

REOFFERING – NOT A NEW ISSUE – BOOK-ENTRY ONLY

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

On May 26, 2011, Hawkins Delafield & Wood LLP, Bond Counsel to the City, rendered its opinion in connection with the original issuance of the 2011A Bonds to the effect that under then-existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein: (i) interest on the 2011A Bonds was excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest on the 2011A Bonds was not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, was included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; and (iii) interest on the 2011A Bonds was exempt from State of California personal income taxes. There has been no attempt to update such previously rendered opinion, the form of which is set forth in Appendix E, since the date thereof. Pursuant to the Tax Cuts and Jobs Act, P.L. 115-97, H.R. 1 (2017), the alternative minimum tax on corporations was repealed for tax years beginning after December 31, 2017.

\$24,050,000
CITY OF RIVERSIDE, CALIFORNIA
Variable Rate Refunding Water Revenue Bonds
Issue of 2011A
(Index Interest Rate Period)

Index Rate Scheduled Purchase Date: To be set forth in a supplement hereto
Call Protection Date: To be set forth in a supplement hereto

Date of Initial Delivery: May 26, 2011
Price: 100%

Due: October 1, 2035
CUSIP: 769076 UH1

Remarketing Statement. This Remarketing Statement (this "Remarketing Statement") replaces in its entirety the Remarketing Statement dated December 13, 2016, as supplemented January 5, 2017, related to the above-captioned bonds (the "2011A Bonds"). Potential investors are advised to refer solely to this Remarketing Statement and any supplements hereto when making an investment decision with respect to the 2011A Bonds.

Remarketing of the 2011A Bonds. Pursuant to the provisions of the Resolution (as such term is defined herein), the City of Riverside (the "City") has exercised its option to effect a mandatory tender of the 2011A Bonds on January 9, 2020.

Upon the purchase of the 2011A Bonds pursuant to such mandatory tender, the 2011A Bonds: (i) will be remarketed at an Index Interest Rate for an Index Interest Rate Period (the "New Index Interest Rate Period") commencing on January 9, 2020 with an Index Rate Scheduled Purchase Date to be determined by the City; and (ii) will bear interest at a SIFMA Index Interest Rate (which is equal to the sum of the Applicable SIFMA Spread plus SIFMA, as calculated on each SIFMA Rate Determination Date). Promptly after the Remarketing Agent determines the initial SIFMA Index Interest Rate relating to the 2011A Bonds for the Index Interest Rate Period commencing on January 9, 2020, the District will publish it, together with the Index Rate Scheduled Purchase Date and the Call Protection Date for the new Index Interest Rate Period, by supplementing this Remarketing Statement and posting the supplement on the EMMA system.

The Purchase Price of the 2011A Bonds will be paid on January 9, 2020 from moneys held by the Fiscal Agent, consisting of immediately available funds on deposit in the Remarketing Account, as more fully described herein.

The New Index Interest Rate Period will end on the date chosen by the City as the Index Rate Scheduled Purchase Date for the New Index Interest Rate Period. Prior to the Index Rate Scheduled Purchase Date for the New Index Interest Rate Period, the City may exercise its option to designate any Business Day from and after the Call Protection Date for the New Index Interest Rate Period as an Index Rate Unscheduled Purchase Date. Upon the delivery to the Fiscal Agent of sufficient moneys to pay the Purchase Price of the 2011A Bonds, the New Index Interest Rate Period will end on any such Index Rate Unscheduled Purchase Date. See the caption "DESCRIPTION OF THE 2011A BONDS."

Interest will be payable on the first Business Day of each month, commencing on the first Business Day of the month following the commencement of the New Index Interest Rate Period, 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 New 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 Remarketing Statement is not intended to describe the 2011A Bonds while in an Interest Rate Period other than the New Index Interest Rate Period.**

Purchase Default Period. If the City were to fail to pay the Purchase Price of the 2011A Bonds 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 Remarketing Statement as the Purchase Default Rate). See the caption "DESCRIPTION OF THE 2011A BONDS—Purchase Event of Default and Purchase Default Period."

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

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

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

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

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

The 2011A Bonds are being remarketed subject to the approval of certain matters by Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is acting as Disclosure Counsel to the City, and Kutak Rock LLP, Los Angeles, California, is acting as counsel to the Remarketing Agent. It is anticipated that the remarketed 2011A Bonds will be available for delivery through the facilities of DTC on the Remarketing Date.

Dated: December __, 2019

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Rusty Bailey, Mayor

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

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

BOARD OF PUBLIC UTILITIES

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

David R. Austin
David M. Crohn
Jeanette Hernandez
Ana Miramontes

Jennifer C. O'Farrell
Gildardo Ocegüera
Andrew C. Walcker

CITY OFFICIALS

Al Zelinka, *City Manager*

Edward Enriquez,
Chief Financial Officer/City Treasurer

Todd Corbin,
Utilities General Manager

Gary G. Geuss
City Attorney

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

Susan D. Wilson,
Assistant City Attorney

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

Colleen J. Nicol,
City Clerk

Marie Ricci,
Assistant Chief Financial Officer

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

BOND COUNSEL AND DISCLOSURE COUNSEL

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

MUNICIPAL ADVISOR

PFM Financial Advisors LLC
Los Angeles, California

FISCAL AGENT AND CALCULATION AGENT

U.S. Bank National Association
Los Angeles, California

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

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

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

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

IN CONNECTION WITH THE OFFERING OF THE 2011A BONDS, THE REMARKETING AGENT MAY OVER-ALLOT 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.

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

The 2011A Bonds have not been registered under the Securities Act in reliance upon an exception from the registration requirements contained therein. The 2011A Bonds have not been registered or qualified under the securities law of any state.

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

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\$24,050,000
CITY OF RIVERSIDE, CALIFORNIA
Variable Rate Refunding Water Revenue Bonds
Issue of 2011A
(Index Interest Rate Period)

INTRODUCTION

*This Remarketing Statement (this “**Remarketing Statement**”) replaces in its entirety the Remarketing Statement dated December 13, 2016, as supplemented January 5, 2017, related to the above-captioned bonds (the “**2011A Bonds**”). This Remarketing Statement, including the appendices, is provided to furnish information in connection with the remarketing by the City of Riverside, California (the “**City**”) of the 2011A Bonds.*

*This Remarketing Statement is not intended to describe the 2011A Bonds while in an Interest Rate Period other than the New Index Interest Rate Period (as described below under the caption “—**Interest Rate Period and Mandatory Tender**”).*

Remarketing of the 2011A Bonds

The City is remarketing all of the 2011A Bonds as described herein. Pursuant to the provisions of the Resolution (as such term is defined under the caption “—**Authority for the 2011A Bonds**”), the City has exercised its option to effect a mandatory tender of the 2011A Bonds on January 9, 2020.

Upon the purchase of the 2011A Bonds pursuant to such mandatory tender, the 2011A Bonds: (i) will be remarketed at an Index Interest Rate for an Index Interest Rate Period (the “**New Index Interest Rate Period**”) commencing on January 9, 2020 with an Index Rate Scheduled Purchase Date to be determined by the City; and (ii) will bear interest at a SIFMA Index Interest Rate (which is equal to the sum of the Applicable SIFMA Spread plus SIFMA, as calculated on each SIFMA Rate Determination Date). Promptly after the Remarketing Agent determines the initial SIFMA Index Interest Rate relating to the 2011A Bonds for the Index Interest Rate Period commencing on January 9, 2020, the District will publish it, together with Index Rate Scheduled Purchase Date and the Call Protection Date for the new Index Interest Rate Period, by supplementing this Remarketing Statement and posting the supplement on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“**EMMA**”).

