NEW ISSUE – FULL BOOK-ENTRY

RATINGS:
Fitch: F1+/AA+
Moody's: VMIG 1/Aa2
S&P: A-1+
See "RATINGS."

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2011A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2011A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the 2011A Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."

$59,000,000
CITY OF RIVERSIDE, CALIFORNIA
Variable Rate Refunding Water Revenue Bonds
Issue of 2011A
(Index Interest Rate Period)

Index Rate Scheduled Purchase Date: June 1, 2012
Applicable SIFMA Spread: 0.07%

Dated: Date of Delivery | **Due: October 1, 2035**
Price: 100% | **CUSIP: 769076 UH1**

Description of the 2011A Bonds. The above-captioned bonds (the "2011A Bonds") will be issued by the City of Riverside (the "City") pursuant to the Law, as described in this Official Statement. The 2011A Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2011A Bonds. Purchasers of the 2011A Bonds will not receive physical certificates representing their interests in 2011A Bonds purchased. Principal of, premium, if any, and interest on the 2011A Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2011A Bonds.

Interest Rate Period and Mandatory Tender. The 2011A Bonds will bear interest initially in an Index Interest Rate Period (the "Initial Index Interest Rate Period") at an interest rate equal to the sum of (i) SIFMA with respect to a SIFMA Index Interest Accrued Period and (ii) the Applicable SIFMA Spread noted above. The Initial Index Interest Rate Period will commence on the date of issuance of the 2011A Bonds and end on June 1, 2012, which is the Index Rate Scheduled Purchase Date. Prior to the Index Rate Scheduled Purchase Date, the City may exercise its option to designate any Business Day from and after the Call Protection Date, which is November 28, 2011, for the Initial Index Interest Rate Period, as an Index Rate Unscheduled Purchase Date. Upon providing sufficient amounts to pay the Purchase Price to the Fiscal Agent, the Initial Index Interest Rate Period will end on that Index Rate Unscheduled Purchase Date. See "DESCRIPTION OF THE 2011A BONDS – Interest Rate Provisions," "– Provisions Related to the Index Rate Scheduled Purchase Date" and "– Redemption Provisions."

Interest will be payable on the first Business Day of each month, commencing July 1, 2011, and on the earlier of the Index Rate Scheduled Purchase Date or an Index Rate Unscheduled Purchase Date, if actual purchase occurs. While in the Initial Index Interest Rate Period, the 2011A Bonds will be delivered in denominations of $100,000 or any integral multiple of $5,000 in excess of $100,000. **This Official Statement is not intended to describe the 2011A Bonds while in an Interest Rate Period other than the Initial Index Interest Rate Period.**

Purchase Default Period. In the event that the City fails to pay the Purchase Price on the Index Rate Scheduled Purchase Date, a Purchase Default Period would commence. Consequently, the 2011A Bonds would be subject to special mandatory redemption consisting of substantially equal payments every 18 months over a four-and-a-half year period and would bear interest at a fixed rate of 10% per annum (referred to in this Official Statement as the Purchase Default Rate). See "DESCRIPTION OF THE 2011A BONDS – Purchase Event of Default and Purchase Default Period."

Purpose of the 2011A Bonds. The 2011A Bonds are being issued to (i) refund the City's outstanding Variable Rate Refunding Water Revenue Bonds, Issue of 2008A (the "2008A Bonds") and (ii) release the amounts deposited in the reserve account securing the 2008A Bonds to pay the costs of issuance related to the 2011A Bonds and to finance additional capital projects of the Water System. See "PLAN OF FINANCE."

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

Redemption Prior to Maturity. The 2011A Bonds are subject to redemption prior to maturity. See "DESCRIPTION OF THE 2011A BONDS – Redemption Provisions."

Existing Parity Debt. Following the issuance of the 2011A Bonds, the 2011A Bonds will be secured by and payable from Net Operating Revenues on a parity with certain outstanding bonds, which are referred to in this Official Statement as the "Prior Parity Bonds." See "PLAN OF FINANCE – Outstanding Bonds and Parity Debt." In addition, the City has certain outstanding reimbursement obligations to Financial Security Assurance, Inc., that are secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds ("Prior Parity Debt") and the 2011A Bonds.

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

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

The 2011A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as counsel to the Underwriter. It is expected that the 2011A Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about May 26, 2011.

Dated: May 18, 2011

CITY OF RIVERSIDE, CALIFORNIA
CITY COUNCIL

Ronald O. Loveridge, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Rusty Bailey, 3rd Ward
Paul Davis, 4th Ward

Chris Mac Arthur, 5th Ward
Nancy Hart, 6th Ward
Steve Adams, 7th Ward

BOARD OF PUBLIC UTILITIES

Robert Elliott, Chairman

Darrell Ament
Susan Cash
Mary Curtin
Ian J. Davidson

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

CITY OFFICIALS

Bradley J. Hudson, *City Manager*

Paul C. Sundeen,
Assistant City Manager / CFO / Treasurer

Brent A. Mason,
Finance Director

Belinda J. Graham,
Assistant City Manager

Gregory P. Priamos,
City Attorney

Susan D. Wilson,
Deputy City Attorney

Colleen J. Nicol,
City Clerk

L. Scott Catlett
Assistant Finance Director

David H. Wright,
Public Utilities General Manager

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

Reiko A. Kerr,
Utilities Assistant General Manager / Chief Financial Officer

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

Gary L. Nolff,
Utilities Assistant General Manager / Resources

Michael J. Bacich,
Utilities Assistant General Manager Customer Relations / Marketing

BOND COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

DISCLOSURE COUNSEL
Jones Hall, A Professional Law Corporation
San Francisco, California

FISCAL AGENT AND CALCULATION AGENT
U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT
Precision Analytics Inc.

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

This Official Statement is not to be construed as a contract with the purchasers of the 2011A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made of the 2011A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Water System since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE 2011A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2011A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CUSIP data contained in this Official Statement are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and is included for convenience only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

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

The City maintains a website. However, the information presented at such website is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2011A Bonds.

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$59,000,000
CITY OF RIVERSIDE, CALIFORNIA
Variable Rate Refunding Water Revenue Bonds
Issue of 2011A
(Index Interest Rate Period)

INTRODUCTION

This Official Statement, including the Appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "**City**") of the above-captioned bonds, which are referred to as the "**2011A Bonds**." This Official Statement is not intended to describe the 2011A Bonds while in an Interest Rate Period other than the Initial Index Interest Rate Period (as described below under "– Interest Rate Period and Mandatory Tender").

Authority for the 2011A Bonds

The 2011A Bonds are authorized and issued pursuant to the following, which are referred to collectively in this Official Statement as the "**Law**":

(i) the City Charter,

(ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "**Ordinance**"), and

(iii) Resolution No. 17664 adopted by the City Council on January 8, 1991 (the "**Master Resolution**"), as previously amended and supplemented, and as amended and supplemented by an eighth supplemental resolution providing for the issuance of the 2011A Bonds (the "**Eighth Supplemental Resolution**"), which was adopted by the City Council on April 26, 2011. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Eighth Supplemental Resolution, is referred to collectively in this Official Statement as the "**Resolution**."

Purpose of the 2011A Bonds

The 2011A Bonds are being issued to (i) refund the City's outstanding Variable Rate Refunding Water Revenue Bonds, Issue of 2008A (the "**2008A Bonds**") and (ii) release the amounts deposited in the reserve account securing the 2008A Bonds to pay the costs of issuance related to the 2011A Bonds and to finance additional capital projects of the Water System. See "PLAN OF FINANCE."

The Water System

The City's water public utility system (the "**Water System**") serves an area of approximately 74.7 square miles, of which approximately 70.60 square miles are within the boundaries of the City. The City typically obtains 100% of its potable and non-potable water from local groundwater basins. The Water System provided service to approximately 64,231

metered customer accounts in the service area during fiscal year 2009-10, which represents a population served of approximately 304,051. See "THE WATER SYSTEM."

Security for the 2011A Bonds; Rate Covenant

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

Rate Covenant. The City is obligated by the Resolution to prescribe, revise and collect rates and collect charges for the services, facilities and water of the Water System during each Fiscal Year in an amount sufficient to pay the Operating and Maintenance Expenses of the Water System, to pay debt service on all Bonds (including debt service on the 2011A Bonds during a "**Purchase Default Period**" (as defined in "DESCRIPTION OF THE 2011A BONDS – Purchase Event of Default and Purchase Default Period") other than the Purchase Price on any "**Index Rate Purchase Date**" (as defined in "DESCRIPTION OF THE 2011A BONDS – Interest Rate Provisions")) and Parity Debt and to pay all other obligations that are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Net Operating Revenues" and "– Rate Covenant."

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

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

Outstanding Parity Debt

Following issuance of the 2011A Bonds and defeasance of the 2008A Bonds, the 2011A Bonds will be secured by and payable from Net Operating Revenues on a parity with $158,865,000 (as of October 2, 2010) outstanding principal amount of "**Prior Parity Bonds**" and certain outstanding "**Prior Parity Debt**" (as those terms are defined in "PLAN OF FINANCE – Outstanding Bonds and Prior Parity Debt" below).

Additional Bonds and Parity Debt

The City is authorized under the Resolution to issue additional bonds ("**Additional Bonds**") that are secured by a pledge of and lien upon, and payable from, Net Operating Revenues and other funds, assets and security described under the Resolution on a parity with the

2011A Bonds, the Prior Parity Debt and the Prior Parity Bonds. The 2011A Bonds, together with the Prior Parity Bonds and any Additional Bonds, are referred to in this Official Statement as the "**Bonds**."

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

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Parity Debt."

2011A Reserve Account Not Funded

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

Subordinate Obligations

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

Interest Rate Period and Mandatory Tender

The 2011A Bonds will bear interest initially in an Index Interest Rate Period (the "**Initial Index Interest Rate Period**") at an interest rate equal to the sum of (i) SIFMA with respect to a "**SIFMA Index Interest Accrual Period**" (as defined under "DESCRIPTION OF THE 2011A BONDS – Interest Rate Provisions") and (ii) the Applicable SIFMA Spread noted on the cover page of this Official Statement. The Initial Index Interest Rate Period will commence on the date of issuance of the 2011A Bonds and end on June 1, 2012, which is the Index Rate Scheduled Purchase Date for the Initial Index Interest Rate Period.

Prior to the Index Rate Scheduled Purchase Date, the City may exercise its option to designate any Business Day from and after the Call Protection Date (which is November 28, 2011 for the Initial Index Interest Rate Period) as an Index Rate Unscheduled Purchase Date. Upon providing sufficient amounts to pay the Purchase Price to the Fiscal Agent, the Initial Index Interest Rate Period will end on that Index Rate Unscheduled Purchase Date.

See "DESCRIPTION OF THE 2011A BONDS – Interest Rate Provisions," "– Provisions Related to the Index Rate Scheduled Purchase Date," and "– Redemption Provisions."

Index Rate Scheduled Purchase Date; Purchase Default Period

The Eighth Supplemental Resolution states that the City is irrevocably committed to pay the Purchase Price of all 2011A Bonds on the Index Rate Scheduled Purchase Date. The City anticipates exercising its option to designate an Index Rate Unscheduled Purchase Date after the Call Protection Date to allow sufficient time to ensure a successful remarketing or refinancing of the 2011A Bonds prior to, if not on, the Index Rate Scheduled Purchase Date. See "DESCRIPTION OF THE 2011A BONDS – Provisions Related to the Index Rate Scheduled Purchase Date" for a discussion of the City's policy with respect to the Index Rate Scheduled Purchase Date.

However, to the extent that the City is unable to successfully remarket or refinance the 2011A Bonds prior to or on the Index Rate Scheduled Purchase Date, the City expects to pay the Purchase Price on the Index Rate Scheduled Purchase Date from the Water System's available cash and unrestricted reserves (including "**Unencumbered Funds**," as that term is defined under "HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM – Unencumbered Funds of the Water System"), and by liquidating Water System investments and assets and borrowing from the City. The City has not committed to allocate these other funds for the purchase of the 2011A Bonds on the Index Rate Scheduled Purchase Date and the City can provide no assurances that such other funds will be available for this purpose when needed.

In the event that the City fails to pay the Purchase Price on the Index Rate Scheduled Purchase Date, a Purchase Default Period would commence. Consequently, the 2011A Bonds would be subject to special mandatory redemption consisting of substantially equal payments every 18 months over a four-and-a-half year period and would bear interest at the "**Purchase Default Rate**" (which is defined in the Resolution as a fixed rate of 10% per annum).

See "DESCRIPTION OF THE 2011A BONDS – Purchase Event of Default and Purchase Default Period."

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2011A Bonds to provide certain financial information and operating data relating to the Water System and to provide notices of the occurrence of certain enumerated significant events. See "CONTINUING DISCLOSURE" and "APPENDIX D – Form of Continuing Disclosure Certificate."

Summaries and References to Documents

Brief descriptions of the 2011A Bonds, the security and sources of payment therefor, the Water System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references in this Official Statement to the 2011A Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557.

A copy of the most recent annual report of the Water System may be obtained from the Utilities Assistant General Manager, Finance and Administration of the City of Riverside Public Utilities Department, at the same address. Financial and statistical information set forth in this

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

All capitalized terms used in this Official Statement and not otherwise defined shall have the meanings provided in the Resolution.

PLAN OF FINANCE

Refunding of 2008A Bonds

The City will use the proceeds of the 2011A Bonds to refund the outstanding 2008A Bonds. As of October 2, 2010, the 2008A Bonds were outstanding in the principal amount of $59,000,000. In order to refund the 2008A Bonds, the City and U.S. Bank National Association (the "**2008A Escrow Agent**") will enter into an agreement (the "**2008A Escrow Agreement**") under which the 2008A Escrow Agent will establish an irrevocable escrow fund (the "**2008A Escrow Fund**") and deposit therein the proceeds of the 2011A Bonds and a portion of the amounts currently held in the funds and accounts established for the 2008A Bonds. Amounts on deposit in the 2008A Escrow Fund on the closing date will be sufficient to pay the redemption price, together with accrued interest to the date of redemption, of the outstanding 2008A Bonds on June 1, 2011.

Sufficiency of the deposits in the 2008A Escrow Fund for those purposes will be verified by Precision Analytics Inc. (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY" below.

The amounts held by the 2008A Escrow Agent in the 2008A Escrow Fund will be uninvested cash and are pledged solely to the payment of the 2008A Bonds. None of the funds deposited in the 2008A Escrow Fund will be available for the payment of principal and interest with respect to the 2011A Bonds.

Other Aspects of Plan of Finance

Use of Funds Held in 2008A Reserve Account. Simultaneously with the issuance and delivery of the 2011A Bonds, the funds held in the 2008A Reserve Account related to the 2008A Bonds, which was created under a supplemental resolution adopted by the City Council on May 6, 2008, are expected to be released and used to (i) fund any additional amounts necessary to defease and redeem the 2008A Bonds, (ii) pay the costs of issuance of the 2011A Bonds and (iii) finance additional projects in the Water System's Capital Improvement Program. For more information about such program, see "THE WATER SYSTEM – Capital Improvement Program."

Extension of Standby Bond Purchase Agreement. To facilitate the refinancing of the 2008A Bonds, the City has obtained an extension of its standby bond purchase agreement with Bank of America, N.A., dated as of May 1, 2008 (the "**2008A Standby Bond Purchase Agreement**"), pursuant to which Bank of America, N.A. agreed to provide liquidity support for the 2008A Bonds, to June 10, 2011. Upon deposit of funds in the 2008A Escrow Fund, the 2008A Standby Purchase Agreement will be terminated in accordance with its terms.

Outstanding Swap Agreement. Previously, the City entered into an interest rate swap agreement for the purpose of converting the floating rate interest payments the City was obligated to make on the Water Refunding/Revenue Bonds, Issue of 2005 (the "**2005 Bonds**"),

into substantially fixed rate payments. In connection with the issuance of the 2008A Bonds, this swap agreement had been reallocated to the 2008A Bonds. On the delivery date of the 2011A Bonds, this swap agreement is expected to be reallocated to the 2011A Bonds as a hedge against variable interest rate increases. For more information, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinate Obligations – Existing Subordinate Debt – 2005 Swap Agreement."

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the 2011A Bonds are as follows:

Sources:	
Principal Amount of 2011A Bonds	$59,000,000.00
2008A Reserve Account Amounts	4,432,135.00
2008A Bond Service Account Amounts	28,824.10
Total Source	$63,460,959.10
Uses:	
2008A Escrow Fund	$59,123,835.33
Costs of Issuance[(1)]	335,050.00
Underwriter's Discount	67,321.89
2011A Construction Fund	3,934,751.88
Total Use	$63,460,959.10

(1) Includes legal fees, Fiscal Agent fees, Financial Advisor fees, printing costs, rating agency fees, and other costs incurred or to be incurred in connection with the issuance of the 2011A Bonds.

Outstanding Bonds and Prior Parity Debt

Outstanding Prior Parity Bonds. Following issuance of the 2011A Bonds and defeasance of the 2008A Bonds, the 2011A Bonds will be secured by and payable from Net Operating Revenues on a parity with the following outstanding bonds (collectively, the "**Prior Parity Bonds**"):

(i) Water Revenue Bonds, Issue of 2001 Bonds, issued pursuant to a supplemental resolution adopted by the City Council on July 4, 2001 (the "**Third Supplemental Resolution**");

(ii) Water Revenue Bonds, Issue of 2008B (the "**2008B Bonds**"), issued pursuant to a supplemental resolution adopted by the City Council on May 6, 2008 (the "**Sixth Supplemental Resolution**");

(iii) Water Revenue/Refunding Bonds, Issue of 2009A (Tax-Exempt) (the "**2009A Bonds**"), issued pursuant to a supplemental resolution adopted by the City Council on November 17, 2009 (the "**Seventh Supplemental Resolution**"); and

(iv) Water Revenue/Refunding Bonds, Issue of 2009B (Federally Taxable-Build America Bonds) (the "**2009B Bonds**"; collectively with the 2009A Bonds, the "**2009 Bonds**"), also issued pursuant to the Seventh Supplemental Resolution.

Name of Issue	Outstanding Principal Amount (as of October 2, 2010)
Water Revenue Bonds, Issue of 2001	$ 1,470,000
Water Revenue Bonds, Issue of 2008B	58,235,000
Water Revenue/Refunding Bonds, Issue of 2009A	31,370,000
Water Revenue Bonds, Issue of 2009B	67,790,000
Total	$158,865,000

Prior Parity Debt. Certain reimbursement obligations to Financial Security Assurance, Inc., as insurer of the 2008B Bonds, constitute Parity Debt and are referred to in this Official Statement as the "**Prior Parity Debt**."

Debt Service Requirements

The following table sets forth the estimated debt service on the Prior Parity Bonds and the 2011A Bonds following defeasance of the 2008A Bonds.

Debt Service Requirements[1]

Period Ending (Oct. 1)	Prior Parity Bonds Principal[2]	Prior Parity Bonds Interest[2][3]	2011A Bonds Principal	2011A Bonds Interest[3]	Total Bonds Debt Service	Treasury Credits[4]	Total Bonds Debt Service Net of Treasury Credits[4]
2011	$3,745,000	$9,677,662	$ 800,000	$ 655,556	$14,878,217	$(1,463,203)	$13,415,014
2012	3,870,000	8,327,917	825,000	1,862,400	14,885,317	(1,463,203)	13,422,114
2013	4,020,000	8,174,092	850,000	1,836,000	14,880,092	(1,463,203)	13,416,889
2014	4,140,000	8,001,280	875,000	1,808,800	14,825,080	(1,463,203)	13,361,877
2015	4,335,000	7,809,280	925,000	1,780,800	14,850,080	(1,463,203)	13,386,877
2016	4,580,000	7,602,530	600,000	1,751,200	14,533,730	(1,463,203)	13,070,527
2017	3,715,000	7,389,630	1,700,000	1,732,000	14,536,630	(1,463,203)	13,073,427
2018	4,160,000	7,222,180	1,475,000	1,677,600	14,534,780	(1,463,203)	13,071,577
2019	3,490,000	7,039,530	2,375,000	1,630,400	14,534,930	(1,463,203)	13,071,727
2020	3,605,000	6,899,930	2,475,000	1,554,400	14,534,330	(1,463,203)	13,071,127
2021	3,795,000	6,738,130	2,525,000	1,475,200	14,533,330	(1,463,203)	13,070,127
2022	3,935,000	6,558,486	2,600,000	1,394,400	14,487,886	(1,418,808)	13,069,078
2023	4,055,000	6,351,593	2,725,000	1,311,200	14,442,793	(1,370,545)	13,072,248
2024	4,240,000	6,119,086	2,800,000	1,224,000	14,383,086	(1,313,843)	13,069,244
2025	4,415,000	5,876,149	2,900,000	1,134,400	14,325,549	(1,254,890)	13,070,659
2026	4,600,000	5,623,224	3,000,000	1,041,600	14,264,824	(1,193,578)	13,071,246
2027	4,795,000	5,359,755	3,100,000	945,600	14,200,355	(1,129,802)	13,070,553
2028	5,805,000	5,085,243	2,400,000	846,400	14,136,643	(1,063,560)	13,073,083
2029	5,265,000	4,758,768	3,275,000	769,600	14,068,368	(994,531)	13,073,837
2030	5,470,000	4,457,886	3,400,000	664,800	13,992,686	(922,823)	13,069,864
2031	5,695,000	4,142,686	3,525,000	556,000	13,918,686	(847,415)	13,071,271
2032	7,210,000	3,814,556	2,375,000	443,200	13,842,756	(768,970)	13,073,787
2033	6,285,000	3,408,876	3,700,000	367,200	13,761,076	(687,269)	13,073,807
2034	6,550,000	3,047,646	3,825,000	248,800	13,671,446	(602,314)	13,069,133
2035	6,840,000	2,665,242	3,950,000	126,400	13,581,642	(511,872)	13,069,770
2036	11,225,000	2,266,045	-	-	13,491,045	(417,653)	13,073,391
2037	11,745,000	1,645,169	-	-	13,390,169	(319,434)	13,070,735
2038	12,295,000	995,865	-	-	13,290,865	(217,215)	13,073,650
2039	4,985,000	316,498	-	-	5,301,498	(110,774)	5,190,723
Total	$158,865,000	$157,374,934	$59,000,000	$28,837,956	$404,077,889	$(31,240,528)	$372,837,361

(1) Totals may not add due to rounding.
(2) Includes debt service on the 2008A Bonds for the period from October 1, 2010, to the date of their defeasance.
(3) Assumes an annual interest rate of 3.20% on the refunded 2008A Bonds and the 2011A Bonds, reflecting the anticipated effect of the 2005 Swap Agreement.
(4) Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986, which the City will elect to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986. These amounts are included in Gross Operating Revenues.

DESCRIPTION OF THE 2011A BONDS

This Official Statement is not intended to describe the terms of the 2011A Bonds after conversion to another Index Interest Rate Period or to the Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period. The City anticipates that if it elects to change the 2011A Bonds to any of such other Interest Rate Periods, an offering document will be distributed describing such new Interest Rate Period. Investors purchasing the 2011A Bonds in connection with conversion to a different Interest Rate Period should look to the offering document prepared in connection with such conversion.

The following is a summary of certain provisions of the 2011A Bonds while in the Initial Index Interest Rate Period. Reference is made to the 2011A Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion in this Official Statement is qualified by such reference. See "APPENDIX C – Summary of Certain Provisions of the Resolution."

General

The 2011A Bonds will be dated their date of delivery and will bear interest initially in an Index Interest Rate Period.

The 2011A Bonds may bear interest in an Index Interest Rate Period, a Daily Interest Rate Period, a Weekly Interest Rate Period, a Short-Term Interest Rate Period or a Long-Term Interest Rate Period (each an "**Interest Rate Period**") until the 2011A Bonds are converted to another Interest Rate Period. The 2011A Bonds are subject to mandatory tender for purchase and redemption prior to maturity, as described in greater detail below.

While bearing interest at an Index Interest Rate, the 2011A Bonds will be delivered in denominations of $100,000 or any integral multiples of $5,000 in excess of $100,000.

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

Interest Rate Provisions

Capitalized terms used under this heading that are not otherwise defined in this Official Statement have the meanings ascribed to them below under "– Interest Rate Definitions."

Index Interest Rate. During the Initial Index Interest Rate Period, the 2011A Bonds will bear interest equal to the SIFMA Index Interest Rate, which is the sum of (i) SIFMA with respect to a SIFMA Index Interest Accrual Period and (ii) the Applicable SIFMA Spread noted on the cover page of this Official Statement.

Determination of the SIMFA Index Interest Rate. The SIFMA Index Interest Rate will be determined by the Calculation Agent on each SIFMA Rate Determination Date, which is Wednesday of each week. The SIFMA Index Interest Rate determined on each SIFMA Rate

Determination Date shall become effective on each SIFMA Rate Reset Date, which is Thursday of each week. The SIFMA Index Interest Rate will be rounded upward to the fifth decimal place.

Interest Payment Date. During the Initial Index Interest Rate Period, the interest on the 2011A Bonds will be payable on the first business day of each month, commencing on July 1, 2011, and the Index Rate Purchase Date. The "**Index Rate Purchase Date**" is generally defined in the Resolution to mean the earlier of (i) the Index Rate Scheduled Purchase Date and (ii) the Index Rate Unscheduled Purchase Date upon which the tendered 2011A Bonds are actually purchased, as provided in the Resolution. See "– Mandatory Tender of the 2011A Bonds." See also "– Provisions Related to the Index Rate Scheduled Purchase Date" below.

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

Interest Rate Definitions. The following terms used in this Official Statement relating to the Index Interest Rate are defined in the Resolution as follows:

> "***S&P Weekly High Grade Index***" means for a SIFMA Rate Determination Date the level of the "S&P Weekly High Grade Index" (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluations Inc. for a one-week maturity as published on the Rate Determination Date, or if any SIFMA Rate Determination Date is not a Business Day, the next succeeding Business Day. If the S&P Weekly High Grade Index is no longer available, the rate for that SIFMA Rate Determination Date will be the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association to determine the SIFMA just prior to when the Securities and Financial Markets Association stopped publishing the SIFMA.
>
> "***SIFMA***" means as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, such alternate interest rate index as the Remarketing Agent will select as most comparable to the SIFMA Municipal Swap Index.
>
> "***SIFMA Index Interest Accrual Period***" means, during an Index Interest Rate Period, while the 2011A Bonds bear the SIFMA Index Interest Rate, the period from (and including) the Closing Date of the 2011A Bonds, to (but excluding) the first Thursday thereafter, and thereafter will mean the period from (and including) Thursday of each week to (but excluding) Thursday of the following week (or, if sooner, to but excluding the Index Rate Purchase Date).

Mandatory Tender of the 2011A Bonds

During the Initial Index Interest Rate Period, the 2011A Bonds are subject to mandatory tender (i) on the Index Rate Scheduled Purchase Date, which is June 1, 2012 for the Initial Index Interest Rate Period and (ii) if required by the City, then on the Index Rate Unscheduled Purchase Date, which will not occur prior to November 28, 2011, the Call Protection Date for the

Initial Index Interest Rate Period, in each case, at the Purchase Price, payable in immediately available funds; provided, however, that except as provided below under "– Purchase Event of Default and Purchase Default Period," during any Purchase Default Period, the 2011A Bonds will not be subject to mandatory tender for purchase. "**Purchase Price**" is defined in the Eighth Supplemental Resolution to mean the principal amount of the 2011A Bonds tendered for purchase pursuant to a mandatory tender, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date.

Notwithstanding the foregoing, any mandatory tender for purchase in connection with any change from an Index Interest Rate Period to a different Interest Rate Period, including to another Index Interest Rate Period, will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Fiscal Agent on the Purchase Date. If, on the Index Rate Scheduled Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, no conversion will occur and the 2011A Bonds will be subject to the provisions of the Resolution regarding a Purchase Event of Default and a Purchase Default Period. In the event that sufficient amounts are not available to pay the Purchase Price on the Index Rate Unscheduled Purchase Date, the 2011A Bonds will continue to bear interest at the Index Interest Rate in effect immediately prior to such Index Rate Unscheduled Purchase Date, without change or modification, and such Index Interest Rate Period will continue until terminated by virtue of an Index Rate Purchase Date.

Additional procedures and requirements related to the Index Rate Scheduled Purchase Date and the Index Rate Unscheduled Purchase Date are provided below under "– Conversion to Another Interest Rate Period," "– Provisions Related to the Index Rate Scheduled Purchase Date," "– Provisions Related to an Index Rate Unscheduled Purchase Date" and "– Effect of Successful Remarketing in Connection with Any Index Rate Purchase Date."

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

Conversion to Another Interest Rate Period

Pursuant to the Resolution, from and after the Call Protection Date, the Initial Index Interest Rate Period may be continued into another Index Interest Rate Period or changed to a Daily Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or a Weekly Interest Rate Period upon a mandatory tender for purchase. This Official Statement is not intended to describe the 2011A Bonds at any time during an Interest Rate Period other than the Initial Index Interest Rate Period. Owners and prospective purchasers of the 2011A Bonds should not rely on this Official Statement for information concerning the 2011A Bonds in connection with any conversion of the 2011A Bonds to a different Interest Rate Period, but should look solely to the offering document to be used in connection with any such conversion.

Notice Upon Converting Interest Rate. If the City elects to continue the Interest Rate Period of the 2011A Bonds into another Index Interest Rate Period or to change the Interest

Rate Period to a Daily Interest Rate Period, a Short-Term Interest Rate Period, a Long-Term Interest Rate Period or a Weekly Interest Rate Period, all as more specifically provided in the Resolution, the written direction furnished by the City to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any), the Calculation Agent and the Remarketing Agent with respect to the 2011A Bonds as required by the provisions of the Resolution will be made by registered or certified mail, or by telecopy confirmed by registered or certified mail. That direction will specify whether the 2011A Bonds are to bear interest at the Index Interest Rate, Daily Interest Rate, Bond Interest Term Rates, Long-Term Interest Rate or Weekly Interest Rate and will be accompanied by (a) a copy of the notice that is required to be given by the Fiscal Agent pursuant to the Resolution and that includes the terms of the new Interest Rate Period and (b) the conditions described below under "– Certain Additional Conditions."

The Resolution provides that the Fiscal Agent is required to give notice by first-class mail of a conversion to another Interest Rate Period to the Owners of the 2011A Bonds not less than 30 days prior to the effective date of such conversion; provided, however, in the case of conversion from an Index Interest Rate Period following a successful purchase on an Index Rate Unscheduled Purchase Date, the conversion will be upon a 7-day notice.

Certain Additional Conditions. No conversion of 2011A Bonds from the Index Interest Rate Period to another Interest Rate Period will take effect unless each of the following conditions, to the extent applicable, has been satisfied.

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

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

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

(4) Except as described under "– Purchase Event of Default and Purchase Default Period," in the case of any conversion with respect to which there is no Credit Support Instrument in effect to provide funds for the purchase of 2011A Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date will not be less than the amount required to purchase all of the 2011A Bonds at the Purchase Price (but not including any premium).

(5) In the case of any conversion of the 2011A Bonds to another Interest Rate Period (except a Long-Term Interest Rate Period effective to the day immediately preceding the Maturity Date and another Index Interest Rate Period), prior to the Conversion Date the City will have appointed a Tender Agent and a Credit Provider and there will have been executed and delivered a tender agent agreement and a Credit Support Instrument and/or a Credit Support Agreement.

Failure to Meet Conditions. In the event that, upon a successful purchase of the 2011A Bonds on an Index Rate Purchase Date, any condition to the conversion of the 2011A Bonds will not have been satisfied as provided in the Resolution, then the Interest Rate Period will not be converted and the 2011A Bonds will continue to bear interest at the Index Interest Rate as in effect immediately prior to such proposed conversion.

Notice of Mandatory Tender for Purchase

General Conditions. In connection with the mandatory tender for purchase of 2011A Bonds on an Index Rate Purchase Date the Fiscal Agent will give notice as a part of the notice described under "– Conversion to Another Interest Rate Period – Notice Upon Converting Interest Rate" above. That notice will state the following:

(1) the type of Interest Rate Period to commence on such Index Rate Purchase Date;

(2) that the Purchase Price of any 2011A Bond subject to mandatory tender for purchase will be payable only upon surrender of a 2011A Bond to the Tender Agent at its corporate trust office for delivery of 2011A Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondowner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange;

(3) that, provided that moneys sufficient to effect such purchase will have been provided through the remarketing of such 2011A Bonds by the Remarketing Agent, all 2011A Bonds subject to mandatory tender for purchase shall be purchased on the Index Rate Purchase Date; and

(4) that if any Owner of a 2011A Bond subject to mandatory tender for purchase does not surrender that 2011A Bond to the Tender Agent for purchase on the Index Rate Purchase Date, then that 2011A Bond will be deemed to be an "**Undelivered Bond**," that no interest will accrue on that 2011A Bond on and after the Index Rate Purchase Date and that the Owner will have no rights under the Eighth Supplemental Resolution other than to receive payment of the Purchase Price.

Notice Upon Index Rate Scheduled Purchase Date. In addition to the information described above under "– General Conditions," prior to the Index Rate Scheduled Purchase Date, the Fiscal Agent will give notice by first-class United States mail, postage prepaid, to the Owners of the 2011A Bonds not less than 30 days prior to the Index Rate Scheduled Purchase Date. Such notice will state:

(1) the date of such notice;

(2) the distinguishing designation of the 2011A Bonds;

(3) the date of issue of the 2011A Bonds;

(4) the Index Rate Scheduled Purchase Date; and

(5) the CUSIP number of the 2011A Bonds.

Each such notice will also state that the Owners of all of the 2011A Bonds are required to tender, and the City is required to purchase, all of the 2011A Bonds on the Index Rate Scheduled Purchase Date of an Index Interest Rate Period. All 2011A Bonds will be subject to tender by the Owners thereof and to be purchased by the City notwithstanding any failure of the Fiscal Agent to deliver such notice or the inadequacy or incompleteness of any notice delivered by the Fiscal Agent.

See "– Provisions Related to the Index Rate Scheduled Purchase Date" and "– Purchase Event of Default and Purchase Default Period."

Notice Upon Index Rate Unscheduled Purchase Date. In addition to information described above, under "– General Conditions," the Fiscal Agent will give notice of any Index Rate Unscheduled Purchase Date tender by first-class United States mail, postage prepaid, to the Owners of the 2011A Bonds not less than seven days prior to the date on which such 2011A Bonds will be purchased. Such notice will state:

(1) the Purchase Date;

(2) that the Purchase Price of any 2011A Bond will be payable only upon surrender of such 2011A Bond to the Fiscal Agent for delivery of the 2011A Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Fiscal Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution;

(3) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such 2011A Bonds by the Remarketing Agent or from the City, all 2011A Bonds so subject to Index Rate Unscheduled Purchase Date tender will be purchased on the Purchase Date, and that if any Owner of a 2011A Bond subject to Index Rate Unscheduled Purchase Date tender does not surrender such 2011A Bond to the Fiscal Agent for purchase on such Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Fiscal Agent, then such 2011A Bond will be deemed to be an Undelivered Bond, and that no interest will accrue thereon on and after such Purchase Date and that the Owner thereof will have no rights under the Eighth Supplemental Resolution, other than to receive payment of the Purchase Price thereof;

(4) in the event that moneys sufficient to pay the Purchase Price of such 2011A Bonds have not been provided to the Fiscal Agent either through the remarketing of such 2011A Bonds or from the City, that such 2011A Bonds will not be purchased or deemed purchased and will continue to bear interest as if no such Index Rate Unscheduled Purchase Date notice had been given; and

(5) that the Index Rate Unscheduled Purchase Date is subject to rescission by the City and is subject to the condition that amounts sufficient to pay the Purchase Price of such Index Rate Unscheduled Purchase Date are on deposit with the Fiscal Agent on the Purchase Date.

All 2011A Bonds subject to Index Rate Unscheduled Purchase Date tender will be subject to tender by the Owners thereof and to purchase by the City notwithstanding any failure of the Fiscal Agent to deliver such notice or the inadequacy or incompleteness of any notice the Fiscal Agent delivers.

If the City delivers a notice of an Index Rate Unscheduled Purchase Date tender and such Index Rate Unscheduled Purchase Date tender does not occur, then the Fiscal Agent will give notice by first-class United States mail, postage prepaid, to the Owners of the 2011A Bonds, as soon as practicable, which states that such Index Rate Unscheduled Purchase Date tender for purchase has not occurred. In that event, the 2011A Bonds will continue to bear interest at the Index Interest Rate in effect during the Index Interest Rate Period then in effect,

without change or modification, and the Index Interest Rate Period then in effect will continue until terminated.

See "– Provisions Related to an Index Rate Unscheduled Purchase Date" below for additional information.

