2018	\$ 7,217	\$ 1,668	\$ 9,960	\$ 18,845
2019	13,516	1,610	9,639	24,765
2020	16,610	1,528	9,198	27,336
2021	17,262	1,451	8,725	27,438
2022	17,823	1,369	8,231	27,423
2023-2027	87,702	5,564	33,958	127,224
2028-2032	101,159	3,239	21,098	125,496
2033-2037	92,149	761	6,050	98,960
Total	<u>\$ 353,438</u>	<u>\$ 17,190</u>	<u>\$ 106,859</u>	<u>\$ 477,487</u>

10. Economic Contingency

A portion of unassigned fund balance within the General Fund is set aside for future economic contingencies. The amount that has been set aside is equal to approximately 15% of General Fund expenditures.

11. Interfund Assets, Liabilities and Transfers

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

The following table shows amounts receivable/payable between funds within the City at June 30, 2017:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,415
	Nonmajor Enterprise Funds	307
		<u>1,722</u>
Electric Fund	Central Stores Fund *	183
Water Fund	Central Stores Fund *	78
Total		<u>\$ 1,983</u>

* Internal service fund

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

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2017:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 12,312
	Water Fund	4,439
	Sewer Fund	2,821
	Nonmajor Governmental Funds	173
	Nonmajor Enterprise Funds	2,084
	Self-Insurance Trust Fund *	107
	Central Stores Fund *	149
	Central Garage Fund *	630
		<u>22,715</u>
Sewer Fund	Nonmajor Governmental Funds	4,986
Self-Insurance Trust Fund *	Nonmajor Enterprise Funds	98
	Central Garage Fund *	676
		<u>774</u>
Central Garage Fund *	Nonmajor Governmental Funds	2,764
		<u>\$ 31,239</u>

* Internal service fund

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In addition, the following advances to the former Redevelopment Agency are accounted for in the Private-Purpose Trust Fund of the Successor Agency:

<u>Receivable Funds</u>	<u>Amount</u>
General Fund	\$ 554
Nonmajor Governmental Funds	6,977
Electric Fund	4,665
Total	<u>\$ 12,196</u>

Transfers In/Out: Transfers are primarily used to (1) move revenues to the fund that statute or budget requires to expend them, and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

The following table shows amounts transferred to/from funds within the City for the year ended June 30, 2017:

<u>Transfers In Funds</u>	<u>Transfers Out Funds</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 31,145
	Electric Fund	39,230
	Water Fund	5,673
	Sewer Fund	900
		<u>76,948</u>
Nonmajor Governmental Funds	General Fund	12,672
	Capital Outlay Fund	3,000
	Nonmajor Governmental Funds	1,163
	Nonmajor Enterprise Funds	738
	<u>17,573</u>	
Nonmajor Enterprise Funds	General Fund	<u>825</u>
	Total	<u>\$ 95,346</u>

12. Deficit Net Position

Deficit net position exists in the Self-Insurance Internal Service Fund (\$31,653). This City adopted a Self-Insurance Reserve Policy that will address the on-going deficit in fund balance. In the past, the City began funding a portion of the deficit in the internal service fund via self-insurance rate increases phased in over several years. However, the increases continue to be offset by unusually large losses incurred during the year combined with an

adjustment for the increase in the amount estimated for claims and judgments. Management believes that there are sufficient funds on hand to cover current payment obligations and plans to continue to control costs and increase rates. However, the Self-Insurance Reserve Policy specifically address minimum cash balance requirements in the Self-Insurance Trust Fund in-line with best practices. In conjunction with the new reserve policy, City Council has approved a funding plan to increase the cash reserve balances over the next two fiscal years. The plan calls for cash contributions of \$2,500 in each of the next two fiscal years. Implementation of the reserve policy, the cash funding approved by City Council and the increased rates should provide the fund greater financial stability for future needs.

Deficit net position exists in the Successor Agency Private-Purpose Trust Fund (\$162,046). The deficit in the Successor Agency Trust Fund will be reduced over the years as the related debt is paid-off with funds received from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller.

13. Litigation

The City is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the City are incidental to the ordinary course of operations 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 City.

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

14. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. A copy of CalPERS' annual financial report may be obtained online at www.calpersca.gov.

(B) Funding Policy. The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8% for miscellaneous employees and 9% for safety employees of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. The City pays the employees' contributions to CalPERS for both miscellaneous and safety employees hired on or before specific dates as follows:

Safety (Police):

- 1st Tier (RPOA, RPOA Supervisory & RPAA) - The retirement formula is 3% at age 50 for employees hired before February 16, 2012. The City pays the employee share (9%) of contributions on their behalf and for their account. Beginning January 2019, in the event of annual wage increases in excess of 2%, employees shall pay a portion of the required employer contribution of 1.5% annual capped at 6%.
- 2nd Tier (RPOA only) - The retirement formula is 3% at age 50 and new employees hired on or after February 17, 2012 pay their share (9%) of contributions.
- 3rd Tier (RPOA, RPOA Supervisory & RPAA) – The retirement formula is 2.7% at age 57 for new members hired on or after January 1, 2013 and the employee must pay the employee share (9%). Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Safety (Fire):

- 1st Tier - The retirement formula is 3% at age 50 for employees hired before June 11, 2011. The City pays the employee share (9%) of contributions on their behalf and for their account. Effective January 2019, represented employees shall pay 2.5% of the required employer contribution with annual increases of 2.5% and 1% in January 2020 and December 2021, respectively capped at 8%.
- 2nd Tier - The retirement formula is 3% at age 55 and new employees hired on or after June 11, 2011 pay their share (9%) of contributions.
- 3rd Tier – The retirement formula is 2.7% at age 57 for new members hired on or after January 1, 2013 and the employee must pay the employee share (9%). Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Miscellaneous:

- 1st Tier - The retirement formula is 2.7% at age 55. The City pays the employee share (8%) of contributions on their behalf and for their account except for general SEIU employees, which contributed 6%, with the City paying the remaining 2% of the employee share.
- 2nd Tier - The retirement formula is 2.7% at age 55, and:
 - SEIU and SEIU Refuse employees hired on or after June 7, 2011 pay their share (8%) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier – The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7-8% based on bargaining group classification. Classic members (CalPERS members prior to 12/31/12) hired on or after January 1, 2013 may be placed in a different tier.

Under the recently approved memorandums of understanding agreed to by all bargaining units, effective January 1, 2018, all employees in Tier 1, with the exception of the IBEW bargaining unit, will begin contributing 1-2% of additional annual earnings to a maximum of 8% rate by January 1, 2020 or January 1, 2021, depending on the bargaining unit. IBEW Tier 1 employees will begin to pay 2% per year starting November 1, 2017 and will contribute a total of 8% by November 1, 2020.

The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit Level III, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

(D) Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms of each Plan: Inactive employees or beneficiaries currently receiving benefits are 2,040 and 729 for the Miscellaneous and Safety Plans, respectively. Inactive employees entitled to but not yet receiving

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benefits are 1,317 and 158 for Miscellaneous and Safety Plans, respectively. Active employees were 1,536 and 579 for Miscellaneous and Safety Plans, respectively.

(E) Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

(F) Net Pension Liability - The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation

Discount Rate – The discount rate used to measure each plan’s total pension liability as of June 30, 2016 was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used to measure total pension liability are adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rates are applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that

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arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

- (1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

(G) Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability/(Asset)</u>
Balance at June 30, 2016	\$ 1,214,579	\$ 970,787	\$ 243,792
Changes in the year:			
Service Cost	22,189	-	22,189
Interest on Total Pension Liability	90,913	-	90,913
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(8,417)	-	(8,417)
Contribution - employer	-	29,426	(29,426)
Contribution - employee	-	5,187	(5,187)
Net Investment Income	-	4,958	(4,958)
Benefit Payments, including Refunds of Employee Contributions	(57,702)	(57,702)	-
Administrative Expenses	-	(594)	594
Net Changes	<u>46,983</u>	<u>(18,725)</u>	<u>65,708</u>
Balance at June 30, 2017	<u>\$ 1,261,562</u>	<u>\$ 952,062</u>	<u>\$ 309,500</u>

Safety

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability/(Asset)</u>
Balance at June 30, 2016	\$ 900,127	\$ 708,689	\$ 191,438
Changes in the year:			
Service Cost	18,144	-	18,144
Interest on Total Pension Liability	67,513	-	67,513
Changes of Assumptions	-	-	-
Differences between Expected and Actual Experience	(4,373)	-	(4,373)
Contribution - employer	-	26,483	(26,483)
Contribution - employee	-	1,837	(1,837)
Net Investment Income	-	3,478	(3,478)
Benefit Payments, including Refunds of Employee Contributions	(44,609)	(44,609)	-
Administrative Expenses	-	(428)	428
Net Changes	<u>36,675</u>	<u>(13,239)</u>	<u>49,914</u>
Balance at June 30, 2017	<u>\$ 936,802</u>	<u>\$ 695,450</u>	<u>\$ 241,352</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension

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liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<i>Miscellaneous</i>	Current		
	Discount Rate -1% (6.65%)	Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 480,387	\$ 309,500	\$ 168,952

<i>Safety</i>	Current		
	Discount Rate -1% (6.65%)	Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 367,847	\$ 241,352	\$ 137,441

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

H. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions.

For the year ended June 30, 2017, the City recognized pension expense of \$55,749. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>Miscellaneous</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date, net	\$ 30,477	\$ -
Differences between actual and actuarial determined contribution	9,103	-
Changes of assumptions	-	(7,729)
Differences between expected and actual experience	-	(14,058)
Net differences between projected and actual earnings on plan investments	85,493	(33,298)
Total	\$ 125,073	\$ (55,085)

<i>Safety</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date, net	\$ 26,775	\$ -
Differences between actual and actuarial determined contributions	9,481	-
Changes of assumptions	-	(8,954)
Differences between expected and actual experience	-	(7,198)
Net differences between projected and actual earnings on plan investments	62,839	(24,470)
Total	\$ 99,095	\$ (40,622)

\$57,252 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Deferred Outflows of Resources</u>		
<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2018	\$ 19,315	\$ 13,813
2019	26,726	20,912
2020	24,114	19,434
2021	24,440	18,162
Total	\$ 94,595	\$ 72,321

<u>Deferred Inflows of Resources</u>		
<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>
2018	\$ (9,741)	\$ (4,554)
2019	(27,663)	(18,310)
2020	(17,681)	(16,516)
2021	-	(1,242)
Total	\$ (55,085)	\$ (40,622)

15. Other Post-Employment Benefits

The City provides healthcare benefits to retirees in the form of an implied rate subsidy. Retirees and active 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 receive the benefit of a lower rate. The

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difference between these amounts is the implied rate subsidy, which is considered an other post-employment benefit (OPEB) under GASB 45.

Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. Spousal coverage is available until the retiree becomes covered under another employer health plan, attains Medicare eligibility age, or dies. However, the retiree benefit continues to the surviving spouse if the retiree elects the CalPERS survivor annuity.

The contribution requirements are established by the City Council. The City is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The City's annual OPEB cost (expense) is reported based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB 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 liability (or funding excess) (UAAL) over a period not to exceed thirty years. The ARC for the year ended June 30, 2017 was \$4,198, which consisted of normal cost of \$2,034 and UAAL amortization of \$2,164. The ARC as a percentage of payroll was 2.5% for the year ended June 30, 2017.

As of June 30, 2015, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was \$40 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$40 million.

Determination of the net OPEB obligation as of June 30, 2017:

Annual required contribution	\$ 4,198
Interest on net OPEB obligation	1,287
Amortization of net OPEB obligation	<u>(1,583)</u>
Annual OPEB cost	3,902
Less contributions made	<u>(1,150)</u>
Increase in net OPEB obligation	2,752
Net OPEB liability, beginning of year	<u>32,172</u>
Net OPEB liability, end of year	<u><u>\$ 34,924</u></u>

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined

regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The method used by the actuary was the entry age normal cost method. The actuarial assumptions included (a) discount rate of 4.00%, (b) 2.75% inflation, (c) projected salary increases of 3.00% annually and (d) healthcare cost trend rates ranging from 5.0% to 7.0%.

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

Three-year trend information:

Fiscal Year	ARC	Actual Contributions	% of ARC Contributed
2015	\$5,061	\$1,431	25%
2016	4,076	977	28%
2017	4,198	1,150	27%

Fiscal Year	Annual OPEB Cost	% of OPEB Cost Contributed	Net OPEB Obligation
2015	\$5,022	28%	\$29,433
2016	3,716	26%	32,172
2017	3,902	29%	34,924

The table below displays the funding progress of the plan and is based upon the most recent actuarial valuation data:

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Liability (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Covered Payroll
06/30/15	\$ 40,235	\$ -	\$ 40,235	0%	\$ 165,775	24%

16. Commitments and Contingencies

Intermountain Power Agency

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station, known as Intermountain Power Project (IPP), located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

On September 29, 2006, Senate Bill 1368 (SB 1368) was enacted into law. The bill requires electric service providers to limit financial investments in power plants to those that adhere to greenhouse gas performance standards as determined by the Public Utilities Commission. Pursuant to this legislation, the Electric Utility is prohibited from renewing its participation in IPP if it remains a coal fueled generating resource. On June 16, 2015, the City Council approved the Intermountain Power Project renewal agreements, including the Second Amendatory Power Sales Contract and the Renewal Power Sales Contract, and authorized participation in the IPP renewal subscription process. The Second Amendatory Power Sales Contract became effective March 16, 2016. The generation component of IPP under the Renewal Power Sales Contract (Repower Project) is envisioned to be a natural gas fueled combined cycle plant with total capacity of 1,200 MW. The Renewal Power Sales Contract contemplates a term of fifty years, through June 2077 for the Repower Project. The Electric Utility is authorized to participate in the subscription process for up to 5 percent of the Repower Project or approximately 60 MW. On January 5, 2017, the Electric Utility executed the Renewal Power Sales Contract and all other necessary documents for the first two rounds of the subscription process. The Electric Utility accepted an offer of 4.167 percent entitlement or 50 MW generation capacity in the IPP Repower Project based on the 1,200 MW designed capacity, which is within the maximum participation level approved by the City Council. The Electric Utility's corresponding Southern Transmission System allocation is 5.278 percent or approximately 127 MW. The IPP Repower Project renewal subscription process was completed after two rounds on January 17, 2017 and all entitlements in the project were fully subscribed. The Electric Utility's reduced

power would allow it to diversify its energy portfolio in the future. Further, under the Renewal Power Sales Contract, the Electric Utility has the right to exit from the Repower Project by no later than November 1, 2019, if it is determined that the Repower Project is not cost beneficial to its customers.

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs whether or not such generation output of transmission service is available.

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

<u>Project</u>	<u>Percentage Share</u>	<u>Entitlement</u>	<u>Final Maturity</u>	<u>Contract Expiration</u>
Palo Verde Nuclear Generating Station (PV)	5.40%	12.3 MW	2017	2030
Southern Transmission System (STS)	10.20%	244.0 MW	2027	2027
Hoover Dam Upgrading (Hoover)	31.90%	30.0 MW	2017	2017
Mead – Phoenix Transmission (MPP)	4.00%	18.0 MW	2020	2030
Mead – Adelanto Transmission (MAT)	13.50%	118.0 MW	2020	2030

Terms of Take or Pay Commitments

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

Outstanding debts associated with the take-or-pay obligations have variable interest rates for the Palo Verde Nuclear Generating Station Project and portions of the Mead Phoenix and Mead-Adelanto Transmission Projects. The remaining projects have fixed interest rates which range from 0.85 percent to 5.25 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

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Fiscal Year	SCPPA						Total
	IPA	PV	STS	Hoover	MPP	MAT	
2018	\$ 17,019	\$ 679	\$ 7,917	\$ 699	\$ 258	\$ 2,909	\$ 29,481
2019	18,613	-	7,893	-	257	2,881	29,644
2020	18,096	-	6,913	-	254	2,859	28,122
2021	16,470	-	7,926	-	189	2,136	26,721
2022	11,600	-	9,448	-	-	-	21,048
2023-2027	9,246	-	24,179	-	-	-	33,425
2028-2032	-	-	3,254	-	-	-	3,254
Total	\$ 91,044	\$ 679	\$ 67,530	\$ 699	\$ 958	\$ 10,785	\$ 171,695

In addition to debt service, the Electric Utility's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2017 is as follows (in thousands):

Fiscal Year	IPA	PV	STS	Hoover	MPP	MAT	Total
2017	\$ 23,000	\$ 3,285	\$ 2,712	\$ 58	\$ 64	\$ 254	\$ 29,373
2016	22,667	3,601	3,001	81	34	377	29,761

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

The Electric Utility has become a Participating Transmission Owner with the California Independent System Operator (CAISO) and has turned over the operational control of its transmission entitlements including the Southern Transmission System, Mead-Phoenix and Mead-Adelanto Transmission Projects. In return, users of the California's high voltage transmission grid are charged for, and the Electric Utility receives reimbursement for, transmission revenue requirements, including the costs associated with these three transmission projects.

Hoover Upgrading Project

The Electric Utility's entitlement in the Hoover project through SCPPA will terminate on September 30, 2017. In March 2014, the Electric Utility prepaid its share of outstanding debt incurred by the Bureau of Reclamation in connection with the acquisition and construction of the Hoover Power Project

Visitors Center and Air Slots. The payment of principal and interest on the debt is a component of the cost of power and energy payable by Hoover contractors, which includes SCPPA participants that receive power from the Hoover Power Project under agreements with the Western Area Power Administration. Because Bureau Debt bears interest at rates that are substantially higher than current market interest rates, the Electric Utility elected to prepay the debt in order to realize savings on power costs in the future. The Electric Utility's share of the debt is recorded on the statements of net position as unamortized purchased power to be amortized over the remaining term of the project through 2017. As of June 30, 2017, unamortized purchased power was \$124 with amortization of \$496.

On August 23, 2016, the City Council approved a 50-year Electric Service Contract (ESC) and an Amended and Restated Implementation Agreement (IA) with the Western Area Power Administration (Western), Bureau of Reclamation for 30 MW of hydroelectric power. The contract with Western will be effective October 1, 2017. The ESC extends the Electric Utility's 30 MW entitlement in the Hoover project an additional 50 years. The IA is a supplemental agreement to the ESC that establishes administrative, budgetary and project oversight by creating project committees and process for decision making plant operations.

Nuclear Insurance

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities purchase the maximum private primary nuclear liability insurance available (\$450 million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. Effective January 1, 2017, the Act limits liability from third-party claims to approximately \$13.4 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to \$127.3 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to \$19.0 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Electric Utility would be responsible for a maximum assessment of \$5.8 million, limited to payments of \$0.9 million per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising

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measures to pay claims, including a possible additional assessment on all licensed reactor operators.

Renewable Portfolio Standards (RPS)

On April 12, 2011, the California Renewable Energy Resources Act (SBX1-2) was passed by the State Legislative and signed by the Governor. SBX1-2 revised the amount of statewide retail electricity sales from renewable resources in the State Renewable Energy Resources Program to 33 percent by December 31, 2020 in three stages: average of 20 percent of retail sales during 2011-2013; 25 percent of retail sales by December 31, 2016; and 33 percent of retail sales by December 31, 2020. The Riverside Public Utilities Board and City Council approved the enforcement program required by SBX1-2 on November 18, 2011 and December 13, 2011, respectively, and further approved the Electric Utility's RPS Procurement plan implementing the new RPS mandates on May 3, 2013 and May 14, 2013, respectively. The Electric Utility met the 20 percent mandates from 2011-2013 and the 25 percent mandate by December 31, 2016. The additional future mandates are expected to be met with resource procurement actions as outlined in the Electric Utility's RPS Procurement Plan.

On September 11, 2015, California legislature passed Senate Bill 350 (SB 350) increasing the RPS mandate beyond December 31, 2020 above 33 percent to 50 percent by December 31, 2030. SB 350 was signed into law by the Governor on October 7, 2015. The Electric Utility expects to be able to substantially meet the increased RPS mandates imposed by SB 350 with the portfolio of renewable resources outlined below.

In an effort to increase the share of renewables in the Electric Utility's power portfolio, the Electric Utility entered into power purchase agreements (PPA) with various entities described below on a "take-and-pay" basis. The contracts in the following tables were executed as part of compliance with this standard.

Long-term renewable PPAs in operation (in thousands):

Supplier	Type	Maximum Contract¹	Contract Expiration	Estimated Annual Cost For 2018
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	\$ 28,730
Wintec Energy, Ltd.	Wind	1.3 MW	12/30/2018	243
WKN Wagner	Wind	6.0 MW	12/22/2032	1,293
SunEdison - AP North Lake	Photovoltaic	20.0 MW	8/11/2040	4,554
Dominion - Columbia II	Photovoltaic	11.1 MW	12/22/2034	2,314
Cabazon Wind	Wind	39.0 MW	1/1/2025	4,299
First Solar - Kingbird B	Photovoltaic	14.0 MW	12/31/2036	2,867
FTP Solar				
sPower - Summer Solar	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope Big Sky Ranch	Photovoltaic	10.0 MW	12/31/2041	1,748
sPower - Antelope DSR 1 Solar	Photovoltaic	25.0 MW	12/19/2036	3,826
Solar Star - Tequesquite Landfill Solar	Photovoltaic	7.3 MW	12/31/2040	1,321
CalEnergy - Salton Sea Portfolio Phase 1	Geothermal	20.0 MW	12/31/2039	12,007
Total		209.7 MW		\$ 64,950

¹ All contracts are contingent on energy production from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

Long-term renewable PPAs with expected delivery:

Supplier	Type	Maximum Contract¹	Expected Delivery	Energy Delivery No Later Than	Contract Term In Years
CalEnergy - Salton Sea Portfolio Phase 2	Geothermal	20.0 MW	1/1/2019	1/1/2019	21
CalEnergy - Salton Sea Portfolio Phase 3	Geothermal	46.0 MW	6/1/2020	6/1/2020	20
Total		66.0 MW			

¹ All contracts are contingent on energy production from specific related generating facilities. The Electric Utility has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

Cap-and-Trade Program

Assembly Bill (AB) 32, enacted in 2006, mandated that the California Air Resources Board (CARB) develop regulations for the reduction of greenhouse gas (GHG) emissions to the 1990 levels by the year 2020. In January 2013, emission compliance obligations developed by CARB began under the Cap-and-Trade Program (Program). This Program requires electric utilities to have GHG allowances on an annual basis to offset GHG emissions associated with generating electricity. To ease the transition and mitigate the rate impacts to

retail customers, CARB will allocate certain amounts of GHG allowances at no cost to electrical distribution utilities. The Electric Utility's free allocation of GHG allowances is expected to be sufficient to meet the Electric Utility's direct GHG compliance obligations.