The Purchase Price of the 2011A Bonds will be paid on January 9, 2020 from moneys held by the Fiscal Agent, consisting of immediately available funds on deposit in the Remarketing Account, as more fully described herein.

The New Index Interest Rate Period will end the date chosen by the City as the Index Rate Scheduled Purchase Date for the New Index Interest Rate Period. Prior to the Index Rate Scheduled Purchase Date for the New Index Interest Rate Period, the City may exercise its option to designate any Business Day from and after the Call Protection Date for the New Index Interest Rate Period as an Index Rate Unscheduled Purchase Date. Upon the delivery to the Fiscal Agent of sufficient moneys to pay the Purchase Price of the 2011A Bonds, the New Index Interest Rate Period will end on any such Index Rate Unscheduled Purchase Date. See the caption “**DESCRIPTION OF THE 2011A BONDS.**”

Interest will be payable on the first Business Day of each month, commencing on the first Business Day of the month following the commencement of the New Index Interest Rate Period, 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 New 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.

Authority for the 2011A Bonds

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

- (i) the City Charter;
- (ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005; and
- (iii) Resolution No. 17664 adopted by the City Council on January 8, 1991 (the “**Master Resolution**”), as previously amended and supplemented, and as amended and supplemented by Resolution No. 22203, the eighth supplemental resolution, which provides 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 Remarketing Statement as the “**Resolution**.”

The Water System

The City’s water utility system (the “**Water System**”) serves an area of approximately 74.2 square miles, of which approximately 70.5 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 65,640 metered customer accounts in the service area during fiscal year 2018-19, which represents a population served of approximately 325,800. See the caption “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 under the caption “SECURITY AND SOURCES OF PAYMENTS FOR THE 2011A BONDS—Net Operating Revenues.”

Rate Covenant. The City is obligated by the Resolution to prescribe, revise and collect rates and charges for the services, facilities and water of the Water System during each Fiscal Year in an amount that is at least 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 such term is defined under the caption “DESCRIPTION OF THE 2011A BONDS—Purchase Event of Default and Purchase Default Period”) and any Parity Debt and to pay all other obligations that are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant.”

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 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 that are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2011A Bonds.

Outstanding Prior Debt

The 2011A Bonds are secured by and payable from Net Operating Revenues on a parity with Prior Parity Bonds (as such term is defined under the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt and Swap Agreement”) which were outstanding in the aggregate principal amount of \$186,635,000 as of June 30, 2019.

Additional Bonds and Parity Debt

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

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

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

2011A Reserve Account Not Funded

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

Subordinate Obligations

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

Interest Rate Period and Mandatory Tender

In the New Index Interest Rate Period, the 2011A Bonds will bear interest at an interest rate equal to the SIFMA Index Interest Rate, which is equal to the sum of: (i) SIFMA with respect to a “SIFMA Index Interest Accrual Period” (as such term is defined under the caption “DESCRIPTION OF THE 2011A BONDS—Interest Rate Provisions”); and (ii) the Applicable SIFMA Spread (the number of basis points determined by the Remarketing Agent that, when added to SIFMA, would equal the minimum interest rate per annum that would enable the Remarketing Agent to sell the 2011A Bonds at a price equal to the principal amount thereof plus accrued interest).

The Remarketing Agent will determine the initial Applicable SIFMA Spread for the New Index Interest Rate Period and the Calculation Agent will determine the initial SIFMA Index Interest Rate based

thereon. The City will publish the initial SIFMA Index Interest Rate in a supplement to this Remarketing Statement posted on EMMA. Thereafter, the Calculation Agent will determine the SIFMA Index Interest Rate for each SIFMA Index Interest Accrual Period during the New Index Interest Rate Period.

Prior to the Index Rate Scheduled Purchase Date for the New Index Interest Rate Period, the City may exercise its option to designate any Business Day from and after the Call Protection Date as an Index Rate Unscheduled Purchase Date. Upon the delivery of sufficient amounts to pay the Purchase Price of the 2011A Bonds to the Fiscal Agent, the New Index Interest Rate Period will end on any such Index Rate Unscheduled Purchase Date.

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

Index Rate Scheduled Purchase Date; Purchase Default Period

The City is irrevocably committed to pay the Purchase Price of all 2011A Bonds on the Index Rate Scheduled Purchase Date for the New Index Interest Rate Period. 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. There can be no assurance that the City will in fact exercise such option. See the caption “DESCRIPTION OF THE 2011A BONDS—Provisions Related to the Index Rate Scheduled Purchase Date—City Policy Relating to Management of 2011A Bonds Index Interest Rate Program.”

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, and by liquidating Water System investments and assets and borrowing from the City. The City has not committed to allocate any such 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.

If the City were to fail 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. In a Purchase Default Period, the 2011A Bonds would bear interest at the Purchase Default Rate, which is defined in the Resolution as a fixed rate of 10% per annum.

See the caption “DESCRIPTION OF THE 2011A BONDS—Purchase Event of Default and Purchase Default Period.”

Redemption of the 2011A Bonds

While the 2011A Bonds bear interest in the New Index Interest Rate Period, they are subject to optional, mandatory sinking fund and (during any Purchase Default Period) special mandatory redemption as described under the caption “DESCRIPTION OF THE 2011A BONDS—Redemption Provisions.”

Continuing Disclosure

At the time it issued the 2011A Bonds, the City executed a Continuing Disclosure Certificate in which it covenanted 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 notices of the occurrence of certain enumerated significant events. See the caption “CONTINUING DISCLOSURE” and Appendix D.

Summaries and References to Documents

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

A copy of the most recent annual report of the 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 Remarketing Statement, except for the audited financial statements included in Appendix B or as otherwise indicated, is unaudited.

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

PRIOR DEBT AND DEBT SERVICE

Outstanding Prior Debt and Swap Agreement

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

**TABLE 1
OUTSTANDING PARITY DEBT**

<i>Name of Issue</i>	<i>Outstanding Principal Amount</i> ⁽¹⁾
Water Revenue/Refunding Bonds, Issue of 2009A (Tax-Exempt) ⁽²⁾	\$ 4,630,000
Water Revenue/Refunding Bonds, Issue of 2009B (Federally Taxable-Build America Bonds) ⁽²⁾	67,790,000
Water Revenue/Refunding Bonds, Issue of 2019A	114,215,000
Total	<u>\$186,635,000</u>

⁽¹⁾ As of June 30, 2019.

⁽²⁾ Issued pursuant to the Master Resolution and Resolution No. 21935 adopted on November 17, 2009.

⁽³⁾ Issued pursuant to the Master Resolution and Resolution No. 23410, adopted on January 22, 2019.

Source: City.