Notice Upon Interest Rate Period Change. While in the Index Interest Rate Period, in connection with any mandatory tender for purchase of the 2011A Bonds upon a change in the Interest Rate Period of the 2011A Bonds on the Index Rate Scheduled Purchase Date, in addition to the items noted above under "– General Conditions," the notice to be provided by the Fiscal Agent will include the following statement: that in the event that moneys sufficient to pay the Purchase Price of such 2011A Bonds have not been provided to the Fiscal Agent either through the remarketing of such 2011A Bonds or from other moneys received from the City, that such 2011A Bonds will not be purchased or deemed purchased and, upon the City's failure to pay the Purchase Price on the Index Rate Scheduled Purchase Date, the 2011A Bonds will continue to bear interest as further provided at the Purchase Default Rate, and subject to other provisions described under "– Purchase Event of Default and Purchase Default Period" below.

Irrevocable Notice Deemed to be Tender of 2011A Bond; Undelivered Bonds. The Tender Agent may refuse to accept delivery of any 2011A Bond for which a proper instrument of transfer has not been provided. However, such refusal will not affect the validity of the purchase of such 2011A Bond as described in the Eighth Supplemental Resolution. If any Owner of a 2011A Bond subject to mandatory tender for purchase as described under "– Mandatory Tender of the 2011A Bonds" fails to deliver that 2011A Bond to the Tender Agent at the place and on the Purchase Date and at the time specified, or fails to deliver that 2011A Bond properly endorsed, that 2011A Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available for payment to the Owner thereof on the Purchase Date and at the time specified, then from and after the Purchase Date and time of that required delivery (A) the Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Eighth Supplemental Resolution; (B) interest will no longer accrue on the Undelivered Bond; and (C) funds in the amount of the Purchase Price of the Undelivered Bond will be held uninvested by the Fiscal Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its corporate trust office for delivery of 2011A Bonds.

Provisions Related to the Index Rate Scheduled Purchase Date

While in the Initial Index Interest Rate Period or in the event that the City determines to continue in a subsequent Index Interest Rate Period, the following provisions will apply.

City Policy Relating to SIFMA Index Notes. City staff has approved policies and procedures with respect to the 2011A Bonds that are intended to ensure that funds are available to the City to pay the Purchase Price prior to, if not on, the Index Rate Scheduled Purchase Date. Pursuant to the policies and procedures, the City intends to exercise its option to designate an Index Rate Unscheduled Purchase Date after the Call Protection Date and, if remarketing proceeds are not sufficient to purchase all of the 2011A Bonds on the Index Rate Unscheduled Purchase Date, to take a number of steps beginning 90 days prior to the Index Rate Scheduled Purchase Date to cause a remarketing or refinancing of the 2011A Bonds. The policies and procedures provide that if the City is unable to remarket or refinance the 2011A Bonds on or prior to the Index Rate Scheduled Purchase Date, it will take all reasonable steps

to ensure payment of the Purchase Price, including utilizing the Water System's available cash and unrestricted reserves (including Unencumbered Funds), liquidating Water System investments and assets and borrowing from the City. The policies and procedures are subject to change at any time and are not binding on the City.

Remarketing of 2011A Bonds. During the Initial Index Interest Rate Period, E. J. De La Rosa & Co., Inc., will be the Remarketing Agent pursuant to a Remarketing Agreement, dated as of May 1, 2011.

While the 2011A Bonds bear interest in the Index Interest Rate, commencing 30 days before the Index Rate Scheduled Purchase Date, the Remarketing Agent will offer for sale and use its best efforts to sell all of the 2011A Bonds, in accordance with the Remarketing Agreement, on the Index Rate Scheduled Purchase Date at a Purchase Price equal to the principal amount of the 2011A Bonds, such that the Applicable Index Spread for the next Index Interest Rate Period will be adjusted (as described below) to be the minimum fixed per annum interest rate spread to the London Interbank Offered Rate ("**LIBOR**") or SIFMA, as designated by the City and taking into account any Applicable LIBOR Factor, available in the marketplace.

Determination of Subsequent Interest Rate Scheduled Purchase Date. The City, by written direction to the Fiscal Agent, the Remarketing Agent and the Calculation Agent by telephone, telecopy, or telex confirmed by written notice not later than 30 days before the Index Rate Scheduled Purchase Date, will determine the Index Rate Scheduled Purchase Date for the immediately succeeding Index Interest Rate Period. The City may determine the Index Rate Scheduled Purchase Date to be any Business Day during the next Index Interest Rate Period except that the Index Rate Scheduled Purchase Date (a) will not be a date that is earlier than three months after the commencement of an Index Interest Rate Period and (b) unless another length of period is recommended by the Remarketing Agent and agreed to by the City, will not be a date that is later than one year after the commencement of the applicable Index Interest Rate Period (unless such date is not a Business Day, in which case not later than the first Business Day following such date).

If the City does not deliver such written direction, then the Index Rate Scheduled Purchase Date for that Index Interest Rate Period immediately following the purchase of 2011A Bonds on the Index Rate Scheduled Purchase Date will be the date that is one year after the commencement of such Index Interest Rate Period (unless such date is not a Business Day, in which case the Index Rate Scheduled Purchase Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to a subsequent Index Interest Rate Period commencing on the Index Rate Scheduled Purchase Date, the City will cause a Call Protection Date to be established. The Call Protection Date will be the "**Tender Period Halfway Date**," which generally is defined in the Eighth Supplemental Resolution to mean the date occurring halfway between the commencement of an Index Interest Rate Period and the corresponding Index Rate Scheduled Purchase Date.

Determination of Applicable Index Spread. No later than the date that is 30 days (or, if such date is not a Business Day, the Business Day immediately succeeding such date) before the Index Rate Scheduled Purchase Date, the Remarketing Agent will determine the Applicable Index Spread with respect to the Index Interest Rate Period immediately following the Index Rate Scheduled Purchase Date. The Remarketing Agent will determine the Applicable Index Spread, which will be equal to the minimum fixed per annum interest rate spread to LIBOR or

SIFMA, as appropriate (taking into account any Applicable LIBOR Factor), (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2011A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2011A Bonds, would enable the Remarketing Agent to sell all 2011A Bonds on the Index Rate Scheduled Purchase Date at a Purchase Price equal to the principal amount thereof. This determination by the Remarketing Agent of the Applicable Index Spread will be conclusive and binding on the Owners of the 2011A Bonds, the City, the Fiscal Agent, the Remarketing Agent and the Calculation Agent.

Purchase of 2011A Bonds. The 2011A Bonds to be purchased on the Index Rate Scheduled Purchase Date will be purchased from the Owners thereof, at the Purchase Price from the following sources in the order of priority indicated:

(1) proceeds of the sale of 2011A Bonds remarketed to any person and furnished to the Fiscal Agent by the Remarketing Agent for deposit into the related Remarketing Account of the Bond Purchase Fund; and

(2) moneys furnished by or on behalf of the City to the Fiscal Agent for deposit into the related Purchase Account of the Bond Purchase Fund.

The Eighth Supplemental Resolution states that the City is irrevocably committed to pay the Purchase Price of all 2011A Bonds on the Index Rate Scheduled Purchase Date. The City anticipates exercising its option to designate an Index Rate Unscheduled Purchase Date after the Call Protection Date to allow sufficient time to ensure a successful remarketing or refinancing of the 2011A Bonds prior to, if not on, the Index Rate Scheduled Purchase Date. See "DESCRIPTION OF THE 2011A BONDS – Provisions Related to the Index Rate Scheduled Purchase Date" for a discussion of the City's policy with respect to the Index Rate Scheduled Purchase Date.

However, to the extent that the City is unable to successfully remarket or refinance the 2011A Bonds prior to or on the Index Rate Scheduled Purchase Date, the City expects to pay the Purchase Price on the Index Rate Scheduled Purchase Date from the Water System's available cash and unrestricted reserves (including Unencumbered Funds), and by liquidating Water System investments and assets and borrowing from the City. The City has not committed to allocate these other funds for the purchase of the 2011A Bonds on the Index Rate Scheduled Purchase Date and the City can provide no assurances that such other funds will be available for this purpose when needed.

Any failure by the City to pay the Purchase Price of all 2011A Bonds on the Index Rate Scheduled Purchase Date is not an Event of Default under the Master Resolution, but would result in the consequences described below under "– Consequences of a Failed Purchase on the Index Rate Scheduled Purchase Date."

The Remarketing Agent will offer for sale and use its best efforts to sell all 2011A Bonds purchased by or on behalf of the City on the Index Rate Scheduled Purchase Date, at a price equal to principal plus any accrued and unpaid interest on the 2011A Bonds.

Consequences of a Failed Purchase on the Index Rate Scheduled Purchase Date. Upon the occurrence of the City's failure to purchase the tendered 2011A Bonds on the Index Rate Scheduled Purchase Date, the following will occur:

(1) The Fiscal Agent will return all 2011A Bonds to the Owners thereof together with notice of such insufficiency, and the Fiscal Agent and the Remarketing Agent will return all remarketing proceeds to the persons providing such moneys without interest;

(2) The Index Interest Rate Period will terminate on the Index Rate Scheduled Purchase Date;

(3) A Purchase Default Period will commence on the Index Rate Scheduled Purchase Date; and

(4) The provisions of the Eighth Supplemental Resolution governing a Purchase Event of Default and a Purchase Default Period will apply to the 2011A Bonds (for more information, see "– Purchase Event of Default and Purchase Default Period" below).

Notwithstanding the foregoing, the failure of the City to pay the Purchase Price of all of the 2011A Bonds will not constitute an Event of Default under the Resolution.

Notification of Index Rate Scheduled Purchase Date Failure. Within two Business Days after the City's failure to purchase on the Index Rate Scheduled Purchase Date, the Fiscal Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) the City, (ii) the Owners of the 2011A Bonds at their addresses appearing on the registration books, (iii) the Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services, which will state that (A) a failure to purchase on the Index Rate Scheduled Purchase Date occurred, (B) the Fiscal Agent will return all 2011A Bonds tendered on the Index Rate Scheduled Purchase Date to the Owners thereof, and (C) a Purchase Default Period has commenced on the Index Rate Scheduled Purchase Date under the Eighth Supplemental Resolution.

Provisions Related to an Index Rate Unscheduled Purchase Date

While in the Initial Index Interest Rate Period or in the event that the City determines to continue in a subsequent Index Interest Rate Period, the following provisions will apply.

City's Right to Require Tender on Index Rate Unscheduled Purchase Date. While the 2011A Bonds bear interest at an Index Interest Rate, at its option, the City may require the Owners of all (but not less than all) of the 2011A Bonds to tender their 2011A Bonds to the City for purchase, on any Business Day from and after the Call Protection Date. The City will exercise its option by delivering written notice of an Index Rate Unscheduled Purchase Date to the Fiscal Agent and the Remarketing Agent no later than seven days before such Index Rate Unscheduled Purchase Date. The Fiscal Agent will pay to the Owners of the 2011A Bonds on an Index Rate Unscheduled Purchase Date a Purchase Price equal to the principal amount of the 2011A Bonds from the sources of funds described below under "– Purchase of 2011A Bonds," unless the City elects to rescind such Index Rate Unscheduled Purchase Date or any of the conditions related to a tender on such Index Rate Unscheduled Purchase Date is not satisfied.

The mandatory tender provisions applicable to the 2011A Bonds are described above under "– Mandatory Tender of the 2011A Bonds."

Rescission. The City will have the right to deliver to the Fiscal Agent and the Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day

immediately preceding the Index Rate Unscheduled Purchase Date, a notice to the effect that the City elects to rescind any tender on an Index Rate Unscheduled Purchase Date. If the City rescinds any tender on an Index Rate Unscheduled Purchase Date, then no purchase will occur, the 2011A Bonds will continue to bear interest at the Index Interest Rate in effect immediately prior to such Index Rate Unscheduled Purchase Date, without change or modification, and the Index Interest Rate Period will continue until terminated.

Failure to Meet Conditions. Any Index Rate Unscheduled Purchase Date tender will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Fiscal Agent on the Index Rate Unscheduled Purchase Date. Funds for the payment of the Purchase Price of such mandatory tender will be derived from the sources described below under "– Purchase of 2011A Bonds." If amounts sufficient to pay the Purchase Price of such 2011A Bonds subject to mandatory tender are not on deposit with the Fiscal Agent on the Index Rate Unscheduled Purchase Date, then no purchase will occur and the 2011A Bonds will continue to bear interest at the Index Interest Rate in effect immediately prior to such Index Rate Unscheduled Purchase Date, without change or modification, and the Index Interest Rate Period will continue until terminated.

Failure by the City to pay or cause to be paid the Purchase Price of all of the 2011A Bonds pursuant to a tender on an Index Rate Unscheduled Purchase Date, for any reason, will not constitute an Event of Default by the City under the Resolution. No such failure will affect the City's right to require the Owners of 2011A Bonds to tender their 2011A Bonds during the Index Interest Rate Period and, if determined by the City to continue the same Interest Rate Period, during any subsequent Index Interest Rate Period.

Remarketing of 2011A Bonds. Upon receipt of the City's notice of an Index Rate Unscheduled Purchase Date tender, the Remarketing Agent will offer for sale and use its best efforts to sell, in accordance with the Remarketing Agreement, the 2011A Bonds at a Purchase Price equal to the principal amount of the 2011A Bonds, such that the Applicable Index Spread for the next Index Interest Rate Period will be determined (as described below) to be the minimum fixed per annum interest rate spread to LIBOR or SIFMA (as designated by the City and taking into account any Applicable LIBOR Factor) available in the marketplace.

The Remarketing Agent will offer for sale and use its best efforts to sell any 2011A Bonds purchased by or on behalf of the City pursuant to an Index Rate Unscheduled Purchase Date tender.

The Remarketing Agent will offer for sale any 2011A Bonds to be purchased in connection with an Index Rate Unscheduled Purchase Date tender and any 2011A Bonds purchased by or on behalf of the City (other than 2011A Bonds purchased by the Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on the 2011A Bonds.

Determination of the Index Rate Scheduled Purchase Date. The City, by direction to the Fiscal Agent, the Remarketing Agent and the Calculation Agent by telephone, telecopy or telex confirmed by written notice not later than seven days before an Index Rate Unscheduled Purchase Date, will determine the Index Rate Scheduled Purchase Date for the immediately succeeding Index Interest Rate Period. The City may determine the Index Rate Scheduled Purchase Date for any subsequent Index Interest Rate Period to be any Business Day, except that the Index Rate Scheduled Purchase Date (a) will not be a date that is earlier than three months after the commencement of the Index Interest Rate Period and (b) unless another

length of period is recommended by the Remarketing Agent and agreed to by the City, will not be a date that is later than one year after the commencement of the Index Interest Rate Period (unless such date is not a Business Day, in which case not later than the first Business Day following such date). If the City does not deliver such written direction, then the Index Rate Scheduled Purchase Date for the Index Interest Rate Period immediately following the purchase of 2011A Bonds will be the date that is one year after the commencement of the Index Interest Rate Period (unless such date is not a Business Day, in which case the Index Rate Scheduled Purchase Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to a subsequent Index Interest Rate Period commencing on a date on which 2011A Bonds are purchased on an Index Rate Unscheduled Purchase Date, the Call Protection Date will be the Tender Period Halfway Date. However, the City may, by direction to the Fiscal Agent and the Remarketing Agent by telephone, telecopy or telex confirmed by written notice not later than seven days before an Index Rate Unscheduled Purchase Date, determine the Call Protection Date for such subsequent Index Interest Rate Period to be a date that is different than the Tender Period Halfway Date. If the City delivers a written direction determining the Call Protection Date to be a date other than the Tender Period Halfway Date, then, on the Index Rate Unscheduled Purchase Date on which the new Index Interest Rate Period will commence, will be conditioned upon the delivery by the City on and as of such Index Rate Unscheduled Purchase Date of a Favorable Opinion of Bond Counsel with respect to the change in the Call Protection Date. If the City determines the Call Protection Date to be a date that is different than the Tender Period Halfway Date with respect to any Index Interest Rate Period, then that determination will not apply to any subsequent Index Interest Rate Period unless the City delivers written direction with respect to such subsequent Index Interest Rate Period.

Determination of Applicable Index Spread. No later than 5:00 p.m. (New York City time) two Business Days before the Index Rate Unscheduled Purchase Date, the Remarketing Agent will determine the Applicable Index Spread with respect to the Index Interest Rate Period immediately following such Purchase Date. The Remarketing Agent will determine the Applicable Index Spread, which will be equal to the minimum fixed per annum interest rate spread to LIBOR or SIFMA, as applicable (taking into account any Applicable LIBOR Factor), based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2011A Bonds and known by such Remarketing Agent to have been priced or traded under then-prevailing market conditions, which, if borne by the 2011A Bonds, would enable the Remarketing Agent to sell all 2011A Bonds on the Purchase Date at a Purchase Price equal to the principal amount thereof. This determination by such Remarketing Agent of the Applicable Index Spread with respect to 2011A Bonds in the Index Interest Rate Period will be conclusive and binding on the Owners of the 2011A Bonds and the City, the Fiscal Agent, the Remarketing Agent and the Calculation Agent.

Purchase of 2011A Bonds. On an Index Rate Unscheduled Purchase Date, the City will cause the 2011A Bonds to be purchased from the Owners thereof, at the Purchase Price from the following sources in the order of priority indicated:

(1) proceeds of the sale of such 2011A Bonds remarketed to any person and furnished to the Fiscal Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; and

(2) moneys furnished by or at the direction of the City to the Fiscal Agent for deposit into the related Purchase Account of the Bond Purchase Fund,

provided, however, that if the City rescinds any Index Rate Unscheduled Purchase Date tender, or if any of the conditions of any Index Rate Unscheduled Purchase Date tender is not satisfied, then the City will not have any obligation to purchase any 2011A Bonds, no purchase will occur, the 2011A Bonds will continue to bear interest at the Index Interest Rate in effect during the Initial Interest Rate Period without change or modification and the Index Interest Rate Period then in effect will continue until terminated.

Effect of a Successful Remarketing in Connection with any Index Rate Purchase Date

The following provisions apply upon the City's successful purchase on the Index Rate Purchase Date:

New Index Interest Rate Period. In the event moneys on deposit with the Fiscal Agent are sufficient to pay the Purchase Price of the 2011A Bonds to be purchased on an Index Rate Purchase Date and all other conditions are satisfied, the following will occur:

(1) The Index Interest Rate Period will terminate on the Index Rate Purchase Date and, if determined by the City, a new Interest Rate Period, which may be a new Index Interest Rate Period, will commence; and

(2) If the immediately succeeding Interest Rate Period is to be another Index Interest Rate Period, then the Applicable Index Spread with respect to the 2011A Bonds for the new Index Interest Rate Period will be the Applicable Index Spread determined by the Remarketing Agent as described under "– Provisions Related to the Index Rate Scheduled Purchase Date – Determination of Applicable Index Spread" or "– Provisions Related to an Index Rate Unscheduled Purchase Date – Determination of Applicable Index Spread," as applicable.

Notification of New Index Interest Rate Period. In the event moneys on deposit with the Fiscal Agent are sufficient to pay the Purchase Price of all of the 2011A Bonds on an Index Rate Purchase Date, the immediately succeeding Interest Rate Period is to be another Index Interest Rate Period, and all other conditions are satisfied, then, within two Business Days after such Index Rate Purchase Date, the Fiscal Agent will deliver, by first-class United States mail, postage prepaid, a notice to (i) the City, (ii) the Owners of all of the 2011A Bonds at their addresses appearing on the registration books, (iii) the Remarketing Agent, (iv) the Calculation Agent and (v) one or more Information Services which will state (A) that the immediately preceding Index Interest Rate Period has terminated, (B) that a new Index Interest Rate Period has commenced, (C) the Index Rate Scheduled Purchase Date with respect to the new Index Interest Rate Period, (D) the day on which the Call Protection Date will occur with respect to such Index Interest Rate Period, and (E) the Applicable Index Spread determined by the Remarketing Agent as described above under "– Provisions Related to the Index Rate Scheduled Purchase Date – Determination of Applicable Index Spread" or "– Provisions Related to an Index Rate Unscheduled Purchase Date – Determination of Applicable Index Spread," as applicable. Absent manifest error, upon delivery of such notice, the Index Interest Rate Period in effect immediately preceding the related Index Rate Purchase Date with respect to the 2011A Bonds will be deemed to have terminated and a new Index Interest Rate Period will be deemed to have commenced on such applicable Index Rate Purchase Date.

Purchase Event of Default and Purchase Default Period

Purchase Event of Default and Purchase Default Period. During an Index Interest Rate Period, if the City fails to pay the Purchase Price of all of the 2011A Bonds on the Index Rate Purchase Date, then such failure will be a "**Purchase Event of Default**" under the Resolution and a "**Purchase Default Period**" will commence.

Purchase Default Period. During a Purchase Default Period with respect to the 2011A Bonds, the following will apply:

(1) all of the 2011A Bonds will bear interest at the Purchase Default Rate;

(2) the 2011A Bonds will not be subject to optional redemption;

(3) the 2011A Bonds will remain subject to Mandatory Sinking Account Redemption as described below under "– Redemption Provisions – Mandatory Sinking Account Redemption";

(4) the 2011A Bonds will be subject to special mandatory redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from special Mandatory Sinking Account Payments deposited in the Principal Account of the Bond Service Account of the Water Revenue Fund, in such amounts and dates as provided below in "– Redemption Provisions – Special Mandatory Redemption During a Purchase Default Period";

(5) the City will continue to be obligated to purchase all of the 2011A Bonds at the Purchase Price notwithstanding, and in addition to, its obligation to redeem Outstanding 2011A Bonds from Special Mandatory Redemption Payments deposited in the Special Mandatory Redemption Account of the Bond Purchase Fund;

(6) the City will not require the Owners to tender their 2011A Bonds for purchase on Index Rate Purchase Dates; and

(7) if the City pays the Purchase Price of all or any portion of the 2011A Bonds, the Owners thereof will be obligated to sell and deliver their 2011A Bonds to the City.

Notwithstanding the foregoing, the failure of the City to pay the Purchase Price of all of the 2011A Bonds will not constitute an Event of Default under the Master Resolution or under any provision of the Eighth Supplemental Resolution.

Purchase and Sale of 2011A Bonds During Purchase Default Period. During a Purchase Default Period, the City will pay the Purchase Price of the 2011A Bonds by delivering the Purchase Price for the 2011A Bonds to be purchased to the Fiscal Agent at its corporate trust office on any Business Day.

If on any Business Day the City pays the Purchase Price with respect to only a portion of the 2011A Bonds, then the City will purchase the 2011A Bonds from each of the Owners on a pro rata basis, calculated based on the outstanding principal amount of the 2011A Bonds held by each Owner compared to the total amount of 2011A Bonds Outstanding on such Business Day. See "– Redemption Provisions – Selection of 2011A Bonds for Redemption" for a description of such process.

From and after the Business Day on which the City delivers the Purchase Price of all or any portion of the 2011A Bonds to the Fiscal Agent, a corresponding principal amount of the 2011A Bonds will be deemed purchased by the City, no interest will accrue on such 2011A Bonds and the Owners thereof will have no rights under the Eighth Supplemental Resolution other than to receive payment of the Purchase Price thereof.

Termination of a Purchase Default Period. During any Purchase Default Period, upon the purchase by the City of all 2011A Bonds, the Purchase Event of Default will be cured and the Purchase Default Period attributable to such Purchase Event of Default will terminate on the date next preceding the date on which such purchase occurs. Notwithstanding Section 5925 of the California Government Code (which generally provides that the purchase of bonds by or on behalf of the local government that issued them does not extinguish the bonds), unless a Favorable Opinion of Bond Counsel is delivered, upon the City's purchase of 2011A Bonds with the City's available funds, the obligations under the Eighth Supplemental Resolution related to the 2011A Bonds will be extinguished and no longer be Outstanding. Prior to the remarketing of the 2011A Bonds after a Purchase Event of Default, a Favorable Opinion of Bond Counsel shall be delivered.

Other Remedies, Rights of Owners of the 2011A Bonds. Upon the occurrence and continuation of a Purchase Event of Default, the Owners of the 2011A Bonds 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 under the Resolution.

During any Purchase Default Period, the rights of the Owners of the 2011A Bonds set forth above are in addition to any other rights that the Owners of the 2011A Bonds may have under the Resolution. No Owner of 2011A Bonds has the right to declare the principal and accrued interest on the 2011A Bonds to be immediately due and payable, except as provided in the Master Resolution. See "APPENDIX C – Summary of Certain Provisions of the Resolution – Events of Default; Remedies" for additional information.

Redemption Provisions

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

Mandatory Sinking Account Redemption. The 2011A Bonds are subject to mandatory sinking account redemption, in part, on October 1, 2011, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2011A Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount	Redemption Date (October 1)	Principal Amount
2011	$ 800,000	2024	$2,800,000
2012	825,000	2025	2,900,000
2013	850,000	2026	3,000,000
2014	875,000	2027	3,100,000
2015	925,000	2028	2,400,000
2016	600,000	2029	3,275,000
2018	1,700,000	2030	3,400,000
2018	1,475,000	2031	3,525,000
2019	2,375,000	2032	2,375,000
2020	2,475,000	2033	3,700,000
2021	2,525,000	2034	3,825,000
2022	2,600,000	2035†	3,950,000
2023	2,725,000		

† Maturity

Mandatory Sinking Account Payments for 2011A Bonds will be reduced to the extent the City has purchased 2011A Bonds and surrendered such 2011A Bonds to the Fiscal Agent for cancellation. If 2011A Bonds have been redeemed as provided for under the caption "– Optional Redemption" above, then the amount of the 2011A Bonds so redeemed will be credited to such future Mandatory Sinking Account Payments for such 2011A Bonds as determined by the City. A reduction of Mandatory Sinking Account Payments in any 12-month period ending on October 1 will reduce the principal amount of 2011A Bonds redeemed on that October 1.

Special Mandatory Redemption During a Purchase Default Period. During any Purchase Default Period, the 2011A Bonds will be subject to special mandatory redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed, plus accrued interest, if any, to the Redemption Date, from special Mandatory Sinking Account Payments deposited in the Principal Account of the Bond Service Account of the Water Revenue Fund, in the following principal amounts:

(i) on the first Business Day on or after the date that is 18 months following the commencement of such Purchase Default Period, a principal amount of the 2011A Bonds equal to 1/3 of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination);

(ii) on the first Business Day on or after the date that is 36 months following the commencement of such Purchase Default Period, a principal amount of the 2011A Bonds equal to 1/3 of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination); and

(iii) on the first Business Day on or after the date that is 54 months following the commencement of such Purchase Default Period, all of the principal amount of the 2011A Bonds Outstanding as of such Redemption Date.

If, during any Purchase Default Period, the City purchases a portion of the 2011A Bonds or redeems the 2011A Bonds from the Mandatory Sinking Account Payments described above under "– Mandatory Sinking Fund Redemption," then the amount of the 2011A Bonds so

purchased or redeemed will be credited as may be specified by the City to such Special Mandatory Redemption Payments during the Purchase Default Period.

Upon the termination of a Purchase Default Period, the 2011A Bonds will no longer be subject to special mandatory redemption.

The term "**Special Mandatory Redemption Amount**," as used above, means the aggregate principal amount of 2011A Bonds outstanding on the Index Rate Scheduled Purchase Date on which a Purchase Default Period commenced.

See "RISK FACTORS – Risks Relating to an Index Interest Rate Period" for additional information.

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

In the event the 2011A Bonds are subject to special mandatory redemption, so long as the 2011A Bonds are in the Book-Entry System, the particular 2011A Bonds to be redeemed will be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with the Securities Depository's procedures; provided that, so long as the 2011A Bonds are held in the Book-Entry System, the selection for redemption of such 2011A Bonds shall be made in accordance with the operational arrangements of the Securities Depository then in effect, which operational arrangement currently provide for adjustment of the principal by a factor provided pursuant to such operational arrangements. If the Fiscal Agent does not identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis and provide the necessary information to the Securities Depository or if the Securities Depository's operational arrangements do not allow for the redemption of the 2011A bonds on a Pro Rata Pass-Through Distribution of Principal basis, then the 2011A Bonds will be selected for redemption by lot in accordance with the Securities Depository's procedures. If the 2011A Bonds are not registered in book-entry form, any special mandatory redemption of less than all of the 2011A Bonds shall be effected by the Fiscal Agent among Owners on a pro-rata basis subject to minimum Authorized Denominations. The particular 2011A Bonds to be redeemed will be determined by the Fiscal Agent, using such method as the Fiscal Agent deems fair and appropriate.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of 2011A Bonds to (i) the Owners of the 2011A 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 the 2011A 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 2011A Bonds.

In the event of an optional redemption of 2011A Bonds, if the City shall not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of the redemption price of the 2011A Bonds to be redeemed at the time of such mailing, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefor with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2011A Bonds or portions thereof so called for redemption will become due and payable on the redemption date, and upon presentation and surrender of such 2011A Bonds at the place specified in such notice of redemption, such 2011A Bonds will be redeemed and paid at said redemption price. If on the redemption date, moneys for the redemption of the 2011A Bonds to be redeemed will be available therefor, then from and after the redemption date, interest on the 2011A Bonds to be redeemed will cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Net Operating Revenues

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

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

Future Change in Definition of Net Operating Revenues. Pursuant to the Seventh Supplemental Resolution, at such time as the Prior Parity Bonds, other than the 2009 Bonds, and the Prior Parity Debt are no longer outstanding (the final maturity date of the Prior Parity Bonds is October 1, 2038, although they could be refunded earlier) or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy

Providers (to the extent required by the Subordinate Swaps), the definition of "Net Operating Revenues" will be amended and restated as follows:

> "Net Operating Revenues" means Gross Operating Revenues, less Operating and Maintenance Expenses, plus, for the purposes of determining compliance with the City's rate covenant only, the amounts on deposit as of the date of determination in any unrestricted funds of the Water System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds."

Limited Obligation

The City's General Fund is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2011A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2011A Bonds. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest and redemption premium (if any) on the 2011A Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2011A Bonds.

Resolution Flow of Funds

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

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

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

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

> Interest Account. As soon as practicable in each month, an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds

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

Principal Account. As soon as practicable in each month, the Treasurer will deposit an amount equal to at least (i) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months plus (ii) one-twelfth of the aggregate yearly Bond Obligation becoming due and payable on the Outstanding Bonds having annual maturity dates or annual Mandatory Sinking Account Payments due within the next 12 months, provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. No deposit need be made into the Principal Account so long as there shall be in such

fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

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

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

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

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

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

Application of Funds in the Bond Service Account.

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

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

Rate Covenant

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

(a) Operating and Maintenance Expenses;

(b) the interest on and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;

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

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

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

The term Mandatory Sinking Account Payment (as used in (b) above) includes any Special Mandatory Redemption Payment during a Purchase Default Period. When setting Water System rates and charges, the City is not required to take into account the amount of any Purchase Price of any tendered 2011A Bonds on an Index Rate Purchase Date.

Future Change in Rate Covenant. Pursuant to the Seventh Supplemental Resolution, at such time as the Prior Parity Bonds, other than the 2009 Bonds, and the Prior Parity Debt are no longer outstanding (the final maturity date of the Prior Parity Bonds is October 1, 2038, subject to earlier redemption), or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the

Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), the following paragraph will be added to the Rate Covenant:

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

2011A Reserve Account Moneys

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The 2001 Reserve Account was created under the Third Supplemental Resolution and the 2008B Reserve Account was created under the Sixth Supplemental Resolution, each of which accounts is held by the Fiscal Agent. The City did not fund a debt service reserve account for the 2009 Bonds.

The allocable funds currently held in the 2008A Reserve Account will be released upon issuance of the 2011A Bonds and used to (i) fund any additional amounts necessary to defease and redeem the 2008A Bonds, (ii) pay the costs of issuance of the 2011A Bonds, and (iii) finance additional projects in the Water System's Capital Improvement Program. The City has established a debt service reserve account for the 2011A Bonds, but the 2011A Bond Reserve Requirement is $0. Consequently, no amounts will be deposited into such debt service reserve account. The owners of the 2011A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Additional Bonds and Parity Debt

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

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

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

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

(ii) either (a) the Net Operating Revenues of the Water System, calculated on generally accepted accounting principles, as shown by the books of the City for the latest fiscal year or any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance or incurrence of such additional Bonds or Parity Debt set

forth in a Certificate of the City or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items designated under (a), (b) and (c) below, shall have amounted to at least 1.25 times the Maximum Annual Debt Service (as defined in Appendix C) in any fiscal year thereafter on all Bonds and Parity Debt to be outstanding immediately subsequent to the incurring of such additional Bonds or Parity Debt; and

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

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

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

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

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

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

Subordinate Obligations

Outstanding Subordinate Debt. In connection with issuance of the 2005 Bonds, the City entered into a variable-to-fixed interest rate swap agreement in a notional amount of

$61,125,000 (the "**2005 Swap Agreement**") with Bear Stearns Capital Markets Inc. (the "**Swap Provider**") for the purpose of converting the floating rate interest payments the City was obligated to make on the 2005 Bonds into substantially fixed payments. The obligations of the City under the 2005 Swap Agreement constitute Subordinate Obligations pursuant to the Resolution. The 2005 Swap Agreement was reallocated to the 2008A Bonds, the proceeds of which refunded the 2005 Bonds. On the delivery date of the 2011A Bonds, the 2005 Swap Agreement is expected to be reallocated to the 2011A Bonds as a hedge against variable interest rate increases. The obligations of the Swap Provider under the 2005 Swap Agreement were guaranteed by The Bear Stearns Companies Inc. (the "**Swap Guarantor**").

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

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

Amounts received by the City from the Swap Provider under the 2005 Swap Agreement constitute Gross Operating Revenues under the Resolution. Any amounts due from the City under the 2005 Swap Agreement, including regularly scheduled payments and any amount due upon an early termination of the 2005 Swap Agreement are payable by the City from Net Operating Revenues on a basis that is junior and subordinate to the Prior Parity Bonds, the 2011A Bonds, any Additional Bonds and any Parity Debt.

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

Pursuant to a certain assignment agreement, dated as of May 2, 2011 (the "**JPMorgan Assignment Agreement**"), by and among the Swap Provider, the City and JPMorgan Chase Bank, N.A., the parties agreed to the assignment and assumption of the Swap Provider's rights and obligations under the 2005 Swap Agreement.

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

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

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

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

Management of the Department is as follows:

Mr. David H. Wright, Public Utilities General Manager, is a Certified Public Accountant. He received his Bachelor of Arts and Master of Business Administration degrees from California State University, Fullerton. He has been with the City since 1988 and has nearly 22 years of experience in municipal government, including 5 years as Utilities Assistant Director of Finance and Administration and 5 years as the Utilities Deputy Director.

Mr. Stephen H. Badgett, Utilities Deputy General Manager/Energy Delivery, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with the Department since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at the Department, Mr. Badgett was with Memphis Light Gas and Water for 16 years. He has been involved with public power for nearly 36 years.

Mr. Kevin S. Milligan, Utilities Assistant General Manager/Water Delivery is a registered professional engineer, and holds a Bachelor of Science degree in Engineering from California State Polytechnic University, Pomona and a Master of Business Administration from the University of Redlands. He has been with the City since 1984 and has nearly 26 years of experience in the water industry.

Mr. Gary L. Nolff, Utilities Assistant General Manager/Resources, holds a Bachelor of Science degree in Business and Management from the University of Redlands. He has over 36 years in the electric utilities industry, including 17 years as Power Resources Projects/Contracts Manager (16 of which are with the City), and 14 years as a generation station and bulk power electric system operator with Southern California Edison and the United States Air Force. Mr. Nolff has been with the Department since 1990.

Ms. Reiko A. Kerr, Utilities Assistant General Manager/Finance & Administration / Chief Financial Officer, is a certified public accountant with over 18 years of accounting experience. She has been with the Utility since 2000 and has served in various management roles including Finance/Rates Manager, Assistant CFO/Energy Risk Manager, and spent one year as the Utilities Power Resources Projects/Contracts Manager.

Mr. Mike J. Bacich, Utilities Assistant General Manager/Customer Relations & Marketing, holds a Bachelor of Arts degree in Political Science from the University of California, Riverside. He has been with the Utility since 1999 and served in various management roles including business relations, public benefits, marketing, and sustainability. He is the

Sustainability Officer for the City in which he directs and coordinates the implementation of the City's Green Action Plan.

Board of Public Utilities

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

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

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

Robert Elliott – Chair of the Board, appointed in 2006, term expires March 1, 2014. Mr. Elliott is a retired general manager.

Berneta M. Titus – Vice Chair of the Board, appointed in 2006, term expires March 1, 2015. Ms. Titus is a retired president/CEO of a local credit union.

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

Ian J. Davidson - Appointed to the Board in 2007, term expires March 1, 2015. Mr. Davidson is an owner/president of a local company.

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

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

Gustavo Segura – Appointed to the Board in 2009, term expires March 1, 2013. Mr. Segura is an Instructional Media Broadcast Coordinator at a local community college.

Darrell Ament – Appointed to the Board in 2010, term expires March 1, 2014. Mr. Ament is a financial consultant and the former Assistant General Manager of Anaheim Public Utilities.