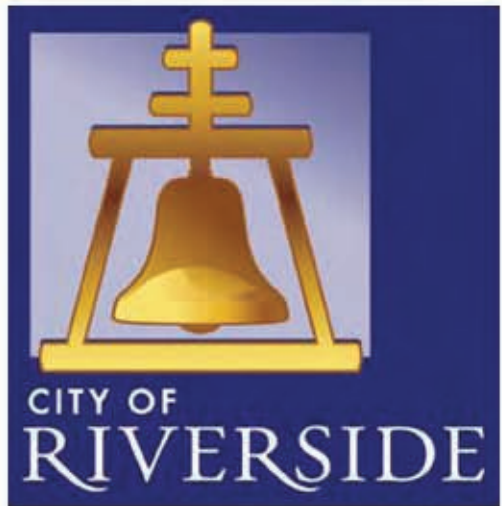
At times, the Electric Utility may have allocated allowances in excess of its compliance obligations that can be sold into the CARB quarterly auctions. In fiscal year ended June 30, 2017, the Electric Utility received \$6,881 in proceeds related to the sale of the GHG allowances which are included on the statements of revenues, expenses and changes in net position as other operating revenue. The Electric Utility has established a restricted Regulatory Requirement reserve to comply with regulatory restrictions and governing requirements related to the use of the GHG proceeds. The available funds are to be utilized for qualifying projects, consistent with the goals of AB 32 to benefit the retail ratepayers. The balance in the Regulatory Requirement reserve was \$16,123 as of June 30, 2017.

The Electric Utility also purchases GHG allowances which can be used in future periods for GHG compliance regulations. The balance of purchased GHG allowances was \$1,097 as of June 30, 2017 and is recorded as inventory in the statements of net position.

17. Tax Abatements

In November 2012, the City entered into a tax sharing agreement with a local business to incentivize an expansion of their facility. Assistance is provided in the form of a rebate of sales and property taxes over fifteen years in an amount not to exceed \$4,500. The agreement expires on the earlier of: 1) total cumulative tax rebate of \$4,500; or 2) fifteen years in fiscal 2027-28.

Incremental Sales Tax Revenue can be generated from sales reported to the State Board of Equalization at the business site and from third party vendor transactions occurring using the business site as the point of sale. Incremental Property Tax Revenue is generated from the increase in County assessed valuation over the 2012-13 base period values, for the parcels designated in the agreement. For parcels acquired after 2012-13 in the project area, the acquisition price will become its base year valuation. The initial 2012-13 base year assessed valuation is \$114,293 and has been adjusted to \$125,043 for the parcels acquired in 2014-15. The business is due 100% of the incremental Property tax revenue due to the City from the project area tax rate. It is calculated as 11% of the value determined from taking 1% of the difference of current net assessed valuation over the adjusted base valuation. The cumulative rebate payment as of June 30, 2017 is \$135.



Required Supplementary Information

Consists of the following:

- Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period
- Schedule of Plan Contributions
- Other Post-Employment Benefits (OPEB) Funding Progress

City of Riverside
Required Supplementary Information - Unaudited

Schedule of Changes in Net Pension Liability and Related Ratios During the
Measurement Period (Thousands)

Last 10 Years*

	6/30/2016		6/30/2015		6/30/2014	
	Miscellaneous	Safety	Miscellaneous	Safety	Miscellaneous	Safety
TOTAL PENSION LIABILITY						
Service Cost	\$ 22,189	\$ 18,144	\$ 22,228	\$ 18,187	\$ 23,320	\$ 18,818
Interest	90,913	67,513	87,436	64,815	84,965	62,249
Changes of Assumptions	-	-	(21,782)	(16,117)	-	-
Difference Between Expected and Actual Experience	(8,417)	(4,373)	(23,548)	(6,835)	-	-
Benefit Payments, Including Refunds and Employee Contribution	(57,702)	(44,609)	(53,853)	(42,076)	(50,770)	(38,981)
Net Change in Total Pension Liability	\$ 46,983	\$ 36,675	\$ 10,481	\$ 17,974	\$ 57,515	\$ 42,086
Total Pension Liability - Beginning	1,214,579	900,127	1,204,098	882,153	1,146,583	840,067
Total Pension Liability - Ending (a)	\$ 1,261,562	\$ 936,802	\$ 1,214,579	\$ 900,127	\$ 1,204,098	\$ 882,153
PLAN FIDUCIARY NET POSITION						
Contributions - Employer	\$ 29,426	\$ 26,483	\$ 25,996	\$ 23,384	\$ 27,583	\$ 23,156
Contributions - Employee	5,187	1,837	4,380	924	2,294	365
Net Investment Income	4,958	3,478	21,671	15,632	145,843	107,032
Benefit Payments, Including Refunds and Employee Contribution	(57,702)	(44,609)	(53,853)	(42,076)	(50,770)	(38,981)
Administrative and Other Expenses	(594)	(428)	(1,056)	(816)	-	-
Net Change in Fiduciary Net Position	\$ (18,725)	\$ (13,239)	\$ (2,862)	\$ (2,952)	\$ 124,950	\$ 91,572
Plan Fiduciary Net Position - Beginning	970,787	708,689	973,649	711,641	848,699	620,069
Plan Fiduciary Net Position - Ending (b)	952,062	695,450	970,787	708,689	973,649	711,641
Plan Net Pension Liability Ending (a)-(b)	\$ 309,500	\$ 241,352	\$ 243,792	\$ 191,438	\$ 230,449	\$ 170,512
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.47%	74.24%	79.93%	78.73%	80.86%	80.67%
Total - Employee Payroll	\$ 114,521	\$ 64,778	\$ 113,850	\$ 64,648	\$ 113,869	\$ 64,715
Net Pension Liability as a Percentage of Total - Employee Payroll	270.26%	372.58%	214.13%	296.12%	202.38%	263.48%

* - Historical information is required only for measurement periods where GASB 68 is applicable.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit also know as Golden Handshakes.

Changes of Assumptions: In 2016, there were no changes. In 2015, amounts reported reflected an adjustment of the discount rate from 7.5% (net of administrative expenses) to 7.65% (without a reduction for pension plan administrative expenses). In 2014, amounts reported were based on the 7.5% discount rate.

City of Riverside
Required Supplementary Information - Unaudited

Schedule of Plan Contributions (Thousands)

Last 10 Years *

	2016-17 *		2015-16 *		2014-15 *	
	Miscellaneous	Safety	Miscellaneous	Safety	Miscellaneous	Safety
Actuarially Determined Contribution	\$24,885	\$21,886	\$21,063	\$ 18,452	\$ 20,505	\$ 17,341
Contributions in Relation to the Actuarially Determined Contribution	(29,426)	(26,483)	(25,997)	(23,384)	(27,584)	(23,156)
Contribution Excess	<u>\$ (4,541)</u>	<u>\$ (4,597)</u>	<u>\$ (4,934)</u>	<u>\$ (4,932)</u>	<u>\$ (7,079)</u>	<u>\$ (5,815)</u>
Total Covered Payroll	\$114,521	\$64,778	\$113,850	\$64,648	\$113,869	\$64,715
Contributions as a Percentage of Total - Covered Payroll	21.73%	33.79%	18.50%	28.54%	18.01%	26.80%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were from the June 30, 2013 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level Percent of Payroll
Asset Valuation Method	Market Value of Asset
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment rate of return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation

Retirement age The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.

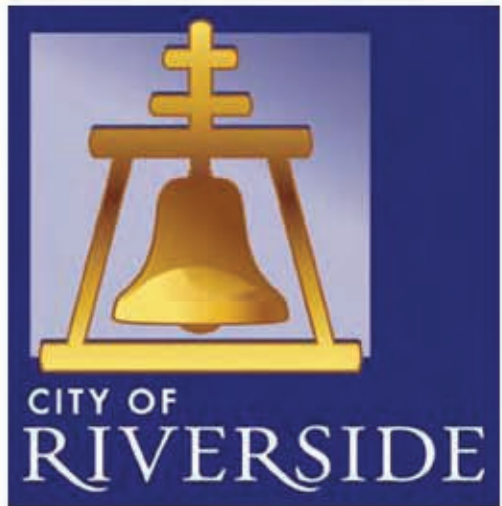
Mortality The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Historical information is required only for measurement periods where GASB 68 is applicable.

City of Riverside
Required Supplementary Information - Unaudited
Summary of Other Post Employment Benefits Funding Progress (Thousands)

Other Post-Employment Benefits - Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Accrued Liability</u>	<u>Unfunded Liability AVA</u>	<u>Funded Ratios AVA</u>	<u>Annual Covered Payroll</u>	<u>UL as a % of Payroll</u>
June 30, 2015	\$ -	\$ 40,235	\$ 40,235	\$ -	\$ 165,775	24%
June 30, 2013	-	47,195	47,195	-	153,077	31%
June 30, 2011	-	56,060	56,060	-	149,321	38%



Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes

Urban Areas Security Initiative (UASI) Fund – To account for UASI grants received from the U.S. Department of Homeland Security.

Gas Tax Fund – To account for the construction and maintenance of the road network system of the City. Financing is provided by the City's share of state gasoline taxes which state law requires to be used to maintain streets

Air Quality Improvements Fund – To account for qualified air pollution reduction programs funded by the South Coast Air Quality Management District.

Housing & Community Development Fund – To account for federal grants received from the Department of Housing and Urban Development (HUD). The grants are used for the development of a viable urban community by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons with low and moderate incomes

National Pollution Discharge Elimination System (NPDES) Storm Drain Fund – To account for storm drain maintenance and inspection required for California storm water permits. Activities are funded by a special assessment district of Riverside County, California.

Housing Fund – To account for the housing activities for persons with low or moderate income

Capital Projects Funds

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Special Capital Improvement Fund – To account for the acquisition, construction and installation of capital improvements and a Community Facilities District within the City.

Storm Drain Fund – To account for the acquisition, construction and installation of storm drains in the City

Transportation Fund – To account for the construction and installation of street and highway improvements in accordance with Articles 3 and 8 of the Transportation Development Act of 1971 of the State of California.

Debt Service Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The **General Debt Service Fund** accounts for the resources accumulated and payments made for principal, interest and related costs on long-term general obligation debt of governmental funds.

Permanent Fund

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Library Special Fund – To account for the monies held in trust for the benefit of the Riverside City Public Library System

City of Riverside
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017
(amounts expressed in thousands)

	Special Revenue						
Assets	Urban Areas Security Initiative	Gas Tax	Air Quality Improvements	Housing & Community Development	NPDES Storm Drain	Housing	Total
Cash and investments	\$ -	\$ 15,047	\$ 916	\$ 2,422	\$ -	\$ 10,822	\$ 29,207
Receivable (net of allowance for uncollectibles):							
Interest	-	49	3	5	-	30	87
Accounts	-	-	-	2	-	-	2
Intergovernmental	524	125	103	1,718	1,094	-	3,564
Notes	-	-	-	13,769	-	23,475	37,244
Prepaid items	24	-	-	-	-	-	24
Advances to Successor Agency Trust Fund	-	-	-	-	-	6,977	6,977
Land & improvements held for resale	-	-	-	443	-	2,654	3,097
Total assets	<u>\$ 548</u>	<u>\$ 15,221</u>	<u>\$ 1,022</u>	<u>\$ 18,359</u>	<u>\$ 1,094</u>	<u>\$ 43,958</u>	<u>\$ 80,202</u>
Liabilities							
Accounts payable	\$ -	\$ 392	\$ -	\$ 354	\$ 1	\$ 4	\$ 751
Retainage payable	-	142	-	-	-	-	142
Unearned revenue	-	-	-	-	-	-	-
Due to other funds	548	-	-	-	582	-	1,130
Advance from other funds	-	-	-	49	-	124	173
Total liabilities	<u>548</u>	<u>534</u>	<u>-</u>	<u>403</u>	<u>583</u>	<u>128</u>	<u>2,196</u>
Deferred Inflows of Resources							
Unavailable revenue	-	-	-	14,213	-	23,475	37,688
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,213</u>	<u>-</u>	<u>23,475</u>	<u>37,688</u>
Fund Balances (Deficits)							
Nonspendable:							
Inventories, prepaids and deposits	24	-	-	-	-	-	24
Restricted for:							
Housing and redevelopment	-	-	-	3,743	-	20,355	24,098
Transportation and public works	-	14,687	1,022	-	511	-	16,220
Unassigned	(24)	-	-	-	-	-	(24)
Total fund balances	<u>-</u>	<u>14,687</u>	<u>1,022</u>	<u>3,743</u>	<u>511</u>	<u>20,355</u>	<u>40,318</u>
Total liabilities deferred inflows of resources, and fund balances	<u>\$ 548</u>	<u>\$ 15,221</u>	<u>\$ 1,022</u>	<u>\$ 18,359</u>	<u>\$ 1,094</u>	<u>\$ 43,958</u>	<u>\$ 80,202</u>

Continued

City of Riverside
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017
(amounts expressed in thousands)

	Capital Projects				General Debt Service	Permanent Fund	Total Nonmajor Governmental Funds
	Special Capital Improvement	Storm Drain	Transportation	Total		Library Special	
Assets							
Cash and investments	\$ 4,671	\$ 1,272	\$ -	\$ 5,943	\$ 739	\$ 1,577	\$ 37,466
Cash and investments at fiscal agent	2,994	-	-	2,994	8,794	-	11,788
Receivable (net of allowance for uncollectibles):							
Interest	23	4	-	27	4	-	118
Accounts	-	-	-	-	58	-	60
Intergovernmental	-	-	297	297	-	-	3,861
Notes	-	-	-	-	-	-	37,244
Prepaid items	-	-	-	-	-	-	24
Advances to Successor Agency Trust Fund	-	-	-	-	-	-	6,977
Land & improvements held for resale	-	-	-	-	-	-	3,097
Total assets	<u>\$ 7,688</u>	<u>\$ 1,276</u>	<u>\$ 297</u>	<u>\$ 9,261</u>	<u>\$ 9,595</u>	<u>\$ 1,577</u>	<u>\$ 100,635</u>
Liabilities							
Accounts payable	\$ -	\$ 12	\$ -	\$ 12	\$ 178	\$ -	\$ 941
Retainage payable	19	-	-	19	-	-	161
Due to other funds	-	-	285	285	-	-	1,415
Advance from other funds	4,788	-	-	4,788	2,962	-	7,923
Total liabilities	<u>4,807</u>	<u>12</u>	<u>285</u>	<u>5,104</u>	<u>3,140</u>	<u>-</u>	<u>10,440</u>
Deferred Inflows of Resources							
Unavailable revenue	-	-	-	-	-	-	37,688
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,688</u>
Fund Balances (Deficits)							
Nonspendable:							
Inventories, prepaids and deposits	-	-	-	-	-	-	24
Permanent fund principal	-	-	-	-	-	1,577	1,577
Restricted for:							
Housing and redevelopment	-	-	-	-	-	-	24,098
Debt service	-	-	-	-	6,455	-	6,455
Transportation and public works	-	-	12	12	-	-	16,232
Other purposes	2,881	1,264	-	4,145	-	-	4,145
Unassigned	-	-	-	-	-	-	(24)
Total fund balances	<u>2,881</u>	<u>1,264</u>	<u>12</u>	<u>4,157</u>	<u>6,455</u>	<u>1,577</u>	<u>52,507</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,688</u>	<u>\$ 1,276</u>	<u>\$ 297</u>	<u>\$ 9,261</u>	<u>\$ 9,595</u>	<u>\$ 1,577</u>	<u>\$ 100,635</u>

City of Riverside
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Special Revenue						
	Urban Area Security Initiative	Gas Tax	Air Quality Improvement	Housing & Community Development	NPDES Storm Drain	Housing	Total
Revenues							
Intergovernmental	\$ 844	\$ 6,142	\$ 422	\$ 5,713	\$ -	\$ -	\$ 13,121
Fines and forfeitures	-	-	-	-	-	1	1
Special assessments	-	-	-	-	1,093	-	1,093
Rental and investment income	-	9	3	67	-	192	271
Miscellaneous	-	-	208	215	-	549	972
Total revenues	<u>844</u>	<u>6,151</u>	<u>633</u>	<u>5,995</u>	<u>1,093</u>	<u>742</u>	<u>15,458</u>
Expenditures							
Current:							
General government	-	-	452	361	-	1,186	1,999
Public safety	844	-	-	-	-	-	844
Capital outlay	-	8,609	-	5,718	1,095	-	15,422
Debt service:							
Interest	-	-	-	10	-	-	10
Total expenditures	<u>844</u>	<u>8,609</u>	<u>452</u>	<u>6,089</u>	<u>1,095</u>	<u>1,186</u>	<u>18,275</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(2,458)</u>	<u>181</u>	<u>(94)</u>	<u>(2)</u>	<u>(444)</u>	<u>(2,817)</u>
Other financing sources (uses)							
Transfers in	-	-	-	1,163	-	-	1,163
Transfers out	-	-	-	-	-	(1,163)	(1,163)
Proceeds on retirement of capital assets	-	308	-	-	-	(110)	198
Total other financing sources (uses)	<u>-</u>	<u>308</u>	<u>-</u>	<u>1,163</u>	<u>-</u>	<u>(1,273)</u>	<u>198</u>
Net change in fund balances	<u>-</u>	<u>(2,150)</u>	<u>181</u>	<u>1,069</u>	<u>(2)</u>	<u>(1,717)</u>	<u>(2,619)</u>
Fund balances - beginning	<u>-</u>	<u>16,837</u>	<u>841</u>	<u>2,674</u>	<u>513</u>	<u>22,072</u>	<u>42,937</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 14,687</u>	<u>\$ 1,022</u>	<u>\$ 3,743</u>	<u>\$ 511</u>	<u>\$ 20,355</u>	<u>\$ 40,318</u>

Continued

City of Riverside
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	<u>Capital Projects</u>				<u>General Debt Service</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Special Capital Improvement</u>	<u>Storm Drain</u>	<u>Transportation</u>	<u>Total</u>		<u>Library Special</u>	
Revenues							
Licenses and permits	\$ 4,245	\$ 395	\$ -	\$ 4,640	\$ -	\$ -	\$ 4,640
Intergovernmental	-	61	297	358	-	-	13,479
Fines and forfeitures	-	-	-	-	-	-	1
Special assessments	-	-	-	-	1,086	-	2,179
Rental and investment income	26	-	-	26	1,616	12	1,925
Miscellaneous	-	-	-	-	483	149	1,604
Total revenues	<u>4,271</u>	<u>456</u>	<u>297</u>	<u>5,024</u>	<u>3,185</u>	<u>161</u>	<u>23,828</u>
Expenditures							
Current:							
General government	1,714	-	-	1,714	486	-	4,199
Public safety	-	-	-	-	-	-	844
Culture and recreation	-	-	-	-	-	203	203
Capital outlay	2,120	313	297	2,730	-	-	18,152
Debt service:							
Principal	-	-	-	-	28,475	-	28,475
Interest	63	-	-	63	10,833	-	10,906
Total expenditures	<u>3,897</u>	<u>313</u>	<u>297</u>	<u>4,507</u>	<u>39,794</u>	<u>203</u>	<u>62,779</u>
Excess (deficiency) of revenues over (under) expenditures	<u>374</u>	<u>143</u>	<u>-</u>	<u>517</u>	<u>(36,609)</u>	<u>(42)</u>	<u>(38,951)</u>
Other financing sources (uses)							
Transfers in	-	-	-	-	16,410	-	17,573
Transfers out	-	-	-	-	(31,145)	-	(32,308)
Issuance of long-term debt	-	-	-	-	31,578	-	31,578
Proceeds on retirement of capital assets	-	-	-	-	-	-	198
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,843</u>	<u>-</u>	<u>17,041</u>
Net change in fund balances	374	143	-	517	(19,766)	(42)	(21,910)
Fund balances - beginning	2,507	1,121	12	3,640	26,221	1,619	74,417
Fund balances - ending	<u>\$ 2,881</u>	<u>\$ 1,264</u>	<u>\$ 12</u>	<u>\$ 4,157</u>	<u>\$ 6,455</u>	<u>\$ 1,577</u>	<u>\$ 52,507</u>