Debt Service Requirements

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

**TABLE 2
DEBT SERVICE REQUIREMENTS⁽¹⁾**

<i>Fiscal Year Ending June 30</i>	<i>Prior Parity Bonds Principal</i>	<i>Prior Parity Bonds Interest⁽²⁾</i>	<i>2011A Bonds Principal</i>	<i>2011A Bonds Interest</i>	<i>Total Bonds Debt Service⁽²⁾</i>	<i>Less Treasury Credits⁽³⁾⁽⁴⁾</i>	<i>Total Bonds Debt Service Net of Treasury Credits⁽³⁾⁽⁴⁾</i>
2020	\$ 5,520,000	\$ 9,967,480	\$ -	\$ 769,600	\$ 16,257,080	\$ (1,376,874)	\$ 14,880,206
2021	6,335,000	9,685,455	-	769,600	16,790,055	(1,376,874)	15,413,181
2022	6,640,000	9,362,533	-	769,600	16,772,133	(1,355,986)	15,416,147
2023	6,915,000	9,017,039	-	769,600	16,701,639	(1,312,390)	15,389,249
2024	7,215,000	8,643,840	-	769,600	16,628,440	(1,263,004)	15,365,435
2025	7,540,000	8,244,618	-	769,600	16,554,218	(1,208,589)	15,345,629
2026	7,875,000	7,827,686	-	769,600	16,472,286	(1,152,004)	15,320,282
2027	8,230,000	7,392,240	-	769,600	16,391,840	(1,093,150)	15,298,689
2028	8,600,000	6,937,374	-	769,600	16,306,974	(1,031,977)	15,274,997
2029	8,980,000	6,462,380	-	769,600	16,211,980	(968,332)	15,243,648
2030	6,305,000	6,043,327	3,275,000	699,733	16,323,060	(902,115)	15,420,945
2031	6,110,000	5,693,286	3,400,000	592,267	15,795,553	(832,897)	14,962,656
2032	6,365,000	5,338,871	3,525,000	480,800	15,709,671	(760,509)	14,949,162
2033	7,920,000	4,937,466	2,375,000	392,533	15,625,000	(685,160)	14,939,839
2034	7,025,000	4,517,761	3,700,000	288,267	15,531,028	(606,749)	14,924,279
2035	7,330,000	4,107,944	3,825,000	167,200	15,430,144	(524,225)	14,905,920
2036	7,660,000	3,677,143	3,950,000	42,133	15,329,277	(437,342)	14,891,935
2037	12,085,000	3,125,107	-	-	15,210,107	(346,800)	14,863,307
2038	12,645,000	2,446,017	-	-	15,091,017	(252,493)	14,838,523
2039	13,245,000	1,735,431	-	-	14,980,431	(154,319)	14,826,112
2040	6,665,000	1,171,749	-	-	7,836,749	(52,119)	7,784,630
2041	1,760,000	927,500	-	-	2,687,500	-	2,687,500
2042	1,850,000	837,250	-	-	2,687,250	-	2,687,250
2043	1,945,000	742,375	-	-	2,687,375	-	2,687,375
2044	2,040,000	642,750	-	-	2,682,750	-	2,682,750
2045	2,140,000	538,250	-	-	2,678,250	-	2,678,250
2046	2,250,000	428,500	-	-	2,678,500	-	2,678,500
2047	2,360,000	313,250	-	-	2,673,250	-	2,673,250
2048	2,480,000	192,250	-	-	2,672,250	-	2,672,250
2049	2,605,000	65,125	-	-	2,670,125	-	2,670,125
Total	\$ 186,635,000	\$ 131,021,998	\$24,050,000	\$ 10,358,933	\$ 352,065,932	\$(17,693,908)	\$ 334,372,023

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Assumes an annual interest rate of 3.20% on the 2011A Bonds, reflecting the anticipated effect of the 2005 Swap Agreement. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations—Existing Subordinate Obligations—2005 Swap Agreement."

⁽³⁾ Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986 (the "Code"), which the City will elect to receive under Section 54AA(g)(1) of the Code. These amounts are currently included in Gross Operating Revenues for purposes of the rate covenant under the Resolution. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant—Future Change in Rate Covenant."

⁽⁴⁾ On March 1, 2013, automatic spending cuts within the federal government known as the “sequester” took effect. For the period from October 1, 2018, through and including September 30, 2019, the cuts included a 6.2% reduction in amounts payable by the federal government to issuers of Build America Bonds (and other direct pay bonds) under Section 6431 of the Code, as determined by the Office of Management and Budget (the “**2018-19 Sequestration Rate**”). Because the 2009B Bonds were issued as Build America Bonds and will be affected by the reduction in credits (absent future Congressional action), more Net Operating Revenues will be needed to pay debt service on the 2009B Bonds than previously scheduled in order to offset the impact of the sequester. Under a federal budget bill enacted in 2019, the reduction of sequester will continue through September 30, 2029, and the amounts payable to issuers of Build America Bonds will be reduced by 5.9% for the period from October 1, 2019, through and including September 30, 2020. The sequestration rate for federal fiscal years 2021 through 2029 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage; however, this table assumes that the 2019-20 Sequestration Rate remains in effect through the final maturity of the 2009B Bonds on October 1, 2039.

Source: PFM Financial Advisors LLC.

DESCRIPTION OF THE 2011A BONDS

This Remarketing 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, a separate offering document will be distributed describing such new Interest Rate Period. Investors purchasing the 2011A Bonds in connection with a conversion to a different Interest Rate Period should look to the offering document prepared in connection with such conversion.

The following is a summary of certain provisions of the 2011A Bonds while in the New 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 Remarketing Statement is qualified by such reference. See Appendix C.

General

The 2011A Bonds currently bear interest 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 (“**DTC**”). DTC will act as securities depository for the 2011A Bonds. Principal, premium, if any, and interest on the 2011A Bonds are payable by the Fiscal Agent to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2011A Bonds. See Appendix F.

Interest Rate Provisions

Capitalized terms which are used in this caption that are not otherwise defined in this Remarketing Statement have the meanings ascribed to them below under the subcaption “—Interest Rate Definitions.”

Index Interest Rate. During the New Index Interest Rate Period, the 2011A Bonds will bear interest at the SIFMA Index Interest Rate.

Determination of the SIFMA 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 will 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 New Index Interest Rate Period, interest on the 2011A Bonds will be payable on the first Business Day of each month and the Index Rate Purchase Date. The “**Index Rate Purchase Date**” is 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 the caption “—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 Remarketing Statement relating to the Index Interest Rate are defined in the Resolution as follows:

“**Index Rate Conversion Date**” means: (a) the date on which the 2011A Bonds begin to bear interest at the Index Interest Rate; or (b) if the 2011A Bonds have previously borne interest at the Index Interest Rate during an Index Interest Rate Period, then ending on the Index Rate Purchase Date of the immediately preceding Index Interest Rate Period.

“**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).

“**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.

Mandatory Tender of the 2011A Bonds

During the New Index Interest Rate Period, the 2011A Bonds are subject to mandatory tender: (i) on the Index Rate Scheduled Purchase Date for the New 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 the Call Protection

Date for the New Index Interest Rate Period, in each case, at the Purchase Price, payable in immediately available funds; provided, however, that except as provided below under the caption “—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 Payment 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 the captions “—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 a Successful Remarketing in Connection with any Index Rate Purchase Date.”