Susan Cash – Appointed to the Board in 2011, term expires March 1, 2015. Ms. Cash is a retired Associate Vice President for Academic Affairs at a southern California University.

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

Employee Relations

Employee Retirement System. As of June 30, 2010, 178 City employees were assigned specifically to the Water System. Certain functions supporting Water System operations, including meter reading, customer billing and collections, are performed by the staff of the electric division of the Department. Substantially all of the non-administrative City personnel assigned to the Water System are represented by the International Brotherhood of Electrical Workers ("**IBEW**"). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2011. Portions of the administrative staff are represented by the Service Employees International Union ("**SEIU**"). The City and the SEIU are parties to a Memorandum of Understanding that expires on June 30, 2011. The Water System has not faced any strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future.

Retirement benefits to City employees, including those assigned to the Water System, are provided through the City's participation in the Public Employees Retirement System ("**PERS**") of California, an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. All permanent full-time and selected part-time employees are eligible for participation in PERS, and any participating employees of the Water System are part of the City's Miscellaneous Plan. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service, and salary. Employees may retire at age 55, and receive 2.7 percent of their highest salary in a twelve-month consecutive period, for each year of service completed. Management and Confidential employees not represented by a union have agreed to a reduced benefit of 2.0 percent of their highest average salary in a thirty-six month consecutive period, for each year of service completed, applicable only to employees hired on or after July 1, 2011. These changes cannot be implemented until all other non-public safety unions agree to a similar change due to PERS rules, and it is unknown at this time when or if this reduced level of benefit or some modified form thereof will be implemented. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 8% of their annual covered salary. The Water System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Water System pays both the employee and employer contributions. However, as a part of the proposed changes described in the previous paragraph, new Management and Confidential employees, and possibly other new represented employees, would pay their 8% contribution. This change, too, cannot be implemented until all other non-public safety unions agree to a similar change due to PERS rules, and it is unknown at this time when or if it will be implemented.

The Water System's total contribution to PERS as of June 30, 2010, 2009 and 2008 was $2,617,000, $2,138,000 and $1,842,000, respectively. In addition, the Water 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 Water System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds was $5,466,000 as of June 30, 2010, which is payable as an Operating and Maintenance Expense. That share is recorded as an inter-fund loan between the General Fund and the Water Revenue Fund and will amortize 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, 2010, which is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system and is incorporated by reference in this Official Statement. See also Note 1 to "APPENDIX B – Audited Financial Statements of the City of Riverside Water Utility for the Fiscal Year Ended June 30, 2010" for further discussion.

More recent information as to the actuarial status of the City's Miscellaneous Plan has been provided in PERS' Annual Valuation Report, dated October 2010, with respect to the City.

As shown in the table below, the report provides a recent history of the City's contribution rates for its Miscellaneous Plan, as determined by the annual actuarial valuation. The following table does not account for prepayments or benefit changes made in the middle of the year.

CITY'S CONTRIBUTION RATE HISTORY

Fiscal Year	Employer Normal Cost	Unfunded Rate	Total Employer Contribution Rate
2007-08	11.877%	1.418%	13.295%
2008-09	11.962	2.207	14.169
2009-10	12.043	2.176	14.219
2010-11	11.987	2.520	14.507
2011-12	11.823	6.615	18.438

In addition, the report provides the recent history of the actuarial accrued liability, the market value of assets, the actuarial value of assets, funded ratios and the annual covered payroll as shown in the table below. The "Actuarial Value of Assets," is used to establish funding requirements, and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the "Market Value of Assets" is an indicator of the short-term solvency of the Miscellaneous Plan.

CITY'S FUNDING HISTORY

Valuation Date (June 30,)	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value Of Assets (MVA)	Funded Ratio		Annual Covered Payroll
				AVA	MVA	
2005	$655,641,557	$634,694,032	$649,694,885	96.8%	99.1%	$ 84,290,472
2006	712,551,580	677,903,253	715,992,682	95.1	100.5	92,844,823
2007	770,088,775	731,549,949	847,867,117	95.0	110.1	102,434,585
2008	828,351,283	779,480,566	795,222,167	94.1	96.0	110,869,947
2009	921,349,334	810,928,831	590,044,979	88.0	64.0	110,317,579

Other Post-Employment Benefits. The Water System contributes to two single-employer defined benefit healthcare plans (neither of which is provided through the City's participation in PERS): Stipend Plan and the Implied Subsidy Plan. These plans provide other post-employment health care benefits for eligible retirees and beneficiaries. The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements, including SEIU and IBEW. Benefit provisions for the Stipend Plan are established and amended through the various memoranda of understanding with the employee unions. The Water System's contribution is financed on a "pay-as-you-go-basis."

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

The Water System's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer ("**ARC**"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Water System's unfunded OPEB liability as of June 30, 2010, 2009 and 2008 was $881,000, $526,000 and $250,000, respectively.

See also Note 1 to "APPENDIX B – Audited Financial Statements of the City of Riverside Water Utility for the Fiscal Year Ended June 30, 2010" for further discussion.

Investment Policy and Controls

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

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

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds, and corporate notes which are rated at least "A" and money market funds, including the State of California Local Agency Investment Fund. See Note 2 to "APPENDIX B – Audited Financial Statements of the City of Riverside Water Utility for the Fiscal Year Ended June 30, 2010." The current portfolio does not include any derivative type investments.

THE WATER SYSTEM

General

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

The Water System provides service to approximately 64,231 metered customers within a service area of 74.7 square miles, of which 70.60 square miles are within the City limits. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The population served is approximately 304,051. Presently, portions of the Water System service area are fully developed, while other portions are only sparsely developed or completely undeveloped. The City provides water service primarily to residential customers, although there are a number of commercial and industrial customers as well. The City also provides irrigation water within its service area.

The following table sets forth certain general statistical information relating to the Water System for fiscal years 2005-06 through 2009-10.

WATER SYSTEM
GENERAL STATISTICS
Fiscal Years 2005-06 through 2009-10

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
Service Connections Billed	62,985	63,431	63,494	64,062	64,231
Annual Water Production[1]					
Annual Production from System Wells	24,962	27,795	26,385	25,035	22,704
Purchased Imported Water	870	681	536	0	0
Total Annual Water Production	25,832	28,476	26,921	25,035	22,704
Peak Daily Distribution[2]	118.8	109.2	111.3	105.8	98.0
Average Daily Production[2][3]	67.8	75.9	73.8	68.8	62.3

(1) In millions of gallons.
(2) In millions of gallons per day.
(3) Average Daily Production = Average Daily Distribution.

History of the Water System

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

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

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

Existing Facilities

Major facilities in the Water System include potable and non-potable supply wells, transmission pipelines, distribution pipelines, storage reservoirs, treatment plants, pumping facilities, and pressure reducing facilities. The City maintains 52 active wells for supplying domestic water to its service area. Distribution and transmission pipelines for the Water System range in diameter from 2 to 72 inches and total over 1,002 miles. There are 15 storage reservoirs with a total capacity of 79.9 million gallons, or 3 days of emergency supply. Seven treatment plants remove contaminants from local groundwater before the water is delivered to the distribution system, consisting of 53 granular activated carbon ("**GAC**") vessels to treat trichloroethylene ("**TCE**") and dibromochloropropane ("**DBCP**") and 44 ion exchange ("**IX**") vessels to treat perchlorate. Thirty-eight booster-pumping stations deliver water to higher elevation pressure zones. Twenty-six pressure reducing stations deliver water from higher to lower pressure zones.

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

The City also maintains over 7,593 fire hydrants throughout the distribution system. The Water System currently has a Class 2 rating (the second most favorable of ten classifications) assigned by the Insurance Services Office, a source of information about property/casualty insurance risk.

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

WATER SYSTEM FACILITIES

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
Utility Plant (less provision for accumulated depreciation)[1]	$247,762	$259,329	$292,758	$331,682	$357,670
Construction in Progress[1]	$6,663	$27,067	$31,878	$24,407	$15,122[2]
Miles of Pipeline	967	973	988	993	1,002
Number of Active Domestic Wells	51	49	51	55	52
Number of Active Reservoirs	16	16	15	15	15

(1) In thousands of dollars, rounded to the nearest thousand.
(2) Includes $2.7 million for recycled water facilities, $1.3 million for reservoir construction, $2.2 million for facility rehabilitation, $1.4 million for main replacement, $940,000 for transmission main, $675,600 for system improvements and $5.1 million for various other projects, such as facility replacements, pump station replacements, property acquisitions, well betterments and leak repairs throughout the City.

Water Supply

The City obtains 100% of its potable water from water rights in its wells in the San Bernardino (or Bunker Hill) groundwater basin, the Riverside North groundwater basin ("**Riverside North Basin**") and the Riverside South groundwater basin ("**Riverside South Basin**"). The City also has water rights, but currently has no active wells, in the Colton groundwater basin ("**Colton Basin**"), however the City is in the process of evaluating the possibility of beginning production in the Colton Basin. Imported water obtained from MWD through Western Municipal Water District of Riverside County ("**WMWD**"), a member agency of MWD and the wholesale distributor for the Riverside area, is used only for emergency purposes. In the fiscal year ended June 30, 2010, the Water System pumped a total 22,704 million gallons of water from local groundwater basins and had no purchases from WMWD.

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

WATER PRODUCTION
(In Millions of Gallons)

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
Local Groundwater	24,962	27,795	26,385	25,035	22,704
Purchases from WMWD	870	681	536	0[1]	0[1]
Total Water Production	25,832	28,476	26,921	25,035	22,704

(1) Although historically the City purchased minimal quantities of water only during the summer peak season, the City's groundwater production capacity is sufficient to serve the retail needs of the City's customers, except during certain emergency conditions.

The largest source of water for the City is the Bunker Hill Basin ("**BHB**") located approximately eight miles northeast of the City. Water is collected from a total of 37 wells in the BHB and conveyed to the City through two separate transmission pipelines, the 60-inch Gage Pipeline and the 42/48-inch Waterman Transmission Main. Ten of these wells are treated through two wellhead and three regional treatment plants for perchlorate and/or TCE.

The second source of groundwater for the City is pumped from a total of 15 wells in the Riverside North Basin and Riverside South Basin. Within the Riverside South Basin, seven wells are located in the North Orange Well Field and conveyed to the distribution system through the 60-inch North Orange transmission pipeline. Four of these wells pump through the Palmyrita Treatment Plant to remove DBCP. In the Riverside North Basin, four wells pump to the new John W. North Water Treatment Plant ("**JWNWTP**") and three wells pump directly into the 60-inch Gage Pipeline.

The third source of water is imported water treated and delivered from the Mills Filtration Plant by WMWD for purchase by the City on a wholesale basis. This water was historically used by the City only during peak summer months because of its higher cost and the availability of sufficient groundwater rights to meet the City's annual demand. With the completion of the JWNWTP, this source is used only for emergency supply purposes.

The City also pumps irrigation wells into its Riverside Canal, along with direct pumping from the Olivewood wells, to transmit irrigation water to the Gage Canal Company. In exchange, the City receives potable water produced by Gage Canal Company from the BHB under an agreement with the Gage Canal Company. The City currently owns 60% of the shares of Gage Canal Company and holds 3 of 11 seats on the board of directors. The City has the right to terminate the agreement upon notice of the agreement's breach by Gage Canal Company and the failure of Gage Canal Company to correct that breach within ten days. The City, upon notice, may also cancel the agreement if Gage Canal Company engages in an activity or enterprise detrimental to, contrary to or in conflict with its performance obligations under the agreement.

The JWNWTP was constructed to bring new water supplies online and eliminate the City's reliance on imported Colorado River water. This innovative project includes adaptive reuse of existing facilities, coupled with the Department's first Design-Build project and staff engineered pipeline replacement program. The JWNWTP cost approximately $25.7 million, with approximately 50% of Proposition 50 grant funds from the State of California (authorized by ballot initiative in November 2002 to construct water-related infrastructure that reduces Southern California's consumption of imported water from the Colorado River), with the remaining portion funded with the proceeds of the 2005 Bonds and the 2008B Bonds. The City received a total of $12.8 million from the State of California. The JWNWTP began commercial operations on September 4, 2008, allowing Riverside to become water independent except for emergency conditions, with fiscal year 2009-10 having no demand on either Colorado River water or the State Project water.

The new JWNWTP enabled four existing irrigation wells (the Flume Wells) to be converted to a potable water supply. The new plant is located on the site of the former Grand Terrace Pump Station, a five-acre site owned by the City within the City of Grand Terrace. The JWNWTP is a 10 million-gallon-per-day ("**mgd**") submerged membrane ultrafiltration plant designed to treat groundwater under the influence of surface water. In order to deliver the additional capacity to the City, the project includes a new 50 mgd pump station and the

replacement of 8,500 linear feet of the 42-inch Waterman Transmission Pipeline downstream of the plant with new higher pressure 48-inch diameter pipeline.

Water Supply Conditions

The City believes that its current and anticipated future water needs to provide water to its service area for the next 100 years are adequately met by its existing water rights, new sources of supply (see "– New Sources of Supply" below for more information) and by the availability of supplemental imported water from WMWD, primarily to cover peak days of water demand and emergency conditions. As a result of a court decision in 1969 (the "**1969 Judgment**"), the City's rights to extract water from the BHB were fixed at 49,542 acre-feet per year ("**AFY**"). An acre-foot of water is the amount of water required to cover one acre of area to a depth of one foot (one acre-foot is approximately 325,900 gallons). The administration of the 1969 Judgment and the "safe yield" determination are assigned to two "Watermasters" (as defined in the 1969 Judgment). The natural safe yield of the BHB was determined by court order in the 1969 Judgment and is 232,100 acre-feet per year. The natural safe yield is based on a 40-year hydrologic cycle. With its ownership in several mutual water companies with rights in the BHB, the City's rights total 53,528 acre-feet per year. Over the past five fiscal years, the City has pumped an average of 50,645 acre-feet per year from the BHB; in those years in which the City pumped in excess of its rights, the City leased a corresponding amount from other parties with rights in the BHB. The long-term supply of this basin appears secure and currently provides approximately two-thirds of the City's water requirements under normal conditions.

Rights to water in the Riverside North Basin, Riverside South Basin and Colton Basin are not adjudicated. However, the 1969 Judgment base period (1959-63) extractions for use in Riverside County from these basins were determined at a total amount of about 54,000 acre-feet per year. The City has the entitlement to a major portion of this base period extraction and can increase its production beyond the base period extraction. Under the terms of the 1969 Judgment, the obligation to replenish the Colton Basin and Riverside North Basin accrues to the San Bernardino Valley Municipal Water District ("**SBVMWD**") and WMWD. The replenishment obligation is triggered if extractions exceed the base year extractions and the average water level in three specified wells falls below 822.04 feet above mean sea level. To date, the water levels in the three wells have remained above the surface water elevation that would trigger the replenishment obligation. These basins are considered another reliable long-term source of water to meet the City's needs, and actions have been taken to increase production of domestic water from the Riverside North Basin and Riverside South Basin. These basins currently supply approximately 30 to 35% of the City's water requirements under normal conditions. Over the past five fiscal years, the City has pumped an average of 27,232 acre-feet per year from the Riverside North Basin, Riverside South Basin and Colton Basin.

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

The City's water business is seasonal in nature and weather conditions can have a pronounced effect on customer usage and, thus, operating revenues and net income. Customer demand is generally less during the normally cooler and rainy winter months,

increasing in the spring when warmer weather gradually returns to California and the rains end. Temperatures are warm during the generally dry summer months, resulting in increased demand. Water usage declines during the fall as temperatures decrease and the rainy season approaches.

During years of less than normal rainfall, customer demand can increase as outdoor water usage continues. When rainfall is below average for consecutive years, drought conditions can result in reduced, and certain customers may be required to reduce, consumption to preserve existing water reserves. Higher than average rainfall in calendar year 2010 has effectively ended the ongoing drought conditions in Southern California. Increased recharge of the local groundwater basins, through both natural precipitation (as described below under "– New Sources of Supply" in connection with the issuance by SWRCB of its final Decision Partially Approving Water Right Applications 31165 and 31370) and import of State Project Water is expected to result in increased levels of stored groundwater in calendar year 2011. The City is working closely with regional agencies to continuously monitor groundwater conditions and optimize operation of the basins.

New Sources of Supply

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

In May 2007, Riverside submitted an application to the State Water Resources Control Board ("**SWRCB**") to divert up to 41,000 AFY of recycled water from the City's Regional Water Quality Control Plant ("**RWQCP**"). On May 20, 2008, SWRCB issued its Final Order Conditionally Approving Wastewater Change Petition, 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 May 2011, approximately 6,000 AFY is available for diversion, but that amount is expected to grow over time with additional influent/effluent at the City's wastewater treatment plant.

The City developed a Recycled Water Master Plan and a supporting programmatic environmental impact report, both of which have been adopted by the City Council. On February 15, 2008, the Board gave conceptual approval of a facilities plan, which outlines specific infrastructure requirements to begin significant expansion of recycled water projects within the Department's service territory. Included in the plan are large diameter pipelines to transfer water from the City's RWQCP to the northerly city limit. Preliminary estimates for future landscape irrigation supply is 10,000 AFY, a portion of which the City currently supplies with potable water. By supplying a portion of such demand with recycled water, the City will free up potable water to serve other customer needs. Additional available recycled water will be used to replenish local groundwater basins.

In 1999, the U.S. Army Corp of Engineers ("**USACE**") completed construction of the Seven Oaks Dam, east of Mentone, California. Although the primary purpose of the dam is to provide flood protection along the main stem of the Santa Ana River, the City and other water purveyors provided funding during construction for enhancements to the dam's abutments and blanket drain to allow the dam to be used for seasonal water storage. The dam is operated by

local flood control agencies in accordance with the USACE operating instructions. Presently, all of the storage space (148,600 acre-feet) behind Seven Oaks Dam is allocated to flood control purposes. The basic plan of operation is to store flood runoff until the reservoir elevation at Prado Dam (35 miles downstream) peaks and begins to decline. At that point, flood control releases at Seven Oaks Dam are increased in accordance with the Water Control Manual ("**WCM**"). Under the WCM, the maximum scheduled release is 7,000 cubic feet per second and varies in a step-wise fashion depending on the elevation of the flood pools at Prado Dam and the Seven Oaks Dam. In its current form, the WCM for the Seven Oaks Dam provides some water conservation benefits by capturing floods that would have otherwise flowed out of the San Bernardino Basin Area ("**SBBA**"). This water is then released at controlled rates that are most often lower than pre-dam natural flood event rates. This slower release of flows also results in longer flow duration than the natural flood event. The net result is an enhanced capability for the diversion of flood runoff that used to flow out of the SBBA. Water districts, including the City, are actively negotiating with the USACE for further modification to the WCM that would provide additional conservation benefits by extending the period that captured flood flows are retained behind the dam.

On April 10, 2010, the SWRCB issued its final Decision Partially Approving Water Right Applications 31165 and 31370 submitted by SBVMWD (Valley District) and WMWD to capture and store storm water behind the Seven Oaks Dam. Under the terms of the permit, up to 198,000 AFY can be captured and diverted from behind the dam for ground water recharge or direct delivery to water purveyors. Rainfall analysis over a 40-year hydrological cycle indicated that the average diversions will be approximately 25,000 AFY. The terms of the 1969 Judgment provide for approximately 26% of any such diversions to be available to the City for recharge and extraction as potable water. The City has prior agreements with WMWD and SBVMWD to facilitate this transaction. The City has adequate wells and transmission facilities to extract and deliver the expected annually available water to its service territory.

Although California faces long-term water supply challenges, the City believes it is well positioned to satisfy its water supply requirements. The City is working to meet future challenges by continuing to educate customers on responsible water use practices, obtaining new water resources, and participating in future water supply projects. The City has completed a Water Use Efficiency Master Plan. Plumbing codes adopted by the City address retrofit of indoor plumbing fixtures upon issuance of building permits. In addition, the City has taken measures to promote conservation measures to achieve sustainable water levels. Through extensive collaboration efforts with WMWD as the Administrator of the Commercial rebate programs, the City offers a variety of programs to residential and commercial customers in efforts to promote water conservation. The City has a successful rebate program which offers customers rebates for the use of high efficiency clothes washers, toilets/urinals, cooling tower conductivity & pH controllers, synthetic turfs and water-wise landscaping. The City's rotating sprinkler nozzle program was recently recognized as a Best Management Practice by the California Municipal Utilities Agency and was recognized at the organization's annual meeting on April 1, 2011, with the Community Service/Resource Efficiency Award. On March 29, 2011, the Association of California Water Agencies notified the City that the City's rotating sprinkler nozzle program was one of four finalists for the Clair A. Hill Water Agency Award for Excellence. This award, to be presented to the winning agency in May 2011, recognizes exemplary programs developed by member agencies in water resource management. Prior winners of this award include the Orange County Water District for its Groundwater Replenishment System.

In addition, on an ongoing basis, the City hosts educational programs targeting students on conservation measures; advertises in the form of media, newspaper, bill stuffers, local

television, and radio; and recently, the City launched a campaign where over 50,000 coasters and pens were issued to local restaurants and other businesses with messages of conservation. To further enhance conservation measures and accountability of the programs offered, the City employs three different auditing vendors with different specialization backgrounds to assist customers, without charge to the customers, with conservation efforts.

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

Water Quality

General. The City operates its water system under a permit granted by the California Department of Public Health ("**CDPH**"). The City complies with all of its permit conditions and runs the system in accordance with generally accepted water utility practice. The City uses a variety of treatment processes to prepare the water for its customers. The City monitors these processes very closely by taking numerous water samples: at the sources (wells), at the treatment plants (pre- and post-treatment), in the transmission system, and at CDPH's compliance point near the blending reservoirs. Furthermore, the City verifies its water quality by taking numerous samples throughout the distribution system. On an annual basis, the City takes an average of 18,000 samples throughout it water system. All water samples are tested by independent, state certified laboratories in accordance with all state and federal guidelines. The concentration of any natural or man-made contaminants is reported in a formal Water Quality Annual Report, which is mailed to all of the City's customers and posted at the Department's web site. The results are also recorded and sent to county, state and federal regulatory agencies directly from the independent testing labs. City water has consistently surpassed state and federal public health standards for water quality.

In December 2009, the Environmental Working Group, a Washington, D.C.-based advocacy group ("**EWG**"), published a report in which EWG rated the tap water of numerous water agencies throughout the United States, including the City. The report reached an unfavorable conclusion as to the Water System's "tap water" quality, however the report considered the water samples used in the treatment processes discussed above, rather than only the water samples taken at or past the compliance point, to reach its conclusions. In addition, EWG's report wrongly interpreted the City's taking multiple Quality Assurance/Quality Control water samples in the treatment processes as evidence that the City has a water quality problem. The City maintains stringent sampling, treatment, and blending protocols to ensure that the water delivered to customer taps meets all state and federal drinking water standards. In addition, the City has never had a water quality violation at the state or federal level.

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

- Installation of chlorinators at selected locations;
- Maintaining a state approved compliance monitoring program required by Phase II and V of the Federal Safe Drinking Water Act;
- Monitoring of defined contamination plumes;

- Negotiations with identified responsible parties to clean up pollution to non-detectable levels;
- Preparation of contingency plans for unknown or changing conditions; and
- Treatment of contaminated supplies.

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

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

Regulatory Outlook. The United States Environmental Protection Agency ("**USEPA**") recently announced plans to establish federal drinking water standards for perchlorate and a set of carcinogenic chemicals generally referred to as Volatile Organic Chemicals ("**VOCs**"). In addition, following California Environmental Protection Agency's lead, the USEPA Administrator has announced plans to set a drinking water standard for hexavalent chromium. The City is following these developments closely and is working with state and federal regulatory agencies to ensure future regulations are protective of human health and set based upon the best available science. Depending upon the level at which future regulations are set and the extent to which responsible parties can be identified, future regulations could place upward pressure on water rates. Due to the uncertain nature of regulations and the extent to which monitoring and/or detection technology is available, the City has not included these potential costs in its long-range financial planning and capital improvement program.

Water Quality Settlements

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

Lockheed Martin Corporation Settlement. On November 10, 1998, the City entered into an agreement with Lockheed Martin to address contamination of certain City wells by TCE. This contamination was caused by the Crafton-Redlands plume, a plume of TCE that is situated in the groundwater in the BHB of San Bernardino County, California. Pursuant to the agreement, Lockheed Martin agreed to design and construct certain new components for the City's water system to address the contamination problem. Specifically, Lockheed Martin designed, purchased, constructed and installed water treatment systems in the City's Gage and Raub well fields to maintain water quality. The Gage and Raub well fields consist of approximately 24 groundwater extraction wells and associated equipment owned by the City in

the BHB, of which 10 wells currently require treatment. Lockheed Martin funded the design and construction of pipelines to transport water from supply wells in the North Orange area to the Linden-Evans reservoirs and to provide return flows to the North Orange area, as well as other costs associated with these projects. Construction of the majority of the treatment facilities was completed in fiscal year 2003-04. Lockheed Martin has funded approximately $16.5 million of the costs to construct various treatment facilities.

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

In addition, the City has detected perchlorate in the Garner and Cooley Well Tracts and Stiles and Scheuer Wells in north San Bernardino. However the levels of contamination in these wells do not require treatment or remediation. The contamination appears to be from an agricultural source (non-point source) and is likely related to the use of fertilizers on the former citrus groves in the immediate area, and to the north and east of, the well fields.

The majority of the operating costs for the TCE and perchlorate treatment facilities is paid directly by Lockheed Martin, including the GAC and IX media replacement costs and major maintenance costs. However, certain operating costs are reimbursed by Lockheed Martin directly to the City. For fiscal year 2009-10, the amount of operating costs (City labor, power, lab analyses, and associated expenses) reimbursed by Lockheed Martin was $1.2 million.

DBCP Settlement. In May 2001, the City settled a lawsuit it had brought against certain manufacturers and distributors of DBCP, a pesticide that was banned in California in the mid-1970s that was detected in certain City-owned potable water wells. The forty-year settlement agreement with the DBCP Defendants, provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating GAC treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for DBCP. Construction of the existing treatment facilities was completed in fiscal year 2002-03. The construction costs funded by the DBCP Defendants is approximately $4 million. For fiscal year 2009-10, the amount of operating costs reimbursed by the DBCP Defendants relating to these existing treatment facilities was $491,354.

MTBE Settlement. In March 2008, the City settled a lawsuit it brought against certain manufacturers and distributors of methyl tertiary butyl ether ("**MTBE**") and tertiary butyl alcohol ("**TBA**"), which were used as either octane enhancers and/or additive to gasoline by certain manufacturers and refiners of gasoline. The thirty-year settlement agreement, reached with such parties and related entities as BP America, Chevron, ConocoPhillips, Texaco, Shell, Marathon, Valero, CITGO, Sunoco, Hess, Flint Hills and Tesoro ("**MTBE Defendants**"), provides for the MTBE Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating treatment facilities to remove MTBE from certain City wells, with such treatment obligation triggered by detections of levels of MTBE in City water

which exceed federal and state limits for MTBE. To date, the City has not had such exceedance. The settlement agreement is expected to cover the majority of any future treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for MTBE.

In January 2011, the City dismissed its litigation against Exxon Mobil Corporation and certain additional defendants without prejudice. Such dismissal will not prevent the City from re-filing its lawsuit, should such contamination be detected in City wells.

Environmental Matters

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

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

The Water System has an amended domestic water supply permit from the CDPH.

Recycled Water. The City's recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the USEPA, the California Water Code and regulations promulgated by the CDPH.

The City operates its recycled water system pursuant to RWQCB Order No. R8-2009-0052 (amending Order No. R8-2006-0009, NPDES No. CA0105350), a permit which prescribes Waste Discharge and Producer/User Reclamation Requirements for the RWQCP for the discharge of tertiary treated wastewater to Reach 3 of the Santa Ana River and for the use of recycled water. Order No. R8-2006-0009, was scheduled to expire on April 1, 2011. The City filed for the renewal of the permit with the RWQCB 180 days prior to the permit's expiration in accordance with California's state regulations and is currently awaiting receipt of the new permit. Under the permit regulations, the terms of the expiring permit will remain in effect until the RWQCB acts on the permit renewal application. See also "– New Sources of Supply" above for information about regulatory activity relating to the recycled water system.

Endangered Species Act. On December 14, 2010, the United States Fish and Wildlife Service ("**FWS**") published a final rule (the "**Final Rule**") in the Federal Register (USFWS Docket No. FWS-R8-ES-2009-0072) that designated critical habitat for the Santa Ana Sucker (Catostomus santaanae). The Final Rule designates significant portions of the Santa Ana River mainstem from below the Seven Oaks Dam into Orange County as critical habitat. Under the Endangered Species Act of 1973, projects with a federal nexus will be required to complete consultation with the FWS prior to constructing those projects. Specifically, federal agencies

(e.g. Army Corps of Engineers) will be required to consult with FWS prior to issuing any permits that may affect critical habitat.

The critical habitat designation has the potential to materially affect planned and proposed water supply and infrastructure projects. The City, along with eleven other public agencies potentially affected by this decision, has been following the process closely. The City is currently evaluating strategies and options to respond to the Final Rule.

Customers and Water Sales

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

NUMBER OF METERED CUSTOMERS BILLED

	During month of June 30,				
	2006	**2007**	**2008**	**2009**	**2010**
Residential	57,308	57,666	57,694	58,152	58,372
Commercial / Industrial	5,204	5,279	5,446	5,519	5,451
Other	473	486	354	391	408
Total - All Classes	62,985	63,431	63,494	64,062	64,231

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

WATER SOLD BY CUSTOMER CLASS
(In Millions of Gallons)

	Fiscal Year Ended June 30,				
	2006	**2007**	**2008**	**2009**	**2010**
Domestic	13,243	14,848	13,827	13,389	12,209
Commercial/Industrial	7,348	8,092	7,863	7,737	6,990
Other	865	931	725	736	652
Subtotal Retail Sales[1]	21,456	23,871	22,415	21,862	19,851
Wholesale Sales	137	149	463	371	112
Total	21,593	24,020	22,878	22,233	19,963
Estimated Water Loss	19.6%	18.5%	17.7%	12.6%	8.8%

(1) The increase in the fiscal year ended June 30, 2007, was due to a prolonged heat wave. From the fiscal year ended June 30, 2006 (with retail consumption at more historic levels) through the fiscal year ended June 30, 2010, retail sales decreased by 7.5% due to milder temperatures, the effects of conservation and the economic downturn.

WATER SALES AND DISTRIBUTION
(In Millions of Gallons)

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
Retail Water Sales[1]	21,456	23,871	22,415	21,862	19,851
Average Daily Production[2]	67.8	75.9	73.8	68.8	62.2
Maximum Day Distribution	118.8	109.2	111.3	105.8	98.0
Average Daily Sales per Meter (In Gallons)	950	1,039	970	942	852

(1) Excludes wholesale sales.
(2) Average Daily Production = Average Daily Distribution.

Water Loss/Unaccounted for Water. Water loss (the difference between water produced and water sold through customer meters) is impacted by timing differences, as production meters are for a specific time interval while consumption related to retail water sales is based upon meter reading and billing cycles. Water loss has decreased year over year and is presently estimated at 8.8%. The annual decrease is a result of an aggressive customer meter replacement program, coupled with ongoing investments in new well meters and telemetry. Authorized unmetered uses, such as firefighting (training and suppression), system flushing and other utility uses would further reduce unaccounted for water by approximately 0.25% and are not included in the tables above. Ongoing meter replacement activity to reach a maximum customer meter age of ten years by 2015 is expected to further reduce unaccounted for water to the City's goal of seven percent.

Customer Concentration

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

TOP TEN WATER CUSTOMERS
Fiscal Year Ended June 30, 2010

Water Customer	Water Revenues	Percent of Total Water Revenues
Local Government	$ 1,122,651	2.18%
Local University	744,831	1.45
Local School District	645,318	1.25
Local School District	510,923	0.99
Local Government	486,953	0.95
State Agency	238,599	0.46
Corporation	226,632	0.44
Local University	138,197	0.27
Local University	135,231	0.26
Local Hospital	134,251	0.26
Total	$4,383,586	8.51%

The Water System has a diverse customer base with little exposure to customer concentration. The Water System's top 10 customers were responsible for a combined 8.51% of total retail revenues in fiscal year 2009-10. The Water System's five largest customers were responsible for approximately 6.82% of revenues in fiscal year 2009-10.

Wheeling Agreements

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

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

The City expects to generate wholesale revenue of approximately $1,748,000 per year from the Wheeling Agreement. Through January 31, 2011, a total of $1,286,778 has been invoiced to WMWD for the period beginning July 1, 2010.

Projected Demand

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

The increase in demand of approximately 20,000 AFY is projected to be met without reliance on imported water, but through existing groundwater rights, increased conservation and demand-side management (including offset of potable demand with recycled water at large landscape sites), and increased groundwater rights through participation in the conservation of storm water behind the Seven Oaks Dam. See "– New Sources of Supply" above for a description of new water supply projects.

Billings and Collections

Residential and commercial customers are billed monthly. Bills are due and payable on presentation and become delinquent after 21 days. Although the Utility is not subject to the jurisdiction of the CPUC or other agencies, collection activities for the City substantially conform with the requirements of the California Public Utilities Code Section 10010. After a bill is delinquent, a computer generated Past Due Notice is mailed allowing an additional 10 days to pay. If no payment is received, a 48 hour notice is delivered by Utility Field Service staff, and the customer is charged a $20 notification fee. If payment is not received prior to the date specified on the 48-hour notice, the City may disconnect water service approximately 1 to 5 working days later. Before service is reinstated, the customer must pay the delinquent amount, pay a reconnection fee ranging between $40 and $75, and may be required to pay a customer deposit.

Uncollectible Accounts

Based on the average annual amount of billable revenues reflected in the table below ($45.9 million), the City experienced an annual average of less than 0.28%, or approximately $130,600, of uncollectible accounts for the past 5 years. Although economic conditions have resulted in slight increases in the last two years, the City's management of its collection activities is effective as measured by write-offs below the industry average. The following table shows the historical results of the Water System's accounts receivable and collection efforts:

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

Fiscal Year	Billings	Payments	Write-Off as % of Billing (1)	Write-Off	Ending Accounts Receivable Balance (2)
2010	$52,464	$51,826	0.400%	$210	$6,107
2009	50,837	50,926	0.419	213	5,679
2008	46,951	46,196	0.260	122	5,981
2007	44,093	42,996	0.154	68	5,348
2006	34,925	34,393	0.115	40	4,319

(1) Represents the amount shown under the column entitled "Write-Off" divided by amount shown under the column entitled "Billings" for the corresponding year.
(2) The ending accounts receivable balance of any fiscal year is equal to the ending balance of the previous fiscal year plus billings minus payments minus write-offs. The ending accounts receivable balance at June 30, 2005 was $3,827,000.

Industry Recognition

2010 Design-Build Institute of America's Western Pacific Region Award. JWNWTP won the Design-Build Institute of America's Western Pacific Region Award for Best Project in the Water Industry in 2010. The treatment plant in Grand Terrace, just to the north of the City, has been delivering water to the City's system since late 2008, treating well water near the Santa Ana River previously used for irrigation.

By using the latest filtration technology, the $25.7 million plant adds to the City's drinking water supply by approximately 10 million gallons a day – 10% of the city's supply.

2011 Best Management Practices Award - CMUA. The California Municipal Utilities Association (CMUA) awarded the Department's water conservation program "FreeSprinklerNozzles.com" the Best Management Practices award in its 2011 Community Service/Resource Efficiency Awards contest.

Applicants are judged by a panel of distinguished committee members that included a California Senator and two Assembly Members, among other qualified panelist. This committee honors municipally-owned utilities for their innovative projects and programs that help promote best management practices of energy and water conservation, while assisting their customer-owners and communities.

The FreeSprinklerNozzles.com water conservation program was the result of a partnership between the Department, WMWD, and Riverside-based irrigation manufacturer, The

Toro Company. The Toro Company provided water customers within the City with free Toro Precision Series Spray nozzles.

These patented sprinkler nozzles from The Toro Company use considerably less water than conventional nozzles without adjusting sprinkler controllers or run times. Within three weeks, the program provided more than 42,000 nozzles to the City's water customers and will provide annual water savings of more than 185 acre feet (or more than 60 million gallons).

Water Rates and Charges

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

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

Executive management has had informal discussions regarding the next water rate plan to continue funding infrastructure upgrades in the next phase of the Water Master, Water Supply and Asset Management Plans to ensure future reliability of the City's water system. Included in these plans may be funding for expanding its recycled water facilities. Once a funding source for these improvements is identified and approved by the Board and the City Council, the projects will be included in the City's Capital Improvement Program. Although a definitive plan has not been prepared, it is anticipated that the next rate plan will consist of annual increases of five to ten percent in fiscal year 2011-12, provide for additional infrastructure improvements to enhance the Water System's reliability and still maintain the City's competitive rate advantage.