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Special Revenue								
	Urban Area Security Initiative			Gas Tax			Air Quality Improvement		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues									
Intergovernmental	\$ 4,495	\$ 844	\$ (3,651)	\$ 6,455	\$ 6,142	\$ (313)	\$ 392	\$ 422	\$ 30
Rental and investment income	-	-	-	150	9	(141)	-	3	3
Miscellaneous	-	-	-	-	-	-	254	208	(46)
Total revenues	<u>4,495</u>	<u>844</u>	<u>(3,651)</u>	<u>6,605</u>	<u>6,151</u>	<u>(454)</u>	<u>646</u>	<u>633</u>	<u>(13)</u>
Expenditures									
Current:									
General government	-	-	-	-	-	-	1,028	452	576
Public safety	4,495	844	3,651	-	-	-	-	-	-
Capital outlay	-	-	-	21,882	8,609	13,273	-	-	-
Total expenditures	<u>4,495</u>	<u>844</u>	<u>3,651</u>	<u>21,882</u>	<u>8,609</u>	<u>13,273</u>	<u>1,028</u>	<u>452</u>	<u>576</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,277)</u>	<u>(2,458)</u>	<u>12,819</u>	<u>(382)</u>	<u>181</u>	<u>563</u>
Other financing sources (uses)									
Proceeds on retirement of capital assets	-	-	-	-	308	308	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>308</u>	<u>308</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	(15,277)	(2,150)	13,127	(382)	181	563
Fund balances (deficit), beginning	-	-	-	16,837	16,837	-	841	841	-
Fund balances (deficit), ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,560</u>	<u>\$ 14,687</u>	<u>\$ 13,127</u>	<u>\$ 459</u>	<u>\$ 1,022</u>	<u>\$ 563</u>

(continued)

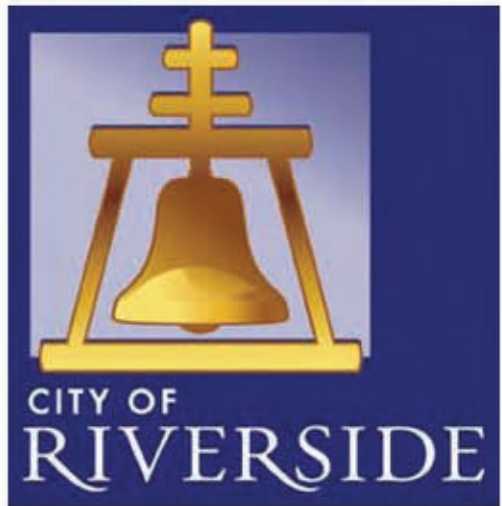
City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Special Revenue								
	Housing & Community Development			NPDES Storm Drain			Housing		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues									
Intergovernmental	\$ 7,284	\$ 5,713	\$ (1,571)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-	-	-	1	1
Special assessments	-	-	-	1,391	1,093	(298)	-	-	-
Rental and investment income	35	67	32	-	-	-	-	192	192
Miscellaneous	85	215	130	-	-	-	-	549	549
Total revenues	<u>7,404</u>	<u>5,995</u>	<u>(1,409)</u>	<u>1,391</u>	<u>1,093</u>	<u>(298)</u>	<u>-</u>	<u>742</u>	<u>742</u>
Expenditures									
Current:									
General government	2,136	361	1,775	-	-	-	2,533	1,186	1,347
Capital outlay	19,627	5,718	13,909	1,930	1,095	835	-	-	-
Debt service:									
Principal	32	-	32	-	-	-	-	-	-
Interest	13	10	3	-	-	-	6	-	6
Total expenditures	<u>21,808</u>	<u>6,089</u>	<u>15,719</u>	<u>1,930</u>	<u>1,095</u>	<u>835</u>	<u>2,539</u>	<u>1,186</u>	<u>1,353</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,404)</u>	<u>(94)</u>	<u>(14,310)</u>	<u>(539)</u>	<u>(2)</u>	<u>537</u>	<u>(2,539)</u>	<u>(444)</u>	<u>2,095</u>
Other financing sources (uses)									
Transfers in (out)	1,163	1,163	-	-	-	-	(117)	(1,163)	(1,046)
Proceeds on retirement of capital assets	-	-	-	-	-	-	-	(110)	(110)
Total other financing sources (uses)	<u>1,163</u>	<u>1,163</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(117)</u>	<u>(1,273)</u>	<u>(1,156)</u>
Net change in fund balances	(13,241)	1,069	(14,310)	(539)	(2)	537	(2,656)	(1,717)	939
Fund balances (deficit), beginning	2,674	2,674	-	513	513	-	22,072	22,072	-
Fund balances (deficit), ending	<u>\$ (10,567)</u>	<u>\$ 3,743</u>	<u>\$ (14,310)</u>	<u>\$ (26)</u>	<u>\$ 511</u>	<u>\$ 537</u>	<u>\$ 19,416</u>	<u>\$ 20,355</u>	<u>\$ 939</u>

(continued)

City of Riverside
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Capital Projects											
	Capital Outlay			Special Capital Improvement			Storm Drain			Transportation		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
Revenues												
Licenses and permits	\$ -	\$ -	\$ -	\$ 2,600	\$ 4,245	\$ 1,645	\$ 130	\$ 395	\$ 265	\$ -	\$ -	\$ -
Intergovernmental	31,910	10,643	(21,267)	250	-	(250)	12,757	61	(12,696)	336	297	(39)
Special assessments	220	956	736	-	-	-	-	-	-	-	-	-
Rental and investment income	170	25	(145)	-	26	26	20	-	(20)	-	-	-
Miscellaneous	3,750	136	(3,614)	-	-	-	-	-	-	-	-	-
Total revenues	<u>36,050</u>	<u>11,760</u>	<u>(24,290)</u>	<u>2,850</u>	<u>4,271</u>	<u>1,421</u>	<u>12,907</u>	<u>456</u>	<u>(12,451)</u>	<u>336</u>	<u>297</u>	<u>(39)</u>
Expenditures												
Current:												
General government	-	-	-	1,114	1,714	(600)	-	-	-	-	-	-
Capital outlay	51,757	9,487	42,270	1,422	2,120	(698)	13,276	313	12,963	336	297	39
Debt service:												
Principal	-	-	-	1,389	-	1,389	-	-	-	-	-	-
Interest	-	-	-	62	63	(1)	-	-	-	-	-	-
Total expenditures	<u>51,757</u>	<u>9,487</u>	<u>42,270</u>	<u>3,987</u>	<u>3,897</u>	<u>90</u>	<u>13,276</u>	<u>313</u>	<u>12,963</u>	<u>336</u>	<u>297</u>	<u>39</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,707)</u>	<u>2,273</u>	<u>(13,434)</u>	<u>(1,137)</u>	<u>374</u>	<u>(763)</u>	<u>(369)</u>	<u>143</u>	<u>(226)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)												
Transfers out	(3,000)	(3,000)	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(18,707)	(727)	(13,434)	(1,137)	374	(763)	(369)	143	(226)	-	-	-
Fund balances (deficit), beginning	18,673	18,673	-	2,507	2,507	-	1,121	1,121	-	70	12	(58)
Fund balances (deficit), ending	<u>\$ (34)</u>	<u>\$ 17,946</u>	<u>\$ (13,434)</u>	<u>\$ 1,370</u>	<u>\$ 2,881</u>	<u>\$ (763)</u>	<u>\$ 752</u>	<u>\$ 1,264</u>	<u>\$ (226)</u>	<u>\$ 70</u>	<u>\$ 12</u>	<u>\$ (58)</u>



Nonmajor Enterprise Funds

Enterprise Funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises. The City's intent is to demonstrate that the cost of services provided to the general public on a continuing basis is financed or recovered through user charges; or the City has decided that the periodic determination of net income is appropriate for accountability purposes.

Airport Fund – To account for the operations of the City's airport.

Refuse Fund – To account for the operations of the City's solid waste and sanitation program which provides for the collection and disposal of solid waste on a user charge basis to residents and businesses.

Transportation – To account for the operations of the City's Senior Citizens' and Handicapped Transportation System in accordance with Article 4 of the Transportation Development Act of 1971 (SB325) of the State of California. Federal Transit Administration Funds are also accounted for in this fund.

Public Parking – To account for the operations and construction of the City's public parking facilities.

City of Riverside
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2017
(amounts expressed in thousands)

Assets	Airport	Refuse	Transportation	Public Parking	Total
Current assets:					
Cash and investments	\$ 814	\$ 5,237	\$ 369	\$ 8	\$ 6,428
Receivables (net of allowance for uncollectibles)					
Interest	3	22	3	2	30
Utility billed	-	1,038	-	-	1,038
Utility unbilled	-	774	-	-	774
Accounts	81	773	16	897	1,767
Intergovernmental	-	-	781	21	802
Restricted assets:					
Other restricted cash and cash equivalents	-	1,738	-	-	1,738
Total current assets	898	9,582	1,169	928	12,577
Non-current assets:					
Regulatory assets	-	5,281	-	-	5,281
Capital assets:					
Land	9,988	-	-	9,192	19,180
Buildings	2,631	-	43	33,229	35,903
Accumulated depreciation-buildings	(1,442)	-	(15)	(6,427)	(7,884)
Improvements other than buildings	19,665	-	2,848	6,740	29,253
Accumulated depreciation-improvements other than buildings	(8,348)	-	(414)	(2,599)	(11,361)
Machinery and equipment	479	16,832	5,137	1,130	23,578
Accumulated depreciation-machinery and equipment	(394)	(11,977)	(3,339)	(1,120)	(16,830)
Construction in progress	164	-	-	-	164
Total non-current assets:	22,743	10,136	4,260	40,145	77,284
Total assets	23,641	19,718	5,429	41,073	89,861
Deferred Outflows of Resources					
Pension contributions, changes in assumptions and differences in experience	388	2,865	1,311	740	5,304
Total deferred outflows of resources	388	2,865	1,311	740	5,304

Continued

City of Riverside
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2017
(amounts expressed in thousands)

Liabilities	Airport	Refuse	Transportation	Public Parking	Total
Current liabilities:					
Accounts payable	11	1,149	15	132	1,307
Unearned revenue	5	1	1,195	-	1,201
Due to other funds	-	-	-	307	307
Notes payable - current	-	-	-	1,014	1,014
Landfill capping - current	-	250	-	-	250
Compensated absences - current	37	321	119	40	517
Total current liabilities	53	1,721	1,329	1,493	4,596
Non-current liabilities:					
Notes payables	-	-	-	18,257	18,257
Advances from other funds	245	1,050	498	389	2,182
Landfill capping	-	5,140	-	-	5,140
Compensated absences	3	26	9	3	41
OPEB obligation	126	1,099	525	256	2,006
Net pension liability	970	7,446	3,416	1,986	13,818
Total non-current liabilities	1,344	14,761	4,448	20,891	41,444
Total liabilities	1,397	16,482	5,777	22,384	46,040
Deferred Inflows of Resources					
Pension contributions, changes in assumptions and differences in experience	176	1,472	679	418	2,745
Total deferred inflows of resources	176	1,472	679	418	2,745
Net Position					
Net investment in capital assets	22,743	4,855	4,260	20,874	52,732
Restricted for landfill capping	-	1,738	-	-	1,738
Unrestricted	(287)	(1,964)	(3,976)	(1,863)	(8,090)
Total net position	\$ 22,456	\$ 4,629	\$ 284	\$ 19,011	\$ 46,380

City of Riverside
Combining Statement of Revenues, Expenses and Changes in Net Position
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	<u>Airport</u>	<u>Refuse</u>	<u>Transportation</u>	<u>Public Parking</u>	<u>Total</u>
Operating revenues:					
Charges for services	\$ 1,578	\$ 22,567	\$ 359	\$ 5,009	\$ 29,513
Operating expenses:					
Personnel services	618	4,809	2,328	1,152	8,907
Contractual services	58	4,613	38	1,645	6,354
Maintenance and operation	285	5,812	501	686	7,284
General	267	3,656	521	89	4,533
Materials and supplies	22	1,195	228	17	1,462
Insurance	32	89	49	88	258
Depreciation and amortization	707	1,730	530	992	3,959
Total operating expenses	<u>1,989</u>	<u>21,904</u>	<u>4,195</u>	<u>4,669</u>	<u>32,757</u>
Operating Income (loss)	<u>(411)</u>	<u>663</u>	<u>(3,836)</u>	<u>340</u>	<u>(3,244)</u>
Nonoperating revenues (expenses):					
Operating grants	-	-	3,751	-	3,751
Interest income	5	17	-	4	26
Other	39	514	82	735	1,370
Gain (loss) on retirement of capital assets	19	(328)	-	-	(309)
Interest expense and fiscal charges	(9)	(49)	(26)	(779)	(863)
Total non-operating revenues	<u>54</u>	<u>154</u>	<u>3,807</u>	<u>(40)</u>	<u>3,975</u>
Income (loss) before capital contributions and transfers	<u>(357)</u>	<u>817</u>	<u>(29)</u>	<u>300</u>	<u>731</u>
Cash capital contributions	106	-	781	-	887
Noncash capital contributions	55	-	-	-	55
Transfers in	-	-	-	825	825
Transfers out	-	-	-	(738)	(738)
Change in net position	<u>(196)</u>	<u>817</u>	<u>752</u>	<u>387</u>	<u>1,760</u>
Net position - beginning	22,652	3,812	(468)	18,624	44,620
Net position - ending	<u>\$ 22,456</u>	<u>\$ 4,629</u>	<u>\$ 284</u>	<u>\$ 19,011</u>	<u>\$ 46,380</u>

City of Riverside
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

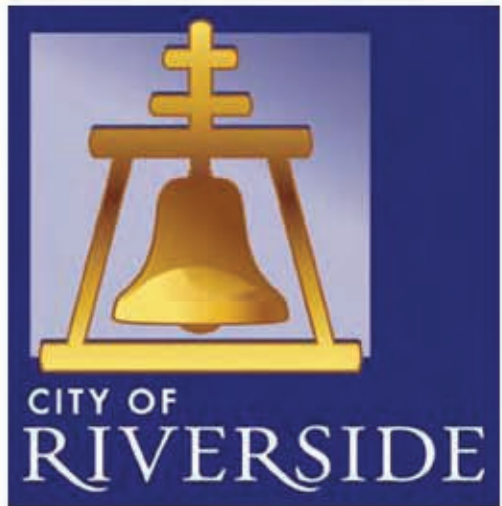
	Airport	Refuse	Transportation	Public Parking	Totals
Cash flows from operating activities:					
Cash received from customers and users	\$ 1,566	\$ 22,416	\$ -	\$ 4,771	\$ 28,753
Cash paid to employees for services	(598)	(4,737)	(2,280)	(1,139)	(8,754)
Cash paid to other suppliers of goods or services	(670)	(15,257)	(1,554)	(2,451)	(19,932)
Other nonoperating items	39	920	82	735	1,776
Net cash (used) provided by operating activities	<u>337</u>	<u>3,342</u>	<u>(3,752)</u>	<u>1,916</u>	<u>1,843</u>
Cash flows from noncapital financing activities:					
Transfers in	-	-	-	825	825
Transfers out	-	-	-	(738)	(738)
Operating grants	-	-	3,751	-	3,751
Receipts on interfund advances	55	13	-	32	100
Payments on interfund advances	-	-	(1)	(275)	(276)
Net cash (used) provided by noncapital financing activities	<u>55</u>	<u>13</u>	<u>3,750</u>	<u>(156)</u>	<u>3,662</u>
Cash flows from capital and related financing activities:					
Purchase of capital assets	(119)	(847)	(1,247)	-	(2,213)
Proceeds from the sale of capital assets	19	-	-	-	19
Principal paid on long-term obligations	-	-	-	(976)	(976)
Interest paid on long-term obligations	(9)	(49)	(26)	(779)	(863)
Capital contributions	106	-	781	-	887
Net cash (used) provided for capital and related financing activities	<u>(3)</u>	<u>(896)</u>	<u>(492)</u>	<u>(1,755)</u>	<u>(3,146)</u>
Cash flows from investing activities:					
Sale and (purchase) of investments	(2)	(9)	(1)	(1)	(13)
Interest from investments	5	17	-	4	26
Net cash (used) provided by investing activities	<u>3</u>	<u>8</u>	<u>(1)</u>	<u>3</u>	<u>13</u>
Net change in cash and cash equivalents	392	2,467	(495)	8	2,372
Cash and cash equivalents, beginning	<u>422</u>	<u>4,508</u>	<u>864</u>	<u>-</u>	<u>5,794</u>
Cash and cash equivalents, ending	<u>\$ 814</u>	<u>\$ 6,975</u>	<u>\$ 369</u>	<u>\$ 8</u>	<u>\$ 8,166</u>

Continued

City of Riverside
 Combining Statement of Cash Flows
 Nonmajor Enterprise Funds
 For the fiscal year ended June 30, 2017
 (amounts expressed in thousands)

Continued

	Airport	Refuse	Transportation	Public Parking	Totals
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:					
Operating Income (loss)	\$ (411)	\$ 663	\$ (3,836)	\$ 340	\$ (3,244)
Other nonoperating items	39	514	82	735	1,370
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	707	1,730	530	992	3,959
Changes in assets, liabilities and deferred inflows/outflows of resources:					
Utility billed receivable	-	(11)	-	-	(11)
Utility unbilled receivable	-	(27)	-	-	(27)
Accounts receivable	(12)	(113)	1	(236)	(360)
Intergovernmental receivable	-	-	(492)	(2)	(494)
Regulatory assets	-	406	-	-	406
Accounts payable	(11)	404	8	74	475
Other payables	29	89	(36)	17	99
Landfill capping	-	(296)	-	-	(296)
Net pension liability and related charges in deferred outflows and inflows of resources	(4)	(17)	(9)	(4)	(34)
Net cash (used) provided by operating activities	<u>\$ 337</u>	<u>\$ 3,342</u>	<u>\$ (3,752)</u>	<u>\$ 1,916</u>	<u>\$ 1,843</u>
Schedule of noncash financing and investing activities:					
Capital Contributions - capital assets	\$ 55	\$ -	\$ -	\$ -	\$ 55
Loss on retirement of capital assets	-	(328)	-	-	(328)



Internal Service Funds

Internal Service Funds are used to account for the financing of goods and services provided by one City department to other City departments on a cost-reimbursement basis.

Self-Insurance Trust – To account for the operations of the City's self-insured workers' compensation, unemployment and liability programs.

Central Stores Fund – To account for the operations of the City's centralized supplies inventory, including receiving and delivery services provided to City departments.

Central Garage Fund – To account for the maintenance and repair of all city-owned vehicles and motorized equipment, except for Police vehicles.