While in an Index Interest Rate Period, for payment of the Purchase Price of any 2011A Bond subject to mandatory tender on an Index Rate Purchase Date, or of any 2011A Bond subject to mandatory tender for purchase upon a Conversion, on the specified Purchase Date, such 2011A Bond must be delivered, at or prior to 12:00 noon (New York City time), on the Purchase Date, to the Fiscal Agent at its corporate trust office for delivery of such 2011A Bonds accompanied by an instrument of transfer thereof, in form satisfactory to the Fiscal Agent, executed in blank by the Owner thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. In the event that any such 2011A Bond is delivered after 12:00 noon (New York City time) on the Purchase Date, payment of the Purchase Price of such 2011A Bond need not be made until the Business Day following the date of delivery of such 2011A Bond but such 2011A Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after the Purchase Date.

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

Conversion to Another Interest Rate Period

Pursuant to the Resolution, from and after the Call Protection Date, the New Index Interest Rate Period may be continued into another Index Interest Rate Period or changed to a Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period upon a mandatory tender for purchase. **This Remarketing Statement is not intended to describe the 2011A Bonds at any time during an Interest Rate Period other than the New Index Interest Rate Period.** Owners and prospective purchasers of the 2011A Bonds should not rely on this Remarketing 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, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term 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 the subcaption “—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 New 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 the caption “—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 the caption “—Conversion to Another Interest Rate Period—Notice Upon Converting Interest Rate” above. Such 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 will 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 such 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 the subcaption “—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 the captions “—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 the subcaption “—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 the caption “—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 the subcaption “—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 the caption “—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 the caption “—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 New 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 Management of 2011A Bonds Index Interest Rate Program. City staff has approved policies and procedures with respect to the 2011A Bonds that it believes will ensure that funds are available to the City to pay the Purchase Price prior to, if not on, the Index Rate Scheduled Purchase Date. Among other things, the policies set forth a timeline for City staff to follow in order to manage the periodic remarketing of the 2011A Bonds, including to review financial plan alternatives, prepare updated disclosure documents, coordinate with the City’s finance team and related matters. The policies and procedures are subject to change at any time and are not binding on the City.

Remarketing of 2011A Bonds. During the New Index Interest Rate Period, Stifel, Nicolaus & Company, Incorporated, 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 SIFMA 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 SIFMA 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, teletype 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 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 two Business Days before each Index Rate Scheduled Purchase Date, the Remarketing Agent will determine the Applicable Index Spread with respect to the Index Interest Rate Period immediately following such Index Rate Scheduled Purchase Date. The Applicable Index Spread 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 the 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 City is irrevocably committed to pay the Purchase Price of all 2011A Bonds on 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, 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 the subcaption “—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. See the caption “—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 New 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 the subcaption “—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 the caption “—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 the subcaption “—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, teletype 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, teletype 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, the establishment of the Call Protection Date 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 Applicable Index Spread 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 that 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 the captions “—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 that 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 the caption “—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 the 2011A Bonds will bear interest at the Purchase Default Rate (10% per annum);
- (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 the caption “—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 under the caption “—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 the caption “—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 under the caption “DEFAULTS AND 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, 2029, 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:

<i>Redemption Date (October 1)</i>	<i>Principal Amount</i>
2029	\$3,275,000
2030	3,400,000
2031	3,525,000
2032	2,375,000
2033	3,700,000
2034	3,825,000
2035 [†]	3,950,000

[†] 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 subcaption “—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 one-third 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 one-third 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 the subcaption “—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 the caption “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 will be made in accordance with the operational arrangements of the Securities Depository then in effect, which operational arrangements 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 will 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 will give notice of the redemption of 2011A Bonds to: (i) the Owners of the 2011A Bonds called for redemption; (ii) the Securities Depository; and (iii) the Information Services. Notice of such redemption will 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 Information Services or the Securities Depository or failure of any Owner to receive notice of redemption or any defect in such notice will not affect the sufficiency of the proceedings for the redemption of 2011A Bonds. Each notice of redemption will state the date of such notice, the distinguishing designation of the Series of Bonds to which such notice relates, the date of issue of such Series of Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the 2011A Bonds of such maturity to be redeemed and, in the case of 2011A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

In the event of an optional redemption of 2011A Bonds, if the City has not 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 will state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefor with the Fiscal Agent or other applicable party.

Each such notice will also state that on said date there will become due and payable on each of said 2011A Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2011A Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon will cease to accrue, and will require that such 2011A Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither the City nor the Fiscal Agent have any responsibility for any defect in the CUSIP number that appears on any 2011A Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Fiscal Agent will be liable for any inaccuracy in such numbers.

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.

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

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

SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS

Net Operating Revenues

Pursuant to the Law, the 2011A Bonds are special limited obligations of the City, secured by a pledge of and lien upon, and payable solely from, “Net Operating Revenues” (as such term is defined below) and other funds, assets and security described under the Resolution, on a parity with the Prior Parity Bonds and any Additional Bonds or Parity Debt issued in the future.

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

“**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 (the “**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, the definition of “Net Operating Revenues” will be amended and restated as follows; provided that such amendment and restatement will not take effect while the 2005 Swap Agreement and all other Subordinate Swaps and the Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps):

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

Resolution Flow of Funds

The City has created the 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 and the Resolution.

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: (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates); and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (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 will 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: (a) 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 (b) 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 is in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. Payments of principal on Parity Debt that

are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt will rank and be made *pari passu* with the payments required to be placed in the Principal Account.

Reserve Accounts; Supplemental Deposit. 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 the subcaption “—Bond Service Account—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.

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

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

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, will 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 clause (b) above plus 1.0 times the amounts payable under clauses (c) and (d) above.

The term “Mandatory Sinking Account Payment” (as used in clause (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, the following paragraph will be added to the Rate Covenant; provided that such amendment will not take effect while the 2005 Swap Agreement and all other Subordinate Swaps and the Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps):

For purposes of calculating the interest due under [clause] (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 City has established a debt service reserve account for the 2011A Bonds, but the 2011A Bond Reserve Requirement is \$0. Consequently, no amounts have been deposited into such debt service

reserve account. The owners of the 2011A Bonds 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 the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt and Swap Agreement.”

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 will 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 may be issued 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 in accordance with 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 are 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 clauses (a), (b) and (c) below, amount to at least 1.25 times the Maximum Annual Debt Service (as such term is 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 is not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

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

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

during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the certificate or opinion of a qualified independent engineer employed by the City; and

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

For definitions of “Maximum Annual Debt Service” and other capitalized terms used herein, see Appendix C.

Subordinate Obligations

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

Existing Subordinate Obligations.

2005 Swap Agreement. In connection with issuance of the City’s Water Refunding/Revenue Bonds, Issue of 2005 (the “**2005 Bonds**”), the City entered into a variable-to-fixed interest rate swap agreement in a notional amount of \$61,125,000 (the “**2005 Swap Agreement**”) with Bear Stearns Capital Markets Inc. for the purpose of converting the floating rate interest payments that the City was obligated to make on the 2005 Bonds into substantially fixed payments. Pursuant to an assignment agreement, dated as of May 2, 2011 (the “**JPMorgan Assignment Agreement**”), by and among Bear Stearns Capital Markets Inc., the City and JPMorgan Chase Bank, N.A. (the “**2005 Swap Provider**”), the parties agreed to the assignment to, and assumption by, the 2005 Swap Provider of the rights and obligations of Bear Stearns Capital Markets Inc. under the 2005 Swap Agreement. A portion of the proceeds of the City’s Variable Rate Refunding Water Revenue Bonds, Issue of 2008A (the “**2008A Bonds**”) were used to refund the 2005 Bonds and the 2005 Swap Agreement was integrated to the 2008A Bonds. Subsequently, a portion of the proceeds of the 2011A Bonds were used to refund the 2008A Bonds and the 2005 Swap Agreement was integrated to the 2011A Bonds on their delivery date. The obligations of the City under the 2005 Swap Agreement constitute Subordinate Obligations pursuant to the Resolution.