The Water System is currently performing a cost of service study and will likely propose changes to it rates, tariffs and charges based on the outcome of such study.

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

The monthly service charge for commercial customers is calculated on the basis of meter size, as well as whether the customer is located inside or outside of City limits. Such charges for service within the City range from $11.57 for meters of five-eighths of an inch to $61.51 for two-inch meters. The rate for commercial customers ranges between $1.77 and $2.32 per 100 cubic feet of water in the summer and $1.42 to $1.99 per 100 cubic feet of water

in the winter. The rate for industrial customers ranges between $1.77 to $2.32 per 100 cubic feet of water in the summer and $1.42 to $1.99 per 100 cubic feet of water in the winter.

The calculation basis of the monthly service charge for residential customers is the same as for commercial customers as discussed above. Such charges for service within the City range from $13.99 for meters of five-eighths of an inch to $74.49 for two-inch meters. The quantity rate is summarized in the following table.

QUANTITY WATER RATES FOR RESIDENTIAL CUSTOMERS[3]

Quantity[1]	Summer Rate[2]	Winter Rate[2]
First 15 ccf	$1.14	$1.13
16 - 35 ccf	1.83	1.64
36 - 60 ccf	2.85	2.26
Over 60 ccf	4.10	2.75

(1) ccf = 100 cubic feet per month.
(2) Per 100 cubic feet. Summer months are June through October; all other months are deemed winter months for rate purposes.
(3) Effective as of November 1, 2010.

There is a surcharge for customers outside of the City limits. At the present time, the surcharge rates are in effect for 3,797 customers outside the City. Revenues received from the surcharge were approximately $1,261,000 for fiscal year 2009-10.

Water Conservation and Reclamation

In June 2004, the City began collecting a surcharge for Water Conservation and Reclamation programs. This surcharge was approved by City Council and was phased in over a three-year period with a 0.5% surcharge effective June 1, 2004, 1.0% effective June 1, 2005 and 1.5% effective June 1, 2006. The surcharge, expected to be approximately $900,000 for fiscal year 2011-12, is used to fund programs (a) to promote conservation, education and water-use efficiency; (b) to encourage the use of reclaimed water; and (c) for research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation. This surcharge is scheduled to be in effect for services rendered on or after June 1, 2004 through May 31, 2014.

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

PERCENTAGE INCREASE IN WATER RATES

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

Comparable Rates

Due to the City's valuable water rights in local groundwater, its rates have historically been lower than surrounding communities. Based on current rates in effect as of June 30, 2010, the City's average residential customer's rates would be from 49% to 90% higher if served by the other local major water suppliers in the City.

Connection Fees

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

The current connection fees are summarized below:

CONNECTION FEES

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

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

CONNECTION FEE REVENUE
(In Thousands)

Fiscal Year	Connection Fee Revenues
2005-06	$16,431
2006-07	12,420
2007-08	6,583
2008-09	3,980
2009-10	1,868

Capital Improvement Program

The City estimates that it will invest up to $104.8 million in capital improvements to the Water System over the next five-year period beginning July 1, 2010. The Capital Improvement Program will be funded with bond proceeds, rate revenues, grant funds, and contributions in aid of construction from developers. The improvements are needed to maintain system reliability, secure new water resources, serve new residential and commercial developments, relocate and replace facilities for transportation improvements and refurbish the water system. The City currently plans to finance $71.4 million of the capital improvements with proceeds of the 2009 Bonds. The City expects to issue another $60 million of bonds in the next five years, assuming a funding source is identified and incorporated into the rate plan.

The five-year plan incorporates portions of the Water Master, Water Supply, and Asset Management Plans. The first year is included in the annual operating budget that was adopted by the City Council on May 25, 2010. The Water System's Capital Improvement Program is categorized into three main sections: Water System Improvements, Recurring Projects and Other.

Water System Improvements totaling $86.4 million include capital betterments and improvements to the Water System for constructing, reconstructing, replacing, extending and improving facilities to deliver water throughout the City's service area, including the construction of portions of recycled water system infrastructure and a 17 million gallon replacement reservoir. The Board and City Council have approved an enhanced infrastructure replacement program that provides for replacement of approximately five miles of distribution mains per year (increasing to twelve miles per year within this five-year capital plan period), to be financed by Water System revenues. The Capital Improvement Program includes $43.0 million over the five-year period for main replacements. Total transmission and distribution system expansion and improvements represent approximately 82% of the total Capital Improvement Program budget.

The recurring projects in the Capital Improvement Program consist of water supply improvements totaling $11.9 million during the five-year period. These include water stock, meters, system expansion for new customers and distribution system facilities, and represent approximately 11% of the total Capital Improvement Program budget. The majority of recurring new capital facilities to meet growth, such as meters and fire hydrants, are financed through system connection fees. Other projects totaling $6.5 million include street improvements related to the relocation and/or extension of services for transportation projects.

The allocable funds currently held in the 2008A Reserve Account, other than those used to sufficiently fund the 2008A Escrow Fund and to pay the costs of issuance of the 2011A Bonds, will be used to finance additional Capital Improvement Program projects that would otherwise have been financed using the Water System's rate revenues.

Seismic Issues

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

The seismic vulnerability of the Water System is mitigated by a geographically diverse water supply system and a number of interconnections that allow the City to purchase water from other agencies in the event of a local disaster.

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

Insurance

The Water System's insurance needs are handled by the Risk Management Section of the City Manager's Office. Liability and workers' compensation Internal Service Insurance fund balances are based on annual actuarial studies and reviews by the City's Risk Manager and an outside insurance consultant. The City, including the Water System, is self-insured for up to $3 million for liability and up to $3 million for workers' compensation. The City has joined with a group of other municipalities under the California Municipal Excess Liability Program to participate in an insurance policy that provides $20 million of excess liability coverage. The City also has an insurance policy that provides excess coverage with a $25 million limit for workers' compensation. The City maintains property insurance on most City real property holdings with a limit of $1 billion subject to a $250,000 deductible for electric generating facilities, and $50,000 for all other structures and facilities. All properties valued at over $50,000 are insured at full replacement value based on periodic appraisals and annual Marshall Swift trend factor adjustment.

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

Water System Litigation

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

The City 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 on March 31, 2009, and no trial date has been set.

HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM

Transfers to the City's General Fund

Contributions to the City's General Fund of surplus funds of the Water System (after payment of operating and maintenance expenses and debt service on the Bonds and Parity Debt) are limited by the City Charter, amendment of which requires voter approval. Such transfers, as approved by the voters and adopted by the City Council on November 15, 1977, are limited to twelve equal monthly installments during each fiscal year, comprising a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfer to the City's General Fund for the fiscal year ended June 30, 2010 was $5,656,800. The budgeted transfer for the fiscal year ended June 30, 2011 is $5,847,400. See "CONSTITUTIONAL LIMITATIONS – Articles XIIIC and XIIID of the California Constitution" for a discussion of issues relating to the General Fund transfer under Articles XIIIC and XIIID of the California Constitution.

Significant Accounting Policies

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

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

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

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

Subsequent Events

On December 17, 2010, the Board approved the transfer of the 56-acre AB Brown Sports Complex property from the Water System to the City's electric utility for a fair market value of $11,600,000. The transfer was facilitated to balance the short- and long-term investment and reserve assets of the City's Electric Fund and the Water Revenue Fund. The transfer would allow future appreciation of the property to accrue to the Electric Fund and would increase the financial liquidity of the Water Revenue Fund, both in efforts to maintain high credit ratings and improve the overall financial position of the Water System.

On March 1, 2011, the City Council approved the sale of certain property, originally purchased by the Water System in the 1930's to acquire water rights and expand certain well locations, that is excess to current and long-term needs of the Water System. The property was sold at a fair market value of $5,557,500 to the Electric Fund with a subsequent sale by the Electric Fund to the City's redevelopment agency secured by a 20-year promissory note. The City intends that portions of the property (including a park) will remain public facilities and will be further developed for recreational purposes to benefit the community with another portion to be used for redevelopment purposes.

Summary of Operations

The following table shows the Net Operating Revenues of the Water System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution, and has been prepared by the City based on audited financial statements for the Water System for fiscal years 2005-06 through 2009-10.

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

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
Operating Revenues:					
Water Sales:					
Residential	$22,336	$28,396	$30,046	$32,368	$33,439
Commercial	10,470	13,255	14,615	15,928	16,331
Other Sales	1,617	1,916	1,755	1,763	1,720
Wholesale Sales	151	164	206	802	1,765
Other Operating Revenues	2,476	2,438	2,156	2,660	3,099
Total Water Revenues[1]	37,050	46,169	48,778	53,521	56,354
Interest Income	1,773	2,931	3,357	3,169	1,815
Contributions in Aid[2]	10,878	5,611	13,410	3,749	1,308
Non-Operating Revenues	16,525[3]	988	1,767	447	2,509
Total Revenues	$66,226	$55,699	$67,312	$60,886	$61,986
Operating and Maintenance Expenses:					
Field Operations	$ 7,171	$ 7,569	$ 8,753	$10,190	$10,505
Production and Operations	13,516	15,050	16,336	16,102	14,716
Engineering	6,341	6,842	8,738	9,347	9,424
Water Resources	0	0	0	0	1,309[4]
Total Expenses[1][5]	$27,028	$29,461	$33,827	$35,639	$35,954
Net Operating Revenues	$39,198	$26,238	$33,485	$25,247	$26,032
Debt Service	$7,665	$7,754	$8,630	$11,201	$12,540[6]
Debt Service Coverage	5.11x	3.38x	3.88x	2.25x	2.08x

(1) The Water Conservation and Reclamation programs (described under "– Water Conservation and Reclamation") are limited to specific purposes and are, therefore, not included.

(2) The amounts reflected as "Contributions in Aid" reflect cash collections from a combination of connection fees by developers and grant funded projects. Of the amounts listed, $80, $411, $10,357, $2,368, and $181 for the fiscal years 2005-06 through 2009-10, respectively, relates to grants received from others to construct water facilities.

(3) Amount higher than corresponding amounts in subsequent fiscal years due to a one-time sale of Water System property in fiscal year 2005-06.

(4) Represents Water Resources group within the Department, which is a new category of expense as of fiscal year 2009-10. The Water Resources group is charged with the long range forecasting and management of the City's water rights and resources. This group, consisting of engineers, geologists, scientists, and public policy professionals that develop long range water supply plans, monitor groundwater basin conditions (quality and quantity), serve as the City's liaisons to other water agencies, track and advocate on regulatory issues of concern to the Water System, and review environmental and other documents for development projects that could impact the City's water resources. A significant portion of the long-range studies undertaken by this group are performed by outside consultants under contract with the Department.

(5) Does not include contributions to the City's General Fund of $3,539,000, $3,928,000, $4,955,000 $5,276,000, and $5,657,000 for the fiscal years ended June 30, 2006, 2007, 2008, 2009 and 2010, respectively. These contributions do not constitute Operating and Maintenance Costs and are subordinated to debt service on the Bonds.

(6) Amount includes Build America Bond subsidy payments. If the subsidy were excluded, the ratio would be 2.01x.

Audited Balance Sheet and Related Statements

The following table presents summaries of financial data relating to the Water System for fiscal years 2005-06 through 2009-10. This data is extracted from the City's Water Utility

Audited Balance Sheets and Related Statements for such fiscal years. See “FINANCIAL STATEMENTS” below.

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WATER FUND BALANCE SHEET
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2006	2007	2008	2009	2010
ASSETS					
Utility plant:					
Source of supply	$ 32,684	$ 32,822	$ 35,880	$ 61,392	$ 62,820
Pumping and treatment	29,435	36,750	41,991	44,554	48,620
Transmission and distribution	273,785	284,010	311,288	327,189	356,201
General and Intangible	14,938	16,014	18,257	19,290	20,387
	350,842	369,596	407,416	452,425	488,028
Less accumulated depreciation	(106,971)	(114,190)	(122,340)	(131,552)	(141,167)
	243,871	255,406	285,076	320,873	346,861
Construction in progress	6,663	27,067	31,878	24,407	15,122
Land	3,891	3,923	7,682	10,809	10,809
Total utility plant	254,425	286,396	324,636	356,089	372,792
Restricted assets[1]	37,434	23,310	62,953	34,793	95,525
Current assets:					
Unrestricted cash and investments	33,765	40,127	29,577	29,679	29,370
Accounts receivable, net	7,947	7,128	17,578	10,266	9,620
Accrued interest receivable	327	399	260	146	185
Prepaid Expenses	368	2	6	7	5
Total current assets	42,407	47,656	47,421	40,098	39,180
Other non-current assets:					
Deferred pension costs	5,876	5,838	5,782	5,705	5,605
Deferred bond issuance / refunding costs[2]	1,067	1,003	1,702	1,624	2,076
Advance to general fund	28	20	0	0	0
Deferred debits[3]	0	0	0	3,715	6,580
Total other non-current assets	6,971	6,861	7,484	11,044	14,261
Total assets	$341,237	$364,223	$442,494	$442,024	$521,758
LIABILITIES AND FUND EQUITY					
Equity:					
Reserved for debt service[4]	$ 12,491	$ 4,475	$ 4,862	$ 5,156	$ 6,433
Conservation & Reclamation Programs	337	853	1,394	1,888	2,166
Unreserved	35,344	39,707	37,884	30,361	32,029
Invested in capital assets, net of related debt[4]	180,708	208,882	230,347	237,738	237,366
Total equity	228,880	253,917	274,487	275,143	277,994
Long-term obligations, less current portion[2]	94,961	91,568	147,349	142,972	219,414
Non-current liabilities:					
Pension obligation	5,823	5,761	5,682	5,584	5,466
Arbitrage liability	0	416	0	0	0
Postemployment benefits payable	0	0	250	526	881
Derivative instrument[3]	0	0	0	4,265	7,130
Total non-current liabilities	5,823	6,177	5,932	10,375	13,477
Current liabilities payable from restricted assets:					
Accrued interest payable	325	318	568	1,156	1,899
Conservation and Reclamation Programs payable	0	0	3	23	20
Current portion of long-term obligations	4,300	4,355	4,375	4,415	4660
Total current liabilities payable from restricted assets	4,625	4,673	4,946	5,594	6,579
Current liabilities:					
Accounts payable	3,248	4,436	6,862	7229	3529
Other liabilities	3,700	3,452	2,918	711	765
Total current liabilities	6,948	7,888	9,780	7,940	4,294
Total equity and liabilities	$341,237	$364,223	$442,494	$442,024	$521,758

(1) Includes current and non-current restricted assets for historical comparison purposes.
(2) Beginning in fiscal year ended June 30, 2007, bond refunding costs were reported net with long-term obligations.
(3) On July 1, 2009, the Water System adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which requires the Water System to report its derivative instruments at fair value. Changes in fair value for effective hedges are reported as deferrals on the Balance Sheets. The Balance Sheets for June 30, 2009 have been restated to reflect the retroactive application of GASB 53. *See Note 1 of the Water Utility's Comprehensive Financial Statements for fiscal year ended June 30, 2010 for more information.*
(4) Beginning in fiscal year ended June 30, 2008, a change was made to re-classify a portion of the Reserved for debt service to the Invested in capital assets, net of related debt. For comparison purposes, fiscal year 2006-07 numbers were adjusted.

Unencumbered Funds of the Water System

On March 31, 2011, the Water System had approximately $55,000,000 in unrestricted reserves and other available funds ("**Unencumbered Funds**"), including the proceeds received by the Water System from the recent sale of two of its properties, as described above under "– Subsequent Events."

Outstanding Obligations of the Water System

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

WATER SYSTEM STRATEGIC PLAN

Strategic Plan

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

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

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

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

In order to more expediently attain the Ten Year Goals, the Riverside Board has also adopted Three Year Strategic Goals and Objectives. To ensure maximum efficiency and improvements in operations, management meets every six months to review/revisit the existing goals/objectives to reflect any substantive changes in the utility operating environment. At these semi-annual meetings, short term objectives are established by management to ensure achieving the broader strategic goals, and efforts to achieve the objectives are reported monthly to the Board. At the most recent management meeting on October 27, 2010, no changes were made to the existing Three Year Strategic Goals developed on April 2, 2010; however, new

objectives were established and approved by the Board on November 19, 2010. The current Three Year Strategic Plan Goals (not in priority order) are:

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

RISK FACTORS

The purchase of the 2011A Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

The 2011A Bonds Are Limited Obligations

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

Risks Relating to an Index Interest Rate Period

The City's Ability to Pay the Purchase Price on the Index Rate Scheduled Purchase Date May Be Limited. As described in this Official Statement, the Owners of all of the 2011A Bonds must tender for purchase, and the City must purchase, all of the 2011A Bonds on the Index Rate Scheduled Purchase Date. The City has neither secured, nor is required to secure, any liquidity facility or letter of credit to support the payment of the Purchase Price on the Index Rate Scheduled Purchase Date. The ability of the City to pay the Purchase Price will depend, in part, on its ability to successfully remarket or refinance the 2011A Bonds and otherwise to provide funds to pay the Purchase Price.

Pursuant to its policy relating to bonds similar to the 2011A Bonds, as described under the caption, "DESCRIPTION OF THE 2011A BONDS – Provisions Related to the Index Rate Scheduled Purchase Date," the City anticipates exercising its option to designate an Index Rate Unscheduled Purchase Date after the Call Protection Date to allow sufficient time to ensure a successful remarketing or refinancing of the 2011A Bonds prior to, if not on, the Index Rate Scheduled Purchase Date.

To the extent that the City is unable to successfully remarket or refinance the 2011A Bonds prior to or on the Index Rate Scheduled Purchase Date, the City expects to pay the Purchase Price on the Index Rate Scheduled Purchase Date from the Water System's available cash and unrestricted reserves (including Unencumbered Funds), and by liquidating Water

System investments and assets and borrowing from the City. The City has not committed to allocate these other funds for the purchase of the 2011A Bonds on the Index Rate Scheduled Purchase Date, and the City can provide no assurances that such other funds will be available for this purpose when needed.

Nevertheless, it is possible that the City will not have sufficient funds to pay the Purchase Price of all of the 2011A Bonds on the Index Rate Scheduled Purchase Date; this possibility is aggravated by the fact that the City will not be funding a reserve account for the 2011A Bonds.

Limited Remedies and Consequences Upon Failure to Pay Purchase Price. If the City does not pay the Purchase Price of any 2011A Bonds tendered on the Index Rate Scheduled Purchase Date, then a Purchase Event of Default will occur under the Resolution and a Purchase Default Period will commence. During a Purchase Default Period, the consequences, among others, are as follows: (a) all of the 2011A Bonds will bear interest at the Purchase Default Rate; (b) the 2011A Bonds will be subject to special mandatory redemption prior to maturity (as discussed under "DESCRIPTION OF THE 2011A BONDS – Redemption Provisions – Special Mandatory Redemption During a Purchase Default Period"), at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from special Mandatory Sinking Account Payments deposited in the Principal Account of the Bond Service Account of the Water Revenue Fund, in such amounts and dates as provided in "DESCRIPTION OF THE 2011A BONDS – Redemption Provisions – Special Mandatory Redemption During a Purchase Default Period"; and (c) the City will not require the Owners to tender their 2011A Bonds for purchase on Index Rate Purchase Dates. The Resolution also provides for other consequences of a Purchase Event of Default. See "DESCRIPTION OF THE 2011A BONDS – Purchase Event of Default and Purchase Default Period."

The City's failure to pay the Purchase Price on the Index Rate Purchase Date is not an Event of Default under the Resolution. Furthermore, except in limited circumstances, the Owners of the Bonds (including the 2011A Bonds) do not, even upon the occurrence of an Event of Default under the Master Resolution, have the right to accelerate the payment of principal of any Bonds.

Secondary Market May Not Develop. There is no established secondary market for bonds issued in an Index Interest Rate Period, and one may not develop. Therefore, an Owner may be unable to sell its 2011A Bonds in the secondary market.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2011A Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution of the United States; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could

subject the owners of the 2011A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Water System serves an essential public purpose.

Debt Service Reserve Account Not Funded

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

Demand and Usage

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

In addition, drought conditions and voluntary or mandatory conservation measures could decrease usage of the services of the Water System. Reduction in usage could require an increase in rates or charges in order to produce Net Operating Revenues sufficient to comply with the City's rate covenants.

Water System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Water System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2011A 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 2011A Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL LIMITATIONS." Any remedies available to the owners of the Bonds, including the 2011A Bonds, upon the occurrence of an event of default under the Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Rate Regulation

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

Drinking Water Regulation

Drinking water standards are regulated, to a large extent, by the federal government and the State of California. Depending upon the level at which future regulations are set and the extent to which responsible parties can be identified, future regulations could increase the operating costs of the Water System and place upward pressure on water rates. It is not possible to predict the direction that federal or state regulation will take with respect to drinking water standards.

Casualty Risk

Any natural disaster or other physical calamity, including earthquake and flood, may have the effect of reducing Net Operating Revenues through damage to the Water System and/or adversely affecting the economy of the surrounding area. The Resolution requires the City to maintain insurance or self insurance as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Water System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. The City does not currently maintain earthquake insurance on the Water System's facilities.

According to the City's Urban Water Management Plan dated December 2005 (an update of which is expected in July 2011 in accordance with California Department of Water Resources regulations), the City is located close to active earthquake faults, such as the San Andreas and San Joaquin faults. Earthquakes pose potential significant risks to the Water System, and could potentially result in water supply shortages and disruptions to the transmission/distribution systems. Groundwater produced from wells in the San Bernardino area is conveyed using two major transmission lines that cross several earthquake faults. In addition, harmful microorganisms could migrate into the disruption system because of pipe breaks and/or damage to water disinfection facilities. Another potential hazard related to earthquake is soil liquefaction.

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

Certain Other Limitations on Fees and Charges

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

Articles XIIIC and XIIID of the California Constitution

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

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the 2011A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2011A 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 2011A Bonds are not subject to special redemption or any increase in interest rate and may remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

CONSTITUTIONAL LIMITATIONS

Article XIIIB

Article XIIIB of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State

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

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

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

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

Articles XIIIC and XIIID of the California Constitution

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

Specifically, under Article XIIID, 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 XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge.

The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

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

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

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

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

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIC'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 XIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court 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 XIIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

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

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

- A protest hearing was conducted on June 20, 2008.

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

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

The holdings in *Bighorn* and *Fresno* make it clear that the City's water service charges are property-related fees or charges that must comply with Article XIIID. This means that the revenues derived from these charges may not exceed the cost to the City of providing the related services. To the City's knowledge, no California appellate court has considered whether payments like the Revenue Transfer are a cost of providing the related service. As of the date of this Official Statement, no claim has been filed with the City regarding the legality of including the Revenue Transfer as a cost of providing the related services and no litigation has been threatened. The statute of limitations for filing a claim is one year from the date that the City collected a Water Service Charge that was used to make the Revenue Transfer payments. Further, under the court's holding in *Ardon v City of Los Angeles*, 174 Cal.App.4th 369 (2009) (under review), class claims are not permitted in local tax refund cases. The Court recognized the need for fiscal predictability and strict legislative control over refund claims at the local as well as State level and held that constitutional protections apply to general as well as specific claiming statutes, including the Government Claims Act, thus protecting tax refund claims asserted against local agencies.

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

Proposition 26. On November 2, 2010, the voters approved Proposition 26 and approved revising provisions of Articles XIIIA and XIIIC of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes and specifies approval requirements for those taxes. In its "Findings and Declarations of Purpose" section, Proposition 26 states: "Fees couched as 'regulatory' but which exceed the reasonable costs of actual regulation or are simply imposed to raise revenue for a new program and are not part of any licensing or permitting programs are actually taxes and should be subject to the limitations applicable to the imposition of taxes."

In order to increase State "taxes," a two-thirds vote of both houses of the Legislature is required. The State bears the burden of proving that a levy, charge or other exaction is not a tax subject to Proposition 26. Any State-imposed "tax" adopted after January 1, 2010, but prior to the effective date of Proposition 26 that was not adopted in compliance with Proposition 26's approval requirements is void 12 months after the effective date of Proposition 26. The ultimate resolution as to the scope of Proposition 26 will likely be determined through litigation. It is not certain how the courts will interpret the provisions of Proposition 26 as applicable to regulatory fees.

With respect to local government "taxes," Proposition 26 expressly excludes a variety of levies, charges and exactions from the definition of "tax", including 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." Although the City believes that the Water System rates and charges are not taxes for purposes of Proposition 26, a court could conclude that, to the extent the City transfers surplus funds to the General Fund, the Water System rates and charges constitute "taxes" for purposes of Proposition 26. This would mean that, so long as the City continued to make General Fund transfers of surplus funds, the City could not increase the rates and charges without a two-thirds vote of the City's voters. The City is unaware of any pending applicable case law precedent regarding this issue; however, litigation challenging a similar transfer by the City of Redding was initiated in February 2011. Proposition 26 amended Article XIIIC to provide that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

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

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

situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

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

Future Initiatives

Articles XIIIB, XIIIC, XIIID and Proposition 26 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

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2011A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "**Code**"), and (ii) interest on the 2011A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the 2011A Bonds, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2011A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the 2011A Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2011A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2011A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2011A Bonds in order that interest on the 2011A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements

include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2011A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2011A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2011A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2011A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2011A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2011A Bonds.

Prospective owners of the 2011A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2011A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2011A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2011A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2011A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2011A Bonds under Federal or state law and could affect the market price or marketability of the 2011A Bonds.

Prospective purchasers of the 2011A Bonds should consult their own tax advisors regarding the foregoing matters.

VERIFICATION OF MATHEMATICAL ACCURACY

Precision Analytics Inc., as Verification Agent, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the amounts deposited in the 2008A Escrow Fund (which amounts will be held in uninvested cash) to pay the Redemption Price, together with accrued interest to the date of redemption, of the remaining 2008A Bonds on June 1, 2011. See "THE PLAN OF FINANCE."

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2011A Bonds are subject to the unqualified approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel. Bond Counsel has not undertaken any responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2011A Bonds and expresses no opinion relating thereto. Said opinion in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2011A Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as counsel to the Underwriter.

The payment of the fees and expenses of the Underwriter, Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon the closing of the sale of the 2011A Bonds.

LITIGATION

At the time of delivery and payment for the 2011A Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the actual knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2011A Bonds or the power and authority of the City to issue the 2011A Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2011A Bonds.

For information about lawsuits arising in the normal course of business, see "THE WATER SYSTEM – Water System Litigation."

FINANCIAL STATEMENTS

The financial statements of the City's Water System as of and for the year ended June 30, 2010 (the "**2010 Financial Statements**") included in Appendix B to this Official Statement have been audited by Mayer Hoffman McCann P.C., independent accountants (the "**Auditor**"), as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to including its report in Appendix B. The Auditor's review in connection with the 2010 Financial Statements included in Appendix B included events only as of June 30, 2010 and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the 2010 Financial Statements.

Although the City does not believe that it has any impact on the accuracy of the financial statements of the City or the Water System, the City is aware that the California State Controller published on December 21, 2010 the results of a quality control review of the Auditor's work papers in conjunction with its audit on the financial statements of the City of Bell and the Bell Community Redevelopment Agency for the year ended June 30, 2009. The State Controller concluded that the Auditor's Irvine office failed to follow in varying degrees with the majority of applicable generally accepted fieldwork audit standards, although no adjustments to the financial statements of the City of Bell were recommended. The Quality Control Review-Review Report is available on the State Controller's website: http://www.sco.ca.gov/Press-Releases/2010/12-2010bellreview.pdf. The 2010 Financial Statements were audited by employees of the Auditor from its Irvine office and its San Jose office.

RATINGS

Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("**S&P**"), Fitch Ratings, Inc. ("**Fitch**"), and Moody's Investors Service, Inc. ("**Moody's**"), have assigned short-term ratings of "A-1+," "F1+" and "VMIG 1," respectively, to the 2011A Bonds. Fitch and Moody's have also assigned the long-term ratings of "AA+" and "Aa2," respectively, to the 2011A Bonds. Although S&P has not assigned a long-term rating to the 2011A Bonds, S&P has upgraded the long-term rating for the Prior Parity Bonds from "AA+" to "AAA".

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

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

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2011A Bonds may have an adverse effect on the market price or marketability of the 2011A Bonds.

UNDERWRITING

The 2011A Bonds are being purchased by E. J. De La Rosa & Co., Inc. as underwriter (the "**Underwriter**") at a purchase price of $58,932,678.11 (which is equal to the par amount of the 2011A Bonds, less an underwriter's discount of $67,321.89).

General. The Underwriter has agreed to purchase all of the 2011A Bonds subject to certain terms and conditions set forth in the bond purchase agreement between the City and the Underwriter, including the approval of certain legal matters by counsel and certain other conditions.

The initial public offering price stated on the front cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell to certain dealers and others at a price lower than such offering price. The offering price may be changed from time to time by the Underwriter.

REMARKETING AGENT

During the Initial Index Interest Rate Period, E. J. De La Rosa & Co., Inc., will be the Remarketing Agent pursuant to a Remarketing Agreement, dated as of May 1, 2011.

FINANCIAL ADVISOR

The City has retained Public Financial Management Inc., of San Francisco, California, as financial advisor (the "**Financial Advisor**") in connection with the issuance and delivery of the 2011A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor is contingent upon the issuance and delivery of the 2011A Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2011A Bonds to provide certain financial information and operating data relating to the Water System (the **"Annual Report**") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2010-11 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board ("**MSRB**"). The specific nature of the information to be contained in the Annual Report and the notices of significant events is set forth in "APPENDIX D – Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended.

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

MISCELLANEOUS

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

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Paul C. Sundeen
Treasurer

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

APPENDIX A

CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

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

General Description and Background

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

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

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

Population

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2006 to 2010:

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

Year (January 1)	City of Riverside	Riverside County	State of California
2006	289,045	1,962,198	37,087,005
2007	291,814	2,030,054	37,463,609
2008	296,038	2,077,183	37,871,509
2009	300,769	2,109,882	38,255,508
2010	304,051	2,139,535	38,648,090

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

Commerce

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2009 in the City were reported to be $3,500,514,000, a 14.48% decrease over the total taxable sales of $4,093,218,000 reported during calendar year 2008. Figures are not yet available for 2010.

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

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2005	3,981	$4,019,963	7,664	$4,950,254
2006	3,990	4,082,977	7,237	5,034,072
2007	3,812	3,888,251	7,427	4,789,554
2008	3,889	3,209,083	7,578	4,093,218
2009 (1)	5,033	2,734,550	7,202	3,500,514

(1) Retail stores data not comparable to prior years.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2009 in the County were reported to be $22,227,877,000, a 14.52% decrease over the total taxable sales of $26,003,595,000 reported during calendar year 2008. Figures are not yet available for 2010.

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

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2005	22,691	$20,839,212	44,222	$28,256,491
2006	23,322	21,842,345	43,672	29,816,237
2007	22,918	21,242,516	45,279	29,023,609
2008	23,604	18,689,249	46,272	26,003,595
2009 (1)	29,829	16,057,488	42,765	22,227,877

(1) Retail stores data not comparable to prior years.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Employment and Industry

The City is included in the Riverside-San Bernardino-Ontario labor market area. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 13.9% in February 2011, down from a revised 14.2% in January 2011, and below the year-ago estimate of 14.6%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.5% for the nation during the same period. The unemployment rate was 14.1% in Riverside County, and 13.7% in San Bernardino County.

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

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

	2006	2007	2008	2009	2010
Civilian Labor Force [1]	1,751,300	1,774,800	1,783,800	1,774,900	1,768,700
Employment	1,665,100	1,671,900	1,636,900	1,540,700	1,512,500
Unemployment	86,200	102,900	146,900	234,200	256,200
Unemployment Rate	4.9%	5.8%	8.2%	13.2%	14.5%
Wage and Salary Employment: [2]					
Agriculture	17,300	16,400	15,900	14,900	14,800
Natural Resources and Mining	1,400	1,300	1,200	1,100	1,000
Construction	127,500	112,500	90,700	67,900	59,500
Manufacturing	123,400	118,500	106,900	88,800	84,600
Wholesale Trade	54,200	56,800	54,100	48,900	48,800
Retail Trade	173,200	175,600	168,600	156,200	154,600
Transportation, Warehousing and Utilities	63,800	69,500	70,200	66,800	66,500
Information	15,300	15,400	14,900	15,100	15,900
Finance and Insurance	31,700	30,700	28,000	26,000	25,500
Real Estate and Rental and Leasing	19,900	19,500	18,700	16,600	15,500
Professional and Business Services	142,300	145,000	137,400	124,300	121,500
Educational and Health Services	122,100	127,000	131,500	133,600	133,800
Leisure and Hospitality	128,100	132,600	131,000	123,800	122,100
Other Services	42,500	41,200	40,800	37,300	37,500
Federal Government	19,300	19,400	19,600	20,600	22,700
State Government	27,400	28,700	29,600	29,800	29,200
Local Government	175,700	177,200	180,700	178,100	172,400
Total All Industries	1,285,000	1,287,300	1,239,700	1,149,700	1,126,000

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

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

Source: State of California Employment Development Department.

Major Employers

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

CITY OF RIVERSIDE
LARGEST EMPLOYERS
(As of June 30, 2010)

Employer	Number of Employees	% of Total City Employment [1]
University of California	6,470	4.2%
County of Riverside	6,395	4.1
Riverside Unified School District	3,867	2.5
City of Riverside	2,619	1.7
Riverside Community College District	1,669	1.1
Alvord Unified School District	1,669	1.1
Riverside Community Hospital	1,600	1.0
The Press Enterprise	1,090	0.7
Parkview Hospital	900	0.6
Goodrich Corporation	500	0.3
Total	26,779	17.3

(1) Based on total City employment of 155,000.
Source: City of Riverside, Development Department (as presented in the City's 2010 Comprehensive Annual Financial Report).

The following table lists the major employers within the County:

COUNTY OF RIVERSIDE
MAJOR EMPLOYERS
(As of April 2011)

Employer Name	Location	Industry
Abbott Vascular	Temecula	Physicians & Surgeons
Corona Regional Medical Ctr	Corona	Hospitals
Corrections Dept	Norco	State Govt-Correctional Institutions
Crossroads Truck Dismantling	Mira Loma	Automobile Wrecking (Whls)
Eisenhower Medical Ctr	Rancho Mirage	Hospitals
Handsome Rewards	Perris	Internet & Catalog Shopping
Hemet Valley Medical Ctr	Hemet	Hospitals
Hotel at Fantasy Springs	Indio	Casinos
Hub International of CA Ins	Riverside	Insurance
J W Marriott-Desert Spgs Resrt	Palm Desert	Hotels & Motels
Kaiser Permanente	Riverside	Hospitals
La Quinta Resort & Club	La Quinta	Resorts
Morongo Hotel	Cabazon	Casinos
Morongo Tribal Gaming Ent	Banning	Business Management Consultants
Pechanga Casino	Temecula	Casinos
Restoration Technologies Inc	Corona	Electronic Equipment & Supplies-Retail
Riverside Community Hospital	Riverside	Hospitals
Riverside County Regional Med	Moreno Valley	Hospitals
Riverside Forklift Training	Riverside	Trucks-Industrial (Whls)
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products-California	Perris	Gift Shops
Sun World Intl LLC	Coachella	Fruits & Vegetables-Growers & Shippers
Universal Protection Svc	Palm Desert	Security Guard & Patrol Service
University of CA-Riverside	Riverside	Schools-Universities & Colleges Academic
Watson Pharmaceuticals Inc	Corona	Drug Millers (Mfrs)

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2011 1st Edition.