City of Riverside
Combining Statement of Net Position
Internal Service Funds
June 30, 2017
(amounts expressed in thousands)

Assets	Self-Insurance Trust	Central Stores	Central Garage	Total
Current assets:				
Cash and investments	\$ 13,900	\$ -	\$ 4,621	\$ 18,521
Receivables (net of allowance for uncollectibles)				
Interest	28	-	15	43
Accounts	17	-	6	23
Intergovernmental	27	-	566	593
Inventory	-	5,670	330	6,000
Total current assets	<u>13,972</u>	<u>5,670</u>	<u>5,538</u>	<u>25,180</u>
Non-current assets:				
Advances to other funds	774	-	2,764	3,538
Capital assets:				
Land			458	458
Intangible assets, depreciable	219	-	-	219
Accumulated depreciation - intangible assets, depreciable	(88)	-	-	(88)
Buildings	-	-	4,065	4,065
Accumulated depreciation-buildings	-	-	(597)	(597)
Improvements other than buildings	-	-	1,315	1,315
Accumulated depreciation - improvements other than buildings	-	-	(369)	(369)
Machinery and equipment	5	139	11,163	11,307
Accumulated depreciation-machinery and equipment	(3)	(139)	(8,534)	(8,676)
Total non-current assets:	<u>907</u>	<u>-</u>	<u>10,265</u>	<u>11,172</u>
Total assets	<u>14,879</u>	<u>5,670</u>	<u>15,803</u>	<u>36,352</u>
Deferred Outflows of Resources				
Pension contributions, changes in assumptions and differences in experience	392	420	2,124	2,936
Total deferred outflows of resources	<u>392</u>	<u>420</u>	<u>2,124</u>	<u>2,936</u>
Liabilities				
Current liabilities:				
Accounts payable	646	422	276	1,344
Due to other funds	-	261	-	261
Claims and judgments - current	10,765	-	-	10,765
Compensated absences - current	26	56	220	302
Total current liabilities	<u>11,437</u>	<u>739</u>	<u>496</u>	<u>12,672</u>
Non-current liabilities:				
Advances from other funds	107	149	1,306	1,562
Claims and judgments	34,180	-	-	34,180
Compensated absences	12	25	97	134
OPEB obligation	121	147	636	904
Net pension liability	924	1,052	5,414	7,390
Total non-current liabilities	<u>35,344</u>	<u>1,373</u>	<u>7,453</u>	<u>44,170</u>
Total liabilities	<u>46,781</u>	<u>2,112</u>	<u>7,949</u>	<u>56,842</u>
Deferred Inflows of Resources				
Pension contributions, changes in assumptions and differences in experience	143	191	1,026	1,360
Total deferred inflows of resources	<u>143</u>	<u>191</u>	<u>1,026</u>	<u>1,360</u>
Net Position				
Net investment in capital assets	133	-	7,501	7,634
Unrestricted	(31,786)	3,787	1,451	(26,548)
Total net position	<u>\$ (31,653)</u>	<u>\$ 3,787</u>	<u>\$ 8,952</u>	<u>\$ (18,914)</u>

City of Riverside
Combining Statement of Revenues, Expenses and Changes in Net Position
Internal Service Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	<u>Self-Insurance Trust</u>	<u>Central Stores</u>	<u>Central Garage</u>	<u>Totals</u>
Operating revenues:				
Charges for services	\$ 13,600	\$ 1,394	\$ 9,387	\$ 24,381
Operating expenses:				
Personnel services	557	674	3,286	4,517
Contractual services	1,379	-	95	1,474
Maintenance and operation	4	30	2,581	2,615
General	1,366	340	738	2,444
Materials and supplies	2	13	288	303
Claims/Insurance	10,151	6	74	10,231
Depreciation and amortization	45	-	870	915
Total operating expenses	<u>13,504</u>	<u>1,063</u>	<u>7,932</u>	<u>22,499</u>
Operating income (loss)	<u>96</u>	<u>331</u>	<u>1,455</u>	<u>1,882</u>
Non-operating revenues (expenses):				
Interest income	18	-	58	76
Other	5	-	-	5
Gain (loss) on retirement of capital assets	-	-	29	29
Interest expense and fiscal charges	(9)	(9)	(51)	(69)
Total non-operating revenue (expenses)	<u>14</u>	<u>(9)</u>	<u>36</u>	<u>41</u>
Change in net position	110	322	1,491	1,923
Net position - beginning	(31,763)	3,465	7,461	(20,837)
Net position - ending	<u>\$ (31,653)</u>	<u>\$ 3,787</u>	<u>\$ 8,952</u>	<u>\$ (18,914)</u>

City of Riverside
Combining Statement of Cash Flows
Internal Service Funds
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

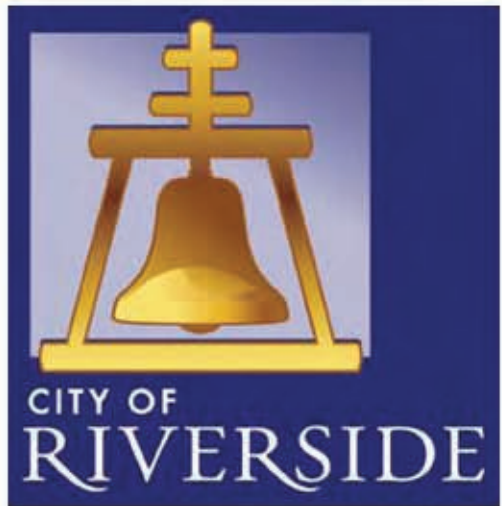
	Self-Insurance Trust	Central Stores	Central Garage	Total
Cash flows from operating activities:				
Cash received from customers and users	\$ 13,605	\$ 1,394	\$ 8,819	\$ 23,818
Cash paid to employees for services	1,128	(659)	(3,274)	(2,805)
Cash paid to other suppliers of goods or services	(13,108)	(348)	(3,921)	(17,377)
Other receipts	5	-	-	5
Net cash provided by operating activities	<u>1,630</u>	<u>387</u>	<u>1,624</u>	<u>3,641</u>
Cash flows from noncapital financing activities:				
Receipts on interfund advances	4,698	-	696	5,394
Payments on interfund advances	<u>(75)</u>	<u>(378)</u>	<u>(568)</u>	<u>(1,021)</u>
Net cash (used) provided by noncapital financing activities	<u>4,623</u>	<u>(378)</u>	<u>128</u>	<u>4,373</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	-	(1,493)	(1,493)
Proceeds from the sale of capital assets	-	-	29	29
Interest paid on long-term obligation	<u>(9)</u>	<u>(9)</u>	<u>(51)</u>	<u>(69)</u>
Net cash (used) for capital and related financing activities	<u>(9)</u>	<u>(9)</u>	<u>(1,515)</u>	<u>(1,533)</u>
Cash flows from investing activities:				
Sale and (purchase) of investments	(5)	-	(5)	(10)
Interest from investments	<u>18</u>	<u>-</u>	<u>58</u>	<u>76</u>
Net cash provided by investing activities	<u>13</u>	<u>-</u>	<u>53</u>	<u>66</u>
Net change in cash and cash equivalents	6,257	-	290	6,547
Cash and cash equivalents, beginning	<u>7,643</u>	<u>-</u>	<u>4,331</u>	<u>11,974</u>
Cash and cash equivalents, ending	<u>\$ 13,900</u>	<u>\$ -</u>	<u>\$ 4,621</u>	<u>\$ 18,521</u>

Continued

City of Riverside
 Combining Statement of Cash Flows
 Internal Service Funds
 For the fiscal year ended June 30, 2017
 (amounts expressed in thousands)

Continued

	Self-Insurance Trust	Central Stores	Central Garage	Total
Reconciliation of operating income (loss) to net cash (used) provided by operating activities:				
Operating income (loss)	\$ 96	\$ 331	\$ 1,455	\$ 1,882
Other nonoperating items	5	-	-	5
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:				
Depreciation and amortization	45	-	870	915
Changes in assets, liabilities and deferred inflows/outflows of resources:				
Accounts receivable	-	-	(2)	(2)
Intergovernmental receivable	5	-	(566)	(561)
Inventory	-	(33)	(53)	(86)
Accounts payable	(206)	74	(92)	(224)
Other payables	12	18	25	55
Claims and judgments	1,676	-	-	1,676
Net pension liability and related charges in deferred outflows and inflows of resources	(3)	(3)	(13)	(19)
Net cash (used) provided by operating activities	<u>\$ 1,630</u>	<u>\$ 387</u>	<u>\$ 1,624</u>	<u>\$ 3,641</u>

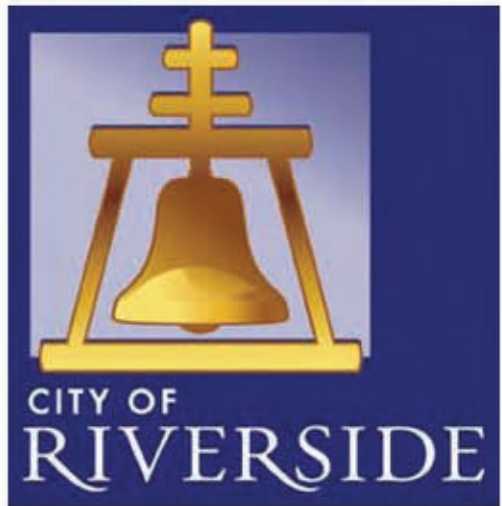


Agency Fund

The City's Agency Fund is used to account for special assessments that service no-commitment debt.

City of Riverside
Fiduciary Fund - Agency Fund
Combining Statement of Changes in Assets and Liabilities
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	Balance				Balance
	July 1, 2016	Additions	Deductions		June 30, 2017
Assets					
Cash and investments	\$ 3,085	\$ 3,901	\$ 3,805		\$ 3,181
Cash and investments at fiscal agent	5,156	3,924	4,012		5,068
Interest receivable	6	58	56		8
Property taxes receivable	52	36	54		34
Total assets	\$ 8,299	\$ 7,919	\$ 7,927		\$ 8,291
Liabilities					
Accounts payable	\$ 35	\$ 66	\$ 101		-
Held for bond holders	8,264	7,853	7,826		8,291
Total liabilities	\$ 8,299	\$ 7,919	\$ 7,927		\$ 8,291



**COMBINING GENERAL FUND SCHEDULE WITH
MEASURE Z FUND ACTIVITY**

City of Riverside
Balance Sheet
Combining General Fund Schedule
June 30, 2017
(amounts expressed in thousands)

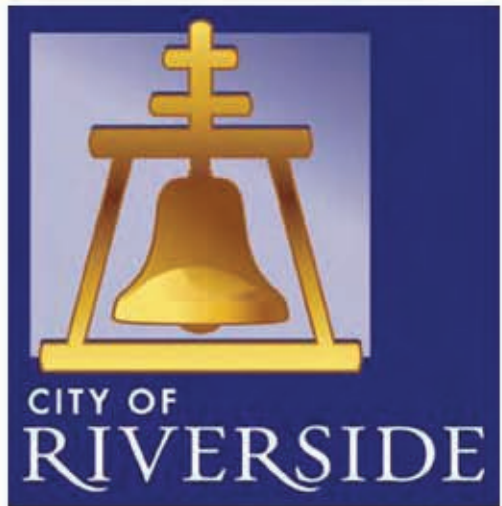
Assets	General Fund	Measure Z Fund	Total General Fund
Cash and investments	\$ 59,347	\$ -	\$ 59,347
Cash and investments at fiscal agent	1,943	-	1,943
Receivables (net of allowance for uncollectibles)			
Interest	22	1	23
Property taxes	4,274	-	4,274
Sales tax	11,196	9,164	20,360
Utility billed	1,210	-	1,210
Accounts	6,525	-	6,525
Intergovernmental	4,050	-	4,050
Notes	1	-	1
Prepaid items	2,599	-	2,599
Deposits	300	-	300
Due from other funds	1,722	-	1,722
Due from Measure Z Fund *	6,519	-	6,519
Advances to other funds	22,715	-	22,715
Advances to Successor Agency Trust Fund	554	-	554
Land & improvements held for resale	175	-	175
Total assets	\$ 123,152	\$ 9,165	\$ 132,317
Liabilities			
Accounts payable	\$ 9,286	\$ 5	\$ 9,291
Accrued payroll	19,072	-	19,072
Retainage payable	1	-	1
Intergovernmental	149	-	149
Unearned revenue	273	-	273
Deposits	7,750	-	7,750
Due to General Fund *	-	6,519	6,519
Total liabilities	36,531	6,524	43,055
Deferred Inflows of Resources			
Unavailable revenue	6,192	-	6,192
Total deferred inflows of resources	6,192	-	6,192
Fund Balances			
Nonspendable:			
Inventories, prepaids and deposits	2,899	-	2,899
Advances	23,269	-	23,269
Restricted for:			
Housing and redevelopment	175	-	175
Debt service	1,884	-	1,884
Other purposes	592	-	592
Assigned to:			
General government	2,387	-	2,387
Public safety	2,357	-	2,357
Highways and streets	1,032	-	1,032
Culture and recreation	728	-	728
Continuing projects	7,977	487	8,464
Unassigned	37,129	2,154	39,283
Total fund balances	80,429	2,641	83,070
Total liabilities, deferred inflows of resources, and fund balances	\$ 123,152	\$ 9,165	\$ 132,317

* Per accounting standards, Due To/From within the same fund are not reflected in the Balance Sheet; however, they are reflected in this schedule for transparency purposes.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances
Combining General Fund Schedule
For the fiscal year ended June 30, 2017
(amounts expressed in thousands)

	<u>General Fund</u>	<u>Measure Z Fund</u>	<u>Total General Fund</u>
Revenues			
Taxes	\$ 162,198	\$ 12,605	\$ 174,803
Licenses and permits	9,815	-	9,815
Intergovernmental	7,318	-	7,318
Charges for services	31,384	-	31,384
Fines and forfeitures	1,975	-	1,975
Special assessments	4,443	-	4,443
Rental and investment income	2,767	1	2,768
Miscellaneous	5,512	-	5,512
Total revenues	<u>225,412</u>	<u>12,606</u>	<u>238,018</u>
Expenditures			
Current:			
General government	16,424	27	16,451
Public safety	162,419	449	162,868
Highways and streets	17,504	-	17,504
Culture and recreation	40,440	-	40,440
Capital outlay	3,361	-	3,361
Debt service:			
Principal	44,225	-	44,225
Interest	5,209	-	5,209
Bond issuance costs	29	-	29
Total expenditures	<u>289,611</u>	<u>476</u>	<u>290,087</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(64,199)</u>	<u>12,130</u>	<u>(52,069)</u>
Other financing sources (uses)			
Transfers in	76,948	-	76,948
Transfers out	(13,497)	-	(13,497)
Transfers in from Measure Z Fund *	9,489	-	9,489
Transfers out to General Fund *	-	(9,489)	(9,489)
Capital lease financings	2,109	-	2,109
Proceeds from the sale of capital assets	4,001	-	4,001
Total other financing sources (uses)	<u>79,050</u>	<u>(9,489)</u>	<u>69,561</u>
Net change in fund balances	14,851	2,641	17,492
Fund balances - beginning	65,578	-	65,578
Fund balances - ending	<u>\$ 80,429</u>	<u>\$ 2,641</u>	<u>\$ 83,070</u>

* Per accounting standards, Transfers within the same fund are not reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances; however, they are reflected in this schedule for transparency purposes.



Statistical Section
(Unaudited)

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

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	95
Revenue Capacity These schedules contain informat property and sales taxes.	101
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	111
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	117
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	120

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table 1
City of Riverside
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

(in thousands)

	Fiscal Year									
	2008	2009	2010	2011	2012 ¹	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 850,740	\$ 950,496	\$ 976,614	\$ 1,019,892	\$ 1,076,485	\$ 1,083,485	\$ 1,106,384	\$ 1,126,220	\$ 1,123,910	\$ 1,102,409
Restricted	102,677	98,903	108,932	80,820	86,325	80,712	96,587	105,847	106,488	104,853
Unrestricted	(31,429)	(41,861)	(80,947)	(90,159)	23,145	17,989	(2,049)	(406,388)	(389,278)	(362,146)
Total governmental activities net position	<u>\$ 921,988</u>	<u>\$ 1,007,538</u>	<u>\$ 1,004,599</u>	<u>\$ 1,010,553</u>	<u>\$ 1,185,955</u>	<u>\$ 1,182,186</u>	<u>\$ 1,200,922</u>	<u>\$ 825,679</u>	<u>\$ 841,120</u>	<u>\$ 845,116</u>
Business-type activities										
Net investment in capital assets	\$ 601,999	\$ 659,904	\$ 660,619	\$ 654,974	\$ 666,919	\$ 609,691	\$ 616,844	\$ 626,166	\$ 654,870	\$ 702,844
Restricted	43,341	38,621	59,863	56,397	54,923	69,068	68,507	75,660	85,526	93,570
Unrestricted	225,281	207,405	219,720	256,038	285,062	330,833	359,698	209,469	235,144	245,116
Total business-type activities net position	<u>\$ 870,621</u>	<u>\$ 905,930</u>	<u>\$ 940,202</u>	<u>\$ 967,409</u>	<u>\$ 1,006,904</u>	<u>\$ 1,009,592</u>	<u>\$ 1,045,049</u>	<u>\$ 911,295</u>	<u>\$ 975,540</u>	<u>\$ 1,041,530</u>
Primary government										
Net investment in capital assets	\$ 1,452,739	\$ 1,610,400	\$ 1,637,233	\$ 1,674,866	\$ 1,743,404	\$ 1,693,176	\$ 1,723,228	\$ 1,752,386	\$ 1,778,780	\$ 1,805,253
Restricted	146,018	137,524	168,795	137,217	141,248	149,780	165,094	181,507	192,014	198,423
Unrestricted	193,852	165,544	138,773	165,879	308,207	348,822	357,649	(196,919)	(154,134)	(117,030)
Total primary government net position	<u>\$ 1,792,609</u>	<u>\$ 1,913,468</u>	<u>\$ 1,944,801</u>	<u>\$ 1,977,962</u>	<u>\$ 2,192,859</u>	<u>\$ 2,191,778</u>	<u>\$ 2,245,971</u>	<u>\$ 1,736,974</u>	<u>\$ 1,816,660</u>	<u>\$ 1,886,646</u>

¹ The increase in total governmental activities net position (and related unrestricted net position) is primarily due to the dissolution of the Redevelopment Agency.

Table 2
City of Riverside
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

(in thousands) Page 1 of 2

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 113,897	\$ 71,391	\$ 85,110	\$ 72,606	\$ 48,731	\$ 54,808	\$ 39,331	\$ 26,587	\$ 24,483	\$ 44,510
Public safety	122,783	142,353	137,338	139,364	148,605	147,652	149,555	154,123	161,284	160,665
Highways and streets	26,986	29,700	31,492	32,131	35,342	35,072	36,564	36,563	38,836	38,585
Culture and recreation	31,659	29,423	44,319	50,017	54,594	40,077	42,252	45,594	47,762	49,406
Interest on long-term debt	34,075	34,361	32,049	33,638	25,087	16,627	17,741	17,025	16,387	16,028
Total governmental activities expenses	329,400	307,228	330,308	327,756	312,359	294,236	285,443	279,892	288,752	309,194
Business-type activities:										
Electric	271,412	269,209	256,860	275,922	288,799	292,175	304,416	309,874	307,925	317,335
Water	47,570	53,931	55,402	56,390	56,715	58,768	60,030	62,792	57,769	62,189
Sewer	31,209	34,853	41,248	42,276	43,702	43,945	40,385	35,593	39,978	38,305
Airport	1,418	1,734	2,206	2,320	2,646	2,029	1,662	1,809	1,799	1,998
Refuse	18,430	18,425	20,527	20,046	19,979	20,581	20,831	20,007	21,652	21,953
Transportation	3,190	3,194	3,368	3,493	3,667	3,745	4,067	4,385	4,113	4,221
Public parking	4,093	5,095	4,024	4,401	4,984	5,051	4,610	5,604	5,141	5,448
Total business-type activities expenses	377,322	386,441	383,635	404,848	420,492	426,294	436,001	440,064	438,377	451,449
Total primary government expenses	\$ 706,722	\$ 693,669	\$ 713,943	\$ 732,604	\$ 732,851	\$ 720,530	\$ 721,444	\$ 719,956	\$ 727,129	\$ 760,643
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 23,969	\$ 13,691	\$ 12,933	\$ 14,241	\$ 14,662	\$ 13,338	\$ 13,775	\$ 17,600	\$ 24,944	\$ 27,441
Public safety	9,924	8,414	8,177	8,075	7,837	7,793	7,444	7,256	3,243	1,167
Highways and streets	19,695	14,391	17,847	16,985	16,532	15,825	17,487	13,868	5,709	5,930
Culture and recreation	4,370	3,168	2,367	3,180	4,622	5,237	7,406	16,319	12,458	22,802
Operating grants and contributions	15,024	23,313	32,853	21,127	31,581	21,485	14,341	12,869	16,321	19,374
Capital grants and contributions	115,982	69,745	23,395	38,138	54,476	32,202	48,433	43,904	31,216	7,617
Total governmental activities program revenues	188,964	132,722	97,572	101,746	129,710	95,880	108,886	111,816	93,891	84,331
Business-type activities:										
Charges for services:										
Electric	305,299	314,164	309,910	313,703	333,029	347,933	344,037	347,621	354,530	366,066
Water	49,855	54,923	57,534	62,084	65,206	68,489	68,691	66,051	57,250	62,627
Sewer	22,525	23,247	27,342	32,769	37,747	43,772	46,162	50,336	52,664	59,735
Airport	1,423	1,232	1,315	1,342	1,524	1,396	1,100	1,260	1,549	1,578
Refuse	16,289	18,394	18,712	19,134	19,588	20,829	20,677	21,360	21,806	22,567
Transportation	313	336	328	344	352	344	413	385	377	359
Public parking	3,717	4,332	4,876	5,205	4,803	4,777	4,382	4,609	4,918	5,009
Operating grants and contributions	3,308	1,929	2,487	2,159	2,738	2,718	2,524	3,869	2,322	3,751
Capital grants and contributions	29,215	17,288	6,838	7,337	21,164	11,734	11,486	8,027	18,868	24,151
Total business-type activities program revenues	431,944	435,845	429,342	444,077	486,151	501,992	499,472	503,518	514,284	545,843
Total primary government program revenues	\$ 620,908	\$ 568,567	\$ 526,914	\$ 545,823	\$ 615,861	\$ 597,872	\$ 608,358	\$ 615,334	\$ 608,175	\$ 630,174

(continued)

Table 2
City of Riverside
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

(in thousands) Page 2 of 2

	Fiscal Year									
	2008	2009	2010	2011	2012 ¹	2013 ²	2014	2015	2016	2017
Net Revenues (Expense)										
Governmental activities	\$ (140,436)	\$ (174,506)	\$ (232,736)	\$ (226,010)	\$ (182,649)	\$ (198,356)	\$ (176,557)	\$ (168,076)	\$ (194,861)	\$ (224,863)
Business-type activities	54,622	49,404	45,707	39,229	65,659	75,698	63,471	63,454	75,907	94,394
Total primary government net expense	\$ (85,814)	\$ (125,102)	\$ (187,029)	\$ (186,781)	\$ (116,990)	\$ (122,658)	\$ (113,086)	\$ (104,622)	\$ (118,954)	\$ (130,469)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Sales	\$ 50,526	\$ 41,882	\$ 39,645	\$ 44,157	\$ 47,701	\$ 50,222	\$ 55,096	\$ 59,437	\$ 60,976	\$ 75,883
Property	114,176	116,420	104,087	100,802	74,179	52,904	51,323	54,864	55,545	59,526
Utility users	26,267	25,964	25,975	26,691	27,320	28,206	28,092	28,076	27,828	27,958
Franchise	4,972	5,144	4,477	4,937	4,883	4,959	5,046	5,543	5,730	4,814
Transient occupancy	3,795	2,912	2,488	2,731	2,995	3,703	4,189	5,280	6,093	6,622
Intergovernmental, unrestricted	2,074	4,569	1,339	1,285	351	337	263	3,153	477	145
Unrestricted grants and contributions	-	-	-	-	-	-	-	-	-	-
Investment earnings	25,670	15,941	8,289	7,439	4,440	2,786	2,759	3,233	729	6,145
Miscellaneous	9,480	5,137	3,344	9,544	9,273	9,208	5,425	12,395	11,708	2,050
Transfers	32,326	42,087	40,153	34,378	40,679	42,262	43,100	42,681	41,216	45,716
Extraordinary items	-	-	-	-	149,617	-	-	-	-	-
Total governmental activities	269,286	260,056	229,797	231,964	361,438	194,587	195,293	214,662	210,302	228,859
Business-type activities:										
Investment income	22,756	23,402	21,271	17,548	11,405	4,744	8,005	5,319	6,888	2,650
Miscellaneous	4,931	4,590	7,447	4,808	3,110	5,767	7,081	7,652	22,666	14,662
Transfers	(32,326)	(42,087)	(40,153)	(34,378)	(40,679)	(42,262)	(43,100)	(42,681)	(41,216)	(45,716)
Extraordinary items	-	-	-	-	-	(41,259)	-	-	-	-
Total business-type activities	(4,639)	(14,095)	(11,435)	(12,022)	(26,164)	(73,010)	(28,014)	(29,710)	(11,662)	(28,404)
Total primary government	264,647	245,961	218,362	219,942	335,274	121,577	167,279	184,952	198,640	200,455
Change in Net Position										
Governmental activities	\$ 128,850	\$ 85,550	\$ (2,939)	\$ 5,954	\$ 178,789	\$ (3,769)	\$ 18,736	\$ 46,586	\$ 15,441	\$ 3,996
Business-type activities	49,983	35,309	34,272	27,207	39,495	2,688	35,457	33,744	64,245	65,990
Total primary government	\$ 178,833	\$ 120,859	\$ 31,333	\$ 33,161	\$ 218,284	\$ (1,081)	\$ 54,193	\$ 80,330	\$ 79,686	\$ 69,986

¹ The increase in total governmental activities net position is primarily due to the dissolution of the Redevelopment Agency.