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

Amounts received by the City from the 2005 Swap Provider under the 2005 Swap Agreement constitute Gross Operating Revenues under the Resolution. There is no guarantee that the floating rate payable to the City pursuant to the 2005 Swap Agreement will match the variable interest rate on the 2011A Bonds at all times or at any time. Under certain circumstances, the 2005 Swap Provider may be obligated to make a payment to the City under the 2005 Swap Agreement that is less than the interest due on the 2011A Bonds. In such event, the City would be obligated to pay such insufficiency from Net Operating Revenues. This has occurred on certain occasions.

Any amounts 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.

The 2005 Swap Agreement has a stated termination date of October 1, 2035. Both the City and the 2005 Swap Provider have the right to terminate the 2005 Swap Agreement prior to its stated termination date under certain circumstances, including a default or the occurrence of certain termination events, and the City may be required to make a substantial termination payment to the 2005 Swap Provider. In the event of early termination of the 2005 Swap Agreement, there can be no assurance that the City will: (i) receive any termination payment payable to the City by the 2005 Swap Provider; (ii) have sufficient amounts to pay any termination payment payable by it to the 2005 Swap Provider; or (iii) be able to obtain replacement Swap Agreements with comparable terms. The City used a portion of the proceeds of the Water Revenue/Refunding Bonds, Issue of 2019A (the “**2019A Bonds**”) to terminate an amount of the 2005 Swap Agreement corresponding to the principal amount of Bonds redeemed from 2019A Bond proceeds (\$26,900,000). In connection with the partial termination of the 2005 Swap Agreement, the City has entered into such protocols, including any amendments or supplements to the 2005 Swap Agreement, needed to comply with ISDA’s Dodd-Frank Documentation Initiative and other requirements, including responses to regulatory requirements binding others, imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The current notional amount of the 2005 Swap Agreement is \$24,050,000, reflecting the partial termination from 2019A Bond proceeds as described in the prior paragraph.

Revolving Credit Facility. On February 1, 2019, the City entered into a revolving credit agreement (the “**Revolving Credit Agreement**”) with U.S. Bank National Association. Under the terms and conditions of the Revolving Credit Agreement, the City may borrow up to \$25,000,000 for purposes of the capital or operating financing needs of the Water System (the “**Revolving Credit Facility**”). Each advance under the Revolving Credit Facility that is allocated to the Water System will be secured by a subordinate pledge of Net Operating Revenues and accrue interest at a variable rate calculated by reference to LIBOR on the first calendar day of each month. The Revolving Credit Facility matures three years after its execution (the “**Revolving Credit Maturity Date**”); however, any advance not paid on the Revolving Credit Maturity Date will convert to a term loan that will amortize in equal quarterly payments commencing 90 days after the Revolving Credit Maturity Date, and the term loan will accrue interest at a variable rate and become due and payable in full on the third anniversary of the Revolving Credit Maturity Date. U.S. Bank National Association, as lender under the Revolving Credit Facility, has the right to terminate the commitments and accelerate amounts due by the City thereunder following certain events of default specified therein, including failure to meet covenants and payment defaults.

The periodic payments due to the City from the counterparty under the 2005 Swap Agreement and the amounts payable by the City under the Revolving Credit Agreement (as well as interest payments payable on the 2011A Bonds) are calculated by reference to LIBOR. On July 27, 2017, the Financial Conduct Authority (the “**FCA**”), the U.K. regulatory body which is currently responsible for the regulation and supervision of LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the “**FCA Announcement**”). It is not possible to predict the effects of the FCA Announcement or how any prospective phasing out of LIBOR as a reference rate and transition to an alternate benchmark rate will be implemented, but increased volatility in the reported LIBOR rates may occur and the level of such LIBOR-based swap and interest payments may be affected.

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

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

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

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

Management of the Department is as follows:

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

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

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

Mr. George R. Hanson, Utilities Assistant General Manager/Energy Delivery, holds a Bachelor of Science degree from University of California, Irvine and a Master of Science degree from California State University, Long Beach in Civil Engineering and is a registered Professional Engineer in the State of California. He has been with the Department since 2010 and has served in various management roles, including Engineering Manager and Electric Field Manager. He has been involved in the electric utility industry for 28 years.

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 Article XII, the Board, among other things, has the power and obligation to: (1) consider the annual budget for the Department during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager;

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

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

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

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

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

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

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

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

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

Jennifer C. O’Farrell – Appointed to the Board in 2015, current term expires March 1, 2023. Ms. O’Farrell is an Executive Director for a non-profit organization of the Inland Empire.

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

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

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

Employment Matters

Employee Relations. As of October 7, 2019, 151 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 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, 2021. Portions of the administrative staff are represented by the Service Employees International Union (“**SEIU**”). The City and SEIU are parties to a Memorandum of Understanding that expires on June 30, 2020. While not under a memorandum of understanding, all unrepresented employees have compensation and benefit packages approved by the City Council. On December 13, 2016, the City Council approved changes for unrepresented employees through January 2021.

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

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

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

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

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

- 1st Tier -
 - The retirement formula is 2.7% at age 55 for unrepresented employees hired before October 19, 2011. Effective January 1, 2018, the employees are required to pay 2% of the employee contribution of their pensionable income, with the City contributing the other 6%. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion increases over three years by 2% in 2019, 2% in 2020 and 2% in 2021. By 2021, employees will be contributing the entire 8% of their pensionable income.
 - The retirement formula is 2.7% at age 55 for SEIU employees hired before June 7, 2011. The employees are required to pay 6% of their pensionable income, with the City contributing the other 2%. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion increases over two years by 1% in 2019 and 1% in 2020. By 2020, employees will be contributing the entire 8% of their pensionable income.
 - The retirement formula is 2.7% at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees are required to contribute 2% of their total pensionable income, with the City paying the remaining 6%. Effective November 1, 2018, employees are required to pay an additional portion of their pensionable income. This portion increases over three years by 2% in 2018, 2% in 2019 and 2% in 2020. By 2020, employees will be contributing the entire 8% of their pensionable income.
- 2nd Tier - The retirement formula is 2.7% at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8%) of contributions.
 - All other Miscellaneous Plan employees hired on or after October 19, 2011 pay their share (8%) of contributions.
- 3rd Tier - The retirement formula is 2% at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7% to 8% based on bargaining group classification. Classic members (employees who were CalPERS members prior to December 31, 2012) hired on or after January 1, 2013 may be placed in a different tier.

City employees who were hired on and after January 1, 2013 and who were not previously CalPERS members receive benefits based on a 2% at age 62 formula; such employees are required to make the full amount of required employee contributions themselves under the California Public Employees' Pension Reform Act of 2013 ("AB 340"), which was signed by the State Governor on September 12, 2012. AB 340 established a new pension tier: the 2% at age 62 formula, with a maximum benefit formula of 2.5% at age 67. Benefits for such participants are calculated on the highest average annual compensation over a consecutive 36 month period. Employees are required to pay at least 50% of the total normal cost rate. AB 340 also caps pensionable income for 2019 as noted below. Amounts are set annually, subject to Consumer Price Index increases, and retroactive benefits increases are prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

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

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

Source: City.