Construction Activity

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

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

	2005	2006	2007	2008	2009
Permit Valuation					
New Single-family	$333,223.8	$200,821.0	$88,770.6	$23,168.9	$15,420.4
New Multi-family	44,223.8	32,498.8	59,369.5	24,410.6	1,711.3
Res. Alterations/Additions	22,817.8	17,139.3	18,372.3	16,864.6	6,812.3
Total Residential	400,265.4	250,459.2	166,512.4	64,444.1	23,944.0
New Commercial	107,106.2	118,436.2	117,693.6	55,156.5	16,667.4
New Industrial	26,909.5	35,584.2	45,943.6	13,778.9	0.0
New Other	35,436.2	26,905.6	27,857.2	11,023.8	7,370.9
Com. Alterations/Additions	56,320.9	63,389.1	67,889.5	59,695.9	21,845.0
Total Nonresidential	225,772.7	244,315.3	259,383.9	139,655.2	45,883.3
New Dwelling Units					
Single Family	1,442	847	342	69	56
Multiple Family	521	286	599	216	23
TOTAL	1,963	1,133	941	285	79

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

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

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

	2005	2006	2007	2008	2009
Permit Valuation					
New Single-family	$6,243,791.7	$4,412,255.1	$2,207,519.5	$1,214,753.0	$892,790.0
New Multi-family	407,432.1	431,580.9	238,315.9	243,741.9	75,756.1
Res. Alterations/Additions	164,312.5	158,099.4	141,997.0	118,488.7	85,148.0
Total Residential	6,815,536.3	5,001,935.4	2,587,832.4	1,576,983.5	1,053,694.1
New Commercial	552,666.9	648,065.7	682,331.0	539,943.4	94,651.4
New Industrial	120,367.6	288,352.6	184,505.6	70,410.8	12,277.6
New Other	344,703.2	290,006.3	240,767.0	138,765.2	107,332.1
Com. Alterations/Additions	274,337.7	303,408.9	350,539.1	292,693.8	162,557.5
Total Nonresidential	1,292,075.4	1,529,833.4	1,458,142.7	1,041,813.1	376,818.7
New Dwelling Units					
Single Family	29,994	20,692	9,763	3,815	3,431
Multiple Family	4,140	4,519	2,690	2,104	759
TOTAL	34,134	25,211	12,453	5,919	4,190

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

Effective Buying Income

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

CITY OF RIVERSIDE
Effective Buying Income
2005 through 2009

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2005	City of Riverside	$4,510,655	$39,461
	Riverside County	32,004,438	41,326
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Riverside	$4,823,975	$41,469
	Riverside County	35,656,620	43,490
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Riverside	$5,065,658	$43,161
	Riverside County	38,631,365	45,310
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Riverside	$5,318,760	$45,059
	Riverside County	40,935,408	46,958
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Riverside	$5,352,323	$44,974
	Riverside County	41,337,770	47,080
	California	844,823,319	49,736
	United States	6,571,536,768	43,252

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 64 elementary and middle schools and high schools. There are also

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

Transportation

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

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

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

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

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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Financial Report 2010

WATER | ENERGY | LIFE

CITY OF RIVERSIDE

PUBLIC UTILITIES

RiversidePublicUtilities.com

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Mission Statement

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

VISION

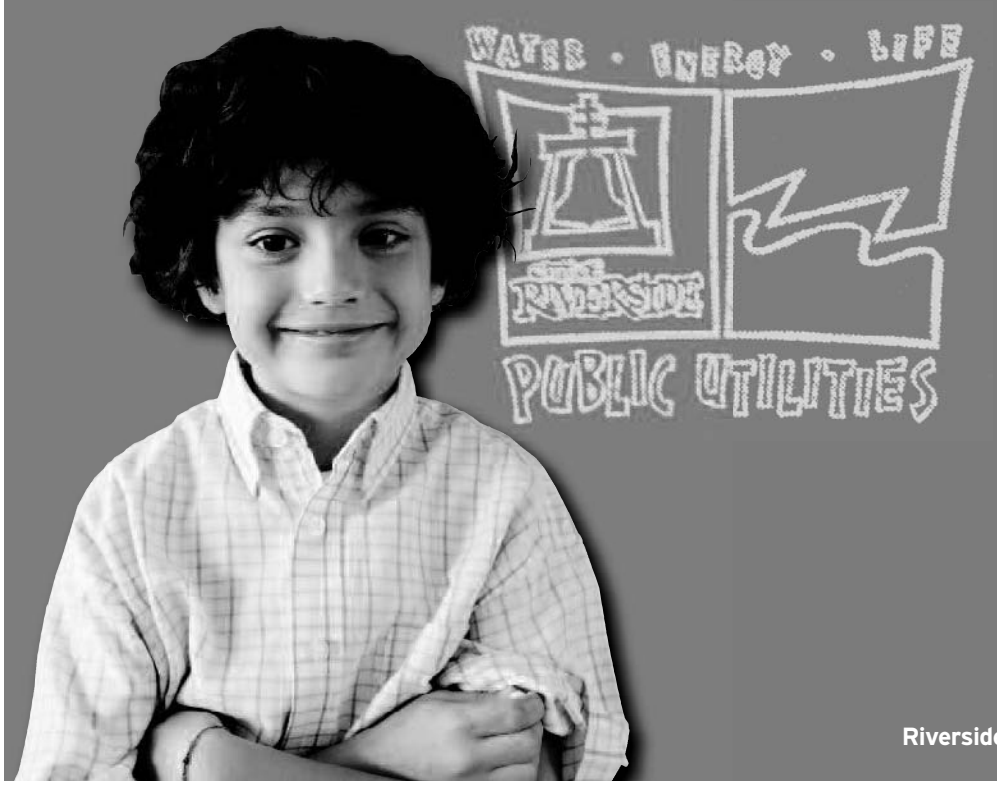
Riverside Public Utilities will be recognized as a community treasure with a national reputation for excellence.

CORE VALUES

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

Three-Year Goals

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



Board of Public Utilities and Administration

The Board of Public Utilities is composed of nine citizen-volunteers appointed by the City Council to four-year terms without compensation. Board members oversee the utility's policies, operations, revenues, expenditures, planning, and regulatory compliance. In addition to bi-weekly Board meetings, members also serve on subcommittees to provide input on the development of new facilities and equipment; performance measures; programs to conserve energy and water resources; and appropriate technology to protect our water supply and secure our energy resources.

The citizen-volunteers who serve on the Board of Public Utilities provide an ongoing, year-round review of all actions by Riverside Public Utilities before any measure is sent to the elected City Council representatives for final determination.

The Board of Public Utilities meets at 8:30 a.m. on the first and third Fridays of each month in the Public Utilities Board Room at 3901 Orange Street, Riverside. Board meetings are open to the public.

Public Utilities Administration

David H. Wright
General Manager

Stephen H. Badgett
Deputy General Manager

Michael J. Bacich
Assistant General Manager
Customer Relations/Marketing

Reiko A. Kerr
Assistant General Manager
Finance/Administration

Kevin S. Milligan
Assistant General Manager
Water

Gary L. Nolff
Assistant General Manager
Resources

Board of Public Utilities

Ken Sutter
Board Chair

Robert Elliott
Board Vice-Chair

Darrell Ament

Mary Curtin

Ian Davidson

Manny Sanchez

Justin Scott-Coe

Gustavo Segura

Bernie Titus

Fiscal Message

Riverside Public Utilities' ***commitment*** is to our current and future customer-owners. Our mission is to provide for the needs of our customer-owners and our community. Our success is measured by ***investment in our community*** and not through dividends to outside shareholders.

Riverside Public Utilities' ***strengths*** of local control by the ***City Council and Public Utilities Board, strong leadership, and strategic planning*** help meet our commitments while protecting the fiscal strength and stability of our utilities. These strengths provided investment and support to increase reliability and service delivery by: building the award winning John W. North Water Treatment Plant to become water independent, constructing 96 MW of additional internal power generation to serve our customers' peaking energy needs, and commencing construction of a second point of interconnection with the state's high voltage transmission grid.

Our ***fiscal strength*** allows us to invest in our community by providing support for public safety, parks and recreation facilities, museums, libraries, and other valuable City services. We assist Riverside in becoming a model solar city with a ***sustainable future*** by providing customer rebates for ***energy and water efficiency*** investments in their homes and businesses.

Through continued ***stewardship*** and movement toward a more ***sustainable future***, we will continue to provide high quality, reliable services to our current and future ***customer-owners***.

Reiko A. Kerr
Assistant General Manager - Finance/Administration

Electric

Independent Auditors' Report: Electric

Mayer Hoffman McCann P.C.
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To the Honorable City Council and Board of Public Utilities
City of Riverside
Riverside, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2009 and, in our report dated October 29, 2009, we expressed an unqualified opinion on those financial statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of the City of Riverside, California, Electric Utility, as of June 30, 2010, and the changes in its equity and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2010, the City of Riverside Electric Utility changed the manner in which it accounts for derivative instruments as a result of the implementation of GASB Statement No. 53, as described further in the notes to the financial statements.

Independent Auditors' Report: Electric

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

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

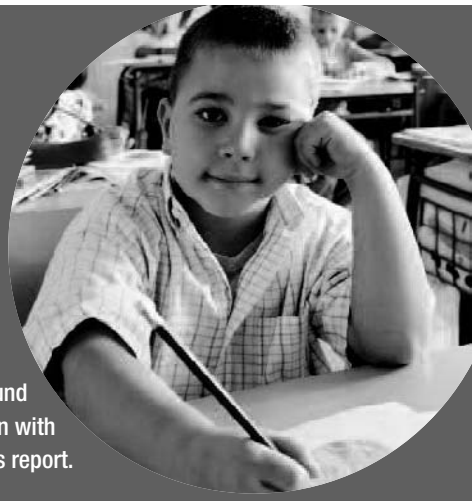
Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Electric Utility's basic financial statements. The supplementary information entitled Electric Key Historical Data, as listed in the table of contents, is presented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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

San Jose, California
October 18, 2010

Management's Discussion and Analysis: Electric



As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers this narrative overview and analysis of the 2009-10 financial report for the period ended June 30, 2010 and 2009 for Riverside's Electric Utility, an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 19 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2010 and 2009 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from the effects of rate increases and an expanded customer base.

- Retail sales, net of reserve/recovery were $274,206 and $272,298 for years ended June 30, 2010 and 2009, respectively.
- The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2010 and 2009 by $440,051 and $398,266, respectively. Of this amount, $189,431 and $160,969, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by $41,785 and $41,969 for fiscal years ended June 30, 2010 and 2009 due to positive operating results from the historic levels of retail sales and other items discussed in this report.
- As of June 30, 2010 and 2009, unrestricted equity represented over 80% and 67% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 23 to 43 of this report.

UTILITY FINANCIAL ANALYSIS

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities (equity) by $440,051 and $398,266 at the close of the fiscal years 2010 and 2009, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2010, 2009 and 2008:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2010	2009	2008
Current and other assets	$ 481,878	$ 474,306	$ 496,149
Capital assets	606,777	565,894	505,444
Total assets	1,088,655	1,040,200	1,001,593
Long-term debt outstanding	479,174	502,415	524,237
Other liabilities	169,430	139,519	121,059
Total liabilities	648,604	641,934	645,296
Invested in capital assets, net of related debt	222,016	208,695	185,759
Restricted	28,604	28,602	27,891
Unrestricted	189,431	160,969	142,647
Total equity (net assets)	$ 440,051	$ 398,266	$ 356,297

ASSETS

Fiscal Year 2010 The Utility's total assets of $1,088,655 reflect an increase of $48,455 (4.7%), primarily due to the following:

- Net capital assets (Utility plant) increased by $40,883, primarily due to an increase in completed distribution system assets of $30,176 resulting from continued improvements to the Electric Utility's distribution system and increases in construction in progress of $24,344 as a result of the continued construction of the Riverside Energy Resource Center (RERC) Units 3 and 4, offset by the current year impact of depreciation. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.
- Current and other assets, comprised of restricted and unrestricted assets, had a net increase of $7,572. Unrestricted and other non-current assets increased by $50,822, offset by a decrease of $43,250 in restricted assets.
- Unrestricted and other non-current assets increased by $50,822 primarily due to an increase of $35,409 in operating cash and reserves resulting from positive operating results, an increase of $9,207 in deferred debits on interest rate swap fair valuation and an increase of $14,730 in the fair value of congestion revenue right derivatives as a result of the implementation of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). See Note 1 and Note 9 in the accompanying financial statements for additional information. The increase was offset by $8,915 from net decreases in advances receivable from the City, deferred purchased power, accounts receivable, and prepaid expenses.
- The decrease of $43,250 in restricted assets was primarily due to the use of $48,583 of bond proceeds for capital projects offset by a $4,480 increase in nuclear decommissioning reserve.

Fiscal Year 2009 Total assets were $1,040,200, an increase of $38,607 (3.9 %), comprised of a $60,450 increase in Utility plant for improvements to the distribution system, including $32,488 for construction in progress, offset by a $21,843 decrease in current and other assets. The $21,843 decrease was primarily due to unrestricted and other non-current assets decreases of $33,586 in City advances, $4,700 accounts and accrued interest receivables and $3,341 in deferred purchased power, offset by increases of $14,323 in interest rate swaps and derivative instruments and $6,742 in net cash and cash equivalents.

LIABILITIES

Fiscal Year 2010 The Utility's total liabilities were $648,604, an increase of $6,670 (1.0%), due to the following:

- Long-term debt outstanding decreased by $23,241, primarily due to principal repayments and the amortization of bond premiums and deferred bond refunding costs.
- Other liabilities increased by $29,911, primarily due to increases of $9,208 in the fair value of interest rate swaps and $14,730 in deferred credits on congestion revenue rights resulting from the implementation of GASB 53 and $4,480 in nuclear decommissioning.

Fiscal Year 2009 Total liabilities were $641,934, a decrease of $3,362 (0.5%), primarily due to a decrease in long-term debt outstanding of $21,822, resulting from principal repayments and the amortization of bond premiums and deferred bond refunding costs and $6,768 in accounts payable, offset by an increase of $14,322 for interest rate swaps and deferred credits on congestion revenue rights related to GASB 53 implementation, $4,549 for nuclear decommissioning and $3,726 for capital leases and accrued interest payables.

EQUITY (NET ASSETS)

Fiscal Year 2010 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $440,051 an increase of $41,785 (10.5%), primarily due to rate increases and positive operating results and is comprised of the following:

- A portion of the Utility's equity (50.5%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. This portion totaled $222,016, an increase of $13,321 (6.4%) primarily due to the amount of capital assets constructed or purchased that were not bond financed. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $28,604 (6.5% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, Public Benefit Programs, and other legally restricted assets.
- The unrestricted portion equals $189,431, (43.0%of total equity), an increase of $28,462 (17.7%), and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

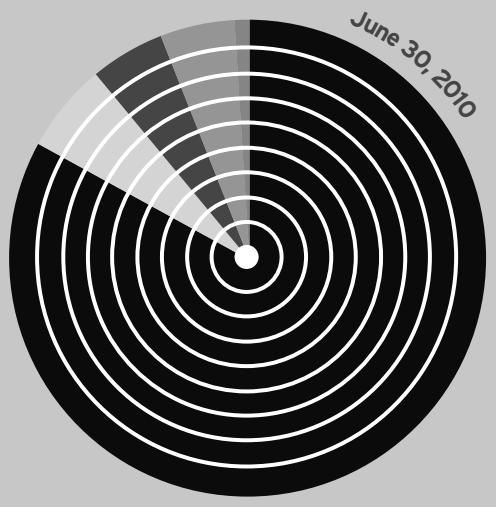
Fiscal Year 2009 Electric fund equity increased by $41,969 (11.8%) to a total of $398,266. The portion of equity investment in capital assets, net of related debt, increased by $22,936 primarily due to the amount of capital assets constructed or purchased that were not bond financed. The restricted portion increased by $711 due to an increase in the required debt service reserve offset by a decrease in Public Benefits Program's assets. The unrestricted portion increased by $18,322 and was attributable to positive operating results.

Positive operating results in the Electric Utility increased equity by $41,785 and $41,969 during fiscal years 2010 and 2009, respectively, as reflected in the following Condensed Statements of Changes in Equity:

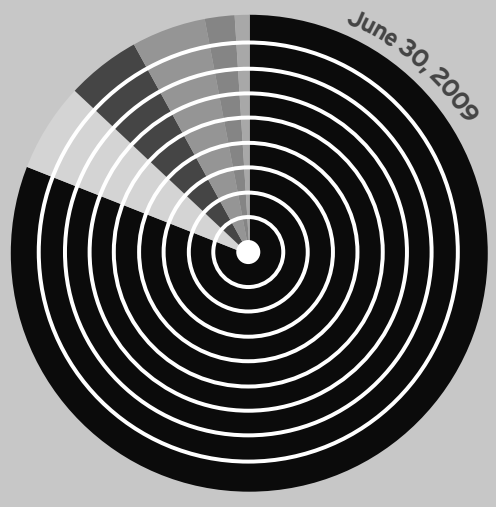
CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2010	2009	2008
Revenues:			
Retail sales, net	$ 274,206	$ 272,298	$ 257,120
Wholesale sales	1,466	4,674	6,959
Transmission revenues	21,100	18,673	19,211
Investment income	16,009	17,625	16,380
Other revenues	14,760	14,162	14,242
Capital contributions	3,477	7,060	6,076
Total revenues	331,018	334,492	319,988
Expenses:			
Production and purchased power	127,162	135,947	143,605
Transmission	33,030	32,677	31,288
Distribution	50,421	47,808	48,749
Depreciation	25,375	23,091	22,193
Interest expenses and fiscal charges	19,589	23,417	15,972
Total expenses	255,577	262,940	261,807
Transfers to the City's general fund	(33,656)	(29,583)	(27,371)
Changes in equity	41,785	41,969	30,810
Equity, July 1	398,266	356,297	325,487
Equity, June 30	$ 440,051	$ 398,266	$ 356,297

REVENUES BY SOURCES



- Retail Sales 83%
- Transmission Revenue 6%
- Investment Income 5%
- Other 5%
- Capital Contributions 1%
- Wholesale Sales 0%



- Retail Sales 81%
- Transmission Revenue 6%
- Investment Income 5%
- Other 5%
- Capital Contributions 2%
- Wholesale Sales 1%

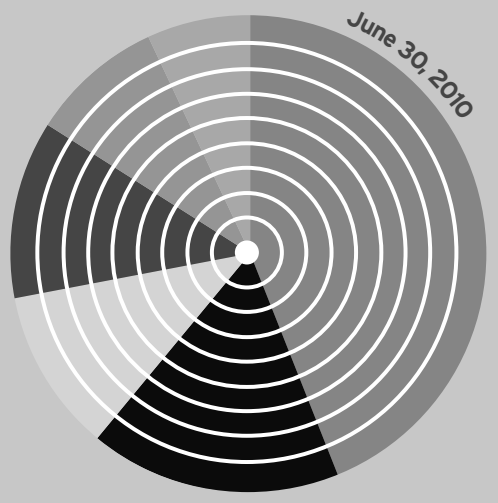
Fiscal Year 2010 Total revenues for the years ended June 30, 2010 and 2009 were $331,018 and $334,492, respectively, a decrease of $3,474 (1.0%), with changes in the following:

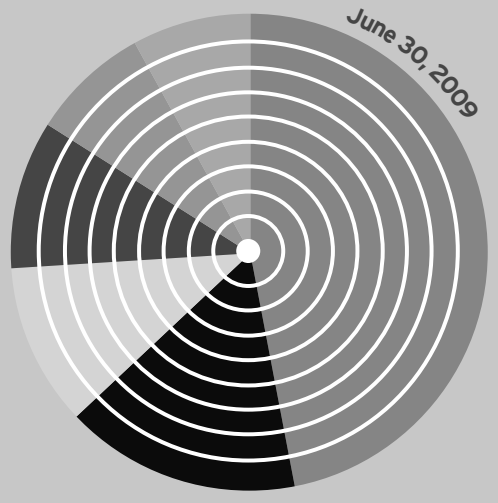
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $274,206, a $1,908 (0.7%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 82.8% of total revenues. The increase was due to the positive effects of the rate increases on January 1, 2009 and January 1, 2010 as a result of the Electric Rate Plan, offset by a 4.7% reduction in retail consumption.
- Wholesale sales of $1,466 decreased by $3,208 (68.6%), due to a lower volume of "excess" power available for sale, and a lower overall price for market sales.
- Transmission revenues of $21,100 increased by $2,427 (13.0%), primarily due to higher transmission revenues authorized by the Federal Energy Regulatory Commission (FERC) as of July 1, 2009.
- Investment income of $16,009 reflects a decrease of $1,616 (9.2%), due to a decrease in a lower overall earnings rate in the current fiscal year.
- Capital contributions were $3,477, a decrease of $3,583 (50.8%) reflecting a lower level of construction projects funded by others due to the ongoing uncertain economic outlook.

Fiscal Year 2009 Total revenues were $334,492, an increase of $14,504 (4.5%), with significant changes in the following areas:

- Net retail sales of $272,298 (81.4% of total revenues) increased by $15,178 (5.9%). The increase was primarily due to the positive effects of rate increases on January 1, 2008 and January 1, 2009 as a result of the Electric Rate Plan.
- Wholesale sales of $4,674 decreased by $2,285 (32.8%), due to a lower volume of "excess" power available for sale, as well as lower prices received for market sales.
- Investment income of $17,625 reflected an increase of $1,245 (7.6%), due to positive operating results offset by a lower overall earnings rate.

EXPENSES BY SOURCES





June 30, 2010		June 30, 2009	
Production 44%	Transmission 11%	Production 47%	Transmission 11%
Distribution 17%	Depreciation 9%	Distribution 16%	Depreciation 8%
Contributions to the City's General Fund 12%	Interest Expense 7%	Contributions to the City's General Fund 10%	Interest Expense 8%

Fiscal Year 2010 Total expenses, excluding general fund transfer, for the years ended June 30, 2010 and 2009 were $255,577 and $262,940, respectively, a decrease of $7,363 (2.8%). The decrease was primarily due to the following:

- Production and purchased power costs of $127,162 decreased by $8,785 (6.5%), primarily due to lower generation costs resulting from lower natural gas and power prices due to demand destruction as a result of the continuing economic decline.
- Distribution expenses of $50,421 increased by $2,613 (5.5%), primarily due to increases in personnel-related expenses.
- Depreciation expense of $25,375 increased by $2,284 (9.9%) primarily due to the completion of prior year distribution system assets.
- Interest expense and fiscal charges of $19,589 decreased by $3,828 (16.3%), primarily due to lower interest costs as a result of lower debt outstanding and an increase in capitalized interest resulting from the continued construction of RERC Units 3 and 4.

Fiscal Year 2009 Total expenses were $262,940, an increase of $1,133 (0.4%), due to the items discussed below:

- Production and purchased power costs of $135,947 decreased by $7,658 (5.3%), primarily due to lower generation costs due to excess market supply in a weakening economy and decreases in natural gas prices.
- Interest expense and fiscal charges of $23,417 increased by $7,445 (46.6%), primarily due to a full year of interest expense related to the 2008 Electric Revenue Series D Bonds.

TRANSFERS

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

Fiscal Year 2010 The Electric Utility transferred $33,656, an increase of $4,073 (13.8%). This amount is approximately 11.4% of prior year's gross operating revenues less wholesale sales and Public Benefit Program revenues.

Fiscal Year 2009 The Electric Utility transferred $29,583 to the City's general fund. This amount was approximately 10.5% of prior year's operating revenues less wholesale sales and Public Benefit Program revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2010	2009	2008
Production	$ 126,305	$ 129,051	$ 135,200
Transmission	16,313	16,003	16,046
Distribution	302,313	283,558	259,902
General	22,883	23,470	13,806
Land	7,612	7,612	7,149
Construction in progress	126,578	102,234	69,746
Nuclear fuel, at amortized costs	4,773	3,966	3,595
Total	$ 606,777	$ 565,894	$ 505,444

Fiscal Year 2010 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $606,777, an increase of $40,883 (7.2%). The increase resulted primarily from the following significant capital projects:

- $6,429 for the City's portion of capital additions at the San Onofre Nuclear Generating Station (SONGS), including costs to replace the steam generators which will extend the life of the plant.
- $28,763 of expenditures related to the RERC Units 3 and 4 which will provide the Utility with 96 MW of additional generation facilities within the City limits.
- $4,278 for the initial stages of the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the City's Sub-Transmission System (STS) for additional generation import capability for a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.
- $12,932 in additions and improvements to Electric facilities to serve existing and connect new customers.

Fiscal Year 2009 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $565,894, an increase of $60,450 (12.0%). The increase resulted from $3,820 in expenditures for the City's portion of capital additions at SONGS, $36,554 of expenditures related to the RERC Units 3 and 4, $2,946 for the initial stages of the RTRP, $26,623 in additions and improvements to Electric facilities to serve existing and connect new customers and to provide additional centrally located office space for the Utility.

Additional information regarding capital assets can be found in Note 3 on 31 of this report.

DEBT ADMINISTRATION

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

	2010	2009	2008
Revenue bonds	$ 501,600	$ 524,780	$ 545,125
Unamortized premium	11,421	9,760	10,931
Less:			
Current portion	(22,705)	(21,300)	(20,345)
Unamortized bond refunding costs	(11,142)	(10,825)	(11,474)
Total	$ 479,174	$ 502,415	$ 524,237

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 2.75, 2.58, and 2.62 at June 30, 2010, 2009 and 2008, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2010 Total long-term debt decreased by $23,241 (4.6%) to $479,174, due to $21,300 in principal repayments and the amortization of bond premiums and deferred refunding costs. On December 22, 2009, the Utility issued the 2009 Electric Refunding/Revenue Series A Bonds in the amount of $34,920 to advance refund the outstanding balance of the 1998 Electric Refunding/Revenue Bonds and a portion ($8,340) of the 2001 Electric Revenue Bonds.

Fiscal Year 2009 Total long-term debt decreased by $21,822 (4.2%) to $502,415, due to $20,345 in principal repayments and the amortization of bond premiums and deferred refunding costs.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 32 through 34 of this report.

CREDIT RATINGS

In November 2009, Standard & Poor's assigned a "AA-" long-term rating to the 2009 Electric Refunding/Revenue Series A Bonds and affirmed the "AA-" underlying rating on the Electric Utility's outstanding debt. The ratings reflect the Utility's "strong financial margins; strong liquidity position; continued strong growth in the Utility's service territory, customer accounts, and system peak loads; ongoing commitment toward obtaining renewable baseload and intermittent power through power purchase contracts; and a well-diversified resource portfolio that provides for very low-cost delivered power."

In November 2009, Fitch Ratings also assigned a "AA-" long-term rating to the 2009 Electric Refunding/Revenue Series A Bonds and affirmed the "AA-" rating on the Electric Utility's outstanding debt. The ratings reflect the Utility's "strong financial position with substantial reserves and debt service coverage; diverse power supply mix, which has historically provided a competitive cost of power in the California market; and a sizeable capital needs that will be funded almost entirely from additional debt issuance."

In January 2010, Standard & Poor's (S&P) corrected and lowered its rating on the Utility's variable rate, 2008 Electric Refunding/Revenue Series A, B, and C Bonds to "A+" from "AA-" reflecting S&P's rating of the bonds' letter of credit provider, Bank of America (to "A+" from "AA-"). The underlying S&P credit rating of the Electric Utility remains "AA-".

OTHER DEVELOPMENTS

ENVIRONMENTAL MATTERS

The City has a 7.6% contractual entitlement to the output of Units 1 and 2 at the Intermountain Power Project (see Note 8 for additional discussions), a 1,800 MW coal-fueled power plant located in Delta, Utah. Recent developments in federal and state environmental laws and regulations may impact operations at the plant, and could require significant capital expenditures at these facilities. The City will continue to monitor these laws and assess the impacts, if any, they will have on the operation of the plant through the contract expiration in 2027.

CLIMATE CHANGE

Cities have a compelling interest in reducing greenhouse gas emissions at the local level, especially as stakeholders and state agencies are working towards implementation of the California Global Warming Solutions Act (AB32, 2006).

Riverside Public Utilities (RPU) is committed to meeting or exceeding the Renewable Portfolio Standard (RPS) established by the State of California, as required of investor-owned utilities by the Public Utilities Code (SB 1078, 2002) and in keeping with the letter and spirit of the Public Utilities Code and the Health and Safety Code relating to air pollution (AB 32, 2006). With renegotiations of its existing renewable geothermal energy contracts with the Northwestern Band of Shoshone Nation (See Note 8 for discussions on Renaissance contracts), RPU has increased its current supply of electricity from renewable sources and RPU anticipates meeting its 2020 target of 33 percent of the City's electricity originating from renewable resources.

Senate Bill 1368 pertains specifically to power generation and long-term procurement of electricity, and requires the California Public Utilities Commission and the California Energy Commission to adopt GHG performance standards applicable to investor and publicly owned utilities. Baseload resources, greater than 5 MW and exceeding five years duration, must equal the performance of a combined-cycle gas turbine generator (e.g., emissions are limited to 1,100 pounds of carbon dioxide per megawatt hour).

On December 17, 2007, the City Council approved the Clean and Green Sustainable Riverside Action Plan to ensure sustainable growth while preserving the health of the local environment in Riverside for generations. On February 3, 2009, Riverside was the first California City to be designated as an "Emerald City" through the State of California Department of Conservation. Since this time the State worked with the City to focus on environmental priorities including water conservation, energy efficiency, solid waste reduction, motor vehicle and fuel use reduction, open-space land as well other topics. As the Pilot program comes to an end Riverside will continue to work towards sustainability through multiple programs and City wide initiatives based on the Green Action Plan.

Riverside continues to invest significant resources in providing energy supplies through clean natural resources and to explore new ideas and technologies that support the City's Clean and Green goal to become one of California's leading municipal power agencies in the use of renewable energy and reduction of greenhouse gas emissions. The City of Riverside is committed to working with regional, state and federal regulators to achieve this goal.

ECONOMIC FACTORS AND RATES

Although inflationary trends in the Riverside region generally compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis can exponentially exceed inflation.

The FERC imposed $400/MWh price cap on purchased power (June 2001) expired with the California Independent System Operator's (CAISO) successful launch of the Market Redesign and Technology Upgrade (MRTU) on April 1, 2009, in order to implement a day-ahead wholesale electricity market, improve electricity grid management reliability, operational efficiencies and related technology infrastructure. In general, the energy bid cap is initially set at $500/MWh and will increase over time to $1,000/MWh. However, under certain transmission constraints, prices could exceed that amount, and are limited by the CAISO's price floor of ($2,500)/MWh and a price cap of $2,500/MWh, authorized by the FERC with a yet-to-be-determined sunset date. The CAISO continues to monitor and test the extreme price swings to ensure they aren't caused by the CAISO's very complex software systems. The new markets under MRTU present both risks and opportunities and are expected to impact costs to the City. The City is seizing the new opportunities without assuming additional risks in order to reduce overall costs to its ratepayers. The Utility continues to be vigilant in monitoring the MRTU outcomes, its active participation in the new market initiatives, and to implement changes to the appropriate systems, software and market strategies in the MRTU.

The MRTU markets continue to be favorable to load serving entities such as the City, although the power markets haven't been stressed due to generally milder weather patterns, low natural gas prices due to excess supply, and more importantly, the availability of excess generation due to the economic downturn and its impact on load reduction due to reduced power usage and high vacancies. Forward price curves have stabilized. However, regulatory actions and other factors, including volatility in natural gas and coal prices, low snowpack in the Pacific Northwest, high temperatures in Southern California, and transmission constraints or system integration under the complex CAISO business systems under a "stressed" MRTU market environment could impact future power rates.

The Utility has a green economic development plan, a multi-faceted strategic initiative that promotes economic development while remaining environmentally responsible. This plan, known as the Environmental and Economic Effectiveness Effort (E4) includes components for energy efficiency, renewable energy, green jobs, economic development and low income assistance. This plan includes an electric rate "freeze" through the end of 2012.

Proposals in the state and federal legislatures and other external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented. These include a state, federal and/or regional cap and trade program (including the allocation of emission credits, availability of offsets, and the phase-in period to meet specific GHG emission reduction targets); additional renewable portfolio standard mandates—including eligibility requirements such as "simultaneous delivery", or in-state generation; California's ballot initiative to repeal AB 32, or an attempt by either the federal or state Environmental Protection Agency to implement GHG reduction measures; the California State Water Resources Control Board's final policy on once-through-cooling and its potential impact on SONGS and/or the wholesale energy markets; demand response and energy efficiency programs; cost allocation for federal and state high-voltage transmission infrastructure expansion, grid reliability enhancements, and renewable integration; continued disruption in the financial markets; California's MRTU markets under stressed conditions or impacts from future initiatives; and technological advances for carbon capture and geologic sequestration. Although the financial impacts to the Utility cannot be determined at this time, management is diligent in monitoring and analyzing these and other factors that could impact Utility operations, and proactively advocates solutions most beneficial or least harmful to its ratepayers.

REQUESTS FOR INFORMATION

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

Balance Sheets: Electric

ASSETS	June 30, 2010	June 30, 2009
	(in thousands)	
UTILITY PLANT:		
Production	$ 274,030	$ 266,470
Transmission	28,484	27,544
Distribution	456,691	426,515
General	39,825	38,752
	799,030	759,281
Less accumulated depreciation	(331,216)	(307,199)
	467,814	452,082
Land	7,612	7,612
Construction in progress	126,578	102,234
Nuclear fuel, at amortized cost	4,773	3,966
Total utility plant (Note 3)	606,777	565,894
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	21,215	20,477
Cash and investments at fiscal agent (Note 2)	179,777	222,538
Total restricted non-current assets	200,992	243,015
OTHER NON-CURRENT ASSETS:		
Advances to City	650	5,918
Deferred pension costs (Note 1)	13,027	13,260
Deferred purchased power (Note 8)	-	1,670
Deferred bond issuance costs	6,847	7,523
Deferred debits (Note 4)	18,279	9,072
Derivative instruments (Note 9)	17,308	2,578
Total other non-current assets	56,111	40,021
Total non-current assets	863,880	848,930
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	170,292	134,883
Accounts receivable, less allowance for doubtful accounts 2010 $2,003; 2009 $2,005	31,509	38,010
Accrued interest receivable	913	745
Prepaid expenses	10,748	6,224
Nuclear materials inventory	1,825	1,750
Derivative instruments (Note 9)	1,701	644
Total unrestricted current assets	216,988	182,256
Restricted assets:		
Cash and cash equivalents (Note 2)	7,168	8,328
Public Benefit Programs receivable	619	686
Total restricted current assets	7,787	9,014
Total current assets	224,775	191,270
Total assets	$ 1,088,655	$ 1,040,200

**See accompanying notes to the financial statements*

Balance Sheets: Electric

EQUITY AND LIABILITIES	June 30, 2010	June 30, 2009
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 222,016	$ 208,695
Restricted for:		
Debt service (Note 5)	21,215	20,477
Public Benefit Programs	7,389	8,125
Unrestricted	189,431	160,969
Total equity	440,051	398,266
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	479,174	502,415
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Notes 1 and 4)	12,705	12,979
Nuclear decommissioning liability (Notes 1 and 4)	63,552	59,072
Postemployment benefits payable (Notes 1 and 4)	2,004	1,229
Derivative instruments (Note 4)	22,073	12,865
Deferred credits (Note 9)	17,308	2,578
Capital leases payable (Notes 1 and 4)	1,699	2,073
Total non-current liabilities	119,341	90,796
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	4,085	4,454
Public Benefit Programs payable	396	888
Current portion of long-term obligations (Note 4)	22,705	21,300
Total current liabilities payable from restricted assets	27,186	26,642
CURRENT LIABILITIES:		
Accounts payable	18,314	18,657
Customer deposits	2,888	2,780
Deferred credits (Note 9)	1,701	644
Total current liabilities	22,903	22,081
Total liabilities	648,604	641,934
COMMITMENTS AND CONTINGENCIES (Notes 8 and 10)	-	-
Total equity and liabilities	$ 1,088,655	$ 1,040,200

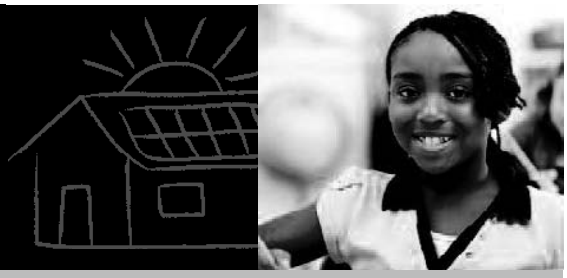
**See accompanying notes to the financial statements*

Statements of Revenues, Expenses and Changes in Equity: Electric

	For the Fiscal Years Ended June 30, 2010	2009
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 107,301	$ 105,525
Commercial sales	65,091	65,532
Industrial sales	97,458	97,100
Other sales	5,639	5,684
Wholesale sales	1,466	4,674
Transmission revenue	21,100	18,673
Other operating revenue	11,855	12,250
Total operating revenues before (reserve)/recovery	309,910	309,438
Reserve for uncollectible, net of bad debt recovery	(1,283)	(1,543)
Total operating revenues, net of (reserve)/recovery	308,627	307,895
OPERATING EXPENSES:		
Production and purchased power	127,162	135,947
Transmission	33,030	32,677
Distribution	50,421	47,808
Depreciation	25,375	23,091
Total operating expenses	235,988	239,523
Operating income	72,639	68,372
NON-OPERATING REVENUES (EXPENSES):		
Investment income	16,009	17,625
Interest expense and fiscal charges	(19,589)	(23,417)
Gain on retirement of utility plant	543	210
Other	2,362	1,702
Total non-operating revenues (expenses)	(675)	(3,880)
Income before capital contributions and transfers	71,964	64,492
Capital contributions	3,477	7,060
Transfers out - contributions to the City's general fund	(33,656)	(29,583)
Total capital contributions and transfers out	(30,179)	(22,523)
Increase in equity	41,785	41,969
EQUITY, BEGINNING OF YEAR	398,266	356,297
EQUITY, END OF YEAR	$ 440,051	$ 398,266

**See accompanying notes to the financial statements*

Statements of Cash Flows: Electric



	For the Fiscal Years Ended June 30, 2010	2009
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 315,305	$ 310,368
Cash paid to suppliers and employees	(207,844)	(211,112)
Other receipts	2,362	1,702
Net cash provided by operating activities	109,823	100,958
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(33,656)	(29,583)
Principal paid on pension obligation bonds	(274)	(227)
Advances to City	5,269	33,586
Net cash (used) provided by non-capital financing activities	(28,661)	3,776
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(60,218)	(72,900)
Purchase of nuclear fuel	(1,854)	(2,221)
Proceeds from the sale of utility plant	787	558
Deposit to escrow account for advanced bond refunding	(36,800)	-
Proceeds from revenue bonds, including premium	37,124	-
Principal paid on long-term obligations	(21,674)	(20,639)
Interest paid on long-term obligations	(23,404)	(23,950)
Capital contributions	1,610	1,493
Bond issuance costs	(348)	-
Net cash (used) by capital and related financing activities	(104,777)	(117,659)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(5,822)	(4,186)
Income from investments	15,841	19,674
Net cash provided by investing activities	10,019	15,488
Net (decrease) increase in cash and cash equivalents	(13,596)	2,563
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (**including $159,100 and $212,733 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)**	293,983	291,420
CASH AND CASH EQUIVALENTS, END OF YEAR (**including $110,095 and $159,100 at June 30, 2010 and June 30, 2009, respectively, reported in restricted accounts**)	$ 280,387	$ 293,983
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$72,639	$ 68,372
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,375	23,091
Amortization of deferred charges-pension costs	232	179
Amortization of nuclear fuel/purchased power	2,717	5,191
(Decrease) in allowance for uncollectible accounts	(2)	(211)
Decrease in accounts receivable	6,571	2,998
(Increase) decrease in prepaid expenses	(4,524)	786
(Increase) decrease in nuclear materials inventory	(75)	171
(Decrease) in accounts payable	(343)	(6,835)
Increase in postemployment benefits payable	775	624
(Decrease) increase in Public Benefit Programs	(492)	655
Increase (decrease) in customer deposits	108	(314)
Increase in decommissioning liability	4,480	4,549
Other receipts	2,362	1,702
Net cash provided by operating activities	$ 109,823	$ 100,958
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	1,867	5,565
Borrowing under capital lease	-	2,433
Increase in fair value of investments	1,788	748

**See accompanying notes to the financial statements*

Note 1: Summary of Significant Accounting Policies

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City.