² The decrease in total business-type activities net position is primarily due to the power plant closure.

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

	2012 ^{1,2}	2013	2014	2015	2016	2017
General fund						
Nonspendable	\$ 25,720	\$ 26,421	\$ 24,419	\$ 23,642	\$ 23,094	\$ 26,168
Restricted	2,803	2,196	2,204	2,985	3,067	2,651
Assigned	6,380	10,711	14,505	13,965	9,922	14,968
Unassigned	39,347	37,763	37,732	39,059	29,495	39,283
Total general fund	\$ 74,250	\$ 77,091	\$ 78,860	\$ 79,651	\$ 65,578	\$ 83,070
All other governmental funds						
Nonspendable	\$ 1,539	\$ 1,441	\$ 1,460	\$ 1,625	\$ 1,619	\$ 1,601
Restricted for:						
Housing and redevelopment	26,911	26,410	26,223	25,523	24,746	24,098
Debt service	29,080	25,884	26,177	26,203	26,221	6,455
Transportation and public works	31,075	16,487	54,876	36,347	36,876	34,178
Other purposes	1,401	2,003	321	2,326	3,628	4,145
Unassigned	-	-	-	-	-	(24)
Total all other governmental funds	\$ 90,006	\$ 72,225	\$ 109,057	\$ 92,024	\$ 93,090	\$ 70,453

¹ The decrease in fund balance of the General Fund primarily relates to the transfer of land held for resale (in the amount of \$76.3 million) to the Redevelopment Agency Capital Projects Fund, which had been transferred to the General Fund during the fiscal year ended June 30, 2011.

² The decrease in fund balance of all other governmental funds relates to the dissolution of the Redevelopment Agency.

Note: Certain reclassifications have been made to prior year balances to conform with current year's presentation.

The City of Riverside implemented GASB 54 in the fiscal year ended June 30, 2011. The City has elected to show six years of data for this schedule.

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

(in thousands) Page 1 of 2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
Taxes	\$ 200,438	\$ 192,322	\$ 177,255	\$ 179,318	\$ 156,593	\$ 139,994	\$ 143,748	\$ 153,200	\$ 156,172	\$ 174,803
Licenses and permits	10,027	7,368	6,899	7,657	9,292	10,173	9,244	11,168	11,611	14,455
Intergovernmental	79,423	86,873	60,550	61,082	66,618	50,734	59,348	49,892	51,896	31,440
Charges for services	11,325	9,099	9,570	10,720	11,774	12,062	15,734	24,737	26,443	31,384
Fines and forfeitures	4,573	6,213	7,512	8,928	6,293	6,234	7,283	3,957	1,941	1,976
Special assessments	5,245	5,431	5,464	6,014	6,276	6,669	6,272	6,757	7,039	7,578
Use of money and property	27,970	18,620	11,173	10,173	8,095	3,878	4,315	5,112	4,370	4,718
Miscellaneous	12,796	7,596	7,082	16,605	10,611	14,933	6,957	6,939	12,578	7,252
Total revenues	\$ 351,797	\$ 333,522	\$ 285,505	\$ 300,497	\$ 275,552	\$ 244,677	\$ 252,901	\$ 261,762	\$ 272,050	\$ 273,606
Expenditures:										
General government	\$ 26,177	\$ 25,995	\$ 23,835	\$ 26,090	\$ 18,835	\$ 15,713	\$ 13,558	\$ 17,799	\$ 19,900	\$ 20,650
Public safety	151,773	145,802	138,594	140,994	150,878	150,290	151,721	157,660	164,800	163,712
Highways and streets	25,209	18,452	14,987	14,587	16,651	16,294	16,944	16,594	17,416	17,504
Culture and recreation	30,622	26,859	40,373	44,345	57,538	45,356	34,275	37,527	39,583	40,643
Capital outlay	171,952	180,394	131,908	105,689	75,482	73,581	72,365	60,060	53,208	31,000
Debt Service:										
Principal	11,257	44,349	48,078	89,264	83,378	45,006	45,500	49,101	51,987	72,700
Interest	31,239	33,033	31,267	32,611	24,133	15,116	16,787	17,048	16,451	16,115
Debt issuance costs	697	259	231	174	169	581	843	172	180	29
Payment for advance refunding	-	-	-	-	-	3,521	-	-	-	-
Total expenditures	\$ 448,926	\$ 475,143	\$ 429,273	\$ 453,754	\$ 427,064	\$ 365,458	\$ 351,993	\$ 355,961	\$ 363,525	\$ 362,353
Excess of revenues over (under) expenditures	\$ (97,129)	\$ (141,621)	\$ (143,768)	\$ (153,257)	\$ (151,512)	\$ (120,781)	\$ (99,092)	\$ (94,199)	\$ (91,475)	\$ (88,747)

(continued)

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

(in thousands) Page 2 of 2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Other financing sources (uses):										
Transfers in	\$ 62,841	\$ 100,797	\$ 88,303	\$ 214,631	\$ 196,859	\$ 56,572	\$ 58,469	\$ 61,510	\$ 61,384	\$ 94,521
Transfers out	(30,515)	(58,710)	(48,150)	(180,280)	(156,305)	(14,178)	(15,369)	(18,829)	(20,168)	(48,805)
Issuance of long term debt	164,408	30,425	51,821	104,875	34,940	99,753	87,037	30,940	31,145	31,578
Capital lease financings	-	-	3,116	2,000	-	7,203	6,625	4,450	5,846	2,109
Sales of capital assets	8,931	(5,798)	529	(1,629)	156	82	931	(114)	261	4,199
Payments to refunded bond agent	(148,975)	-	-	-	-	(43,591)	-	-	-	-
Total other financing sources (uses)	56,690	66,714	95,619	139,597	75,650	105,841	137,693	77,957	78,468	83,602
Extraordinary items:										
Dissolution of Riverside Redevelopment Agency:										
Transfer of assets and liabilities to										
Successor Agency	-	-	-	-	(130,174)	-	-	-	-	-
Transfer of assets from Successor Agency	-	-	-	-	28,121	-	-	-	-	-
Assumption of obligation	-	-	-	-	(4,927)	-	-	-	-	-
Total extraordinary items	-	-	-	-	(106,980)	-	-	-	-	-
Net change in fund balances	\$ (40,439)	\$ (74,907)	\$ (48,149)	\$ (13,660)	\$ (182,842)	\$ (14,940)	\$ 38,601	\$ (16,242)	\$ (13,007)	\$ (5,145)
Debt service as a percentage of noncapital expenditures	16.947%	26.058%	23.211%	32.757%	32.507%	21.039%	21.803%	22.360%	21.714%	26.625%
	(1)	(2)		(3)	(4)					

(1) Increase in debt service related to the issuance of the 2007 Redevelopment Agency Tax Allocation Bonds and 2008 Riverside Renaissance Certificates of Participation.

(2) Increase relates to \$30 million refinancing of 2005B pension bonds that took place in May 2008, which became due in-full in June 2009. The \$30 million Pension Bond Anticipation Notes have been paid in-full and immediately re-issued each year in 2009, 2010, 2011, 2012, 2013 and 2014.

(3) Increase in debt service related to one-time early redemption of \$31.7 million of 2011 Redevelopment Tax Allocation Bonds and \$9.1 million of loan proceeds that were drawn-down during the year and re-paid within the year.

(4) Includes one-time early redemption of \$33.3 million of 2011 Redevelopment Tax Allocation Bonds.

Table 5
City of Riverside
Business-Type Activities Electricity Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)

(in thousands)

Fiscal Year	Residential Sales	Commercial Sales	Industrial Sales	Wholesale Sales	Other Sales	Transmission Revenue	Other Operating Revenue	Total Revenues
2008	\$ 99,981	\$ 60,768	\$ 92,697	\$ 14,805	\$ 5,425	\$ 19,211	\$ 12,405	\$ 305,292
2009	105,525	65,532	97,100	4,674	5,684	18,673	12,250	309,438
2010	107,301	65,091	97,458	1,466	5,639	21,100	11,855	309,910
2011	107,792	64,039	102,067	124	5,529	22,091	12,061	313,703
2012	110,471	66,047	107,455	50	5,614	30,735	12,657	333,029
2013	118,173	66,632	110,680	638	5,712	32,688	13,410	347,933
2014	111,880	67,063	111,260	115	5,600	32,630	15,489	344,037
2015	114,112	68,572	112,283	60	5,654	30,587	16,353	347,621
2016	116,997	69,759	113,756	3	4,737	32,924	16,354	354,530
2017	117,662	71,456	115,432	9	4,782	35,497	21,779	366,617

Table 6
City of Riverside
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)

(in thousands)

Fiscal Year	Sales Tax¹	Property Tax²	Utility Users Tax	Franchise Tax	Transient Occupancy Tax	Total Taxes
2008	\$ 50,526	\$ 114,176	\$ 26,267	\$ 4,972	\$ 3,795	\$ 199,736
2009	41,882	116,420	25,964	5,144	2,912	192,322
2010	39,645	104,087	25,975	4,477	2,488	176,672
2011	44,157	100,802	26,691	4,937	2,731	179,318
2012	47,701	74,179	27,320	4,883	2,995	157,078
2013	50,222	52,904	28,206	4,959	3,703	139,994
2014	55,096	51,323	28,092	5,046	4,189	143,746
2015	59,437	54,864	28,076	5,543	5,280	153,200
2016	60,976	55,545	27,828	5,730	6,093	156,172
2017	75,883	59,526	27,958	4,814	6,622	174,803

¹ Increase in sales tax in fiscal year 2017 is due to Measure Z which was passed by the voters November 2016 and became effective April 1, 2017. Measure Z is a one percent transaction and use tax.

² Decrease in property taxes in fiscal years 2012 and 2013 relates to the dissolution of the Redevelopment Agency. Upon the dissolution of the Redevelopment Agency on February 1, 2012, property taxes received by the Successor Agency are reported in a private-purpose trust fund and therefore are excluded from the activities of the primary government.

Table 7
City of Riverside
Taxable Sales by Category
Last Ten Calendar Years

(in thousands of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Apparel Stores	\$ 167,869	\$ 154,899	\$ 152,564	\$ 161,802	\$ 168,352	\$ 175,320	\$ 178,349	\$ 188,670	\$ 203,001	\$ 214,852
General Merchandise	530,900	466,096	435,230	432,303	444,125	450,988	463,355	475,147	477,903	478,538
Food Stores	171,998	172,195	170,151	167,259	169,380	181,719	193,368	209,022	217,902	168,854
Eating and Drinking Places	382,582	383,596	364,291	371,419	395,423	422,153	447,841	483,901	533,317	582,262
Building Materials	549,124	374,161	307,894	292,605	349,398	376,011	454,468	514,993	567,790	636,415
Auto Dealers and Supplies	1,250,136	949,747	786,012	847,986	965,529	1,118,907	1,280,633	1,461,217	1,548,385	1,608,231
Service Stations	417,086	424,252	301,654	350,904	419,497	430,322	418,110	413,128	370,257	338,762
Other Retail Stores	626,737	564,633	487,924	501,071	517,583	535,945	550,157	595,305	633,089	692,375
All Other Outlets	1,227,944	1,104,611	893,809	977,260	1,072,513	1,008,206	1,154,492	1,312,607	1,461,982	1,474,160
Total	\$ 5,324,376	\$ 4,594,190	\$ 3,899,529	\$ 4,102,609	\$ 4,501,800	\$ 4,699,571	\$ 5,140,773	\$ 5,653,990	\$ 6,013,625	\$ 6,194,449

Source: State of California Board of Equalization and the HdI Companies.

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the City's revenue.

Table 8
City of Riverside
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

(in thousands)

Fiscal Year Ended June 30	City				Dissolved Redevelopment Agency ¹				Total Direct Rate ²
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	
2008	23,618,776	1,291,972	(6,960,666)	17,950,082	5,509,441	553,124	(138,490)	5,924,075	0.334
2009	24,428,633	1,330,053	(7,515,667)	18,243,019	5,998,768	581,943	(224,025)	6,356,686	0.343
2010	22,644,262	1,299,353	(7,103,040)	16,840,575	5,598,484	564,825	(266,257)	5,897,052	0.350
2011	22,056,793	1,260,923	(6,920,720)	16,396,996	5,396,219	544,906	(268,323)	5,672,802	0.347
2012	22,031,328	1,264,151	(6,952,649)	16,342,830	5,395,632	572,153	(270,313)	5,697,472	0.348
2013	22,313,665	1,244,448	(7,142,401)	16,415,712	N/A	N/A	N/A	N/A	0.348
2014	23,045,134	1,201,634	(7,394,982)	16,851,786	N/A	N/A	N/A	N/A	0.125
2015	24,482,621	1,329,391	(7,945,000)	17,867,012	N/A	N/A	N/A	N/A	0.124
2016	25,710,122	1,225,375	(8,432,984)	18,502,513	N/A	N/A	N/A	N/A	0.124
2017	26,927,989	1,311,356	(9,029,817)	19,209,528	N/A	N/A	N/A	N/A	0.124

Notes:

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

¹ In accordance with the timeline set forth in Assembly Bill 1X 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

² Total Direct Rate is the weighted average of all individual direct rates. Beginning in 2013/14, the Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas.

Source: Riverside County Auditor-Controller

Table 9
City of Riverside
Direct and Overlapping Property Tax Rates
(Rate per \$100 of Assessed Valuation)
Last Ten Fiscal Years

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/2017
Basic Levy ¹	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Unified School Districts Debt Service ²	0.185	0.259	0.284	0.301	0.332	0.325	0.390	0.377	0.487	0.495
City of Riverside Debt Service	0.006	0.007	0.006	0.006	0.006	0.006	0.007	0.006	0.006	0.006
Metropolitan Water District Original Area	0.005	0.004	0.004	0.004	0.004	0.004	0.004	0.004	0.004	0.004
Riverside City Community College Debt Service	0.013	0.013	0.012	0.015	0.017	0.017	0.018	0.018	0.017	0.016
Total Direct & Overlapping³ Tax Rates	1.209	1.283	1.307	1.325	1.358	1.352	1.418	1.405	1.514	1.521
City's Share of 1% Levy Per Prop 13⁴	0.145	0.145	0.145	0.145	0.145	0.145	0.145	0.145	0.145	0.145
General Obligation Debt Rate	0.006	0.007	0.006	0.006	0.006	0.006	0.007	0.006	0.006	0.006
Redevelopment Rate^{5,7}	1.005	1.004	1.004	1.004	1.004	-	-	-	-	-
Total Direct Rate⁶	0.334	0.343	0.350	0.347	0.348	0.348	0.125	0.124	0.124	0.124

¹ In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

² Includes: Alvard Unified School District, Corona Norco Unified School District, Jurupa Unified School District, Moreno Valley Unified School District, and Riverside Unified School District.

³ Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

⁴ City's share of 1% levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.

⁵ RDA rate is based on the largest RDA tax rate area (TRA) and includes only rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012/13 and years thereafter.

⁶ Total Direct Rate is the weighted average of all individual direct rates. Beginning in 2013/14, the Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas.

⁷ In accordance with the timeline set forth in Assembly Bill X1 26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Note: Amounts presented in this table have been restated for prior years to reflect the most current information available.

Source: Riverside County Assessor 2006/07 - 2015/16 Tax Rate Table.

Table 10
City of Riverside
Principal Property Taxpayers
Current Year and Nine Years Ago

(in thousands)

Property Owner	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Tyler Mall	\$ 202,716	1	0.8%	\$ 154,056	3	0.6%
Riverside Healthcare System	160,948	2	0.6%	100,062	4	0.4%
Rohr Inc	147,335	3	0.5%	66,894	7	0.3%
State Street Bank and Trust Co	130,757	4	0.5%	81,756	5	0.3%
La Sierra University	127,172	5	0.5%	176,685	1	0.7%
Corona Pointe Apartments	100,004	6	0.4%	-	-	-
Cole ID	97,085	7	0.3%	-	-	-
CPT Riverside Plaza LLC	88,099	8	0.3%	-	-	-
Northrop Drive Apartments	79,399	9	0.3%	-	-	-
Canyon Springs Marketplace Corp	74,561	10	0.3%	60,269	9	0.3%
BRE Properties	-	-	-	175,841	2	0.7%
Mission Grove Plaza	-	-	-	70,457	6	0.3%
Press Enterprise Company	-	-	-	61,540	8	0.3%
Bottling Group	-	-	-	59,201	10	0.3%
Totals	<u>\$ 1,208,076</u>		<u>4.5%</u>	<u>\$ 1,006,761</u>		<u>4.2%</u>

Notes:

The amounts shown above include assessed value data for both the City and the Successor Agency.

Source: Riverside County Assessor 2016/17 and 2007/08 Combined Tax Rolls

**Table 11
City of Riverside
Property Tax Levies and Collections
Last Ten Fiscal Years**

(in thousands)

Fiscal Year Ended June 30	Taxes Levied for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	\$ 83,996	\$ 82,345	98.03%	\$ 1,651	\$ 83,996	100.00%
2009	86,251	84,134	97.55%	2,117	86,251	100.00%
2010	77,228	74,491	96.46%	2,737	77,228	100.00%
2011	74,608	72,327	96.94%	2,281	74,608	100.00%
2012	41,020	40,340	98.34%	680	41,020	100.00%
2013	43,333	42,447	97.96%	886	43,333	100.00%
2014	45,138	44,684	98.99%	454	45,138	100.00%
2015	48,846	48,427	99.14%	419	48,846	100.00%
2016	50,023	49,585	99.12%	-	49,585	99.12%
2017	53,655	53,252	99.25%	-	53,252	99.25%

Note:

The table reflects amounts related to the City. In addition, it includes amounts related to the Redevelopment Agency through dissolution (1/31/12). The amounts collected by the Redevelopment Agency include monies that were passed-through to other agencies. Current tax levies are the original charge as provided by the County of Riverside. Current tax collections do not include supplemental taxes, aircraft taxes or other property taxes.

The City adopted the Teeter plan available with the County of Riverside effective Fiscal year 2014. Under the Teeter plan the County of Riverside has responsibility for the collection of delinquent taxes and the City receives 100% of the levy.

Table 12
City of Riverside
Electricity Sold by Type of Customer
Last Ten Fiscal Years

(in millions of kilowatt-hours)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Type of Customer:										
Residential	734	733	701	666	688	726	700	711	726	730
Commercial	441	433	406	400	413	419	421	428	438	448
Industrial	960	946	906	912	969	1,003	997	995	983	996
Wholesale sales	357	137	44	7	2	14	4	2	-	1
Other	34	33	32	31	31	31	30	31	23	23
Total	2,526	2,282	2,089	2,016	2,103	2,193	2,152	2,167	2,170	2,198
Total direct rate										
Monthly Base Rate ¹	11.35	13.06	18.06	18.06	18.06	18.06	18.06	18.06	18.06	18.06

¹ Monthly Base Rate includes a Reliability Charge of \$5.00 (small residence 100 amp) implemented in January 2008. In January 2010 the Reliability Charge increased to \$10.00 (small residence 100 amp).