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

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

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

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

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

For fiscal year 2018-19, the City incurred Miscellaneous plan pension expenses of \$0, with a credit of \$4,365,000 due to changes in actuarial assumptions resulting from GASB 68. The City’s Miscellaneous plan contributions for fiscal years 2017-18 and 2018-19 were \$29,948,000 and \$34,486,000, respectively. The City currently expects its annual required contribution for the Miscellaneous plan in fiscal year 2019-20 to be approximately \$39,912,000. The share of such contributions which is attributable to the Water System is expected to be approximately 11% in fiscal year 2019-20.

In addition, the Water System is obligated to pay its share of the City’s pension obligation bonds, which the City issued in 2005 and of which the City refinanced a portion in May 2017 (the “**Pension Obligation Bonds**”). The Water System’s total proportional share of the outstanding principal amount of the Pension Obligation Bonds was \$3,087,517 as of June 30, 2019. That share will amortize based on the amortization schedule of the Pension Obligation Bonds (which extends to 2027). See also Notes [1 and 4] to

the audited financial statements of the Water System attached as Appendix B to this Remarketing Statement for further information.

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

ACTUARIAL ASSUMPTIONS FOR CALPERS MISCELLANEOUS PENSION PLAN

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

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

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

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

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

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

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

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

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

Source: City.

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

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

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

Source: City.

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

The City’s projections of Operating and Maintenance Expenses under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” do not assume unusual increases in CalPERS contributions or other labor costs. However, no assurance can be provided that such expenses will not increase significantly in the future. The City does not expect that any increased funding of pension benefits will have a material adverse effect on the ability of the City to pay the 2011A Bonds.

For additional information relating to the City’s CalPERS Miscellaneous pension plan, see Note [14] to the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, [2018], which may be obtained on the City’s website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet website is not a part of this Remarketing Statement and is not incorporated by reference into this Remarketing Statement. No representation is made in this Remarketing Statement as to the accuracy or adequacy of the information contained on this Internet website.*

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

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

The Implied Subsidy Plan allows retirees and current employees to be insured together as a group and allows a lower rate for retirees than if they were insured separately. Upon retirement, retirees pay the full amount of applicable premiums; however, they participate in the 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.

Effective for the fiscal year ended June 30, 2018, GASB issued its Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“**GASB 75**”). GASB 75 requires a net OPEB liability to be reported on the balance sheet of the financial statements, similar to the net pension liability. GASB 75 requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For the fiscal years ended June 30, 2019 and 2018, the OPEB expense recorded for the Water System was \$118,000 (based on unaudited numbers) and \$265,000, respectively. The Water System’s net OPEB liability as of June 30, 2019 and 2018 was \$3,524,000 (based on unaudited numbers) and \$3,410,000, respectively.

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

CHANGES IN OPEB PLAN LIABILITY
(Dollars in Thousands)

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

Source: City.

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

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

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

Source: City.

The City’s projections of Operating and Maintenance Expenses under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” do not assume unusual increases in OPEB funding expenses in the future. However, future changes in funding policies and assumptions, including those related to assumed rates of investment return and healthcare cost inflation, could trigger increases in the City’s annual required contributions, and such increases could be material to the finances of the City. No assurance can be provided that such expenses will not increase significantly in the future. The City does not expect that any increased funding of OPEB will have a material adverse effect on the ability of the City to pay the 2011A Bonds.

For additional information relating to the City’s OPEB plan, see Note [15] to the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, [2018], which may be obtained on the City’s website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Remarketing Statement and is not incorporated by reference into this Remarketing Statement. No representation is made in this Remarketing Statement as to the accuracy or adequacy of the information contained on this Internet site.*

Investment Policy and Controls

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

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

The City’s portfolio is currently comprised of fixed rate United States Government Agency Bonds, federal agency securities, corporate notes that are rated at least “A”, certificates of deposit and money market funds, including the State of California Local Agency Investment Fund. The City entered into certain interest rate swap agreements in connection with previously issued Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations.”

The City’s investment policy requires the investment of City funds to be made in accordance with Section 53600 *et seq.* of the California Government Code and the City’s Investment Policy approved by the City Council on December 15, 2015. In the past, in connection with its budget-adoption process, the City Council has annually delegated authority to the City’s Treasurer for responsibility over investments. See Note 2 to the audited financial statements of the Water System attached as Appendix B and Note 3 to the City’s basic financial statements in the City’s Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2018, which may be obtained on the City’s website at <https://www.riversideca.gov/finance/cafr/>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Remarketing Statement and is not incorporated by reference into this Remarketing Statement. No representation is made in this Remarketing Statement as to the accuracy or adequacy of the information contained on this Internet site.*

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, whose service is provided by other water retailers.

The Water System provides service to approximately 65,640 metered customers within a service area of 74.2 square miles, of which 70.5 square miles are within the City limits. The elevation of the service area ranges from less than 700 feet to more than 1,600 feet above sea level. The population served is approximately 325,800. 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, but also to commercial and industrial customers. The City also provides irrigation water within its service area.

Currently, the City’s water supply is provided almost exclusively from its groundwater sources. The City also has the ability to receive water from Western Municipal Water District (“WMWD”), which provides additional reliability and a source of emergency supply.

The following table sets forth certain general statistical information relating to the Water System for the last five fiscal years.

**TABLE 3
WATER SYSTEM GENERAL STATISTICS**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Service Connections Billed	64,871	65,094	65,428	65,640	65,714
Annual Potable Urban Water Production ⁽¹⁾					
Local Groundwater Wells	22,854	21,132 ⁽⁴⁾	22,240	24,623	21,930
Purchases from WMWD	0	0	0	0	0
Total	22,854	21,132	22,240	24,623	21,930
Peak Daily Distribution ⁽²⁾	86.6	74.7	87.6	87.5	90.1
Average Daily Production ⁽²⁾⁽³⁾	57.9	49.3	61.0	67.0	59.0

⁽¹⁾ In millions of gallons at the entry point to the distribution system; includes retail, wholesale and wheeled water.

⁽²⁾ In millions of gallons per day at the entry point to the distribution system; includes retail, wholesale, and wheeled water.

⁽³⁾ Refers to average daily distribution at the entry point to the distribution system.

⁽⁴⁾ Decrease from prior year primarily due to decreased demand resulting from conservation in connection with the State’s ongoing drought. See the caption “—Water Supply—Drought Conditions.”

Source: City.

History of the Water System

The City commenced domestic water operation in 1913 with the purchase of three mutual water companies that then served the City. Thereafter, the City 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 were converted from agricultural to urban use.

Existing Facilities

General. 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 56 wells for supplying domestic and irrigation water to its service area, of which 48 are currently active. Distribution and transmission pipelines for the Water System range in diameter from 2 to 72 inches and total approximately 1,005 miles. There are 16 storage reservoirs with a total capacity of 108.5 million gallons, or 3 days of emergency supply. Six treatment plants remove contaminants from local groundwater before the water is delivered to the distribution system, consisting of 48 granular activated carbon (“GAC”) vessels to treat trichloroethylene (“TCE”) and dibromochloropropane (“DBCP”) and 42 ion exchange (“IX”) vessels to treat perchlorate. Thirty-eight booster-pumping stations deliver water to higher elevation pressure zones. Twenty-eight pressure-reducing stations deliver water from higher to lower pressure zones.