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $12,920 at June 30, 2010, and $12,609 at June 30, 2009.

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

Note 1: Summary of Significant Accounting Policies (continued)

UTILITY PLANT AND DEPRECIATION

Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

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

Production plant	12-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-50 years

NUCLEAR FUEL

The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

RESTRICTED ASSETS

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

In January 1998, the Electric Utility began collecting a surcharge for Public Benefit Programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

CASH AND INVESTMENTS

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

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

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings.

City-wide information concerning cash and investments for the year ended June 30, 2010, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, funds set aside to decommission the City's proportionate share of units 2 and 3 at the San Onofre Nuclear Generating Station, or for use on construction of capital assets.

INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of $4,000, an Energy Risk Management Reserve Account of $11,000, and an Operating Reserve Account of $14,000, all of which are considered internally restricted assets. The balance as of June 30, 2010 and 2009 respectively are as follows: Regulatory Risk Reserve $15,000 and $4,000, Energy Risk Management Reserve $30,000 and $11,000 and Operating Reserve $80,531 and $86,531, for a combined total of $125,531 and $101,531 and are reflected in cash and cash equivalents in the accompanying Balance Sheets.

ADVANCES

Advances have been recorded as a result of agreements between the Electric Utility and the City. As of June 30, 2010, only one advance, with no specified term remained outstanding. The balance of Advances to the City was $650 at June 30, 2010 and $5,918 at June 30, 2009.

DERIVATIVES

On July 1, 2009, the Electric Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. The swaps are comprised of an "At-the-Market Swap" derivative instrument and an "Off-Market Swap" deferral balance as described below.

The Utility's evaluation of the "At-the-Market Swap" has concluded that it is an effective hedge under the synthetic instrument method. As a result, upon implementation of GASB 53 beginning July 1, 2009, the negative fair value of the "At-the-Market Swap" has been recorded and deferred on the Balance Sheets. The Balance Sheets for June 30, 2009 have been restated to reflect the retroactive application of GASB 53. Disclosure requirements are presented in Note 4 under Interest Rate Swaps on Revenue Bonds.

The "Off-Market Swap" deferral balance was a result of the refunding of the Auction Rate Security (ARS) debt that occurred in 2008. Based on the retroactive application of GASB 53, hedge accounting ceased to be applied on the interest rate swaps associated with the ARS upon the occurrence of the refunding. Since variable rate obligations were issued in the refunding, the deferral balance has been treated as a deferred loss and recorded on the Balance Sheets under long-term obligations.

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. GASB 53 allows an exception for the Balance Sheet deferral of effective hedges that meet the normal purchase and normal sales exception. It is the Utility's policy to apply the normal purchase and normal sales exception as appropriate.

The Utility has determined that congestion revenue rights (CRRs) associated with power transmission within the California Independent System Operator (CAISO) are its only derivative instruments under GASB 53 for this reporting year that do not meet the normal purchase and normal sales exception. CRRs are financial instruments that allow holders of such instruments to manage variability in transmission congestion costs. These CRRs are determined to be hedge effective under the consistent critical terms method, and as a result the positive fair value has been recorded and deferred on the Balance Sheets. The Balance Sheets for June 30, 2009 have also been restated to reflect the retroactive application of GASB 53. Disclosure requirements are presented in Note 9 – Other Derivative Instruments.

Note 1: Summary of Significant Accounting Policies (continued)

BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premiums, issuance costs, and gains and losses on refunding (including gains and losses related to interest rate swap transactions) are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and gain or loss on refunding, whereas issuance costs are recorded as other assets.

NUCLEAR DECOMMISSIONING LIABILITY

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 a trust account 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 February 2009 prepared by ABZ Incorporated, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Electric Utility has set aside $63,552 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

CAPITAL LEASES

The Electric Utility has entered into eight capital lease agreements as a lessee for financing eight compressed natural gas heavy duty service trucks. These leases have seven year terms with monthly payments with interest rates ranging from 3.24% to 5.87%. The total gross value of the leases is $2,728 with depreciation provided over the seven year terms of the leases using the straight-line method.

For fiscal year ended June 30, 2010 and 2009, the total liability was $2,073 and $2,433, respectively, with the current portion included in accounts payable. The minimum annual lease payments for the life of the leases are $446 annually through fiscal year ended June 30, 2014, $433 in the fiscal year ended June 30, 2015, and $65 in the fiscal year ended June 30, 2016. Total future minimum lease payments are $2,281, with $208 representing interest and $2,073 representing the present value of the net minimum lease payments.

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2010 and 2009 was $2,888 and $2,780, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2010 and 2009. The Electric Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $4,046 at June 30, 2010, and $3,868 at June 30, 2009, and is included in accounts payable in the accompanying Balance Sheets.

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

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

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2010, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2010 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were $863 and $652 for the years ended June 30, 2010 and 2009, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

Employee contributions are 8.0 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of the PERS funding as of June 30, 2010 and 2009 was 14.22 percent and 14.17 percent, respectively, of annual covered payroll. The Electric Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2010 and 2009 was $6,735 and $5,733, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2010 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations Bonds in the amount of $60,000, of which the Electric Utility's share is $13,690. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2010 and 2009 was $13,027 and $13,260, respectively as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. For more discussion relating to the City's issue see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

OTHER POSTEMPLOYMENT BENEFITS

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

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Electric Utility currently contributes to two bargaining units through the International Brotherhood of Electrical Workers General Trust (IBEW)

and Service Employee's International Union General Trust (SEIUG). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

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

The contribution requirements of the Electric Utility for the Stipend Plan are established and may be amended through the MOU between the City and the unions. The Electric Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Electric Utility's Implied Subsidy Plan are established by the City Council. The Electric Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Electric Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability as of June 30, 2010 and 2009 was $2,004 and $1,229, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2010 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years ended June 30, 2010 and 2009, the Electric Utility transferred approximately 11.4 and 10.5 percent of gross operating revenues less wholesale sales and Public Benefit Program revenues, or $33,656 and $29,583, respectively.

CASH AND CASH EQUIVALENTS

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

Note 1: Summary of Significant Accounting Policies (continued)

BUDGET AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

Note 2: Cash and Investments

Cash and investments at June 30, 2010 and 2009, consist of the following (in thousands):

	June 30, 2010	June 30, 2009
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 198,675	$ 163,688
Investments at fiscal agent	179,777	222,538
Total cash and investments	$ 378,452	$ 386,226

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

	June 30, 2010	June 30, 2009
Unrestricted cash and cash equivalents	$ 170,292	$ 134,883
Restricted cash and cash equivalents	28,383	28,805
Restricted cash and investments at fiscal agent	179,777	222,538
Total cash and investments	$ 378,452	$ 386,226

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

		Remaining Maturity (In Months)			
Investment Type	Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 3,321	$ 3,321	$ -	$ -	$ -
Federal agency securities	40,056	5,500	2,212	16,655	15,689
Investment contracts [1]	112,343	81,712	-	11,571	19,060
Corp medium term notes	24,057	-	1,265	8,796	13,996
City Treasurer's investment pool [2]	198,675			198,675	
Total	$ 378,452	$ 90,533	$ 3,477	$ 235,697	$ 48,745

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

		Rating as of Year End		
Investment Type	Total	AAA	AA	Unrated
Held by fiscal agent				
Money market funds	$ 3,321	$ 3,321	$ -	$ -
Federal agency securities	40,056	40,056	-	-
Investment contracts	112,343	-	-	112,343
Corp medium term notes	24,057	-	24,057	-
City Treasurer's investment pool [2]	198,675			198,675
Total	$ 378,452	$ 43,377	$ 24,057	$ 311,018

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

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

Note 3: Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2010 and 2009 (in thousands):

	Balance, As of 6/30/08	Additions	Retirements/ Transfers	Balance, As of 6/30/09	Additions	Retirements/ Transfers	Balance, As of 6/30/10
Production	$ 262,563	$ 3,907	$ -	$ 266,470	$ 7,560	$ -	$ 274,030
Transmission	26,972	572	-	27,544	940	-	28,484
Distribution	393,919	34,819	(2,223)	426,515	30,798	(622)	456,691
General	28,623	11,305	(1,176)	38,752	2,052	(979)	39,825
Depreciable utility plant	712,077	50,603	(3,399)	759,281	41,350	(1,601)	799,030
Less accumulated depreciation:							
Production	(127,363)	(10,056)	-	(137,419)	(10,306)	-	(147,725)
Transmission	(10,926)	(615)	-	(11,541)	(630)	-	(12,171)
Distribution	(134,017)	(10,816)	1,876	(142,957)	(12,043)	622	(154,378)
General	(14,817)	(1,604)	1,139	(15,282)	(2,396)	736	(16,942)
Accumulated depreciation	(287,123)	(23,091)	3,015	(307,199)	(25,375)	1,358	(331,216)
Net depreciable utility plant	424,954	27,512	(384)	452,082	15,975	(243)	467,814
Land	7,149	463	-	7,612	-	-	7,612
Construction in progress	69,746	83,555	(51,067)	102,234	65,695	(41,351)	126,578
Nuclear fuel	3,595	1,504	(1,133)	3,966	1,924	(1,117)	4,773
Nondepreciable utility plant	80,490	85,522	(52,200)	113,812	67,619	(42,468)	138,963
Total utility plant	$ 505,444	$ 113,034	$ (52,584)	$ 565,894	$ 83,594	$ (42,711)	$ 606,777

Note 4: Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2010 and 2009 (in thousands):

	Balance, As of 6/30/08	Additions	Reductions	Balance, As of 6/30/09	Additions	Reductions	Balance, As of 6/30/10	Due Within One Year
Revenue bonds	$ 544,582	$ -	$ (20,867)	$ 523,715	$ 36,401	$ (58,237)	$ 501,879	$ 22,705
Pension obligation	13,206	-	(227)	12,979	-	(274)	12,705	324
Postemployment benefits payable	605	624	-	1,229	775	-	2,004	-
Nuclear decommissioning liability	54,523	4,549	-	59,072	4,480	-	63,552	
Capital leases	-	2,728	(295)	2,433	-	(360)	2,073	374
Total long-term obligations	$ 612,916	$ 7,901	$ (21,389)	$ 599,428	$ 41,656	$ (58,871)	$ 582,213	$ 23,403

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

Revenue Bonds Payable	June 30, 2010	June 30, 2009
$98,730 1998 Electric Refunding/Revenue Bonds: All outstanding bonds were advance refunded on December 22, 2009 with the 2009 Electric Refunding/Revenue Bonds	$ -	$ 35,125
$47,215 2001 Electric Revenue Bonds: $47,215 serial bonds due in annual installments from $3,505 to $3,855 through October 1, 2012, interest from 4.0 percent to 5.0 percent; (partially advance refunded in 2005 and 2009)	11,030	22,740
$75,405 2003 Electric Refunding/Revenue Bonds: $75,405 serial bonds due in annual installments from $880 to $8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	31,625	39,305
$27,500 2004 Electric Revenue Series A Bonds: $27,500 serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 5.0 percent to 5.5 percent.	16,295	19,305
$199,115 2008 Electric Refunding/Revenue Bonds:		
A - $84,515 2008 Series A Bonds - Variable rate bonds due in annual installments from $1,250 to $7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2010 was 3.1 percent)	84,515	84,515
B - $57,275 2008 Series B Bonds - Variable rate bonds due in annual installments from $275 to $5,175 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2010 was 3.2 percent)	56,725	57,000
C - $57,325 2008 Series C Bonds - Variable rate bonds due in annual installments from $300 to $5,200 through October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps, at June 30, 2010 was 3.2 percent)	56,750	57,050
$209,740 2008 Electric Revenue Series D Bonds: $66,740 serial bonds due in annual installments from $125 to $7,735 from October 1, 2017 through October 1, 2038, interest from 3.63 percent to 5.0 percent; $48,015 term bonds due October 1, 2033, interest at 5.0 percent; $94,985 term bonds due October 1, 2038, interest at 5.0 percent	209,740	209,740
$34,920 2009 Electric Refunding/Revenue Series A Bonds: $34,920 fixed rate bonds due in annual installments from $450 to $6,105 through October 1, 2018, interest from 0.35 percent to 5.0	34,920	-
Total electric revenue bonds payable	501,600	524,780
Unamortized deferred bond refunding costs	(11,142)	(10,825)
Unamortized bond premium	11,421	9,760
Total electric revenue bonds payable, net of deferred bond refunding costs and bond premium	501,879	523,715
Less current portion	(22,705)	(21,300)
Total long-term electric revenue bonds payable	$ 479,174	$ 502,415

Note 4: Long-Term Obligations (continued)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2010, are as follows (in thousands):

	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	2031-2035	2036-2039	Total
Principal	$ 22,705	$ 20,940	$ 21,905	$ 20,685	$ 14,480	$ 62,050	$ 66,245	$ 80,170	$ 97,870	$ 94,550	$ 501,600
Interest	20,283	19,385	18,415	17,415	16,629	75,954	65,238	50,931	32,800	9,549	326,599
Total	$ 42,988	$ 40,325	$ 40,320	$ 38,100	$ 31,109	$ 138,004	$ 131,483	$ 131,101	$ 130,670	$ 104,099	$ 828,199

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.10. The Electric Utility's debt service coverage ratio was 2.75 and 2.58 at June 30, 2010 and 2009, respectively. This debt (revenue bonds) is backed by the revenues of the Utility.

PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Electric Utility's financials statements. At fiscal year ended June 30, 2010, $17,600 of bonds outstanding are considered defeased.

ADVANCED REFUNDING

On December 22, 2009, $34,920, including premium, of Electric Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 1.97% to advance refund $28,460 all of the remaining 1998 Electric Refunding/Revenue Bonds, and $8,340, of the outstanding 2001 Electric Revenue Bonds. This fixed rate bond issue, with an interest rate ranging from 0.35% to 5.0%, is due in annual installments from $450 to $6,105 through October 1, 2018. The refunding was undertaken to reduce total debt service payments over the next 9 years by $4,012 and resulted in an economic gain of $3,729.

INTEREST RATE SWAPS ON REVENUE BONDS

The Electric Utility has three cash flow hedging derivative instruments, which are pay-fixed swaps. These swaps were determined to be hedge-effective under the synthetic instrument method. The changes in fair value during the reporting period were reported as deferred debits.

A summary of the derivative activity for the year ended June 30, 2010 is as follows:

	Notional Amount	Fair Value as of 6/30/10	Change in Fair Value for Fiscal Year
2008 Electric Refunding/Revenue Bonds Series A	$ 84,515	$ (8,747)	$ (4,062)
2008 Electric Refunding/Revenue Bonds Series B	$ 57,275	$ (6,649)	$ (2,569)
2008 Electric Refunding/Revenue Bonds Series C	$ 57,325	$ (6,677)	$ (2,577)

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2008, the City entered into interest rate swap agreements in connection with its $199,115, Electric Refunding/Revenue Series A, B and C Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.11% for Series A, 3.20% for Series B and C.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Beginning in fiscal year 2015 for the Series A bonds, and 2009, for the Series B and C bonds, respectively, the notional value of the swaps and the principal amount of the associated debt decline by $1,250 to $7,000 (Series A), $275 to $5,175 (Series B) and $275 to $5,200 (Series C), respectively, until the debt is completely retired in fiscal years 2030 (Series A) and 2036 (Series B and C), respectively.

Note 4: Long-Term Obligations (continued)

The bonds and the related swap agreements for the 2008 Electric Refunding/Revenue Series A Bonds mature on October 1, 2029 and Series B and C Bonds mature on October 1, 2035. As of June 30, 2010, rates were as follows:

Interest rate swap:	Terms	2008 Electric Refunding/ Revenue Series A Bonds Rates	2008 Electric Refunding/ Revenue Series B Bonds Rates	2008 Electric Refunding/ Revenue Series C Bonds Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20100%	3.20400%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.73298%)	(0.73344%)	(0.69612%)
Net interest rate swap payments		2.37802%	2.46756%	2.50788%
Variable-rate bond coupon payments		0.74922%	0.74848%	0.69642%
Synthetic interest on bonds		3.12724%	3.21604%	3.20430%

Fair value: As of June 30, 2010, in connection with all swap agreements, the transactions had a total negative fair value of ($22,073). Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2010, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, J.P. Morgan Chase Bank and Merrill Lynch Capital Services, were rated A+ and A, respectively by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties' rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2010, there is no requirement for collateral posting for any of the outstanding swaps

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

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the City if either counterparty's credit quality falls below "BBB-" as issued by Standard & 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, 2010, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ 575	$ 1,449	$ 4,818	$ 6,842
2012	2,650	1,430	4,753	8,833
2013	2,750	1,410	4,684	8,844
2014	2,850	1,389	4,613	8,852
2015	4,800	1,354	4,495	10,649
2016-2020	44,600	5,693	18,893	69,186
2021-2025	41,000	4,187	13,959	59,146
2026-2030	41,690	2,717	9,207	53,614
2031-2035	46,700	1,073	3,694	51,467
2036	10,375	-	-	10,375
Total	$ 197,990	$ 20,702	$ 69,116	$ 287,808

Note 5: Restricted Equity

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2008 Refunding/Revenue Series A, B and C Bonds require 110% of the monthly accrued interest to be included in the reserve. Additional reserves for the 1998 bonds (defeased on December 22, 2009) and the 2008 Revenue Series D Bonds are not required due to the purchase of surety bonds to cover the reserve requirements. The 2009 Refunding/Revenue Series A Bonds do not have an additional reserve requirement.

Note 6: Jointly-Governed Organizations

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative from each of the members. During the 2009-10 and 2008-09 fiscal years, the Electric Utility paid approximately $15,151 and $17,792, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

POWER AGENCY OF CALIFORNIA

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consist of one representative from each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

Note 7: Jointly-Owned Utility Project

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

During 2006, the FERC, Nuclear Regulatory Commission (NRC) and the California Public Utility Commission (CPUC) approved the transfer of Anaheim's shares to SCE, and as a result, SCE's ownership was increased to 78.21 percent in SONGS Units 2 and 3.

The original operating license for SONGS Units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. It has been reported that SCE is pursuing a license extension from the NRC to continue operations through 2042, although the City has not approved its participation in the project through the extended term.

SCE, as operating agent, declared an "operating impairment" due to deterioration of the steam generators (SGs), which would have likely resulted in permanent shutdown of the plant in 2009-2010 timeframe. The estimated cost to replace the SGs is $680,000, of which approximately $12,200 would represent the City's share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if NRC approval is obtained. The City Council has approved participation in the replacement of the SGs. The SG replacement for SONGS Unit 2 was completed in April 2010 and the SG replacement for Unit 3 is expected to commence in September 2010 and to be completed in December 2010.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled $152,586 and $146,027 for fiscal years ended June 30, 2010 and 2009, respectively.

All acquisitions or construction of capital assets are depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to $126,837 and $120,549 for the fiscal years ended June 30, 2010 and 2009, respectively. The Electric Utility made provisions for future decommissioning costs of $1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of $2,898 and $2,968 for fiscal years June 30, 2010 and June 30, 2009, respectively (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

Note 8: Commitments

TAKE-OR-PAY CONTRACTS

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs 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:

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195.0 WM	2027	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

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

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.50 percent to 6.38 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payment (in thousands) Year Ending June 30,	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2011	$ 24,460	$ 662	$ 7,538	$ 708	$ 319	$ 3,100	$ 36,787
2012	23,070	666	7,936	706	318	3,090	35,786
2013	19,942	669	9,614	704	318	3,087	34,334
2014	22,708	672	8,764	705	318	3,092	36,259
2015	21,154	676	8,789	703	266	3,064	34,652
2016-2020	98,709	2,050	41,523	2,101	1,302	14,675	160,360
2021-2025	43,771	-	41,179	-	258	2,915	88,123
2026-2029	-	-	10,740	-	-	-	10,740
Total	$ 253,814	$ 5,395	$ 136,083	$ 5,627	$ 3,099	$ 33,023	$ 437,041

Note 8: Commitments (continued)

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2010 and 2009, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	All Projects
2010	$ 27,458	$ 2,991	$ 1,779	$ 68	$ 40	$ 265	$ 32,601
2009	$ 28,010	$ 3,044	$ 1,975	$ 81	$ 121	$ 243	$ 33,474

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

The City has become a Participating Transmission Owner (see Note 10) 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 City receives reimbursement for, its revenue requirements, including the costs associated with these three transmission projects.

POWER PURCHASE AGREEMENTS

The Electric Utility has executed two firm power purchase agreements with Bonneville Power Administration (BPA). The minimum annual obligation for fiscal year 2010-2011 is $636. The first agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

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

There was no deferred purchased power for Deseret as of June 30, 2010 and $1,670 in 2009, and the Utility had recorded amortization of $1,670 and $3,341 in fiscal years ended June 30, 2010 and June 30, 2009, respectively.

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 ($375 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. The Act limits liability from third-party claims to approximately $12.6 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $117.5 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $17.5 million per reactor, per year, per event to be indexed for inflation every five years. The next inflation adjustment will occur no later than October 29, 2013. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of $5,331, limited to payments of $794 per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

RENEWABLE PORTFOLIO STANDARD (RPS)

On June 6, 2003 and July 8, 2003, the Public Utilities Board and the City Council respectively, adopted a RPS to increase procurement of renewable resources to reach a target of 20% of the Utility's energy by 2015. On March 16, 2007, the Public Utilities Board approved a new RPS, increasing the targets to 20% and 25% by 2010 and 2015, respectively. On May 4, 2007, the Public Utilities added an additional target of 33% by 2020. The City Council, on December 9, 2008, unanimously approved the revised RPS.

The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current fiscal year, renewable resources provided 17% of retail energy requirements of total power produced or purchased, and the Utility anticipates attaining the 20% goal by calendar year end.

Long-term renewable power purchase agreements (in thousands):

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2011
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	$ 21,139
Wintec	Wind	8.0 MW	11/10/2021	198
Total		54.0 MW		$ 21,337

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

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

On November 10, 2006, the City of Riverside entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to 8 MW. The contract term is for 15 years, with additional capacity available upon completion of Wintec's Facility II Wind Turbine Project. The developer is encountering challenges in finding suitable wind turbines to complete the project and the project is expected to continue to be delayed.

On June 19, 2008, and December 12, 2008, respectively the City of Riverside entered into two separate Renewable Power Purchase Agreements with Shoshone Renaissance, LLC (Renaissance). The contract term for each agreement is 30 years, and provides a combined 96 megawatts of geothermal energy. Like the majority of renewable projects, Renaissance continues to experience difficulty securing financing due to the meltdown in the financial markets. The agreements have expired. However, Riverside and Renaissance are currently renegotiating the agreements to provide a more realistic development schedule. The renegotiations are expected to be completed by November 2010. The expected commercial operational date of the project is mid 2014 (delayed by two years) with reduced MW (from 64 MW to 46 MW). The parties are not planning to renegotiate the second agreement at this time. Similar to other renewable power purchase agreements, Riverside's payment obligation is limited to the amount of energy delivered.

CONSTRUCTION COMMITMENTS

As of June 30, 2010, the Electric Utility had major commitments (encumbrances) of approximately $18,748 with respect to unfinished capital projects, of which $17,787 is expected to be funded by bonds and $961 funded by rates.

FORWARD PURCHASE/SALE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for the purchase or sale of natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2010, the Electric Utility has net commitments for fiscal year 2011, of approximately $11,710, with a market value of $9,997.

Note 9: Other Derivative Instruments

The Utility continually strives to optimize its resource portfolio using the selection of available energy and/or gas resources to serve the Utility's load obligations to capture the lowest economic value. The Utility makes frequent load projections at various points in time based on, among other factors, estimates of customer usage, weather, historical data, and contract terms. The Utility also frequently projects resource availability at various points in time based on variables such as availability of generating units, historic and forward market information, contract terms, and experience. The Utility uses these projections to purchase and sell quantities of wholesale electric capacity and energy at specified time(s) in the future, to match expected resources to projected load requirements.

The Utility is exposed to various market risks associated with its resource portfolio management and uses derivative and non-derivative instruments, as appropriate, to manage these risks. To help limit the Utility's exposures and risks to a tolerable level, the Utility has an approved Power Resources Risk Management Policies governing the types of transactions and delegations of authority deemed appropriate. The volumes of forward transactions for the Utility's short and long positions require Risk Management Committee approvals.

COMMODITY PRICE RISK

The Utility is exposed to commodity price risk due to the potential fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Commodity price risk may also be influenced by the number of active, creditworthy market participants, and the extent that nonperformance by market participants of their contractual obligations and commitments impacts the supply of, or demand for, the commodity.

The Utility's price exposure relates to the quantities of energy purchased and sold in the CAISO's Market Redesign and Technology Upgrade (MRTU) market as a result of differences between the Utility's load requirements versus the amount of energy delivered from its ownership or entitlement interest in generating facilities and bilateral contracts.

The Utility's hedging program reduces ratepayer exposer to variability in market prices related to its power and gas activities. The Utility's Power Resources Risk Management Policies govern the types of allowable hedging transactions (which include transactions considered derivatives as defined by GASB 53) and these include commodity options, swaps, forward arrangements, and congestion revenue rights (CRRs). The Risk Management Committee meets regularly to among other things, review and evaluate commodity positions, and approve hedging strategies, and the types of authorized transactions.

CREDIT RISK

The Utility's credit risk relates to potential losses incurred due to nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. The Utility has an approved Wholesale Counterparty Risk Management Policy and seeks to mitigate credit risk by entering into bilateral contracts that specify credit terms and protections against default; applying credit limits and duration criteria to existing and prospective counterparties; and actively monitoring current credit and default exposures. The Utility contracts with renewable power producers that are typically below investment grade, and limits exposure through take-and-pay contracts in which the Utility only pays for the renewable energy delivered. The Utility also seeks performance assurance through collateral requirements in the form of letters of credit, parental guarantees or prepayments.

The Utility has concentrations of suppliers including: electric and gas utilities, electric generators and transmission providers, financial institutions and energy marketing and trading companies. In addition, the Utility has geographic concentrations of credit risk due to operations in the western United States. These concentrations may impact the Utility's overall exposure to credit risk, either positively or negatively, because counterparties may be singularly affected by changes in conditions.

The Utility transacts within the CAISO, which has its own credit and collateral posting requirements for entities participating in its markets. If a CAISO market participant defaults on its payment obligations, the CAISO first accesses the defaulting entity's credit enhancements with the CAISO. Under the currently effective MRTU tariff in effect as of June 30, 2010, any deficiency above those credit enhancements would be shared by all CAISO participants that are net creditors. The relevant portions of the MRTU tariff relating to credit and credit enhancements are currently under review at the FERC and may be subsequently amended or modified.

CONTINGENT FEATURES/CREDIT RELATED EXPOSURE

Certain derivative contracts contain collateral requirements, which vary depending on the level of unsecured credit expended by the counterparties, changes in market prices relative to contractual commitments, and other factors. If the Utility's credit rating falls below investment grade, the Utility may be required to pay the derivative liability or post additional collateral. The Utility's rating is AA- by both Fitch Ratings and Standard & Poor's, and the Utility has not posted any collateral relating to its derivative activities.

Certain power or gas contracts contain a provision for early termination at fair market value if either party determines that the counterparty is no longer creditworthy. Early termination of these contracts may require a payment by the Utility, or entitle the Utility to receive payment, for the difference between the contract and current market prices.

OTHER OPERATIONAL AND EVENT RISK

There are other operational and event risks that can affect the supply of the commodity and the Utility's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, seasonal periods of extreme high or low temperatures, and overall economic trends.

CAISO WHOLESALE ENERGY MARKETS

California's wholesale electricity market is operated by the CAISO. In 2006, the CAISO began its MRTU program to redesign and upgrade the wholesale energy markets across its controlled grid. The MRTU allows scheduling power in hourly increments with hourly prices through a day-ahead and real-time market that combines energy, ancillary services, unit commitment, and congestion management. MRTU became effective in March 2009 (for trade date April 1, 2009) and the Utility began participating in the day-ahead and real-time markets for the sale of its generation and purchases of its load requirements.

The MRTU structure uses a nodal locational pricing model, which sets wholesale electricity prices at 3,000 different system points (nodes) that reflect local generation and delivery costs, as opposed to the previous system of three broad zonal prices. Generally, the Utility schedules its electricity generation assets to serve its load. However, when it has excess generation or when the market price of power is more economic than its own generation, the Utility may sell power from utility owned generation assets and existing power procurement contracts into, or buy generation and/or ancillary services to meet its load requirements from, the Integrated Forward Markets.

Note 9: Other Derivative Instruments (continued)

Although to date the markets in general have been stable and prices remain relatively low, if the new market mechanisms created by MRTU result in any significant price/market flaws that are not promptly and effectively corrected by the market mechanisms, the CAISO or the FERC, or if the Utility's CRRs are not sufficient to hedge the financial risk associated with the CAISO's congestion costs under MRTU, or if either the CAISO's or the Utility's MRTU-related business systems and software do not perform as intended, the Utility's financial conditions, results of operations, and cash flows could be materially and adversely affected.

Congestion Risk: The Utility will offer to buy its generation at nodes near the source of the generation, but will take delivery at the Utility's Metered Subsystem Load Aggregation Point (MLAP). Congestion may occur when available energy cannot be delivered to all loads due to transmission capacity constraints, which results in transmission congestion charges and differences in prices at various nodes. To help mitigate the variability of congestion costs, the CAISO offers CRRs--a financial commodity that entitles the holder to receive (or pay) the value of transmission congestion between specific nodes, acting as an economic hedge against transmission congestion charges. CRRs are offered by the CAISO through its allocation and auction processes.

The only Utility derivative commodity activity not meeting the normal purchase and normal sales exception criteria of GASB 53 relates to the Utility's CRRs. The Utility has been allocated long-term CRRs through 2019 related to its load and long-term resource entitlements, has acquired via auction certain CRRs as of June 30, 2010 and 2009, and anticipates acquiring additional CRRs through the allocation and auction phases. These are considered derivative instruments and were determined to be hedge-effective under the consistent critical terms method. The following is a summary of the derivative activity as of June 30, 2010 and 2009.

	Notional	Fair Value as of June 30, 2010			Changes in Fair Value		
Cash Flow Hedges	(in thousands)	Classification		Amount	Classification		Amount
Congestion Revenue Rights	13,813 MWhs	Derivative Instruments	$	19,009	Deferred Credits	$	15,787

	Notional	Fair Value as of June 30, 2009			Changes in Fair Value		
Cash Flow Hedges	(in thousands)	Classification		Amount	Classification		Amount
Congestion Revenue Rights	4,161 MWhs	Derivative Instruments	$	3,222	Deferred Credits	$	3,222

Terms: The CAISO releases CRRs through an annual and monthly process, each of which includes: 1) an Allocation phase, in which Load-Serving Entities (LSE) are allocated CRRs at no cost based on retail customer load demand, and 2) an Auction phase, in which CRRs are purchased at closing bid price. The CAISO also allocates long-term CRRs based on a combination of an LSE's retail load and the location of its long-term resource entitlements. CRRs are allocated by time of use (on- or off-peak). Annual and long-term CRRs are allocated by season. Annual CRRs are for one calendar year, with long-term CRRs having a term of 10 years. As of June 30, 2010, the Utility has monthly, annual, and long term CRRs for the period July 2010 through December 2019.

Fair Value: As of June 30, 2010 and 2009, the CRRs had a total fair value of $19,009 and $3,222, respectively. Due to the lack of a robust market for CRRs, the fair value was based on historical results using the CAISO Locational Marginal Price (LMP)-Marginal Congestion Cost (MCC) pricing information.

For each CRR, the Utility identified the historical MCC for the source (injection) CAISO node and the Utility's MLAP. This historical cost information was used to determine the average heavy-load (HL) and light-load (LL) MCC price difference for July 1, 2009 through June 30, 2010. Although the MRTU markets were launched in March 2009, a July 1st date was used to avoid unstable price effects immediately after the MRTU start-up. Historical prices were used to conservatively project the future value of the CRRs, present valued back to June 30, 2010 or 2009, respectively. As more pricing data becomes available, the Utility intends to use a rolling-3 year average of monthly congestion costs to project the value of its CRRs.

Termination risk: The CAISO's CRR allocation methodology is established in the MRTU tariff. Early termination would require tariff modifications and the Utility would participate in this regulatory process to help ensure that its interests in hedging future congestions costs are protected.

Rollover risk: The Utility's long term CRRs are effective through 2019. As the first year expires, the CAISO will undertake a new allocation process in which a portion of CRRs will be freely allocated based on an entity's load and long-term contracted resources. The Utility anticipates that it will receive a similar allocation assuming it continues to maintain long-term resources in the geographic proximity to those currently existing.

Realized gains and losses on effective derivative instruments related to power supply activities are included in either transmission or production and purchased power expense on the Statement of Revenues, Expenses and Changes in Equity.

Note 10: Litigation

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the CAISO's MRTU.

On January 1, 2003, the City became a Participating Transmission Owner (PTO) with the CAISO, entitling the City to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the City's Transmission Reserve Requirements (TRR) as approved by the FERC.

On May 6, 2009, Riverside filed a revised TRR at FERC. In its filing, Riverside updated its projected transmission costs and proposed an automatic adjustment mechanism to reflect its actual costs incurred under existing transmission contracts with Southern California Edison which have become the most volatile component of its TRR. Numerous parties filed timely motions to intervene, with some parties protesting various portions of the TRR. On February 5, 2010, FERC approved a settlement agreement between Riverside and all intervening parties which resolved the case. Under the terms of the settlement agreement, Riverside's TRR was increased to $19,774,824 (95% of what was requested). Riverside will also be allowed to automatically recover further cost increases imposed by Southern California Edison without filing an application with FERC for a new TRR tariff, and must file its third TRR no later than December 31, 2011.

During the California Energy Crisis of 2001-2002, the City made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (PX) who filed for Chapter 11 bankruptcy in 2001, the City was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the City and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the City was paid all of its unpaid receivables, plus interest, minus $1.27 million in refunds. The net payout to the City was $3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus $269,000 paid to the City of Banning for transactions made on its behalf by the City). Under the settlement, the City may receive additional distributions of refunds from other sellers. The City also may be responsible for paying its allocated portion (as determined by FERC) of payments due to other sellers for any Emission Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the City.

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

Note 11: Subsequent Event

The City of Riverside entered into the Clearwater Power Plant Purchase and Sale Agreement dated March 3, 2010 with the City of Corona for the acquisition of Clearwater Cogeneration Facility (Clearwater) from Corona. Clearwater is a combine-cycle, natural gas generating facility with a gross plant output of 29.5 MW. Following a "transition period" during which Riverside engaged in pre- closing activities and due diligence inspection, the transaction closed on September 1, 2010 and the City took ownership of the plant. The purchase also included construction of a substation and the 69,000 volt facilities necessary to transfer power from Clearwater Power Plant to the SCE's electrical distribution system to California's high voltage transmission grid. The useful life of Clearwater and the related transmission facilities is anticipated to be at least thirty years. The total purchase price for Clearwater is $45.6 million, and will be funded through a series of semi-annual payments ranging from $1.2 to $2.7 million through 2013, and $0.2 through $0.4 million from 2014 through 2015. In addition, two payments of $36.4 and $7.4 million are due 2013 and 2015, respectively, and will be funded primarily from bond proceeds.