Source: Riverside Public Utilities, Finance Services

Table 13
City of Riverside
Electricity Rates
Last Ten Fiscal Years
(Average Rate in Dollars per Kilowatt-Hour)

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Other
2008	0.13613	0.13781	0.09658	0.16099
2009	0.14389	0.15122	0.10271	0.17169
2010	0.15307	0.16014	0.10756	0.17876
2011	0.16173	0.16001	0.11194	0.18089
2012	0.16068	0.15991	0.11088	0.17938
2013	0.16274	0.15913	0.11030	0.18375
2014	0.15995	0.15936	0.11156	0.18513
2015	0.16050	0.16022	0.11282	0.18291
2016*	0.16119	0.15915	0.11577	0.20908
2017	0.16116	0.15958	0.11586	0.21287

Source: Riverside Public Utilities, Finance Services

Table 14
City of Riverside
Top 10 Electricity Customers
Current Year and Nine Years Ago

Electricity Customer	2017			2008		
	Electricity Charges	Rank	Percent of Total Electric Revenues	Electricity Charges	Rank	Percent of Total Electric Revenues
Local University	\$13,046,213	1	4.22%	\$6,903,554	2	2.67%
Local Government	8,481,340	2	2.74%	7,328,364	1	2.83%
Local Government	7,737,210	3	2.50%	6,081,471	3	2.35%
Local School District	4,468,962	4	1.44%	4,299,987	4	1.66%
Corporation	4,179,049	5	1.35%	2,945,052	5	1.14%
Corporation	3,471,863	6	1.12%	2,346,808	6	0.91%
Corporation	3,069,783	7	0.99%	2,121,432	7	0.82%
Hospital	2,711,869	8	0.88%	-	-	-
Local University	2,492,966	9	0.81%	-	-	-
Local School District	2,088,299	10	0.68%	-	-	-
Corporation	-	-	-	1,828,885	7	0.71%
Corporation	-	-	-	1,726,147	9	0.67%
Hospital	-	-	-	1,684,620	10	0.65%
	<u>\$51,747,554</u>		<u>16.73%</u>	<u>\$37,266,320</u>		<u>14.400%</u>

Retail Sales Per Financial Statements \$309,331,849 \$ 258,871,586

N/A - not available

Source: Riverside Public Utilities, Finance Services

Table 15
City of Riverside
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

(in thousands)

Governmental Activities							
Fiscal Year	General Obligation Bonds	Redevelopment Bonds	Revenue Bonds	Pension Obligation Bonds	Certificates of Participation	Capital Leases	Notes/Loans Payable
2008	18,774	292,244	-	142,170	200,273	9,391	9,040
2009	18,171	285,743	-	139,410	198,268	7,455	8,749
2010	17,533	278,867	-	136,050	211,212	6,303	9,291
2011	16,845	305,195	-	132,095	207,246	6,670	8,849
2012	16,107	-	-	127,480	202,703	5,220	4,000
2013	15,314	-	43,762	122,005	158,697	8,424	28,652
2014	14,460	-	42,344	115,775	191,446	13,168	47,611
2015	13,546	-	40,891	108,725	187,212	14,966	45,574
2016	12,567	-	39,398	101,000	181,429	12,006	43,482
2017	11,513	-	37,854	92,592	156,516	17,193	41,325

Business-Type Activities						
Fiscal Year	Revenue Bonds	Notes/Loans Payable	Capital Leases	Total Primary Government	Percentage of Personal Income¹	Debt Per Capita¹
2008	720,749	8,569	211	1,401,421	21.51%	4.80
2009	670,512	7,915	2,574	1,342,931	20.15%	4.54
2010	968,393	7,249	2,151	1,637,049	24.83%	5.44
2011	1,071,554	76,747	1,720	1,826,921	27.58%	6.01
2012	1,063,853	73,821	1,332	1,494,516	21.94%	4.84
2013	1,031,839	70,798	2,558	1,482,049	21.41%	4.75
2014	1,094,290	36,030	2,266	1,557,390	22.54%	4.96
2015	1,239,634	37,225	1,720	1,689,493	24.64%	5.38
2016	1,208,851	37,793	4,694	1,641,220	23.93%	5.22
2017	1,180,345	35,255	6,209	1,578,802	22.11%	4.83

¹ These ratios are calculated using personal income and population data for the prior calendar year.

Source: City of Riverside Notes to Financial Statements and Statistical Table 20.

Table 16
City of Riverside
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

(in thousands, except per capita amount)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Pension Bonds</u>	<u>Certificates of Participation</u>	<u>Tax Allocation Bonds</u>	<u>Total</u>	<u>Percent of Assessed Value ¹</u>	<u>Per Capita²</u>
2008	18,774	142,170	200,273	292,244	653,461	3.64%	2,239
2009	18,171	139,410	198,268	285,743	641,592	3.52%	2,167
2010	17,533	136,050	211,212	278,867	643,662	3.82%	2,140
2011	16,845	132,095	207,246	305,195	661,381	4.03%	2,175
2012	16,107	127,480	202,703	-	346,290	2.12%	1,122
2013	15,314	122,005	158,697	-	296,016	1.80%	949
2014	14,460	115,775	191,446	-	321,681	1.91%	1,024
2015	13,546	108,725	187,212	-	309,483	1.73%	985
2016	12,567	101,000	181,429	-	294,996	1.65%	909
2017	11,513	92,592	156,516	-	260,621	1.36%	798

Notes:

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

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

² These ratios are calculated using population data for the prior calendar year.

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

Table 17
City of Riverside
Direct and Overlapping Governmental Activities Debt
As of June 30, 2017

2016-17 Assessed Valuation:	\$ 25,457,848,060
Less Dissolved Redevelopment Agency Incremental Valuation:	6,955,334,879
Adjusted Assessed Valuation:	<u>\$ 18,502,513,181</u>

	<u>Total Debt</u>	<u>% Applicable</u>	<u>City's Share of Debt¹</u>
Overlapping debt repaid with property taxes²			
Metropolitan Water District	\$ 749,050	1.045%	\$ 782,757
Riverside County Flood Control and Water Conservation District Zone No. 4	18,729,995	2.127	\$ 398,387
Riverside City Community College District	262,164,714	28.966	75,938,631
Alvord Unified School District	217,965,523	71.518	155,884,583
Riverside Unified School District	129,220,000	86.409	111,657,710
Corona-Norco Unified School District	330,200,000	0.001	3,302
Jurupa Unified School District	131,766,667	0.003	3,953
Moreno Valley Unified School District	123,193,517	10.118	12,464,720
Alvord Unified School District Community District No.2006-1	7,777,248	82.333	6,403,242
Riverside Unified School District Community Facilities Districts	72,745,000	89.479-100.	72,626,108
City of Riverside Community Facilities Districts	14,255,000	100.	14,255,000
City of Riverside 1915 Act Bonds	23,215,000	100.	23,215,000
Total overlapping debt repaid with property taxes			<u>\$ 473,633,393</u>

(continued)

**Table 17
City of Riverside
Direct and Overlapping Governmental Activities Debt
As of June 30, 2017**

Other overlapping debt²

Riverside County General Fund Obligations	\$ 864,838,109	10.790%	\$ 93,316,032
Riverside County Pension Obligations	286,535,000	10.790	30,917,127
Riverside County Board of Education Certificates of Participation	-	10.799	-
Alvord Unified School District Certificates of Participation	-	71.046	-
Corona-Norco Unified School District Certificates of Participation	25,600,000	0.001	256
Jurupa Unified School District Certificates of Participation	42,966,667	0.003	1,289
Moreno Valley Unified School District Certificates of Participation	10,784,997	10.118	1,091,226
Riverside Unified School District General Fund Obligations	18,788,785	86.409	<u>16,235,201</u>
Total other overlapping debt			141,561,131
Less: Riverside County supported obligations			<u>599,374</u>
			<u>140,961,757</u>
Overlapping tax Increment debt			<u>228,427,799</u>
Total overlapping debt			843,022,949
City direct debt			<u>356,993,000</u>
Combined total direct and overlapping debt			<u>\$ 1,200,015,949</u>

(1) Debt balances are as of March 1, 2017 (most recent available) for other agency debt, and June 30, 2017 for all City of Riverside direct debt.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue, non-bonded capital lease obligations.
Qualified Zone Academy bonds are included based on principal due at maturity.

Ratios to 2016-17 Assessed Valuation:

Total debt repaid with property taxes.....	1.86%
City direct debt (\$356,993,000).....	1.40%
Combined total direct and overlapping debt.....	4.71%

Ratios to Dissolved Redevelopment Incremental Valuation (\$6,955,334,879):

Total overlapping tax Increment debt.....	3.28%
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Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc., Riverside County Auditor-Controller and City Finance Department.

Table 18
City of Riverside
Legal Debt Margin Information
Last Ten Fiscal Years

(in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed valuation	\$17,950,082	\$18,243,019	\$16,840,575	\$16,396,996	\$16,342,830	\$16,415,712	\$16,851,786	\$17,867,012	\$18,502,513	\$19,209,528
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	4,487,521	4,560,755	4,210,144	4,099,249	4,085,708	4,103,928	4,212,947	4,466,753	4,625,628	4,802,382
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	673,128	684,113	631,522	614,887	612,856	615,589	631,942	670,013	693,844	720,357
Total net debt applicable to limit:	18,774	18,171	17,533	16,845	16,107	15,314	14,460	13,546	12,567	11,513
Legal debt margin	654,354	665,942	613,989	598,042	596,749	600,275	617,482	656,467	681,277	708,844
Total net debt applicable to the limit as a percentage of debt limit	2.8%	2.7%	2.8%	2.7%	2.6%	2.5%	2.3%	2.0%	1.8%	1.6%

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

Source: City of Riverside, Statistical Table 7 and Notes to Financial Statements.

Table 19
City of Riverside
Pledged-Revenue Coverage
Business Type Activity Debt
Last Ten Fiscal Years

(in thousands)

Fiscal Year	Electric Revenue Bonds						Water Revenue Bonds					
	Pledged Revenue ¹	Less: Operating Expenses ¹	Net Available Revenue	Debt Service		Coverage	Pledged Revenue ¹	Less: Operating Expenses ¹	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2008	314,733	219,680	95,053	19,460	16,790	2.62	67,312	33,827	33,485	4,355	4,275	3.88
2009	320,447	202,904	117,543	20,572	24,941	2.58	60,886	35,639	25,247	4,473	6,728	2.25
2010	320,560	199,040	121,520	21,574	22,572	2.75	61,985	35,953	26,032	4,533	8,008	2.08
2011	319,177	212,878	106,299	23,029	25,087	2.21	84,328	35,220	49,108	4,799	9,263	3.49
2012	340,098	221,876	118,222	25,174	27,630	2.24	73,557	35,309	38,248	4,708	8,872	2.82
2013	348,187	226,997	121,190	18,486	25,941	2.73	72,700	35,940	36,760	5,395	8,700	2.61
2014	347,541	241,136	106,405	21,632	27,575	2.16	71,317	37,698	33,619	4,574	8,536	2.56
2015	348,244	247,984	100,260	15,485	26,532	2.39	66,010	35,785	30,225	5,258	8,342	2.22
2016	371,029	244,571	126,458	16,460	25,780	2.99	60,047	33,802	26,245	5,533	8,063	1.93
2017	368,956	251,750	117,206	14,032	25,553	2.96	65,689	37,871	27,818	5,486	8,124	2.04

Fiscal Year	Sewer Revenue Bonds					
	Pledged Revenue ¹	Less: Operating Expenses ¹	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2010	31,470	26,865	4,605	666	151	5.64
2011	37,772	27,575	10,197	692	125	12.48
2012	42,562	29,632	12,930	692	5,471	2.10
2013	52,944	29,999	22,945	7,465	10,891	1.25
2014	52,098	28,930	23,168	7,753	10,781	1.25
2015	51,288	27,598	23,690	8,056	10,958	1.25
2016	68,412	31,864	36,548	8,405	20,786	1.25
2017	78,337	29,921	48,416	9,010	19,621	1.69

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ Amounts have been calculated in accordance with the provisions set forth in the debt covenants. Total operating expenses exclusive of depreciation. Pledged revenue includes applicable cash set aside in a rate stabilization account in accordance with applicable bond covenants.

The City of Riverside does not have any pledged revenue related to Governmental Activities.

Table 20
City of Riverside
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population ¹	Personal Income ² (in thousands)	Per Capita Personal Income ²	Unemployment Rate ³
2007	291,814	6,514,489	22,324	6.1
2008	296,038	6,665,142	22,514	8.6
2009	300,769	6,592,294	21,918	13.7
2010	304,051	6,623,143	21,783	14.8
2011	308,511	6,811,923	22,080	13.7
2012	311,955	6,923,217	22,193	9.7
2013	314,034	6,909,376	22,002	8.4
2014	314,221	6,857,559	21,824	7.9
2015	324,696	6,953,323	21,414	6.4
2016	326,792	7,139,080	21,845	5.8

Sources:

¹ California State Department of Finance.

² Demographic Estimates for 2005-2009 are based on the last available Census. Projections are developed by incorporating all of the prior census data released to date. Demographic Data is totaled from Census Block Groups that overlap the City's boundaries. Demographic Estimates for 2010 and later are per the US Census Bureau, most recent American Community Survey.

³ State of California Employment Development Department.

Table 21
City of Riverside
Principal Employers
Current Year and Nine Years Ago

Employer	2017			2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
County of Riverside	11,865	1	8.1%			
University of California	8,686	2	6.0%	7,127	1	4.6%
Riverside Unified School District	4,000	3	2.7%	4,200	2	2.7%
Kaiser	3,484	4	2.4%	3,900	3	2.5%
City of Riverside	2,429	5	1.7%	2,749	4	1.8%
California Baptist University	2,285	6	1.6%			
Riverside Community Hospital	2,200	7	1.5%	1,600	8	1.0%
Alvord Unified School District	1,800	8	1.2%	2,000	5	1.3%
UTC Aerospace Systems	1,200	9	0.8%			
Parkview Community Hospital	897	10	0.6%	915	9	0.6%
Riverside Community College District				2,000	6	1.3%
Fleetwood Enterprises				1,963	7	1.3%
Riverside Medical Clinic				750	10	0.5%
Total	<u>38,846</u>		<u>26.6%</u>	<u>27,204</u>		<u>17.5%</u>

Source: City of Riverside, Finance Department

Table 22
City of Riverside
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	2008	2009	2010	2011	2012	2013	2014²	2015	2016	2017
General government	436.35	439.10	433.40	431.40	440.40	413.90	356.25	361.25	394.24	417.55
Public safety (sworn and non-sworn personnel)										
Police ¹	637.33	591.93	589.93	589.93	599.93	596.75	551.75	553.75	554.75	512.00
Fire	254.21	254.21	255.46	255.46	255.46	255.46	255.00	255.00	251.00	239.00
Highways and streets	318.35	369.65	349.50	348.11	357.11	362.11	333.48	308.00	308.00	272.00
Sanitation	64.29	58.60	59.00	56.00	56.00	57.00	59.00	57.00	59.00	59.00
Culture and recreation	339.52	340.71	328.07	328.07	341.22	351.48	269.98	274.45	286.75	276.23
Airport	7.00	7.00	7.00	9.50	9.50	9.50	6.00	6.00	6.00	7.00
Water	167.00	167.00	177.65	180.15	181.15	181.15	182.15	181.15	181.15	174.15
Electric	404.60	408.10	419.45	448.50	452.50	459.50	462.50	464.50	466.50	471.75
Total	2,628.65	2,636.30	2,619.46	2,647.12	2,693.27	2,686.85	2,476.11	2,461.10	2,507.39	2,428.68

¹ In fiscal year 2009 the Crossing Guards program (46.40 FTEs) was moved from the Police Department to the Public Works Department (highways and streets).

² In fiscal year 2013/14 the City Council deleted a number of long-term unfunded positions.

Source: City of Riverside, Finance Department

Table 23
City of Riverside
Operating Indicators by Function
Last Ten Fiscal Years

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Arrests	9,367	10,150	8,690	8,118	7,736	8,362	9,321	10,310	9,242	8,358
Fire										
Number of calls answered	27,429	26,397	26,484	27,322	27,637	29,988	30,668	32,943	35,905	36,150
Inspections	10,812	7,638	7,234	6,505	10,074	10,151	12,476	8,770	6,636	6,482
Public works:										
Street resurfacing (miles)	26.27	18.90	20.00	21.25	18.43	16.50	35.38	38.75	39.01	27.09
Parks and recreation										
Number of recreation classes	22,146	21,884	27,762	37,303	43,318	41,364	45,707	43,007	53,907	53,308
Number of facility rentals	35,076	36,822	34,565	42,638	43,288	43,358	46,432	44,363	47,772	48,097
Water										
Number of accounts	63,494	64,062	64,231	64,349	64,367	64,591	64,829	65,102	65,094	65,428
Annual consumption (ccf)	30,583,266	29,721,236	26,687,271	25,902,439	27,062,142	28,186,178	28,887,304	26,007,490	22,529,463	25,340,729
Electric										
Number of accounts	106,015	106,385	106,335	106,855	107,321	107,525	108,358	108,388	108,776	109,274
Annual consumption (kwh)	2,526	2,282	2,089	2,016	2,103	2,193	2,152	2,167	2,170	2,197
Sewer:										
New connections	16,412	18,765	16,971	17,746	18,166	17,607	17,274	17,553	17,669	17,654
Average daily sewage treatment (millions of gallons)	32.10	33.00	33.29	30.06	29.84	29.57	28.49	27.15	26.35	27.19

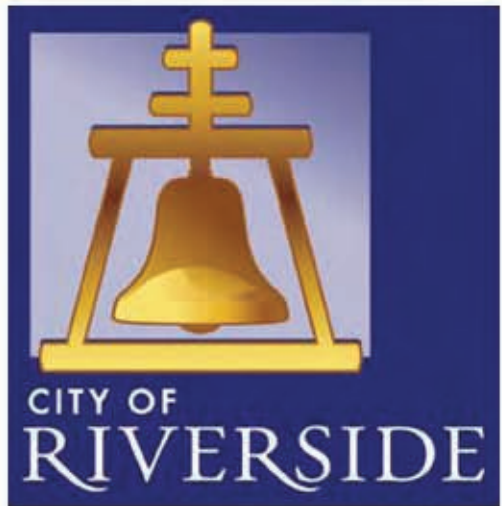
¹ Amounts expressed in millions
N/A - not available

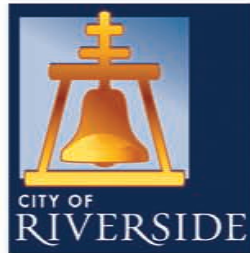
Source: City of Riverside, various departments

Table 24
City of Riverside
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety										
Police										
Stations	3	3	3	3	3	3	3	3	3	3
Substations	4	5	4	4	4	4	4	4	4	5
Helicopters	4	4	4	4	4	4	3	3	3	3
Fire										
Stations	14	14	14	14	14	14	14	14	14	14
Active apparatus	30	30	30	26	27	28	28	31	33	32
Reserve apparatus	6	7	7	9	9	11	11	8	9	9
Training facilities	1	1	1	1	1	1	1	1	1	1
Highways and streets										
Streets (miles)	864.68	866.89	867.96	868.39	868.70	868.89	871.19	872.16	872.22	872.01
Streetlights	29,312	29,675	29,757	29,868	29,933	29,949	29,968	29,986	30,427	30,467
Signalized intersections	363	365	362	362	365	365	367	386	381	382
Culture and recreation										
Parks acreage	2,773.00	2,773.00	2,773.00	2,811.00	2,811.00	2,891.00	2,911.80	2,926.80	2,983.00	2,983.00
Community centers	11	11	11	11	11	11	11	11	11	11
Playgrounds	38	41	41	41	41	43	44	44	46	46
Swimming pools	7	7	7	7	7	7	7	7	7	7
Softball & baseball diamonds	44	44	44	49	51	54	54	54	54	54
Library branches	6	7	7	8	8	8	8	8	8	8
Museum exhibit-fixed	8	6	5	8	5	3	3	4	5	5
Museum exhibit-special	5	2	2	2	1	4	4	5	6	6
Water										
Fire hydrants	7,381	7,523	7,593	7,632	7,682	7,726	7,754	7,758	7,908	7,952
Sewer										
Sanitary sewers (miles)	794	794	820	823	829	829	829	820	829	827
Electric										
Miles of overhead distribution system	523.5	522.0	519.0	517.0	515.0	513.0	513.0	513.0	513.0	513.0
Miles of underground system	741.6	769.0	782.0	791.0	804.0	810.0	814.0	815.0	817.0	826.0

Source: City of Riverside, various departments





City of Arts & Innovation

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions

Unless the context otherwise requires, the terms defined below will, for all purposes of the Resolution and of any certificate, opinion or other document mentioned in the Resolution, have the meanings specified below, to be equally applicable to both the singular and plural forms of any of the terms defined below. Unless otherwise defined in the Resolution, all terms used therein have the meanings assigned to such terms in the Law.

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

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

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

“Bond” or “Bonds” means the City of Riverside Sewer Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution. “Bonds” include any obligations of the City issued under the Resolution, including bonds, notes or other evidences of indebtedness payable from Net Operating Revenues under the terms of the Resolution, including the 2018A Bonds.

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

“Bond Obligation” means, as of any date of calculation: (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond; (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date); and (3) with respect to the State Loans or Parity Debt, the unpaid principal balance thereof.

“Bond Register” means the Bond Register as defined under the caption “THE BONDS—Bond Register.”

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

“Build America Bonds” means any Bonds or Parity Debt issued under a Supplemental Resolution as a Build America Bond under the American Recovery and Reinvestment Act of 2009 and as such act may be amended from time to time and any Bond or Parity Debt issued under any other similar act pursuant to which the issuer of taxable bonds receives a cash subsidy or related payment from the U.S. Treasury (defined in the Resolution as the “Treasury Credit”).

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

“Capacity Charges” means connecting capacity, capital or other similar fees and charges imposed or caused to be imposed by the City on a development project of the purpose of defraying all or a portion of the cost of improving or expanding the Sewer System in order to accommodate such development project.

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

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

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

“City” means the City of Riverside, California.