In order to receive imported water supplies and services, the City maintains three 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”). The first interconnection is located at Alessandro Boulevard, near the Mills Filtration Plant, and provides capacity of approximately 19 million gallons (“mgd”) 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 “Mills Highline”). The City's connection is at Van Buren Boulevard and provides capacity of approximately 19 mgd to the Water System's middle pressure zones. The third interconnection is along the Mills Highline at Green Orchard Place and provides additional capacity of 6.5 mgd to the Water System's upper southern pressure zones.

Four 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 8,173 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 last five fiscal years.

TABLE 4
WATER SYSTEM FACILITIES

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Utility Plant (less provision for accumulated depreciation) ⁽¹⁾	\$ 445,329	\$ 456,494	\$454,000	\$ 462,496	\$ 475,959
Construction in Progress ⁽¹⁾	\$ 12,028	\$ 6,655	\$ 13,973	\$23,969 ⁽²⁾	\$19,392
Miles of Pipeline	1,000	1,000	1,003	1,005	1,005
Number of Active Domestic Wells	55	56	56	56	48 ⁽³⁾
Number of Active Reservoirs	15	16	16	16	16

⁽¹⁾ Valued in thousands of dollars, rounded to the nearest thousand.

⁽²⁾ Includes approximately \$1 million for main replacement; \$2.4 million for system expansion; \$0.5 million for facilities rehabilitation; \$7.7 million for recycled water facilities; \$0.4 million for aquifer storage and recovery system; \$4.1 million for well relocation; \$2.9 million for the Seven Oaks Dam conservation projects; and \$5 million for various other projects, such as facility replacements, pipeline relocations for street improvements, transmission mains, and pump station replacements.

⁽³⁾ Decrease in number of active domestic wells reflects deactivation of certain wells as a result of declining water levels.

Source: City.

For information about planned capital improvements to the Water System, see the caption “—Capital Improvement Program.”

John W. North Water Treatment Plant (the “JWNWTP”). The JWNWTP was constructed to bring new water supplies online and eliminate the City’s reliance on imported water (other than in emergency situations). This innovative project includes adaptive reuse of existing facilities, coupled with the Department’s first Design-Build project. The JWNWTP cost approximately \$25.7 million, with approximately 50% funded by Proposition 50 grant moneys 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), with the remaining portion funded with the proceeds of bonds issued by the City. The City received a total of \$12.8 million from the State of California.

The JWNWTP began operations on September 4, 2008, which allowed the City to become water independent, except for emergency conditions. In fiscal years 2017-18 and 2018-19, the City required neither Colorado River water nor water from California’s State Water Project.

The JWNWTP enabled four existing irrigation wells (the Flume Wells) to be converted to a potable water supply. The 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 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 JWNWTP included 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 class 48-inch diameter pipeline.

Water Supply

General. The City currently obtains 100% of its potable water from water rights in its wells in the Bunker Hill Basin (the “**BHB**”), Riverside North Basin (the “**Riverside North Basin**”) and Riverside South Basin (the “**Riverside South Basin**”). The City’s water sources are described below.

Bunker Hill Basin. The largest source of water for the City is the BHB, which is located approximately eight miles northeast of the City. Water is collected from a total of 35 wells in the BHB and conveyed to the City through two separate transmission pipelines, the 60-inch pipeline operated by the Gage Canal Company (the “**Gage Pipeline**,” as further described under the caption “—Gage Canal Company” below) and the 42/48-inch Waterman Transmission Main. Nine of these wells are treated through one wellhead and three regional treatment plants for perchlorate and/or TCE.

Riverside North Basin and Riverside South Basin. Groundwater for the City’s potable water system is also pumped from a total of 15 wells in the Riverside North Basin and Riverside South Basin. Within the Riverside South Basin, eight 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 JWNWTP (as described under the caption “—Existing Facilities—John W. North Water Treatment Plant”), and two wells pump directly into the 60-inch Gage Pipeline.

Groundwater for the City’s non-potable system is pumped from a total of five irrigation wells that operate in the Riverside South Basin.

Colton Basin. The City also has water rights in the Rialto-Colton groundwater basin (the “**Colton Basin**”). The City’s Johnson 4 well in the Colton Basin was equipped and began production in 2015 as a new non-potable water supply.

Western Municipal Water District. Imported water obtained from MWD through 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, 2018, no purchases were made from WMWD.

If imported water is required in the future, the water would be 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 (as described under the caption “—Existing Facilities—John W. North Water Treatment Plant”), this source is used only for emergency supply purposes.

Water Rights. The City is working toward meeting the anticipated future water demands of its service area for the next 100 years by fully utilizing its existing water rights and developing new sources of supply. See the caption “—New Sources of Supply”). If required, supplemental imported water from WMWD is available to meet peak day demands and emergency conditions.

As a result of a court decision in 1969 (the “**1969 Judgment**”), the City’s rights to export 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 325,850 gallons). The administration of the 1969 Judgment and the “safe yield” determination are assigned to a “Watermaster” (as defined in the 1969 Judgment), consisting of a representative from each of WMWD and San Bernardino Valley Municipal Water District (“**SBVMWD**”). The natural safe yield of the BHB was determined by court order in the 1969 Judgment and is 232,100 AFY. The natural safe yield is based on a 40-year hydrologic cycle.

Presently, the City’s export rights from the BHB total 55,263 AFY. This amount includes its export rights totaling 49,542 AFY, as described above, its ownership in several mutual water companies with rights in the BHB and new conservation (i.e., an additional annual water right) associated with increased recharge below Seven Oaks Dam. See the caption “—New Sources of Supply—Seven Oaks Dam.” The supply from the BHB appears secure over the long-term and currently provides approximately two-thirds of the City’s water requirements under normal conditions. The City has not exceeded its pumping rights in the past 5 years.

Rights to water in the Riverside North Basin, Riverside South Basin and Colton Basin are defined in the 1969 Judgment. Base period (1959-63) extractions from these basins for use in Riverside County were determined at a total amount of about 54,100 AFY. The City has the entitlement to a major portion of this base period extraction and can increase its production beyond the base period extraction due to conservation activities (as was accomplished with Seven Oaks Dam). Under the terms of the 1969 Judgment, SBVMWD and WMWD are obligated to replenish the Colton Basin and Riverside North Basin. The replenishment obligation is triggered if extractions exceed the “adjusted” base year extractions or the average water level in three specified wells falls below 822.04 feet above mean sea level. As of August 2019 (the most recent annual monitoring required under the 1969 Judgment), the average water level measured from the three wells was 10.88 feet below the minimum requirement. Watermaster and SBVMWD are working cooperatively to devise a plan for San Bernardino Valley to achieve compliance in the Colton and Riverside Basin areas, including the construction of necessary facilities and obtaining environmental permits to provide replenishment as well as making arrangements for extractions from the Riverside Basin area in San Bernardino County to be transferred to the San Bernardino area. These basins are considered another reliable long-term source of water to meet the City’s needs because of the replenishment obligations identified in the 1969 Judgment, 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 35% of the City’s water requirements under normal conditions. Over the past five fiscal years, the City has pumped an average of 27,000 AFY from the Riverside North Basin and Riverside South Basin.