Key Historical Operating Data: Electric

POWER SUPPLY (MWH)

	2009/10	2008/09	2007/08	2006/07	2005/06
Nuclear					
San Onofre	240,000	281,400	286,500	310,400	275,100
Palo Verde	96,300	97,700	85,200	90,000	72,600
Coal					
Intermountain Power	1,068,500	1,051,200	1,094,100	1,130,000	1,091,000
Deseret	187,400	406,000	427,600	400,000	396,000
Hoover (Hydro)	30,000	32,500	33,700	34,500	35,100
Gas					
Springs	1,400	3,300	2,300	1,600	1,600
RERC	11,500	48,700	46,800	62,000	9,300
Renewable Resources	354,900	233,000	247,800	245,000	264,000
Other purchases	276,500	349,200	594,100	462,000	517,300
Exchanges In	92,700	90,000	115,700	107,400	89,900
Exchanges Out	(156,200)	(160,600)	(202,600)	(191,900)	(174,600)
Total:	2,203,000	2,432,400	2,731,200	2,651,000	2,577,300
System peak (MW)	560.3	534.1	604.4	586.3	550.6

ELECTRIC USE

Number of meters as of year end	2009/10	2008/09	2007/08	2006/07	2005/06
Residential	95,258	95,214	94,691	94,232	93,607
Commercial	10,073	10,178	10,258	10,063	10,038
Industrial	916	904	978	837	496
Other	88	89	88	94	153
Total:	106,335	106,385	106,015	105,226	104,294
Millions of kilowatt-hours sales					
Residential	701	733	734	748	697
Commercial	406	433	441	456	474
Industrial	906	946	960	924	810
Other	32	33	34	39	57
Subtotal:	2,045	2,145	2,169	2,167	2,038
Wholesale	44	137	357	295	321
Total:	2,089	2,282	2,526	2,462	2,359

ELECTRIC FACTS

	2009/10	2008/09	2007/08	2006/07	2005/06
Average annual kWh per residential customer	7,397	7,739	7,779	7,959	7,515
Average price (cents/kWh) per residential customer	15.31	14.39	13.61	12.62	12.22
Debt service coverage ratio	2.75	2.58	2.62	3.09	2.67
Operating income as a percent of operating revenues	23.5%	22.2%	16.4%	22.0%	18.2%
Employees[1]	427	416	405	367	338

[1] Approved Positions

Key Historical Operating Data: Electric

2009/2010 ELECTRIC REVENUE AND RESOURCES

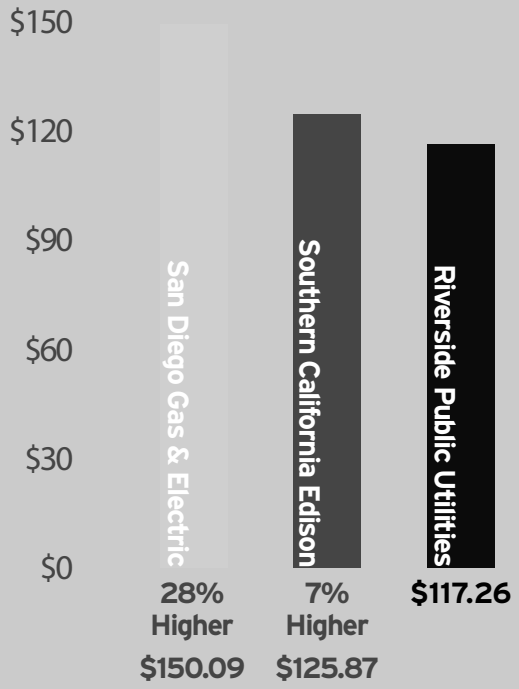
- Residential Sales 32¢
- Industrial Sales 29¢
- Commercial Sales 20¢
- Other Revenue 6¢
- Transmission Revenue 6¢
- Investment Income 5¢
- Other Sales 2¢
- Wholesale Sales 0¢

- Production 38¢
- Distribution 15¢
- Debt Service 14¢
- Additional Reserves 11¢
- Transfers to the City's General Fund* 10¢
- Transmission 10¢
- Additions and Replacements to the System 2¢

** Based on transfer of 11.4% of fiscal year 2008/2009 operating revenues (excludes wholesale sales and Public Benefits Program revenues).*

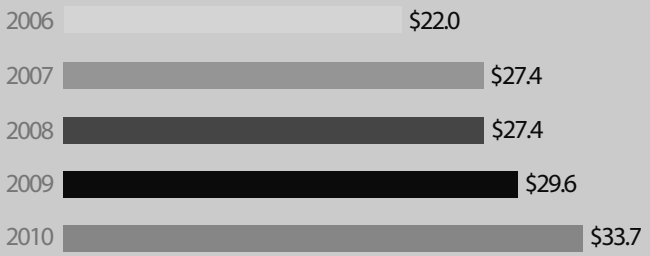
- Coal 57%
- Renewables 16%
- Nuclear 15%
- Other Purchases 10%
- Hydropower 1%
- Gas 1%

RESIDENTIAL ELECTRIC RATE COMPARISON – 750 KWH PER MONTH (AS OF JUNE 30, 2010)



Key Historical Operating Data: Electric

GENERAL FUND TRANSFER (IN MILLIONS)



NUMBER OF METERS AT YEAR END

TOTAL OPERATING REVENUE (IN MILLIONS)

PRODUCTION (IN MILLION KILOWATT-HOURS)*

** Energy shown before losses net of exchanges*

PEAK DAY DEMAND (IN MEGAWATTS)

ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	304,051
Service Area Size (square miles)	81.5
System Data:	
Transmission lines (circuit miles)	91.1
Distribution lines (circuit miles)	1,301
Number of substations	14
2009-2010 Peak day (megawatts):	560
Highest Single hourly use: 09/02/2009, 4 pm, 101 degrees	
Historical peak (megawatts):	604
08/31/2007, 4 pm, 106 degrees	
Bond Ratings	
Fitch Ratings	AA-
Standard & Poor's	AA-
Debt Derivative Profile Score on Swap Portfolio (1 representing the lowest risk and 4 representing the highest risk)	2

Water

Independent Auditors' Report: Water

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2009 and, in our report dated October 29, 2009, we expressed an unqualified opinion on those financial statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of the City of Riverside, California, Water Utility, as of June 30, 2010 and the changes in its equity and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2010, the City of Riverside Water Utility changed the manner in which it accounts for derivative instruments as a result of the implementation of GASB Statement No. 53, as described further in the notes to the financial statements.

Independent Auditors' Report: Water

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman Mc Cann P.C.

San Jose, California
October 18, 2010

Management's Discussion and Analysis: Water

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers this narrative overview and analysis of the 2009-10 financial report for the period ended June 30, 2010 and 2009 for Riverside's Water Utility, an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 59 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2010 and 2009 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base and the effects of rate increases offset by a decrease in consumption.

- Retail sales, net of reserve/recovery were $51,147 and $49,591 for the years ended June 30, 2010 and 2009, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans, offset by a 9.2% reduction in retail consumption.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2010 and 2009 by $277,994 and $275,143, respectively. Of this amount, $32,029 and $30,361, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2010 and 2009 increased by $2,851 and $656 from fiscal years ended June 30, 2009 and 2008, respectively, due to positive operating results.
- As of June 30, 2010 and 2009, unrestricted equity represented over 68% and 66% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 63 to 73 of this report.

UTILITY FINANCIAL ANALYSIS

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by $277,994 and $275,143 at the close of the fiscal years 2010 and 2009, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2010, 2009 and 2008:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2010	2009	2008
Current and other assets	$ 148,966	$ 85,935	$ 117,776
Capital assets	372,792	356,089	324,636
Total assets	521,758	442,024	442,412
Long-term debt outstanding	219,414	142,972	146,799
Other liabilities	24,350	23,909	21,126
Total liabilities	243,764	166,881	167,925
Invested in capital assets, net of related debt	237,366	237,738	230,897
Restricted	8,599	7,044	6,256
Unrestricted	32,029	30,361	37,334
Total equity (net assets)	$ 277,994	$ 275,143	$ 274,487

ASSETS

Fiscal Year 2010 Total assets of $521,758 reflect an increase of $79,734 (18.0%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, reflect an increase of $63,031 primarily due to the issuance of the 2009 Water Refunding/Revenue Series A and B Bonds which resulted in an increase in bond proceeds of $80,000 to fund construction projects offset by the use of $19,969 of bonds proceeds for capital projects and an increase of $2,865 in deferred debits on an interest rate swap fair valuation as a result of the implementation of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). See Notes 1 and 4 in the accompanying financial statements for additional information.
- The increase in net capital assets (Utility Plant) of $16,703 was a result of significant investment in the pipeline replacement program, system expansion and improvements, and construction of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 55 of this report.

Fiscal Year 2009 Total assets of $442,024 reflect a decrease of $388 (less than 1.0%), due to a net decrease of $31,841 in current and other assets primarily due to the use of $28,284 of bonds proceeds for capital projects and the $3,797 increase in deferred debits on an interest rate swap fair valuation as a result of the implementation of GASB 53. Accounts receivable from other utilities and governments decreased by $7,032 primarily due to the reduction of a receivable from the State of California for reimbursement for capital construction projects. Net capital assets (Utility Plant) increased by $31,453 as a result of significant investment in the pipeline replacement program, system expansion and improvements, and the construction of treatment facilities.

LIABILITIES

Fiscal Year 2010 The Utility's total liabilities were $243,764, an increase of $76,883 (46.1%), due to the following:

- Long-term debt outstanding increased by $76,442 due to the issuance of the 2009 Water Refunding/Revenue Series A and B Bonds in the amount of $99,685, offset by $4,415 in principal repayments, advance refundings of $21,765, and amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.
- Other liabilities increased by $441 primarily from a $2,865 increase in the fair value of swap derivatives as a result of the implementation of GASB 53 (see Note 4), offset by a $2,602 decrease in payables.

Fiscal Year 2009 The Utility's total liabilities decreased by $1,044 (less than 1.0%) to $166,881. Long-term debt outstanding decreased by $3,827 primarily due to principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums. Other liabilities increased by $2,783 primarily due to a $911 decrease in payables and an increase of $3,797 in the fair value of swap derivatives.

EQUITY (NET ASSETS)

Fiscal Year 2010 The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $277,994, an increase of $2,851 (1.0%) is comprised of the following:

- The largest portion of the Utility's equity is $237,366 (85.4%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion decreased slightly by $372 (less than 1.0%) over prior fiscal year due to the amount of capital assets constructed or purchased that were not bond financed and principal payments made on bonds, offset by depreciation expense. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $8,599 (3.1% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by $1,555 from prior fiscal year primarily due to increases in debt service reserves for principal and interest payments for new bond issues.
- The unrestricted portion totaled $32,029 (11.5% of total equity), an increase of $1,668, primarily attributable to positive operating results.

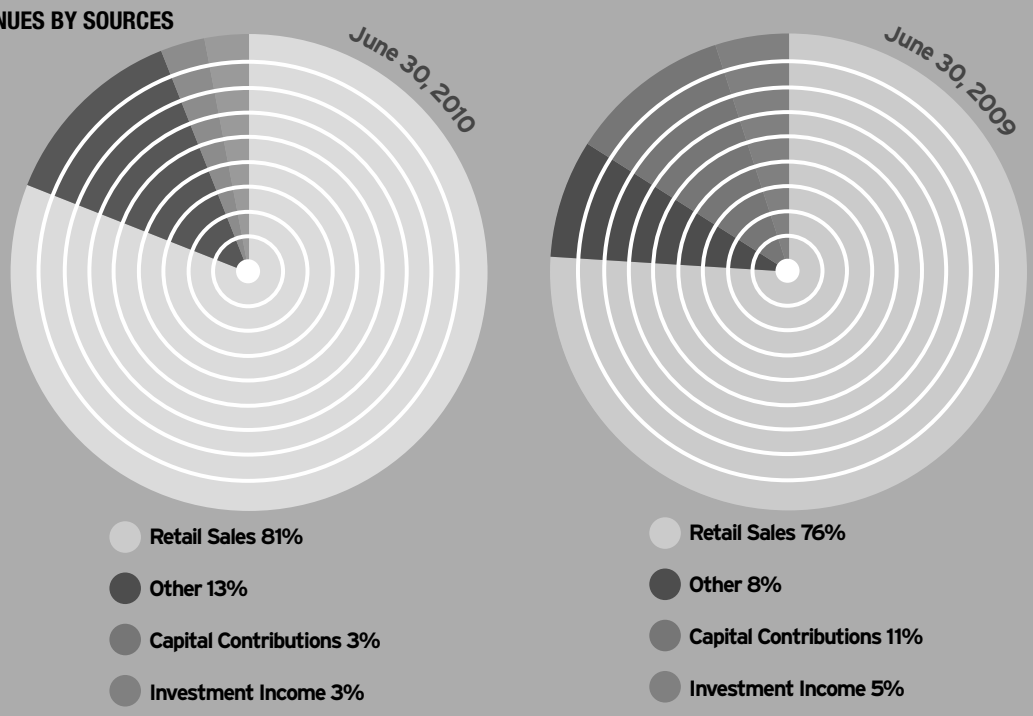
Fiscal Year 2009 Total Water fund equity increased $656 (less than 1.0%) to $275,143. The largest portion of the equity, $237,738 (86.4%), is represented by investment in capital assets, which increased by $6,841 (3.0%) due to the amount of capital assets constructed or purchased that were not bond funded. The restricted portion increased by $788 primarily due to increases in Water Conservation and Reclamation program assets. The unrestricted portion decreased by $6,973 due to positive operating results for fiscal year 2009, offset by the effects of the Special Item (see Note 8) and the use of unrestricted equity to fund capital projects.

The Water Utility's overall increase in equity of $2,851 and $656 during fiscal years 2010 and 2009, respectively, was due to positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2010	2009	2008
Revenues:			
Retail sales, net	$ 51,147	$ 49,591	$ 46,164
Other revenues	8,553	5,311	5,206
Investment income	1,815	3,169	3,357
Capital contributions	2,052	7,148	18,116
Total revenues	63,567	65,219	72,843
Expenses:			
Operations and maintenance	32,151	31,501	27,795
Purchased energy and water	4,362	4,578	6,316
Depreciation	10,660	9,771	8,806
Interest expenses and fiscal charges	7,886	7,049	4,401
Total expenses	55,059	52,899	47,318
Transfers to the City's general fund	(5,657)	(5,276)	(4,955)
Special item	-	(6,388)	-
Changes in equity	2,851	656	20,570
Equity, July 1	275,143	274,487	253,917
Equity, June 30	$ 277,994	$ 275,143	$ 274,487

REVENUES BY SOURCES



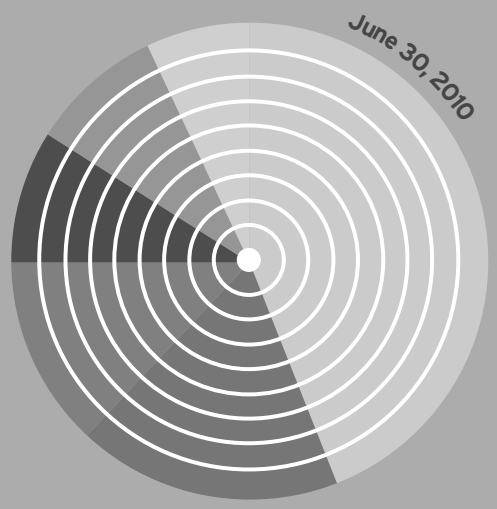
Fiscal Year 2010 Total revenues of $63,567 decreased by $1,652 (2.5%) from prior fiscal year, due to the following major changes:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $51,147, an increase of $1,556 (3.1%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 80.5% of total revenues. The increase in retail sales was primarily due to a 10.0% rate increase that became effective November 1, 2009 as part of the SAFE W.A.T.E.R. Plan, offset by a 9.2% decrease in retail consumption.
- Other revenues of $8,553 increased by $3,242 (61.0%) predominantly due to a $963 increase in wholesale sales attributed to the Western Municipal Water Wheeling agreement and an increased gain on sale of land in the amount of $1,801.
- Investment income of $1,815 reflects a decrease of $1,354 (42.7%), due to an overall decrease of $640 in the fair market value and interest from investments and a decrease of $714 on interest earned on bond construction cash.
- Capital contributions were $2,052 and reflect a decrease of $5,096 (71.3%), primarily due to a decrease of $2,187 in contributions from State grants for reimbursable capital project costs, decreases of $2,656 in non-cash developer contributions, and $267 from developers for construction projects due to the slowdown in development related activities.

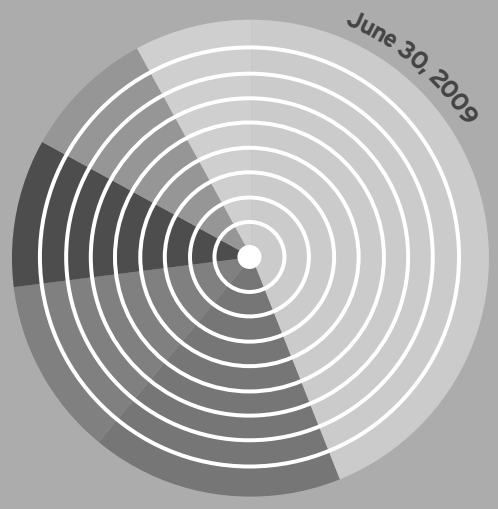
Fiscal Year 2009 Total revenues of $65,219 decreased by $7,624 (10.5%) from prior fiscal year, due to the following major changes:

- Net retail sales were $49,591, 76.0% of total revenues, reflecting an increase of $3,427 (7.4%) in net retail sales from the prior fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2008 as part of the SAFE W.A.T.E.R. Plan, offset by a 2.5% decrease in retail consumption.
- Other revenues of $5,311 increased by $105 (2.0%) predominantly due to an increase in wholesale sales attributed to the Wheeling agreement with WMWD.
- Investment income of $3,169 reflects a decrease of $188 (5.6%), primarily due to an overall decrease of $644 in the fair market value and interest from investments, offset by an increase of $456 on interest earned on bond construction projects due to the slowdown in development related activities.
- Capital contributions were $7,148 and reflect a decrease of $10,968 (60.5%), primarily due to a decrease of $7,512 in contributions from State grants for reimbursable capital project costs, decrease of $1,307 in non-cash contributions, and $1,558 from developers for construction projects due to the slowdown in the development related activities.

EXPENSES BY SOURCES



- Operations 44%
- Depreciation 18%
- Interest Expense 13%
- Maintenance 9%
- Contributions to the City's General Fund 9%
- Purchased Energy 7%



- Operations 44%
- Depreciation 17%
- Interest Expense 12%
- Maintenance 10%
- Contributions to the City's General Fund 9%
- Purchased Energy 8%

Fiscal Year 2010 Total expenses, excluding general fund transfer, were $55,059, an increase of $2,160 (4.1%), due to the items discussed below:

- Operations and maintenance costs were $32,151, and reflect an increase of $650 (2.1%), primarily due to increases in personnel-related expenses, offset by a decrease in general operating expenses mainly due to over-pumping of entitlements in previous years which were recorded in fiscal year 2009. Overall purchased energy costs were consistent with prior year.
- Interest expense and fiscal charges were $7,886, and reflect an increase of $837 (11.9%), due to increased interest costs associated with the 2009 bond issues.
- Depreciation expense of $10,660 increased $889 (9.1%) primarily due to the completion of $36,416 of capital projects that were included as depreciable capital assets.

Fiscal Year 2009 Total expenses were $52,899, reflecting an increase of $5,581 (11.8%), due to an increase in personnel-related expenses, professional service costs, electricity costs for pumping water, interest expense and fiscal charges due to a full year of interest costs associated with the 2008 Water Revenue Series B bonds, and depreciation for the completion of $45,307 of capital projects that were included as depreciable assets.

TRANSFERS

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

Fiscal Year 2010 The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or $5,657, an increase of $381, primarily the result of a $3,427 increase in retail sales for fiscal year 2009.

Fiscal Year 2009 Transfers to the City's general fund of $5,276 increased by $321, primarily the result of increased retail sales of $2,761 for fiscal year 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

	2010	2009	2008
Source of supply	$ 49,708	$ 49,485	$ 24,719
Pumping	16,884	13,534	11,451
Treatment	19,246	19,843	20,613
Transmission and distribution	248,996	226,454	217,071
General	5,720	5,542	5,253
Land	10,809	10,809	7,682
Intangible	6,307	6,015	5,969
Construction in progress	15,122	24,407	31,878
Total	$ 372,792	$ 356,089	$ 324,636

Fiscal Year 2010 The Water Utility's investment in capital assets, net of accumulated depreciation was $372,792, an increase of $16,703 (4.7%). The increase resulted primarily from the following significant capital projects:

- $19,221 for system expansion and improvements including pump station replacements, reservoir construction and facilities rehabilitation.
- $5,074 for continued pipeline replacement programs.
- $442 for completion of the John W. North Treatment facility which will greatly increase the water supply (one of the recommended system improvements in the SAFE W.A.T.E.R. Plan) and other capital projects.

Fiscal Year 2009 Investment in capital assets, net of accumulated depreciation, for the Water Utility increased $31,453 (9.7%), for a total of $356,089. Major capital projects included $6,642 for continued pipeline replacement programs, $23,638 for system expansion, reservoir construction, and improvements to water facilities, $4,129 for the John W. North Treatment facility, and $2,664 for other capital assets.

DEBT ADMINISTRATION

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

	2010	2009	2008
Revenue bonds	$ 222,525	$ 149,020	$ 153,395
Contracts payable	949	949	964
Less:			
Current portion	(4,810)	(4,565)	(4,525)
Unamortized deferred bond refunding costs	(4,127)	(3,651)	(3,748)
Unamortized capital appreciation	(110)	(427)	(938)
Unamortized bond premium (discount)	4,987	1,646	1,651
Total	$ 219,414	$ 142,972	$ 146,799

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.08, 2.25, and 3.88 at June 30, 2010, 2009, and 2008, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2010 Total long-term debt increased by $76,442 (53.5%) to $219,414, due to bond proceeds of $99,685 for the issuance of the 2009 Water Refunding/Revenue Series A (Tax-exempt Bonds) and B (Federally-taxable Build America Bonds) on December 22, 2009, offset by advance refundings of $21,765 for the outstanding balance of the 1998 Water Refunding/Revenue Bonds and portion ($1,675) of the 2001 Water Revenue Bonds, $3,589 of principal repayments, and amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

Fiscal Year 2009 Long-term debt of $142,972 decreased by $3,827 (2.6%), due to $3,787 of principal repayments and amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 70 to 72 of this report.

CREDIT RATINGS

In November 2009, Standard & Poor's assigned a "AA+" long-term rating on the 2009 Water Refunding/Revenue Series A and B Bonds and affirmed the "AA+" underlying rating on the Water Utility's outstanding debt. The ratings reflect the Utility's "strong financial performance including past and projected debt service coverage and ample cash reserves; advantageous water supply position with cheap groundwater sources providing nearly all of the city's water, thereby helping the city to maintain cheap rates to it's customers; and local economic base that is enduring the current economic downturn."

In March 2010, Fitch Ratings recalibrated a "AA+" from a "AA" long-term rating on the 2009 Water Refunding/Revenue Series A and B Bonds and the underlying rating on the Water Utility's outstanding debt. The ratings reflect the Utility's "strong debt service coverage and liquidity levels, minimal reliance on connection fee revenues, plentiful groundwater supply providing a competitive advantage in the region, capital plan that is designed to increase system reliability, and water system that provides an essential service with a low cost of supplies."

In April 2010, Moody's recalibrated a "Aa2" from a "Aa3" long-term global scale rating on the 2009 Water Refunding/Revenue Series A and B Bonds. The ratings reflect the Utility's "consistent rate increases that have helped drive sound current and projected fiscal operations, water source independence which should insulate the utility from the vulnerabilities of the State's water supply, and healthy debt service coverage levels."

ECONOMIC FACTORS AND RATES

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

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

The Utility is impacted by the recent economic decline affecting virtually all industries in the United States, with retail consumption decreasing 9.2% and 2.5% in fiscal years 2010 and 2009, respectively, over the previous year levels. In addition, the water revenues are dependent on weather conditions, with significant wet weather years impacting revenue as residents reduce water used for outdoor landscaping.

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Sacramento-San Joaquin River Delta ecosystem. The package included four policy bills and an $11.14 billion general obligation bond measure now targeted for the November 2012 ballot. One of the bills enacted, SBX7 7, established a statewide water conservation program that requires a 20% reduction in urban per-capita water use by 2020. It also requires development of agricultural water management plans by December 31, 2012.

The legislation identifies multiple pathways for compliance with the urban conservation requirements, including an incentive-based Option 4 to be developed by the Department of Water Resources by December 31, 2010. The Water Utility has developed a comprehensive Water Efficiency Master Plan that outlines the steps necessary to comply with the 20% per capita reduction requirement. Significant conservation of resources by our consumers could negatively impact revenue. Management monitors water sales, revenue and expenses and ensures that ongoing adjustments to budgets are made to keep expenses in line with revenue.

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

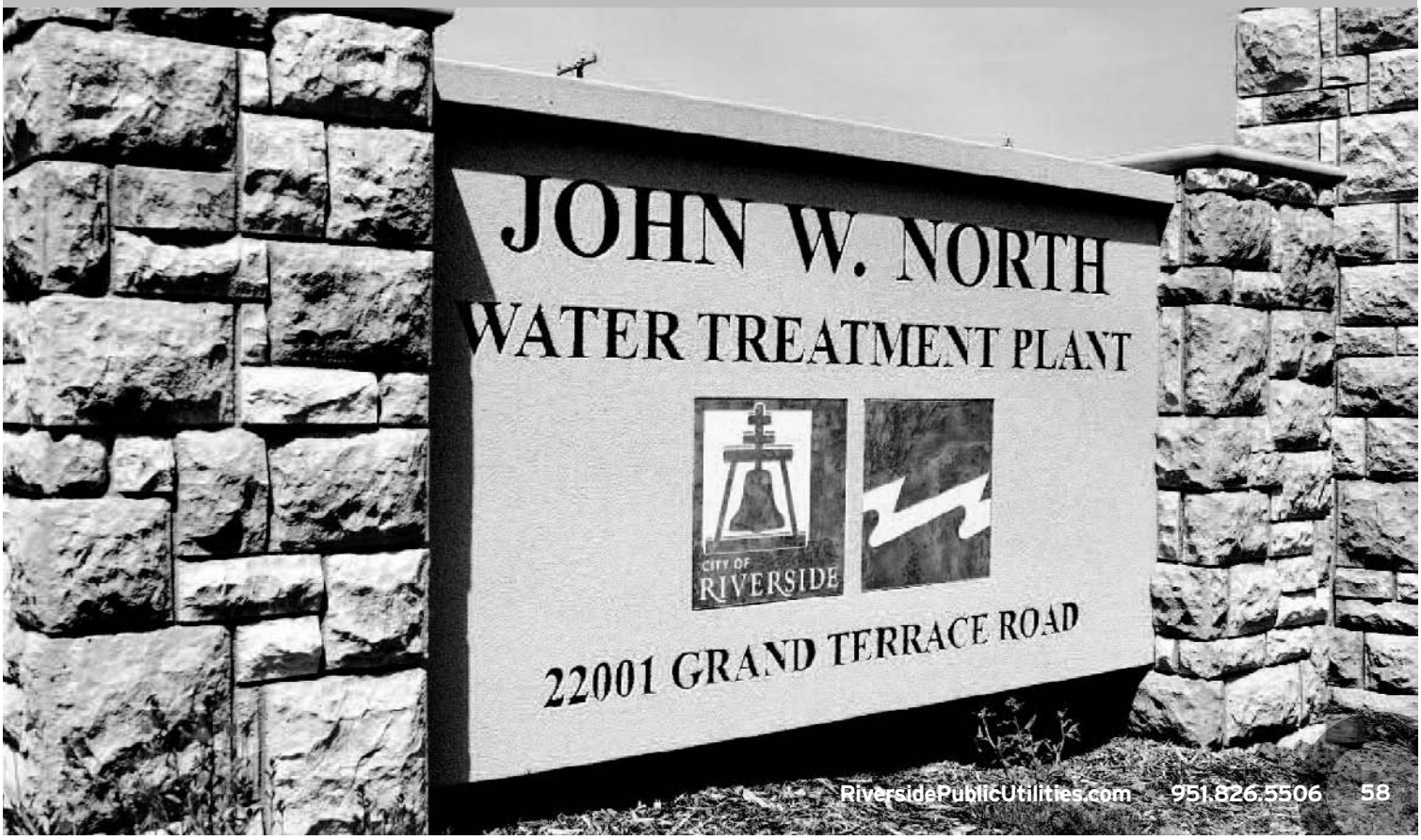
In 2009, the United States Fish and Wildlife Service issued a draft rule designating most of the Santa Ana River and portions of the San Gabriel River as critical habitat for the Santa Ana Sucker (Catostomus santaanae), a federally threatened fish species. A critical habitat designation on the Santa Ana River has the potential to interfere with a number of planned water supply projects by the Water Utility. Management has been actively involved with the critical habitat designation and has engaged with the US Fish and Wildlife Service and Congress as the rule making process continues.

As a member of the Santa Ana Sucker Task Force, the Santa Ana Sucker Conservation Team, and individually, the Water Utility has developed and shared potential alternative processes and practices that will help protect the fish and ensure water supply projects can progress. The Utility will continue to monitor this process and advocate at the state and federal level for sound environmental policy.

In addition to the economic factors identified above, management continually plans for and identifies other issues or potential contingencies that could impact future rates such as reclaimed water, system growth, source of supply, ground water contamination, stricter contaminant guidelines, and other legislative mandates that could potentially impact all Californians, both locally and at the state and federal levels. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they may cause to Riverside's water quality.

REQUESTS FOR INFORMATION

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



Balance Sheets: Water

ASSETS	June 30, 2010	June 30, 2009
	(in thousands)	
UTILITY PLANT:		
Source of supply	$ 62,820	$ 61,392
Pumping	24,673	20,782
Treatment	23,947	23,772
Transmission and distribution	356,201	327,189
General	14,080	13,275
	481,721	446,410
Less accumulated depreciation	(141,167)	(131,552)
	340,554	314,858
Land	10,809	10,809
Intangible	6,307	6,015
Construction in progress	15,122	24,407
Total utility plant (Note 3)	372,792	356,089
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	6,433	5,156
Cash and investments at fiscal agent (Note 2)	86,907	27,726
Total restricted non-current assets	93,340	32,882
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,605	5,705
Deferred bond issuance costs	2,076	1,624
Deferred debits (Note 4)	6,580	3,715
Total other non-current assets	14,261	11,044
Total non-current assets	480,393	400,015
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	29,370	29,679
Accounts receivable, less allowance for doubtful accounts 2010 $318; 2009 $214	9,620	10,266
Accrued interest receivable	185	146
Prepaid expenses	5	7
Total unrestricted current assets	39,180	40,098
Restricted assets:		
Cash and cash equivalents (Note 2)	2,079	1,761
Conservation and Reclamation Programs receivable	106	150
Total restricted current assets	2,185	1,911
Total current assets	41,365	42,009
Total assets	$ 521,758	$ 442,024

**See accompanying notes to the financial statements*

Balance Sheets: Water

EQUITY AND LIABILITIES	June 30, 2010	June 30, 2009
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 237,366	$ 237,738
Restricted for:		
Debt service (Note 5)	6,433	5,156
Conservation and Reclamation Programs	2,166	1,888
Unrestricted	32,029	30,361
Total equity	277,994	275,143
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	219,414	142,972
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Notes 1 and 4)	5,466	5,584
Postemployment benefits payable (Notes 1 and 4)	881	526
Derivative instrument (Note 4)	7,130	4,265
Total other non-current liabilities	13,477	10,375
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,899	1,156
Conservation and Reclamation Programs payable	20	23
Current portion of long-term obligations (Note 4)	4,660	4,415
Total current liabilities payable from restricted assets	6,579	5,594
CURRENT LIABILITIES:		
Accounts payable	3,529	7,229
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	615	561
Total current liabilities	4,294	7,940
Total liabilities	243,764	166,881
COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)	-	-
Total equity and liabilities	$ 521,758	$ 442,024

**See accompanying notes to the financial statements*

Statements of Revenues, Expenses and Changes in Equity: Water

	For the Fiscal Years Ended June 30, 2010	2009
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 33,439	$ 32,368
Commercial sales	16,331	15,928
Other sales	1,720	1,763
Wholesale sales	1,765	802
Conservation and Reclamation Programs	837	934
Other operating revenue	3,442	3,128
Total operating revenues before (reserve)/recovery	57,534	54,923
Reserve for uncollectible, net of bad debt recovery	(343)	(468)
Total operating revenues, net of (reserve)/recovery	57,191	54,455
OPERATING EXPENSES:		
Operations	25,972	25,470
Maintenance	5,620	5,590
Purchased energy	4,362	4,578
Conservation and Reclamation Programs	559	441
Depreciation	10,660	9,771
Total operating expenses	47,173	45,850
Operating income	10,018	8,605
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,815	3,169
Interest expense and fiscal charges	(7,886)	(7,049)
Gain (loss) on sale of capital assets	7	(598)
Gain on sale of land	1,835	34
Other	667	1,011
Total non-operating revenues (expenses)	(3,562)	(3,433)
Income before contributions and transfers	6,456	5,172
Capital contributions	2,052	7,148
Transfers out - contributions to the City's general fund	(5,657)	(5,276)
Total capital contributions and transfers out	(3,605)	1,872
Income before special item	2,851	7,044
SPECIAL ITEM:		
Intra-entity property acquisition	-	(6,388)
Increase in equity	2,851	656
EQUITY, BEGINNING OF YEAR	275,143	274,487
EQUITY, END OF YEAR	$ 277,994	$ 275,143

**See accompanying notes to the financial statements*

Statements of Cash Flows: Water

	For the Fiscal Years Ended June 30, 2010	2009
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 58,459	$ 54,045
Cash paid to suppliers and employees	(40,102)	(37,948)
Other receipts	667	1,011
Net cash provided by operating activities	19,024	17,108
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(5,657)	(5,276)
Intra-entity property acquisition	-	(6,388)
Principal paid on pension obligation bonds	(118)	(98)
Net cash used by non-capital financing activities	(5,775)	(11,762)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(26,021)	(37,714)
Proceeds from the sale of utility plant	1,901	128
Principal paid on long-term obligations	(4,415)	(4,390)
Interest paid on long-term obligations	(7,348)	(6,582)
Proceeds from revenue bonds, including premium	102,658	-
Deposit to escrow account for advance bond refunding	(21,765)	-
Bond issuance costs	(695)	-
Capital contributions	1,127	11,871
Net cash provided (used) by capital and related financing activities	45,442	(36,687)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	82	684
Income from investments	1,776	3,281
Net cash provided by investing activities	1,858	3,965
Net increase (decrease) in cash and cash equivalents	60,549	(27,376)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **(including $26,878 and $54,356 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)**	56,557	83,933
CASH AND CASH EQUIVALENTS, END OF YEAR **(including $87,736 and $26,878 at June 30, 2010 and June 30, 2009, respectively, reported in restricted accounts)**	$ 117,106	$ 56,557
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 10,018	$ 8,605
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,660	9,771
Amortization of deferred charges-pension costs	100	77
Increase (decrease) in allowance for uncollectible accounts	104	(86)
Decrease (increase) in accounts receivable	767	(726)
Decrease (increase) in prepaid expenses	2	(1)
(Decrease) in accounts payable	(3,700)	(1,776)
Increase in postemployment benefits payable	355	276
(Decrease) increase in Conservation & Reclamation Programs	(3)	23
Increase (decrease) in customer deposits	54	(66)
Other receipts	667	1,011
Net cash provided by operating activities	$ 19,024	$ 17,108
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	744	3,399

**See accompanying notes to the financial statements*

Note 1: Summary of Significant Accounting Policies

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $3,074 at June 30, 2010, and $2,737 at June 30, 2009.

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

UTILITY PLANT AND DEPRECIATION

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

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

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

RESTRICTED ASSETS

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

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

CASH AND INVESTMENTS

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

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

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

City-wide information concerning cash and investments for the year ended June 30, 2010, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

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

DERIVATIVES

On July 1, 2009, the Water Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. The swaps are comprised of an "At-the-Market Swap" derivative instrument and an "Off-Market Swap" deferral balance as described below.