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

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

“Closing Certificate of the City” means a Certificate of the Treasurer of the City (or the Treasurer’s designee) delivered at the time of the initial issuance of the 2018A Bonds, substantially in the form attached to the Fifth Supplemental Resolution, that among other things, provides certain terms of the 2018A Bonds to be issued pursuant to the Fifth Supplemental Resolution, all as authorized pursuant to the terms of the Resolution.

“Code” means the Internal Revenue Code of 1986, as amended.

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

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed and delivered by the City in connection with the issuance of the 2018A Bonds.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of any Series of Bonds, including but not limited to initial fees and expenses of any Credit Facility, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiscal Agent or paying agent, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the delivery of such Series of Bonds.

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

“Current Interest Bonds” means the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon for such purposes. Current Interest Bonds include any Build America Bonds that pay interest in the manner set forth in the preceding sentence.

“Debt Service” means, for any Fiscal Year, the sum of:

(1) the interest payable during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America through Build America Bonds), or any future similar program);

(2) those portions of the principal amount of all outstanding serial Bonds maturing in such period;

(3) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period;

(4) those Parity Debt and State Loan obligations required to be paid by the City during such period (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America through Build America Bonds); and

(5) so long as any Credit Facility is in effect, the principal amount of any amounts owing thereunder, with interest thereon as provided in the agreement relating to such Credit Facility;

but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Parity Debt;

provided that, as to any such Bonds or Parity Debt bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest:

(I) for periods when the actual interest rate can be determined, at the actual interest rate; and

(II) for periods when the actual interest rate cannot be determined:

(A) if interest on such Bonds or Parity Debt has accrued for at least twelve (12) months, at the average interest rate with respect to such Bonds or Parity Debt over the preceding twelve (12) months; or

(B) if interest on such Bonds or Parity Debt has not accrued for at least twelve (12) months, at: (y) the average of the Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of tax-exempt variable rate obligations) plus any applicable spread to the Securities Industry and Financial Markets Association Index or other index for such Bonds or Parity Debt; or (z) average of the one-month London Interbank Offered Rate for taxable variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of taxable variable rate obligations) plus any applicable spread to the London Interbank Offered Rate for taxable variable rate obligations.

provided further that if any series or issue of such Bonds or Parity Debt have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined, at the election of the City, either when due and payable or, for the period of determination, as if the principal of and interest on such series or issue of such Bonds or Parity Debt were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Parity Debt or portions thereof, such accreted discount will not be treated as interest in the calculation of Debt Service and any interest payable on such Bonds or Parity Debt will be calculated only when due and payable; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Parity Debt for which such debt service reserve fund was established and, to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

“Designated Investments” means, with respect to the 2018A Bonds and subject to such further or other parameters as may be specified in the Closing Certificate of the City, the following:

(1) 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;

(2) 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 overcollateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank will have possession of such obligations; (iii) the Fiscal Agent will have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

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

(4) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California;

(5) 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; and

(6) 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 Standard & Poor’s 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 Standard & Poor’s, Moody’s Investors Service and Fitch.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Fifth Supplemental Resolution” means Resolution No. 23375, adopted on October 23, 2018, which authorizes the issuance of the 2018A Bonds.

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

“Fiscal Agent” means U.S. Bank National Association, the fiscal agent appointed pursuant to the Resolution, 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 Group, and its successors and assigns.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successors and the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

“Government Obligations” means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(1) (a) direct general obligations of the United States of America; or (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America;

(2) advance refunded tax-exempt obligations secured by the obligations specified in clause (1) which tax-exempt obligations are rated “Aaa” by Fitch and “AAA” by Standard & Poor’s as a result of such obligations being secured by said obligations;

(3) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank; provided that such bonds, debentures or notes will be the senior obligations of such agency (including participation certificates); and

(4) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency later created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations will not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

“Gross Operating Revenues” means, for any period, all income and revenue received by the City during such period from the operation or ownership of the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all fees and charges received during such period for the services of the Sewer System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Sewer System, including Operating and Maintenance Expenses), and all other money received during such period howsoever derived by the City from the operation or ownership of the Sewer System or arising from the Sewer System. Gross Operating Revenues also include Capacity Charges and any amounts transferred from the Rate Stabilization Fund to the Sewer Revenue Fund during any Fiscal Year exclusive of any amounts transferred to the Rate Stabilization Fund in such fiscal year. Gross Operating Revenues do not include any Treasury Credit or amounts transferred from the Sewer Revenue Fund to the Rate Stabilization Fund during any Fiscal Year.

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

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; Kenny Standard & Poor’s, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department, and in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the City may designate in a Request of the City delivered to any Fiscal Agent.

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

“Law” means collectively the City Charter, Ordinance No. 5001 of the City Council, as amended, and the Resolution.

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

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

“Nominee” means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant to the Resolution.

“Operating and Maintenance Expenses” means all reasonable and necessary costs paid or incurred by the City for maintaining and operating the Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Sewer System in good repair and working order, all administrative costs of the City that are charged directly or apportioned to the operation of the Sewer System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Resolution or of any Supplemental Resolution, such as compensation, reimbursement and indemnification of the Fiscal Agent and fees and expenses of independent certified public accountants and independent engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

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

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

under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

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

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

“Participants” means with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

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

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

“Rate Stabilization Fund” means the fund by that name established pursuant to the Resolution.

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

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

“Record Date” means the close of business on the fifteenth day of each month preceding an interest payment date.

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

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

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

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

“Representation Letter” means a representation letter from the City to the Securities Depository as described in the Resolution.

“Resolution” means Resolution No. 21860 adopted by the City Council on July 14, 2009, as amended, modified or supplemented from time to time by any Supplemental Resolution, including the Fifth Supplemental Resolution.

“Securities Depository” means DTC, or, in accordance with then-current guidelines of the U.S. Securities and Exchange Commission, such other securities depository as the City may designate in a Certificate of the City delivered to the Fiscal Agent.

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

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

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

“Sewer System” means the whole and each and every part of the sewer public utility owned, controlled and updated by the City, including, without limitation, wastewater collection, transmission, treatment and disposal facilities of the City, all real and personal property, or any interest therein, constituting a part thereof and all additions, improvements, betterments and extensions thereto, whether existing as of the date of the Resolution or subsequently acquired, constructed or installed.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a Division of the McGraw-Hill Corporation, Inc., and its successors and assigns, except that if such Division is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Standard & Poor’s” will refer to any other nationally recognized securities rating agency selected by the City (other than Moody’s).

“State” means the State of California.

“State Loans” means: (1) State Revolving Fund Loan Program Contract Between the State Water Resources Control Board and the City (Contract No. 6-814-550-0, Loan No. 5-06-4331-130), dated January 2, 1997 and (2) State Revolving Fund Local Match Loan Program Contract Between the State Water Resources Control Board and the City (Contract No. 7-831-550-0, Local Match Loan No. C-06-4331-120), dated August 28, 1997.

“Subordinate Obligations” means any indebtedness or other obligation of the City, so designated as Subordinate Obligations on the date issued or incurred, in each case having a lien on Net Operating Revenues and payable therefrom on a subordinate basis to the State Loans, the Bonds and any Parity Debt.

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

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

“Tax Certificate” means the tax certificate concerning certain matters pertaining to the use and investment of proceeds of the 2018A Bonds, executed and delivered by the City on the date of issuance of the 2018A Bonds, as the same may be supplemented or amended, including any and all exhibits attached thereto.

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

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

“Treasury Credit” means, with respect to Build America Bonds, the amounts which are payable by the federal government under Section 6431 of the Internal Revenue Code of 1986, which the City has elected to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986.

“Variable Rate Indebtedness” means any Bonds or Parity Debt the interest rate on which is not fixed at the time of issuance or incurrence of such Bonds or Parity Debt, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of such Bonds or Parity Debt.

“2018A Bonds” means the City of Riverside Refunding Sewer Revenue Bonds, Series 2018A.

“2018A Bond Reserve Requirement” means \$0.

“2018A Rebate Account” means the Refunding Sewer Revenue Bonds, Series 2018A, Rebate Account established pursuant to the Resolution.

“2018A Reserve Account” means the Refunding Sewer Revenue Bonds, Series 2018A, Reserve Account established pursuant to the Resolution.

Content of Certificates and Opinions

Every certificate or opinion provided for in the Resolution with respect to compliance with any provision hereof must include: (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions in the Resolution relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement: (a) that, in the opinion of such Person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter; or (b) that he or she had made or caused to be made his or her examination or investigation with respect to the subject matter in accordance with specified professional standards; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer or employee of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the city) upon a certificate or opinion of or representation by an officer or employee of the City, unless such counsel, accountant or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such Person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer or employee of the City, or the same counsel or accountant or independent consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

THE BONDS

Execution of Bonds

The Bonds of each Series will be executed in the name and on behalf of the City with the facsimile or manual signature of the Mayor, Mayor Pro Tem or the Treasurer, under seal attested by the facsimile or manual signature of the City Clerk. Such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds of each Series will be delivered to the Fiscal Agent for that Series for authentication by it. In case any of the Persons who have signed or attested any of the Bonds ceases to hold their respective offices or positions before the Bonds so signed or attested have been authenticated or delivered by the Fiscal Agent or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the City as though those who signed and attested the same had continued to be such officers or employees, and also any Bond may be signed and attested on behalf of the City by such Persons as at the actual date of execution of such Bond are the proper officers or employees although at the nominal date of such Bond any such Person will not have been such officer or employee.

Only such of the Bonds as bear thereon a certificate of authentication substantially in the form recited in the Resolution creating such Bonds, manually executed by the Fiscal Agent for the Bonds, will be valid or obligatory for any purpose or entitled to the benefits of the Resolution and such certificate of authentication when manually executed by such Fiscal Agent will be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Resolution.

Transfer of Bonds

Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the Resolution, by the Person in whose name it is registered, in Person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond.

Whenever any Bond or Bonds of a Series are surrendered for transfer, the City will execute and the Fiscal Agent for that Series will authenticate and deliver a new Bond or Bonds, of the same Series, tenor and maturity and for a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to register a transfer of any Bonds within 15 days before the date of selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. A Fiscal Agent may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds

Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bonds so selected for redemption. The Fiscal Agent will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Bond Register

The Fiscal Agent for each Series of Bonds will keep or cause to be kept, at its designated office, sufficient books for the registration and transfer of the Bonds of that Series, which will at all times be open to inspection during normal business hours by the City; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Resolution.

Temporary Bonds

The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, will be of such denomination as may be determined by the City, will be in registered form and may contain such reference to any of the provisions of the Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond will be executed by the City and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Resolution as definitive Bonds authenticated and delivered thereunder.

Bonds Mutilated, Lost, Destroyed or Stolen

If any Bond becomes mutilated, the City at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will thereupon authenticate and deliver, a new

Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond will be cancelled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and the City and indemnity satisfactory to them will be given, the City at the expense of the Owner, will execute, and that Fiscal Agent will thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent for that Series may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Resolution and of the expenses which may be incurred by the, City and the Fiscal Agent in the premises. Any Bond issued under the Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Resolution with all other Bonds secured thereby. Neither the City nor any Fiscal Agent will be required to treat both the original Bond and any substitute Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Resolution or for the purpose of determining any percentage of Bonds Outstanding thereunder, but both the original and substitute Bond will be treated as one and the same.

Book-Entry System

General. The 2018A Bonds initially will be issued in the form of a separate single fully registered 2018A Bond (which may be typewritten) for each of the maturities of the 2018A Bonds. The City will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2018A Bonds in an authorized denomination corresponding to that total principal amount of the 2018A Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2018A Bond will be registered in the Bond Register in the name of the Nominee, as nominee of the Securities Depository, and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as provided in the Resolution.

With respect to book-entry 2018A Bonds, the City and the Fiscal Agent have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry 2018A Bonds. Without limiting the immediately preceding sentence, the City and the Fiscal Agent have no responsibility or obligation with respect to: (i) the accuracy of the records of the Securities Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry 2018A Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register, of any notice with respect to book-entry 2018A Bonds, including any notice of redemption; (iii) the selection by the Securities Depository and its Participants of the beneficial interests in book-entry 2018A Bonds to be redeemed in the event that the City redeems the 2018A Bonds in part; or (iv) the payment by the Securities Depository or any Participant or any other person of any amount of principal of, premium, if any, or interest on book-entry 2018A Bonds. The City and the Fiscal Agent may treat and consider the person in whose name each book-entry 2018A Bond is registered in the Bond Register as the absolute Owner of such book-entry 2018A Bond for the purpose of payment of principal of, premium and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of

registering transfers with respect to such Bond, and for all other purposes whatsoever. The Fiscal Agent will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, as shown in the Bond Register, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register, will receive a Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the Bonds. Upon delivery by the Securities Depository to the City and the Fiscal Agent of written notice to the effect that the Securities Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Resolution with respect to Record Dates, the word Nominee in the Resolution will refer to such nominee of the Securities Depository.

Delivery of Representation Letter. In order to qualify the book-entry 2018A Bonds for the Securities Depository's book-entry system, the City will execute and deliver to the Securities Depository a Representation Letter. The execution and delivery of a Representation Letter will not in any way impose upon the City or the Fiscal Agent any obligation whatsoever with respect to persons having interests in such book-entry 2018A Bonds other than the Owners, as shown on the Bond Register. In addition to the execution and delivery of a Representation Letter, the City and the Fiscal Agent, if necessary, will take such other actions, not inconsistent with the Resolution, as are reasonably necessary to qualify book-entry 2018A Bonds for the Depository's book-entry program.

Selection of Securities Depository. In the event that: (i) the Securities Depository determines not to continue to act as securities depository for book-entry 2018A Bonds; or (ii) the City determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the 2018A Bonds or the City, then the City will discontinue the book-entry system with the Securities Depository. If the City determines to replace the Securities Depository with another qualified securities depository, the City will prepare or direct the preparation of a new single, separate, fully registered 2018A Bond for each of the maturity dates of such book-entry 2018A Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided below. If the City fails to identify another qualified securities depository to replace the Securities Depository, then the Bonds will no longer be restricted to being registered in such Bond Register in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such Bonds designate, in accordance with the provisions of the Resolution.

Payments To Securities Depository. Notwithstanding any other provision of the Resolution to the contrary, so long as all Outstanding 2018A Bonds are held in book-entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2018A Bonds and all notices with respect to such 2018A Bonds will be made and given, respectively to the Nominee, as provided in the Representation Letter or as otherwise instructed by the Securities Depository and agreed to by the Fiscal Agent notwithstanding any inconsistent provisions in the Resolution.

Transfer of 2018A Bonds to Substitute Depository.

(i) The 2018A Bonds will be initially issued as provided in the Resolution. Registered ownership of such 2018A Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of the Securities Depository or its Nominee, or of any substitute depository designated pursuant to clause (b) below (a “Substitute Depository”); provided that any successor of the Securities Depository or Substitute Depository will be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of the Securities Depository or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that the Securities Depository (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository will be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of the Securities Depository or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that the Securities Depository or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clauses (a) or (b) of paragraph (i) described above, upon receipt of all Outstanding 2018A Bonds by the Fiscal Agent, together with a written request of the City to the Fiscal Agent designating the Substitute Depository, a single new 2018A Bond, which the City will prepare or cause to be prepared, will be issued for each maturity of 2018A Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the City. In the case of any transfer pursuant to clause (c) of subsection (i) described above, upon receipt of all Outstanding 2018A Bonds by the Fiscal Agent, together with a written request of the City to the Fiscal Agent, new 2018A Bonds, which the City will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such written request of the City, subject to the limitations of the Resolution, provided that the Fiscal Agent will not be required to deliver such new 2018A Bonds within a period of less than sixty (60) days from the date of receipt of such written request from the City.

(iii) In the case of a partial redemption or an advance refunding of any 2018A Bonds evidencing a portion of the principal maturing in a particular year, the Securities Depository or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2018A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Fiscal Agent, all in accordance with the Representation Letter. The Fiscal Agent will not be liable for such Securities Depository’s failure to make such notations or errors in making such notations and the records of the Fiscal Agent as to the outstanding principal amount of such 2018A Bonds will be controlling.

(iv) The City and the Fiscal Agent will be entitled to treat the person in whose name any 2018A Bond is registered as the Owner thereof for all purposes of the Resolution and any applicable laws, notwithstanding any notice to the contrary received by the City or the Fiscal Agent; and the City and the Fiscal Agent will not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2018A Bonds. Neither the City nor the Fiscal Agent will have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including the Securities Depository or its successor (or Substitute Depository or its successor), except to the Owner of

any 2018A Bonds, and the Fiscal Agent may rely conclusively on its records as to the identity of the Owners of the 2018A Bonds.

Transfers Outside Book-Entry System. In the event that: (i) the Securities Depository determines not to continue to act as securities depository for the 2018A Bonds; or (ii) the City determines that the Securities Depository will no longer so act and delivers a written certificate to the Fiscal Agent to that effect, then the City will discontinue the book-entry system with the Securities Depository. Thereafter, any Bond may, in accordance with its terms, be transferred or exchanged in accordance with the Resolution.

Payments and Notices to the Nominee. Notwithstanding any other provision of the Resolution to the contrary, so long as any 2018A Bond is registered in the name of the Nominee, all payments with respect to principal of and interest on such 2018A Bond and all notices with respect to such 2018A Bond will be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Securities Depository.

Initial Depository and Nominee. The initial Securities Depository under the Fifth Supplemental Resolution will be DTC. The initial Nominee will be Cede & Co., as Nominee of DTC.

REVENUES

Pledge of Revenues

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

Out of Gross Operating Revenues there will be applied as in the Resolution set forth all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, together with Treasury Credits, will be applied to the payment of the principal of (including any premium thereon) and interest on the State Loans, the Bonds and all Parity Debt, together with any sinking fund payments of the State Loans, the Bonds and Parity Debt and any reserve fund and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations, will be retained in the Sewer Revenue Fund as a fund balance or surplus and may be used for any lawful purpose. The

pledge of Net Operating Revenues and Treasury Credits made in the Resolution will be irrevocable until there are no longer Bonds Outstanding.

Establishment, Pledge, Funding and Application of 2018A Reserve Account

(a) Pursuant to the Resolution, the Fiscal Agent will establish, maintain and hold in trust a single and separate fund designated as the "Refunding Sewer Revenue Bonds, Series 2018A, Reserve Account" (the "2018A Reserve Account").

The 2018A Reserve Account will be funded at the 2018A Bond Reserve Requirement and applied as set forth in the Resolution. The 2018A Reserve Account is pledged to secure the payment of the principal of and interest on the 2018A Bonds in accordance with their terms.

(b) On the date of initial issuance of the 2018A Bonds, the Fiscal Agent will deposit to the 2018A Reserve Account an amount provided by or on behalf of the City, which may be in money, Authorized Investments, a line of credit, letter of credit, insurance policy, surety bond or other credit source meeting the requirements of the Resolution, or a combination thereof, equal to the 2018A Bond Reserve Requirement. The City will at all times maintain an amount equal to the 2018A Bond Reserve Requirement in the 2018A Reserve Account until the 2018A Bonds are discharged in accordance with the provisions of the Resolution. In the event of any deficiency in the 2018A Reserve Account, the Treasurer will replenish such deficiency in accordance with the provisions of the Resolution.

(c) All amounts in the 2018A Reserve Account will be used and withdrawn by the Fiscal Agent, as provided in the Resolution, solely for the purpose of: (i) paying principal of and interest on the 2018A Bonds in the event that moneys in the Principal Account and the Interest Account are insufficient; or (ii) for the payment of the final principal and interest payments on the 2018A Bonds. Any amounts in the 2018A Reserve Account in excess of the 2018A Bond Reserve Requirement (as certified by the City to the Fiscal Agent) will be transferred to an account with the Fiscal Agent to be applied towards payment of interest and principal due on the 2018A Bonds.

(d) All Authorized Investments credited to the 2018A Reserve Account will be valued as of July 1 of each year (or the next succeeding Business Day if such day is not a Business Day) at the greater of the cost or accreted value thereof.

(e) Notwithstanding anything in the Resolution to the contrary, at the option of the City, the 2018A Bond Reserve Requirement may be satisfied, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond, or other credit source in a stated amount equal to all or a portion of the 2018A Bond Reserve Requirement; provided, that if the 2018A Bond Reserve Requirement is initially satisfied with a cash deposit, then prior to the substitution, in whole or in part, of such line of credit, letter of credit, insurance policy, surety bond or other credit source, the Rating Agencies will be notified of such proposed substitution and the substitution will not result in a withdrawal or downgrading of any rating of the 2018A Bonds then in effect by the Rating Agencies. Any moneys substituted by the deposit of a line of credit, letter of credit, insurance policy, surety bond, or other credit source will be transferred, at the election of the Treasurer, to the 2018A Costs of Issuance Fund, to the Bond Service Account or to a special account to be established for the payment of any fees in connection with obtaining such line of credit, letter of credit, insurance policy, surety bond or other credit source or will be applied for such other lawful purpose as will not, in the opinion of Bond Counsel,

adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2018A Bonds.

Establishment and Application of 2018A Rebate Account

(a) Pursuant to the Resolution, the Fiscal Agent will establish when required, maintain and hold in trust a separate account designated as the “Refunding Sewer Revenue Bonds, Issue of 2018A, Rebate Account” (the “2018A Rebate Account”). Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2018A Bonds will not be adversely affected, the City will cause to be deposited in the 2018A Rebate Account such amounts as are required to be deposited therein pursuant to the Resolution and the Tax Certificate. All money at any time deposited in the 2018A Rebate Account will be held by the Fiscal Agent in trust for payment to the United States Treasury. All amounts on deposit in the 2018A Rebate Account for the 2018A Bonds will be governed by the Resolution and the Tax Certificate for the 2018A Bonds, unless and to the extent that the City delivers to the Fiscal Agent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2018A Bonds will not be adversely affected, if such requirements are not satisfied. Notwithstanding anything to the contrary in the Resolution or in the Tax Certificate, the Fiscal Agent: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the City; (ii) will have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate; (iii) may rely conclusively on the City’s calculations and determinations and certifications relating to rebate matters; and (iv) will have no responsibility to independently make any calculations or determinations or to review the City’s calculations or determinations thereunder.