The Utility's evaluation of the "At-the-Market Swap" has concluded that it is an effective hedge under the synthetic instrument method. As a result, upon implementation of GASB 53 beginning July 1, 2009, the negative fair value of the "At-the-Market Swap" has been recorded and deferred on the Balance Sheets. The Balance Sheets for June 30, 2009 have been restated to reflect the retroactive application of GASB 53. Disclosure requirements are presented in Note 4 under Interest Rate Swaps on Revenue Bonds.

The "Off-Market Swap" deferral balance was a result of the refunding of the Auction Rate Security (ARS) debt that occurred in 2008. Based on the retroactive application of GASB 53, hedge accounting ceased to be applied on the interest rate swaps associated with the ARS upon the occurrence of the refunding. Since variable rate obligations were issued in the refunding, the deferral balance has been treated as a deferred loss and recorded on the Balance Sheets under long-term obligations.

Note 1: Summary of Significant Accounting Policies (continued)

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

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

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2010 and 2009 was $615 and $561, respectively (including $112 and $109, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the City is the largest owner).

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2010 and 2009. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $1,455 at June 30, 2010, and $1,266 at June 30, 2009, and is included in accounts payable in the accompanying Balance Sheets.

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

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

INSURANCE PROGRAMS

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

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2010, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2010 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were $526 and $380 for the years ended June 30, 2010 and 2009, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

Note 1: Summary of Significant Accounting Policies (continued)

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June 30, 2010 and 2009 was 14.22 percent and 14.17 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2010 and 2009 was $2,617 and $2,138, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2010, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Water Utility's share is $5,890. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2010 and 2009 was $5,605 and $5,705, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

OTHER POSTEMPLOYMENT BENEFITS

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

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Water Utility currently contributes to a bargaining unit through the Service Employee's International Union General Trust (SEIUG). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

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

The contribution requirements of the Water Utility for the Stipend Plan are established and may be amended through the MOU between the City and the unions. The Water Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Water Utility's Implied Subsidy Plan are established by the City Council. The Water Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Water Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability as of June 30, 2010 and 2009 was $881 and $526, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2010 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

Note 1: Summary of Significant Accounting Policies (continued)

EQUITY

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

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

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

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

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years ended June 30, 2010 and 2009, the Water Utility transferred 11.5 percent of gross operating revenues less wholesale sales and Conservation and Reclamation Program revenues, or $5,657 and $5,276, respectively.

CASH AND CASH EQUIVALENTS

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

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

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

Note 2: Cash and Investments

Cash and investments at June 30, 2010 and 2009, consist of the following (in thousands):

	June 30, 2010	June 30, 2009
	Fair Value	
Equity interest in City Treasurer's investment pool	$ 37,882	$ 36,596
Investments at fiscal agent	83,950	24,691
	121,832	61,287
Deposits with financial institutions [3]	2,957	3,035
Total cash and investments	$ 124,789	$ 64,322

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

	June 30, 2010	June 30, 2009
Unrestricted cash and cash equivalents	$ 29,370	$ 29,679
Restricted cash and cash equivalents	8,512	6,917
Restricted cash and investments at fiscal agent	86,907	27,726
Total cash and investments	$ 124,789	$ 64,322

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

		Remaining Maturity (In Months)			
Investment Type	**Total**	**12 Months or less**	**13 to 24 Months**	**25 to 60 Months**	**More than 60 Months**
Held by fiscal agent					
Money market funds	$ 981	$ 981	$ -	$ -	$ -
Investment contracts [1]	82,969	-	78,551	-	4,418
City Treasurer's investment pool [2]	37,882	-	-	37,882	-
Total [3]	$ 121,832	$ 981	$ 78,551	$ 37,882	$ 4,418

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

		Rating as of Year End	
Investment Type	**Total**	**AAA**	**Unrated**
Held by fiscal agent			
Money market funds	$ 981	$ 981	$ -
Investment contracts	82,969	-	82,969
City Treasurer's investment pool [2]	37,882	-	37,882
Total [3]	$ 121,832	$ 981	$ 120,851

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

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

[3] $2,957 in Certificates of Deposits is not considered an investment under GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

Note 3: Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2010 and 2009 (in thousands):

	Balance, As of 6/30/08	Additions	Retirements/ Transfers	Balance, As of 6/30/09	Additions	Retirements/ Transfers	Balance, As of 6/30/10
Source of supply	$ 35,880	$ 25,942	$ (430)	$ 61,392	$ 1,428	$ -	$ 62,820
Pumping	18,219	2,563	-	20,782	3,891	-	24,673
Treatment	23,772	-	-	23,772	175	-	23,947
Transmission and distribution	311,288	16,313	(412)	327,189	29,428	(416)	356,201
General	12,288	1,400	(413)	13,275	1,494	(689)	14,080
Depreciable utility plant	401,447	46,218	(1,255)	446,410	36,416	(1,105)	481,721
Less accumulated depreciation:							
Source of supply	(11,161)	(779)	33	(11,907)	(1,205)	-	(13,112)
Pumping	(6,768)	(480)	-	(7,248)	(540)	-	(7,788)
Treatment	(3,159)	(770)	-	(3,929)	(772)	-	(4,701)
Transmission and distribution	(94,217)	(6,630)	112	(100,735)	(6,939)	467	(107,207)
General	(7,035)	(1,112)	414	(7,733)	(1,256)	630	(8,359)
Accumulated depreciation	(122,340)	(9,771)	559	(131,552)	(10,712)	1,097	(141,167)
Net depreciable utility plant	279,107	36,447	(696)	314,858	25,704	(8)	340,554
Land	7,682	3,127	-	10,809	-	-	10,809
Intangible	5,969	46	-	6,015	303	(11)	6,307
Construction in progress	31,878	41,930	(49,401)	24,407	27,435	(36,720)	15,122
Nondepreciable utility plant	45,529	45,103	(49,401)	41,231	27,738	(36,731)	32,238
Total utility plant	$ 324,636	$ 81,550	$ (50,097)	$ 356,089	$ 53,442	$ (36,739)	$ 372,792

Note 4: Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2010 and 2009 (in thousands):

	Balance, As of 6/30/08	Additions	Reductions	Balance, As of 6/30/09	Additions	Reductions	Balance, As of 6/30/10	Due Within One Year
Revenue bonds	$ 150,360	$ -	$ (3,772)	$ 146,588	$ 102,041	$ (25,354)	$ 223,275	$ 4,660
Pension obligation	5,682	-	(98)	5,584	-	(118)	5,466	139
Postemployment benefits payable	250	276	-	526	355	-	881	-
Water stock acquisition rights	964	-	(15)	949	-	-	949	150
Total long-term obligations	$ 157,256	$ 276	$ (3,885)	$ 153,647	$ 102,396	$ (25,472)	$ 230,571	$ 4,949

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

Contracts Payable	June 30, 2010	June 30, 2009
Water Stock Acquisitions: Payable on demand to various water companies	$ 949	$ 949
Total contracts payable	949	949
Revenue Bonds Payable		
$69,840 1991 Water Revenue Bonds: $25,900 serial capital appreciation bonds due in a final installment payment of $3,235 on October 1, 2010 (partially advance refunded in 1998)	3,235	6,475
$30,965 1998 Water Refunding/Revenue Bonds: All outstanding bonds were advance refunded on December 22, 2009 with the 2009 Water Refunding/Revenue Bonds	-	20,405
$20,000 2001 Water Revenue Bonds: $10,070 serial bonds due in annual installments from $450 to $510 through October 1, 2013, interest from 4.0 percent to 4.38 percent; $4,345 term bonds due October 1, 2026 and $5,585 term bonds due October 1, 2031 (partially advance refunded in 2005 and 2009 with final maturity in 2013)	1,920	4,030
$60,300 2008 Water Refunding/Revenue Series A Bonds: $60,300 variable rate bonds due in annual installments from $450 to $3,950 October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps at June 30, 2010 was 3.2 percent)	59,450	59,875
$58,235 2008 Water Revenue Series B Bonds: $19,890 serial bonds due in annual installments from $1,210 to $2,585 from October 1, 2016 through October 1, 2028, interest from 4.0 percent to 5.0 percent; $11,810 term bonds due October 1, 2033, interest at 5.0 percent; $26,535 term bonds due October 1, 2038, interest at 5.0 percent	58,235	58,235
$31,895 2009 Water Refunding/Revenue Series A Bonds: $31,895 fixed rate bonds due in annual installments from $500 to $3,835 through October 1, 2020, interest from 0.65 percent to 5.0 percent	31,895	-
$67,790 2009 Water Revenue Series B Bonds: $67,790 fixed rate, federally taxable, Build America Bonds due in annual installments from $2,475 to $4,985 through October 1, 2039, interest from 3.33 percent to 4.13 percent	67,790	-
Total water revenue bonds payable	222,525	149,020
Total water revenue bonds and contracts payable	223,474	149,969
Unamortized deferred bond refunding costs	(4,127)	(3,651)
Unamortized capital appreciation	(110)	(427)
Unamortized bond premium	4,987	1,646
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation, and bond premium	224,224	147,537
Less current portion	(4,810)	(4,565)
Total long-term water revenue bonds and contracts payable	$ 219,414	$ 142,972

Note 4: Long-Term Obligations (continued)

Annual debt service requirements to maturity, as of June 30, 2010, are as follows (in thousands):

	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040	Total
Principal	$ 4,810	$ 4,695	$ 4,845	$ 5,020	$ 5,165	$ 27,554	$ 32,755	$ 39,555	$ 48,035	$ 51,040	$ 223,474
Interest	8,890	8,792	8,630	8,440	8,230	37,695	31,874	24,909	16,228	5,267	158,955
Total	$ 13,700	$ 13,487	$ 13,475	$ 13,460	$ 13,395	$ 65,249	$ 64,629	$ 64,464	$ 64,263	$ 56,307	$ 382,429

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Water Utility's debt service coverage ratio was 2.08 and 2.25 at June 30, 2010 and 2009, respectively. The debt (revenue bonds) is backed by the revenues of the Utility.

PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. At fiscal year ended June 30, 2010, $14,995 of bonds outstanding is considered defeased.

2009 WATER REFUNDING/REVENUE BONDS

On December 22, 2009, $31,895, including premium, of Water Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 1.76% to advance refund $20,090, all of the remaining 1998 Water Refunding/Revenue Bonds and $1,675 of the outstanding 2001 Water Revenue Bonds. The remaining portion of $13,199 will be used to finance the costs of certain improvements to the City's Water System as part of the Water Master, Water Supply, and Asset Management Plans incorporated in the 5 year Capital Improvement Program . This fixed rate bond issue, with an interest rate ranging from 0.65% to 5.0%, is due in annual installments from $500 to $3,835 through October 1, 2020. The refunding was undertaken to reduce total debt service payments over the next 9 years by $2,885 and resulted in an economic gain of $2,593.

On December 22, 2009, the Water Utility also issued $67,790 of Water Revenue Series B Bonds (federally taxable, Build America Bonds) to finance certain Water System Improvements outlined in the 5 year Capital Improvement Program, including the construction of portions of recycled water system infrastructure and a 17 million gallon replacement reservoir. Annual principal payments ranging from $2,475 to $4,985 are due from October 1, 2010 through October 1, 2039, with associated interest rates of 3.33% to 4.13%.

INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was determined to be hedge-effective under the synthetic instrument method. The change in fair value during the reporting period was reported as deferred debits.

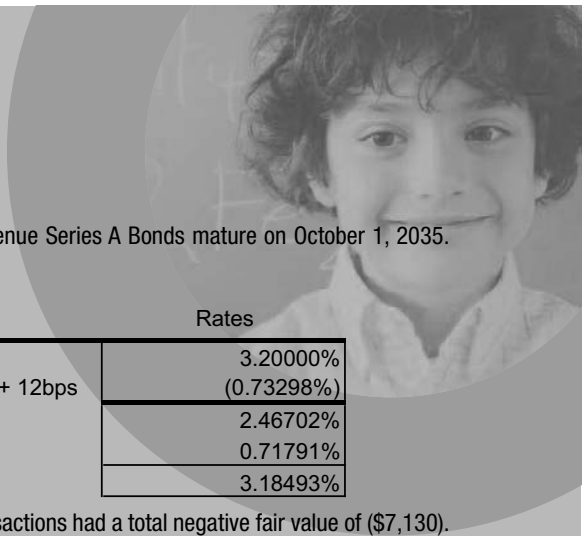
A summary of the derivative activity for the year ended June 30, 2010 is as follows:

	Notional Amount	Fair Value as of 6/30/10	Change in Fair Value for Fiscal Year
2008 Water Refunding/Revenue Bonds Series A	$ 60,300	$ (7,130)	$ (2,865)

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2008, the City entered into interest rate swap agreements in connection with its $60,300 2008 Water Refunding/Revenue Series A Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20%.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2009, the notional value of the swaps and the principal amounts of the associated debt decline by $425 to $3,950 until the debt is completely retired in fiscal year 2035.

Note 4: Long-Term Obligations (continued)



The bonds and the related swap agreements for the 2008 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2010, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.73298%)
Net interest rate swap payments		2.46702%
Variable-rate bond coupon payments		0.71791%
Synthetic interest on bonds		3.18493%

Fair value: As of June 30, 2010, in connection with all swap agreements, the transactions had a total negative fair value of ($7,130). Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2010, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase Bank was rated A+ by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2010, there is no requirement for collateral posting for any of the outstanding swaps.

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

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

Swap payments and associated debt: As of June 30, 2010, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds			
Fiscal Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ 450	$ 424	$ 1,456	$ 2,330
2012	800	418	1,436	2,654
2013	825	412	1,415	2,652
2014	850	406	1,395	2,651
2015	875	399	1,373	2,647
2016-2020	7,075	1,872	6,434	15,381
2021-2025	13,125	1,467	5,041	19,633
2026-2030	14,675	957	3,290	18,922
2031-2035	16,825	391	1,343	18,559
2036	3,950	-	-	3,950
Total	$ 59,450	$ 6,746	$ 23,183	$ 89,379

Note 5: Restricted Equity

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2008 Refunding/Revenue Series A Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series B Bonds are not required due to the purchase of surety bonds. The 2009 Refunding/Revenue Series A Bonds and 2009 Revenue Series B Bonds have no additional reserve requirements.

Note 6: Litigation

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

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

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

Note 7: Construction Commitments

As of June 30, 2010, the Water Utility had major commitments (encumbrances) of approximately $15,709 with respect to unfinished capital projects which is expected to be funded by bonds.

Note 8: Special Item

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

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

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

Key Historical Operating Data: Water

WATER SUPPLY (ACRE FEET)

	2009/10	2008/09	2007/08	2006/07	2005/06
Pumping	69,676	76,830	80,974	85,299	76,605
Purchases	0	0	1,643	2,092	2,670
Total:	69,676	76,830	82,617	87,391	79,275
Percentage pumped	100.00%	100.00%	98.0%	97.6%	96.6%
System peak day (gallons)	98,017,000	105,780,000	111,300,000	109,200,000	118,782,000

WATER USE

	2009/10	2008/09	2007/08	2006/07	2005/06
Number of meters as of year end					
Residential	58,372	58,152	57,694	57,666	57,308
Commercial/Industrial	5,451	5,519	5,446	5,279	5,204
Other	408	391	354	486	473
Total:	64,231	64,062	63,494	63,431	62,985
*CCF sales					
Residential	16,321,425	17,898,798	18,483,522	19,848,653	17,702,717
Commercial/Industrial	9,344,085	10,342,284	10,510,953	10,817,783	9,822,196
Other	871,396	983,553	970,239	1,243,927	1,157,130
Subtotal:	26,536,906	29,224,635	29,964,714	31,910,363	28,682,043
Wholesale	150,365	496,601	618,552	199,845	182,987
Total:	26,687,271	29,721,236	30,583,266	32,110,208	28,865,030

*(CCF equals 100 cubic feet)

WATER FACTS

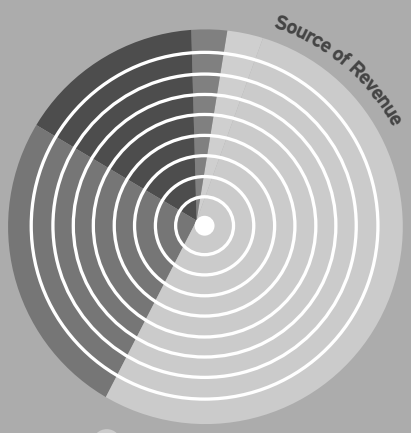
	2009/10	2008/09	2007/08	2006/07	2005/06
Average annual CCF per residential customer	280	308	320	345	312
Average price ($/CCF) per residential customer	$2.05	$1.81	$1.63	$1.43	$1.26
Debt service coverage ratio (DSC)[1]	2.08	2.25	3.88	3.38	5.11
Employees[2]	178	167	167	165	137

[1]FY 09/10 interest expense used to calculate DSC is net of federal subsidy on Build America Bonds

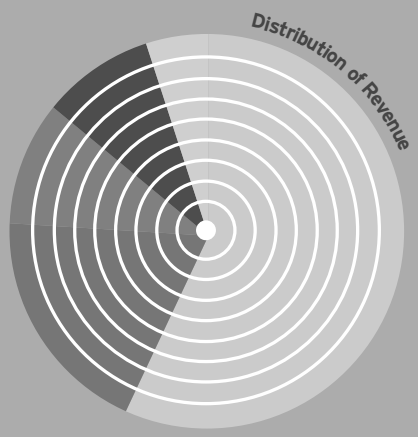
[2]Approved positions

Key Historical Operating Data: Water

2009/2010 WATER REVENUE AND RESOURCES

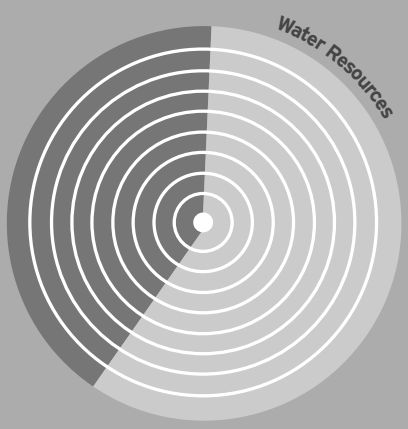


- Residential Sales 52¢
- Commercial Sales 26¢
- Other Revenues 16¢
- Other Sales 3¢
- Investment Income 3¢



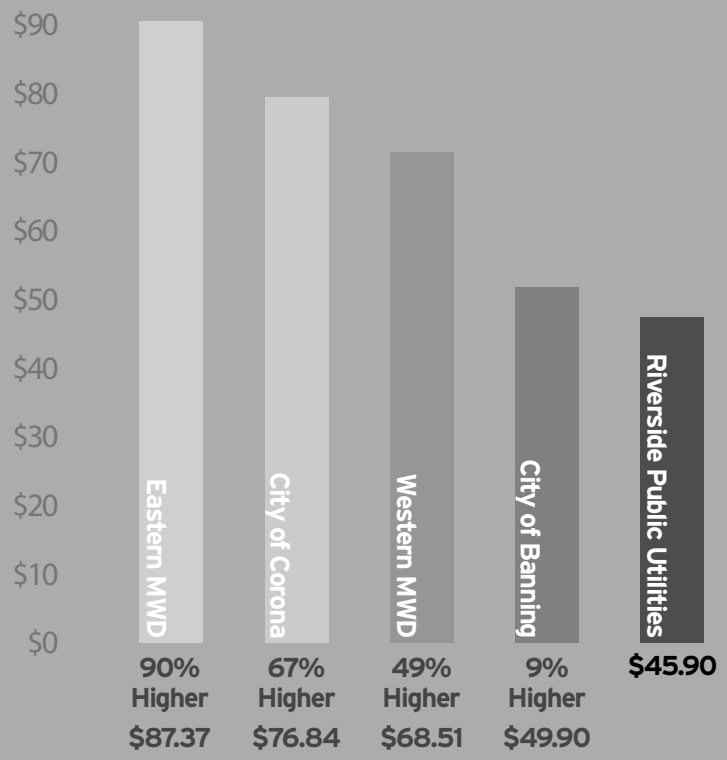
- Operations and Maintenance 57¢
- Debt Services 19¢
- Additions and Replacements to the System 10¢
- Transfers to the City's General Fund* 9¢
- Additional Reserves 5¢

** Based on transfer of 11.5% of fiscal year 2008/2009 operating revenues (excludes wholesale sales and Conservation and Reclamation revenue) .*



- San Bernardino Basin Wells 59%
- Riverside Basin Wells 41%
- Purchased Water 0%

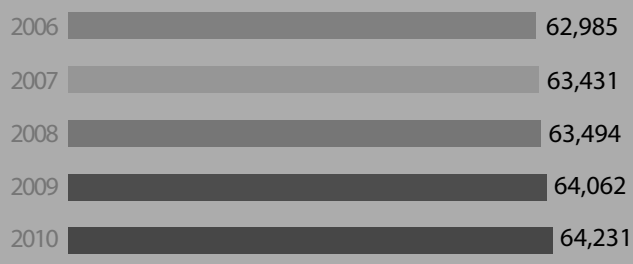
RESIDENTIAL WATER RATE COMPARISON – 26 CCF PER MONTH (AS OF JUNE 30, 2010)



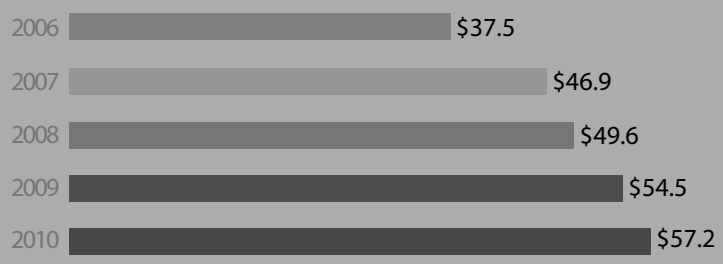
Key Historical Operating Data: Water

GENERAL FUND TRANSFER (IN MILLIONS)

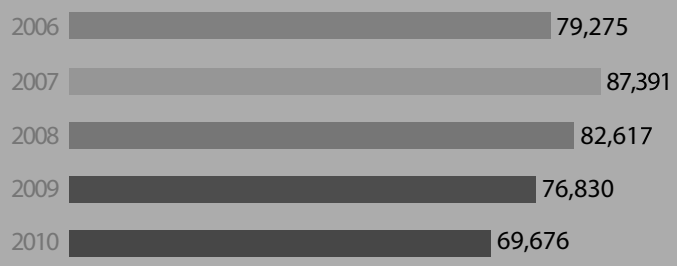
NUMBER OF METERS AT YEAR END



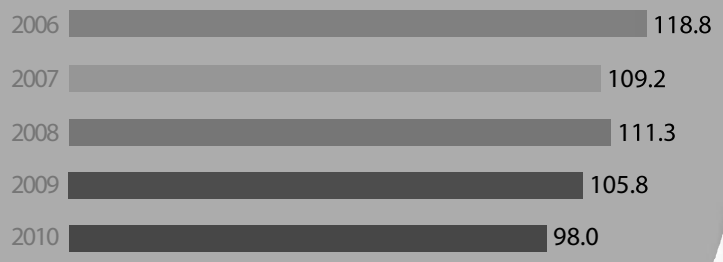
TOTAL OPERATING REVENUE (IN MILLIONS)



PRODUCTION (IN ACRE FEET)

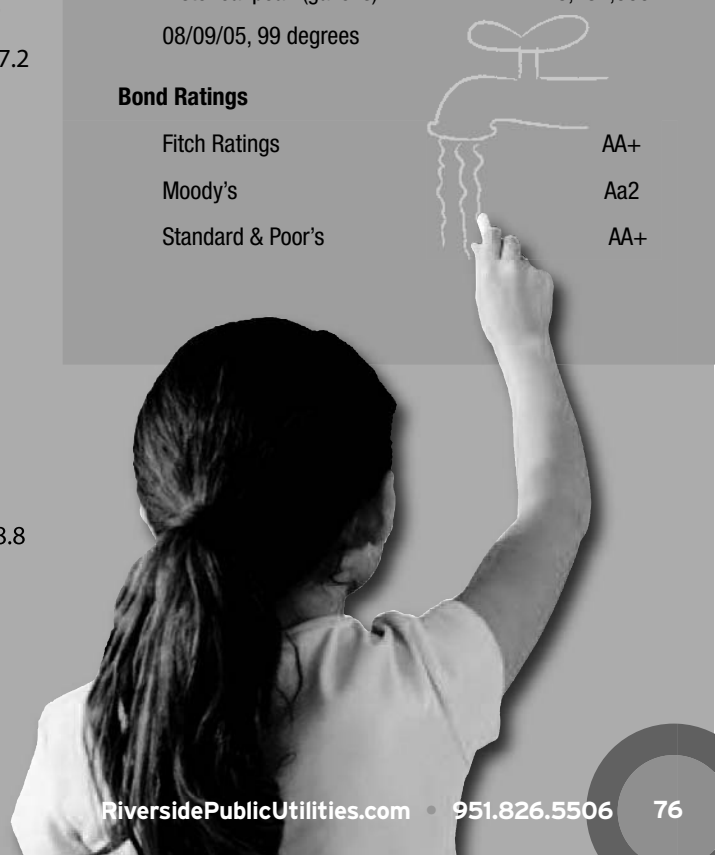


PEAK DAY DEMAND (IN MILLION GALLONS)



WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	304,051
Service Area Size (square miles)	74.7
System Data:	
Smallest pipeline	2.0”
Largest pipeline	72.0”
Miles of pipeline	1,002
Number of domestic wells	52
Number of active reservoirs	15
Total reservoir capacity (gallons)	79,990,000
Number of treatment plants	7
Number of treatment vessels	99
Miles of canal	14
Number of fire hydrants	7,593
Daily average production (gallons)	62,314,113
2009-2010 Peak day (gallons)	98,017,000
07/20/09, 103 degrees	
Historical peak (gallons)	118,782,000
08/09/05, 99 degrees	
Bond Ratings	
Fitch Ratings	AA+
Moody’s	Aa2
Standard & Poor’s	AA+



APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

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

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

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

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

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

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

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

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

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

"**Business Day**" means, except as otherwise provided in a Supplemental Resolution with respect to a Series of Bonds, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in

the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized to be closed.

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

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

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

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

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

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

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

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

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

"**Designated Investments**" means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. With respect to the 2011A Bonds, "Designated Investments" means, subject to such further or other parameters as may be specified in the Closing Certificate of the City, the following:

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

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

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

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

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

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

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

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

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

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

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

"**Gross Operating Revenues**" means (i) all revenues from rates, fees and charges for providing water service to persons and real property and all other fees, rents and charges and other revenues derived

by the City from the ownership, operation, use or service of the Water System, including contributions in aid of construction, and (ii) all Subordinate Swap Receipts.

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

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

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

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

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

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

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

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

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

(d) principal and interest payments on Parity Debt and Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit as of the date of calculation with

the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

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

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

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

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

(g) as amended by the Seventh Supplemental Resolution, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be

excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America; provided that such amendment shall not take effect while any of the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2008A Bonds and 2009B Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps).

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

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

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

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

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

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

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

"**Net Operating Revenues**" means Gross Operating Revenues, less Operating and Maintenance Expenses, and, as amended by the Seventh Supplemental Resolution, plus, for the purposes of determining compliance with setting rates and charges under the Resolution only, the amounts on deposit as of the date of determination in any unrestricted funds of the Water System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds; provided that such amendment shall not take effect while any of the 1991 Bonds, the 1998 Bonds, the 2001 Bonds, the 2008A Bonds and 2009B Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps).

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

"**Opinion of Bond Counsel**" means a written opinion of Bond Counsel.

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

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

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

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

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

"**Rating Agencies**" mean, with respect to the 2011A Bonds, Fitch, Moody's and Standard & Poor's.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Operating Revenues created under the Resolution with respect to Subordinate Swaps (and other Subordinate Obligations).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenues; Funds and Accounts

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

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

Out of Gross Operating Revenues there shall be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, to the following: the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together

with any sinking fund payments of the Bonds and Parity Debt and any reserve fund with respect thereto; the payment of amounts due under the Subordinate Obligations; and the excess earnings or rebate requirements with respect to the Bonds. All remaining Gross Operating Revenues, after making the foregoing allocations, shall be surplus and may be used for any lawful purpose. The pledges of Net Operating Revenues made in the Resolution shall be irrevocable until there are no longer Bonds Outstanding and all amounts due under the Subordinate Obligations have been paid.

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

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

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

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

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

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

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

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

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

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

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

(A) *Interest Account*. As soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness), such amount as shall be sufficient on a monthly pro rata

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

(B) *Principal Account*. As soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semi-annual amount of Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term

Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Account, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Account shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

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

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

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

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

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

Surplus Account. On the first day of each calendar month, after the transfers to the aforementioned accounts required above or by any Supplemental Resolution and all other covenants of

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

Application of Funds and Accounts.

(A) Bond Service Account.

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

(ii) *Principal Account.*

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

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

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

(C) Excess Earnings and Certain Other Accounts. Amounts on deposit in any excess earnings, rebate account or yield reduction sinking fund or account for a Series of Bonds shall be

used and withdrawn as provided in the Supplemental Indenture authorizing the issuance of such Series.

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

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

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

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

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

The Treasurer and each Fiscal Agent shall keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal

Agent is to be allocated and shall set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

Covenants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Operating and Maintenance Expenses;

(b) The interest on and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) as they become due and payable;

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

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

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

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

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

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

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

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

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

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

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

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

Third: On the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt heretofore established shall be not

less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

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

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

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

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

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

(D) Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent shall have been appointed and have accepted appointment within 45 days of

giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Resolution, shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Resolution. Upon request of the successor Fiscal Agent, the City and the predecessor Fiscal Agent shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent shall be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company shall have a combined capital and surplus of at least one hundred million dollars ($100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the Resolution the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor shall be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

Amendments

Amendments Permitted.

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

Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Resolution.

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

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

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

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

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

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

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

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

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

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

Defeasance

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

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

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

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

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

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

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

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

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

(b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series shall have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds. The Eighth Supplemental Resolution provides, however, that if cash is not used, the City may cause any or all of the 2011A Bonds to be deemed to have been paid within the meaning of and with the effect expressed in the Resolution only with Federal Securities which are non-callable.

Events of Default; Remedies

Events of Default. Each of the following events shall be an Event of Default under the Resolution:

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

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

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

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

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

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

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

The provisions described in subsections (c) and (d) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Resolution, the City shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Resolution shall include without limitation acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections;

riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the City, and the City shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City unfavorable to it.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee shall be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Resolution on any Owner; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the City Clerk.

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsections (e), (f) or (g) above, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration the City shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys in the Resolution specifically pledged for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequences. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

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

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

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders under the Resolution or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence in the Resolution, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

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

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

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Riverside (the "City") in connection with the City's issuance of its $59,000,000 Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 17664 of the City adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. 22203, adopted by the City Council on April 26, 2011 (collectively, the "Resolution"). The City covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" means the audited financial statements, if any, of the City, 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 GAAP; provided, however, that the City may from time to time, if required by Federal or State legal requirements, modify the basis to be followed in preparing its financial statements. The notice of any such modification shall include a reference to the specific Federal or State law or regulation describing such accounting basis.

"Beneficial Owner" shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean any person or entity appointed by the City which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate. The initial Dissemination Agent shall be U.S. Bank National Association.

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

"GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them, and any applicable utility accounting requirements of the Federal Energy Regulatory Commission.

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

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Certificate.

"Notice Event" means any of the following events with respect to the Bonds, whether relating to the City or otherwise:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of Bondholders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the City;

Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the

City, or if such jurisdiction has been assumed by leaving the existing governing 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 City;

(xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

"Official Statement" means the Official Statement dated May 18, 2011 of the City relating to the Bonds.

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

"Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days following the end of each Fiscal Year of the City (which Fiscal Year presently ends on June 30), commencing with the report for Fiscal Year 2010-11, provide to the MSRB an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the City changes, the City shall give notice of such change in the same manner as for a Notice Event under Section 5.

If not provided as part of the Annual Report by the date provided in subsection (a) above, the City shall provide Audited Financial Statements, when and if available, to the MSRB.

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent, if any. If by such date the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent, if any, as the case may be, has not furnished any Annual Report to the MSRB by the date required in subsection (a), the City or the Dissemination Agent, as applicable, shall provide, a notice to the MSRB in substantially the form attached as Exhibit A.

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

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

1. The audited financial statements of the City's Water Utility for the most recently completed fiscal year, prepared in accordance with GAAP.

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

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

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

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

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

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

SECTION 5. Reporting of Notice Events.

(a) If a Notice Event occurs, the City shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to (i) the MSRB and (ii) the Fiscal Agent.

(b) Any notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The City will cause the Fiscal Agent to promptly advise the City whenever, in the course of performing its duties as Fiscal Agent under the Resolution, the Fiscal Agent has actual notice of an occurrence which, if material, would require the City to provide notice of a Notice Event hereunder; provided, however, that the failure of the Fiscal Agent so to advise the City shall not constitute a breach by the Fiscal Agent of any of its duties and responsibilities under this Certificate or the Resolution.

(d) Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Reports or notice of Notice Event hereunder, in addition to that which is required by this Certificate. If the City chooses to do so, the City shall have no obligation under this Certificate to update such additional information or include it in any future Annual Reports or notice of a Notice Event hereunder.

SECTION 6. Additional Disclosure Obligations. The City 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 City and that, under certain circumstances, compliance with this Certificate without additional disclosures or other action may not fully discharge all duties and obligations of the City under such laws.

SECTION 7. Fiscal Year. The City's current fiscal year is from July 1 through June 30 and the City shall promptly notify (i) the MSRB and (ii) the Fiscal Agent of each change in its fiscal year. Annual Reports shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

SECTION 8. No previous Non-Compliance. The City represents that in the previously five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

SECTION 9. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

SECTION 10. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all

of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 11. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 12. Transmission of Notices, Documents and Information. Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Market Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

SECTION 14. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Owner or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 15. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if other than the City) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be

acting in any fiduciary capacity for the City, the Owners or Beneficial Owners of the Bonds, or any other party. The obligations of the City under this Section 15 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 16. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: May ____, 2011

CITY OF RIVERSIDE

By:_____

Paul C. Sundeen
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: VARIABLE RATE REFUNDING WATER REVENUE BONDS, ISSUE OF 2011A

Date of Issuance: May ___, 2011

NOTICE IS HEREBY GIVEN that the City of Riverside, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated May ____, 2011, in connection with the Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF RIVERSIDE, CALIFORNIA

By: _____

Title: _____

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

May _____, 2011

City of Riverside
Riverside, California

Re: City of Riverside, California, Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (Index Interest Rate Period)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Riverside, California (the "City"), of its Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (Index Interest Rate Period) (the "2011A Bonds"). The 2011A Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), Resolution No. 17664 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as previously amended and supplemented, and as amended and supplemented by an Eighth Supplemental Resolution adopted by the City Council on April 26, 2011 (the "Eighth Supplemental Resolution"). The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Eighth Supplemental Resolution, is collectively referred to as the "Resolution." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In our capacity as bond counsel, we have reviewed the Charter, the Ordinance, the Resolution, certifications and resolutions of the City and others, opinions of counsel to the City, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to any 2011A Bond or the interest thereon if any such change occurs or actions is taken or omitted upon the advice or approval of counsel other than ourselves.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed

compliance with all covenants and agreements contained in the Resolution. In addition, we call attention to the fact that the rights and obligations under the 2011A Bonds and the Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2011A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding special limited obligations of the City, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolution.

2. The Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the City, enforceable in accordance with its terms. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the 2011A Bonds, of the Net Operating Revenues and certain other amounts held under the Resolution, as set forth in the Resolution and subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. Additional Bonds and Parity Debt of the City have been and may from time to time hereafter be issued under the Resolution that are payable from Net Operating Revenues on a parity basis with the 2011A Bonds.

3. The 2011A Bonds are special limited obligations of the City and are payable exclusively from and are secured by a pledge of Net Operating Revenues and certain amounts held under the Resolution.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein; (i) interest on the 2011A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2011A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinion in this paragraph (4), we have relied upon and assumed (a) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate delivered on the date hereof by the City with respect to the use of proceeds of the 2011A Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the 2011A Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (b) compliance by the City with procedures and covenants set forth in the Tax Certificate. Under the Code, failure to comply with such procedures and covenants may cause the interest on the 2011A Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the 2011A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

5. Under existing statutes, interest on the 2011A Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 4 and 5 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the 2011A Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the Federal income tax treatment of interest on the 2011A Bonds, or under State, local and foreign tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company ("**DTC**"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Bonds (the "**Issuer**") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "**Agent**") take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("**DTC**"), New York, NY, will act as securities depository for the securities (the "**Bonds**"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, security Bonds are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, security Bonds will be printed and delivered to DTC.

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

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CITY OF RIVERSIDE, CALIFORNIA • VARIABLE RATE REFUNDING WATER REVENUE BONDS, ISSUE OF 2011A

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