(1) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The City will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the rebate requirements described in the Resolution.

(i) Annual Transfer. Within 55 days of the end of each Bond Year, upon the written Request of the City, an amount will be deposited to the 2018A Rebate Account by the Fiscal Agent from any Net Operating Revenues legally available for such purpose (as specified by the City in the aforesaid written Request), if and to the extent required so that the balance in the 2018A Rebate Account will equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) of this subsection (A). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the 2018A Rebate Account exceeds the amount required to be on deposit therein, upon written Request of the City, the Fiscal Agent will withdraw the excess from the 2018A Rebate Account and then credit the excess to the Bond Service Account.

(ii) Payment to the Treasury. The Fiscal Agent will pay, as directed by Request of the City, to the United States Treasury, out of amounts in the 2018A Rebate Account:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all of the 2018A Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the 2018A Rebate Account, the amount in the 2018A Rebate Account is not sufficient to make such payment when such payment is due, the City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the City), or will be made in such other manner as provided under the Code.

Disposition of Unexpended Funds. Any funds remaining in the 2018A Rebate Account after redemption and payment of the 2018A Bonds and the payments described in subsection (A) above being made may be withdrawn by the City and utilized in any manner by the City.

Survival of Defeasance. Notwithstanding anything in the Resolution to the contrary, the obligation to comply with the rebate requirements of the Resolution will survive the defeasance or payment in full of the 2018A Bonds.

Application of Funds and Accounts

(A) Bond Service Account.

(i) *Interest Account.* Amounts in the Interest Account will be used and withdrawn by the Treasurer solely for the purpose of paying interest on the State Loans, Parity Debt and Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity). If proceeds of Bonds of a Series are deposited to the Interest Account to pay capitalized interest on the Bonds of such Series, the Supplemental Resolution will so specify.

(ii) *Principal Account.*

(a) 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 State Loans, Parity Debt and Bonds when due and payable at maturity or upon redemption.

(b) Notwithstanding paragraph (a) above, moneys in the Principal Account may be applied to the purchase of Bonds maturing or subject to mandatory sinking

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

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

(C) Excess Earnings Accounts. Amounts on deposit in any excess earnings or rebate account for a Series of Bonds will 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 will be applied to the acquisition and construction of renewals and replacements to the Sewer System to the extent provision therefore has not been made from other sources.

Establishment, Funding and Application of Redemption Account

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

Investment of Moneys in Funds and Accounts

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

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

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

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

COVENANTS OF THE CITY

Covenants

The City has made the following covenants with the Owners (to be performed by the City or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners; provided, however, that said covenants do not require or obligate the City to use any of its funds other than the Sewer Revenue Fund. Said covenants will be in effect subject to certain provisions of the Resolution, so long as any of the Bonds issued under the Resolution are Outstanding and unpaid, or so long as provision for the full payment and discharge thereof at maturity or upon redemption thereof prior to maturity through the setting apart in the Bond Service Account or in the Redemption Account or in a special trust fund to insure the payment or redemption thereof (as the case may be) of money sufficient for that purpose has not been made.

Punctual Payment

The City has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Resolution, and that the payments into the Bond Service Account and any reserve fund or account will be made, all in strict conformity with the terms of said Bonds and, of

the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions and of the Bonds issued under the Resolution, and that time of such payment and performance is of the essence of the City's contract with the Owners of the Bonds.

Discharge Claims

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

Commence Acquisition and Construction

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

Operate Sewer System in Efficient and Economical Manner

The City covenants and agrees to operate the Sewer System in an efficient and economical manner and to operate, maintain and preserve the Sewer System in good repair and working order.

Against Sale; Eminent Domain

The City has covenanted that the Sewer System will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Sewer Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor will any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Sewer System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt or which otherwise would impair the rights of the Owners with respect to the Net Operating Revenues or the operation of the Sewer System. If any substantial part of the Sewer System is sold, the payment therefor will, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Sewer System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

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

Insurance

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

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

Records and Accounts

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

The City will cause the books and accounts of the Sewer System to be audited annually, which may be a part of the City's Comprehensive Annual Financial Reports, by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the Owners at the office of the City Clerk, and at the office of the Treasurer and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

No Free Service

Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no sewer or other service from the Sewer System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no such sewer service will be rendered to any such public agency or any private corporation or Person at rates lower than those charged other Persons for service, except that charges to the City for sewer used for facilities of the City may be made at rates lower than those charged private Persons. No building or other real property of the Sewer System will be furnished free to

any such public agency or any private Person or corporation, but each of the foregoing will pay the reasonable rental value of any property so used. Reasonable and proper charges for service rendered or quarters furnished to the Sewer System will be paid to the City from the Sewer Revenue Fund. The City will maintain and enforce valid regulations for the payment of bills for sewer service. Such regulations will at all times during such period provide that the City will, to the extent permitted by law, discontinue sewer service to any user whose sewer bill has not been paid within the time fixed by said regulations.

No Priority for Additional Bonds

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

Tax Covenants Related to the 2018A Bonds

Notwithstanding any other provision of the Resolution, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2018A Bonds will not be adversely affected for federal income tax purposes, the City covenants in the Resolution to comply with all applicable requirements of the Code that are necessary to preserve such exclusion from gross income with respect to the 2018A Bonds and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will take no action or refrain from taking any action, and the City will make no use of the proceeds of the 2018A Bonds or of any other moneys or property, which would cause the 2018A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The City will make no use of the proceeds of the 2018A Bonds or of any other amounts or property, regardless of the source, and the City will not take any action or refrain from taking any action, which will cause the 2018A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The City will make no use of the proceeds of the 2018A Bonds, and the City will not take or omit to take any action, that would cause the 2018A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code which is necessary to preserve the exclusion of interest on the 2018A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The City will make no use of the proceeds of the 2018A Bonds or any other amounts or property, regardless of the source, and the City will not take any action or refrain from taking any action, that would cause the 2018A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2018A Bonds for federal income tax purposes; and

(f) Miscellaneous. The City will not take any action or refrain from taking any action which is inconsistent with its expectations stated in the Tax Certificate executed by the City in connection with the issuance of the 2018A Bonds and will comply with the covenants and requirements that are stated therein and incorporated by reference in the Resolution.

(g) No Effect on Taxable Bonds. The tax covenants related to the 2018A Bonds that are set forth in the Resolution will not be applicable to, and nothing that is contained in the Resolution will be deemed to prevent the City from issuing revenue bonds or executing and delivering contracts that are payable on a parity with the 2018A Bonds, the interest with respect to which has been determined to be subject to federal income taxation.

(h) Elections. The City by the Resolution directs and authorizes the Treasurer (or any duly authorized designee thereof) to make elections permitted or required pursuant to the provisions of the Code or the Treasury Regulations, as the Treasurer or such designee (after consultation with Bond Counsel) deems necessary or appropriate in connection with the 2018A Bonds, in the Tax Certificate relating to the 2018A Bonds, or similar or other appropriate certificate, form or document.

(i) Tax Certificate. The City covenants in the Resolution that in connection with the delivery of the 2018A Bonds it will execute and deliver the Tax Certificate, in such form and substance as is provided and accepted by Bond Counsel. All representations, warranties and covenants made by the City in the Tax Certificate, as the same may be amended or supplemented in accordance with its terms, are incorporated into and made a part of the Fifth Supplemental Resolution as though the same had been fully set forth therein.

Notwithstanding any other provisions of the Resolution to the contrary, upon the City's failure to observe, or refusal to comply with, any of the foregoing tax covenants, no Person other than the Owners of the 2018A Bonds will be entitled to exercise any right or remedy provided to the Owners under the Resolution on the basis of the City's failure to observe, or refusal to comply with, such covenant.

THE FISCAL AGENT

Appointment; Duties of Fiscal Agent

(a) The Treasurer (or the Treasurer's designee) is by the Resolution authorized, empowered and directed to appoint a Fiscal Agent with respect to the 2018A Bonds. The Fiscal Agent will signify its acceptance of the duties and obligations under the Resolution by executing and delivering to the City a written acceptance in which the Fiscal Agent agrees to perform said duties and obligations as set forth in the Resolution.

The City has agreed in the Resolution, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any liabilities it may incur in the exercise and performance of its powers and duties under the Resolution which are not due to its negligence or willful misconduct.

The City has acknowledged in the Resolution that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish with the City periodic transaction statements which include detail for all investment

transactions made by the Fiscal Agent hereunder; provided that the Fiscal Agent is not obligated to provide an accounting for any fund or account that (a) has a balance of \$0.00 and (b) has not had any activity since the last reporting date.

The obligation of the City described above will survive resignation or removal of the Fiscal Agent under the Fifth Supplemental Resolution and payment of the 2018A Bonds and discharge of the Fifth Supplemental Resolution.

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

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

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

(e) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent will be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company will have a combined capital and surplus of at least one hundred million dollars (\$100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

Retention and Dissemination of Available Information

The Fiscal Agent for the 2018A Bonds will retain in its possession all reports, certificates and other documents received by it with respect to the 2018A Bonds, all of which will be subject at all reasonable times during regular business hours with reasonable prior notice to inspection by the City, the Securities Depository with respect to the 2018A Bonds and any other Person that the City reasonably determines to be a beneficial owner of 2018A Bonds held by such Securities Depository, and the agents and representatives of any thereof. Upon receipt by the Fiscal Agent of a written request of any Person described in the immediately preceding sentence, the Fiscal Agent will provide to such Person a copy of any such report, certificate or other document, provided that such Person will bear the direct cost of reproduction and delivery thereof. The Fiscal Agent will, at the cost of and at the written instruction of the City, disseminate all material written information received by the Fiscal Agent pursuant to the Resolution, to one or more officially recognized central information facilities or repositories with respect to information regarding obligations similar to the 2018A Bonds specified to the Fiscal Agent by the City.

Liability of Fiscal Agent

(a) The recitals of facts in the Resolution and in the Bonds of each Series contained will be taken as statements of the City, and the Fiscal Agent for each Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly herein or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Resolution. A Fiscal Agent and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(b) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it will be proved that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Resolution and perform the duties required of it under the Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

(c) No provision of the Resolution will require a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties thereunder, or in the exercise of its rights or powers.

(d) A Fiscal Agent is not required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Resolution, other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Resolution and to file with such Fiscal Agent when due, such reports and certifications as City is required to file with each Fiscal Agent hereunder the Resolution.

(e) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent under the Resolution will be construed to impose a duty to exercise such power, right or remedy.

(f) A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, Personally or by agent or attorney.

(g) Whether or not therein expressly so provided, every provision of the Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions described above.

Right of Fiscal Agent to Rely on Documents

Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to the City, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance with the Resolution unless it is proved that a Fiscal Agent was negligent in ascertaining the pertinent facts.

Whenever in the administration of the duties imposed upon it by the Resolution a Fiscal Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof

be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate will be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of the Resolution in reliance upon such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant; or other expert selected by the City or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Resolution.

MODIFICATION OR AMENDMENT OF THE RESOLUTION

Amendments Permitted

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

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

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

(b) The Resolution and the rights and obligations of the City, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the City Council may adopt without the consent of

any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

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

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

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

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

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

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

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

Effect of Supplemental Resolution

From and after the time any Supplemental Resolution becomes effective pursuant to the Resolution, the Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the City, each Fiscal Agent and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Resolution subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Resolution for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Resolution may, and if a Fiscal Agent so determines will, bear a notation by endorsement or

otherwise in form approved by the City Council and such Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his Bond for such purpose at the corporate trust office of such Fiscal Agent or at such additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation will be made on such Bond. If a Supplemental Resolution so provides, new Bonds so modified as to conform, in the opinion of the City and the Fiscal Agent for such Series, to any modification or amendment contained in such Supplemental Resolution, will be prepared and executed by the City and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then outstanding will be exchanged at the corporate trust office of such Fiscal Agent, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

Amendment of Particular Bonds

The foregoing provisions will not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him or her, provided that due notation thereof is made on such Bonds.

DEFEASANCE

Discharge of Resolution

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

- (a) by paying or causing to be paid the Bond Obligation of and interest on all such Bonds, as and when the same become due and payable;
- (b) by depositing with the Treasurer, the Fiscal Agent for such Bonds, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem such Bonds; or
- (c) by delivering such Bonds to the Fiscal Agent for such Bonds, for cancellation by it.

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

Discharge of Liability on Bonds

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

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

Deposit of Money or Securities with Treasurer

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

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

(b) non-callable Government Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds-to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series will have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series will have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Resolution

Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, will, upon Request of the City, be released from the trusts created by the Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of the City) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary will not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than the City) for any interest earned on, moneys so held. Any interest earned thereon will belong to the City and will be deposited monthly by the Treasurer into the Bond Service Account.

DEFAULTS AND REMEDIES

Events of Default

Each of the following events will be an Event of Default:

- (a) Default by the City in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);
- (b) Default by the City in the due and punctual payment of the interest on any Bond;
- (c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
- (d) Destruction or damage to any substantial part of the Sewer System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);

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

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

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

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

Bondholders' Committee

If an Event of Default has occurred and is continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof: (a) will prescribe the manner in which the

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

Acceleration

Upon the occurrence and continuation of an Event of Default described in paragraphs (e), (f) or (g) under the caption "—Events of Default," the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds will forthwith become due and payable. Upon any such declaration the City will forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged for such purpose by the Resolution. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequence. No such rescission or annulment will extend to or affect any subsequent default or impair any right consequent thereon.

Receiver

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

Other Remedies; Rights of Bondholders

Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in

equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Bondholders under the Resolution or now or later existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

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

Unconditional Rights To Receive Principal, Accreted Value, Premium and Interest

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

MISCELLANEOUS

Limitation of City Limited to Net Operating Revenues

Notwithstanding anything in the Resolution or in the Bonds, the City will not be required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Resolution for any of the purposes therein mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Resolution.

The general fund of the City is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond will not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.

Successor Is Deemed Included in All References to Predecessor

Whenever in the Resolution either the City, the Treasurer or any Fiscal Agent is named or referred to, such reference includes the successors or assigns thereof, and all the covenants and agreements in the Resolution contained by or on behalf of the City or any Fiscal Agent will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to City Fiscal Agents and Bondholders

Nothing in the Resolution or in the Bonds expressed or implied is intended or will be construed to give to any Person other than the City, each Fiscal Agent and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Resolution or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the City, each Fiscal Agent, and the Owners of the Bonds.

Waiver of Notice

Whenever in the Resolution the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Destruction or Delivery of Cancelled Bonds

Whenever in the Resolution provision is made for the cancellation by a Fiscal Agent and the delivery to the Treasurer of any Bonds, such Fiscal Agent may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Treasurer, if the Treasurer so requires), and deliver a certificate of such destruction to the Treasurer.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Resolution or in the Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be severable from the remaining provisions contained in the Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Resolution, and the Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The City Council has declared that it would have adopted the Resolution and each and every other section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Resolution may be held illegal, invalid or unenforceable.

Evidence of Rights of Bondholders

Any request, consent or other instrument required or permitted by the Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request,

consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, will be sufficient for any purpose of the Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of the City if made in the manner provided in the Resolution.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Fiscal Agent for such Series. The Fiscal Agent of a Series may establish a record date as of which to measure consent of the Bondholders of such Series in order to determine whether the requisite consents are received.

Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any request, consent, or other instrument or writing of the Owner of any Bond of such Series will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or the City in accordance therewith or reliance thereon.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Resolution, Bonds which are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Resolution if the pledgee establishes to the satisfaction of the Fiscal Agent for such Series the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent taken upon the advice of counsel will be full protection to such Fiscal Agent.

Money Held for Particular Bonds

The money held by the Treasurer or a Fiscal Agent for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on the City's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to certain provisions of the Resolution.

Funds and Accounts

Any fund required by the Resolution to be established and maintained by the Treasurer or a Fiscal Agent may be established and maintained in the accounting records of the Treasurer or a Fiscal Agent, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or an account; but all such records with respect to all such funds will at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

Proceedings Constitute Contract

The provisions of the Resolution constitute a contract between the City and the Bondholders of such Bonds, and the provisions thereof will be enforceable by any Bondholder for the equal benefit and protection of all Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction.

No remedy conferred by the Resolution upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any subsequent default or breach of duty or contract or impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default will impair any such right or power or be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy is brought or taken and the Bondholder prevails, said Bondholder will be entitled to receive from the Sewer Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, the City and the Bondholder will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds of any Series, the Resolution will be irrevocable, but will be subject to modification to the extent and in the manner provided in the Resolution, but to no greater extent and in no other manner.

Future Contracts

Nothing contained in the Resolution will be deemed to restrict or prohibit the City from making contracts or creating bonded or other indebtedness payable from the general fund of the City, as the case may be, or from taxes or any source other than the Revenues, and from and after the sale of the Bonds of any Series, the general fund of the City will not include the Revenues and no contract or other obligation payable from the general fund of the City will be payable from the Revenues, except as provided in the Resolution.

Waiver of Personal Liability

No City Council member, officer, agent or employee of the City or any Fiscal Agent will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Resolution will relieve any such City Council member, officer, agent or employee of the City or any Fiscal Agent from the performance of any official duty provided by law or by the Resolution.

Governing Law

The Resolution will be construed and governed in accordance with the laws of the State of California.

Business Day

Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day will become due or be made on the next succeeding Business Day and no interest will accrue for such period.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) dated November 27, 2018 is executed and delivered by the City of Riverside (the “Issuer”) in connection with the issuance and delivery of \$153,670,000 City of Riverside Refunding Sewer Revenue Bonds, Series 2018A (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 21860 of the Issuer, adopted by the City Council on July 14, 2009, as amended and supplemented, including as supplemented by Resolution No. 23375, adopted by the City Council on October 23, 2018 (collectively, the “Resolution”).

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Disclosure Representative” shall mean the City Manager, Treasurer or Chief Financial Officer of the Issuer or either of their designees, or such other officer or employee as the Issuer shall designate in writing from time to time.

“Dissemination Agent” shall mean, initially, the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement relating to the Bonds dated October 30, 2018.

“Participating Underwriter” shall mean each of Bank of America Merrill Lynch and Citigroup Global Markets, as the original underwriters of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than 270 days following the end of the Issuer's fiscal year (which presently ends on June 30), commencing with the report for the fiscal year ending June 30, 2018, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent (if other than the Issuer) of a change in the fiscal year dates. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is a person or entity other than the Issuer then, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a). If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report due 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) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in the form required by the MSRB.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer's Sewer System for the most recent fiscal year of the Issuer then ended, which may be a part of the Issuer's audited financial statements. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer's Sewer System in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer's Sewer System shall be audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) To the extent not included in the audited financial statements of the Issuer's Sewer System, the Annual Report shall also include the following:

- (1) the principal amount of the Bonds outstanding as of the end of the immediately preceding fiscal year and a list of Parity Debt issued and then currently outstanding under the Resolution and their respective principal amounts,
- (2) the balance in the 2018A Reserve Account as of the end of the immediately preceding fiscal year, if any, and a statement of the 2018A Bond Reserve Requirement,
- (3) updated information comparable to the information in the table entitled "Revenues by Customer Category" as it appears in the Official Statement,
- (4) updated information comparable to the information in the table entitled "Total Connection Fee Revenues" as it appears in the Official Statement, and
- (5) updated information comparable to the information in the table entitled "Historical Summary of Operations" as it appears in the Official Statement.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, or their failure to perform;
- (5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) ratings changes; and
- (9) bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

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

- (1) unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination

of a definitive agreement relating to any such actions, other than pursuant to its terms;

- (3) appointment of a successor or additional trustee or the change of the name of a trustee;
- (4) nonpayment related defaults;
- (5) modifications to the rights of Owners of the Bonds;
- (6) notices of redemption; and
- (7) release, substitution or sale of property securing repayment of the Bonds.

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

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by

the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counselor counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Certificate. In the event of a failure of the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is a person or entity other than the Issuer, this Section 11 shall apply. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: City of Riverside
3900 Main Street
Riverside, CA 92501

CITY OF RIVERSIDE

By: _____
Chief Financial Officer/Treasurer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Riverside

Name of Issue: Refunding Sewer Revenue Bonds, Series 2018A

Date of Issuance: November 27, 2018

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 _____, 2018. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the Series 2018A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

November 27, 2018

City of Riverside
Riverside, California

Re: \$153,670,000 City of Riverside Refunding Sewer Revenue Bonds, Series 2018A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the "City") of the \$153,670,000 aggregate principal amount of the City's Sewer Revenue Bonds, Series 2018A (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. 21860 adopted by the City Council on July 14, 2009, as amended and supplemented, including as amended and supplemented by Resolution No. 23375 adopted by the City Council on October 23, 2018 (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 Certificate 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.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth in the Resolution, 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, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Resolution, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

6. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

7. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a Bond is excluded from the 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 is exempt from State of California personal income tax.

8. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable 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 Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the City and others and are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to the Bonds if any such action is taken or omitted based upon the opinion or advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Resolution and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2018A Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2018A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2018A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2018A Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. 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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written

confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying 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, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying

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. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

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

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

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