Gage Canal Company. The City pumps water from irrigation wells into its Riverside Canal, along with direct pumping from the certain other wells (the Olivewood wells), to transmit irrigation water to the Gage Canal Company. In exchange, the City receives potable water produced by the Gage Canal Company from the BHB (see the caption “—General—Bunker Hill Basin” above) under an agreement with the Gage Canal Company. The City currently owns 60% of the shares of the Gage Canal Company and holds 3 of 11 seats on the board of directors. The City has the right to terminate the agreement upon 10-day notice of a breach given to the Gage Canal Company. The City, upon notice, may also cancel the agreement if the Gage Canal Company engages in an activity or enterprise that is detrimental to, contrary to or in conflict with its performance obligations under the agreement.

Drought Conditions.

State Orders. On January 17, 2014, the California Governor declared a drought state of emergency (the “**Declaration**”) with immediate effect. The Declaration encouraged local urban water suppliers, including the City, to implement their local water shortage contingency plans; the City’s plan is discussed under the caption “—Water Shortage Contingency Plan.” The Declaration also required the State of California Department of Water Resources (“**DWR**”) and the State Water Resources Control Board (the “**SWRCB**”) to craft and enforce numerous emergency regulations that were designed to reduce water usage and increase water supplies.

For instance, a May 2015 SWRCB regulation required the City to effect a 28% reduction from its 2013 potable water usage (later decreased to 25%). On May 18, 2016, the SWRCB adopted a revised regulation that gave water agencies the ability to establish their own conservation standards based on a “stress test” of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they had sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands became the water agency’s updated mandatory conservation target.

The City’s self-certification demonstrated that it had sufficient supplies to meet its projected demands, even if the State were to have endured three more years of drought. Consequently, the City’s mandatory conservation target was eliminated retroactive to June 1, 2016.

On April 7, 2017, after significant improvement in water supply conditions across California, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most California counties (including Riverside County).

The City is currently operating under normal supply conditions, as described below under the caption “—Water Shortage Contingency Plan.”

The City’s water rates include both fixed charges and variable commodity charges. The City believes that its rate structure enhances its ability to generate sufficient Net Operating Revenues to pay the 2011A Bonds when due because fixed charges cover much of the Water System’s fixed costs, while the City can pump less groundwater when demand (and, consequently, Gross Operating Revenues) are low, resulting in reduced Operating and Maintenance Expenses.

In 2018, the California Governor signed Senate Bill 606 and Assembly Bill 1668 into law. These bills relate to water conservation and drought planning and empower DWR and the SWRCB to adopt long-term standards on water use. The City is unable to predict the substance, timing of adoption or effect on the Water System of the implementation of Senate Bill 606 and Assembly Bill 1668 or any future legislation with respect to water conservation. See the caption “—New Sources of Supply—Water Use Efficiency.”

Water Shortage Contingency Plan. The City’s water shortage contingency plan is set forth in Chapter 14.22 of the City’s Municipal Code. Under the City’s plan, the City responds to a water shortage in stages by City Council declaration as follows:

Stage One – Normal water supply. Under Stage One, non-agricultural irrigation using potable water is limited to the period from 6:00 p.m. to 10:00 a.m. with a total run-time of 15 minutes per station for pop-up sprinklers, and irrigation runoff is prohibited.

Stage Two – Minimum water shortage. Under Stage Two, all restrictions of Stage One are in effect, customers are asked to reduce their monthly water consumption up to 15%, non-agricultural irrigation is limited to four days per week and all plumbing leaks must be corrected within 72 hours of notification.

Stage Three – Moderate water shortage. Under Stage Three, all restrictions of Stages One and Two are in effect, customers are asked to reduce their monthly water consumption by 15-20% and non-agricultural irrigation is limited to three times per week during the months of April through October two times per week during the months of November through March.

Stage Four – Severe water shortage. Under Stage Four, all restrictions of Stages One through Three are in effect, customers are asked to reduce their monthly water consumption by 20-50%, non-agricultural irrigation is limited to one day per week to support minimal survival of trees and shrubs, washing of vehicles is prohibited except at a commercial car wash, filling, refilling or replenishing swimming pools, spas, ponds, streams and artificial lakes is prohibited and operation of ornamental fountains, ponds or similar structures is prohibited.

Water shortage emergency. Upon the City Council’s declaration of a Water Shortage Emergency, no new construction meters will be issued, no construction water may be used for earth work such as road construction purposes, dust control, compaction or trench jetting and no new building permit(s) shall be issued, except as necessary for public health or safety or for projects using recycled water for construction.

The City is empowered to issue administrative citations for violations of the above restrictions.

The City is currently operating under Stage One. For information on the impact of drought conditions on the recent finances of the Water System, see the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations.”

Sustainable Groundwater Management Act. On September 16, 2014, Governor Brown signed Assembly Bill No. 1739 and Senate Bill Nos. 1168 and 1319 (collectively, the Sustainable Groundwater Management Act, or “**SGMA**”) into law. The SGMA constitutes a legislative effort to regulate groundwater on a statewide basis. At its core, the SGMA added Part 2.74 to Division 6 of the California Water Code (“**Part 2.74**”), under which DWR was required to designate groundwater basins in the State as high, medium, low or very low priority for purposes of groundwater management by January 31, 2015. Part 2.74 also provides that by January 31, 2017, local groundwater producers must establish or designate an entity (referred to as a groundwater sustainability agency, or “**GSA**”), subject to DWR’s approval, to manage each high and medium priority groundwater basin. Each GSA is tasked with submitting a groundwater sustainability plan for DWR’s approval by January 31, 2020. Alternatively, groundwater producers can submit a groundwater management plan under Part 2.75 of Division 6 of the California Water Code or an analysis for DWR’s review demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years.

Water Code Section 10720.8(a) (“**Section 10720.8(a)**”) specifically provides that Part 2.74 is inapplicable to certain adjudicated areas (the “**Listed Basins**”) or a local agency that conforms to the requirements of an adjudication of water rights for one of those areas; provided that if an adjudication action has determined the rights to extract groundwater for only a portion of a Listed Basin, Section 10720.8(a) applies only within the area for which the adjudication action has determined those rights. The Listed Basins include the basins in which the City has water rights: the San Bernardino Basin Area (which includes the BHB), the Riverside Basin (which includes the Riverside North Basin and Riverside South Basin) and the Colton Basin.

As a result of the exemption provided by Section 10720.8(a), the City does not expect that its groundwater extraction rights or its costs to produce groundwater will be affected by the enactment of the SGMA.

New Sources of Supply

General. The City is actively developing and securing additional water supplies to meet projected increased demands. 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.

Recycled Water. Since 2007, the Water System has been developing a recycled water program. Revenues from the sale of recycled water are included within the calculation of Gross Operating Revenues, and expenses are included within Operating and Maintenance Expenses.

In May 2007, the City submitted an application to the SWRCB to divert up to 41,000 AFY of recycled water from the Riverside Regional Water Quality Control Plant (the “**RWQCP**”), a wastewater treatment plant. On May 20, 2008, the 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. Per the City’s 2015 Urban Water Management Plan (a 5-year plan which is scheduled to be updated in 2020), approximately 6,430 AFY is available for reuse, but that amount is expected to grow over time with additional influent to the RWQCP.

The City developed a Recycled Water Master Plan and supporting programmatic environmental impact report, both of which have been adopted by the City Council. In February 2008, the Board gave conceptual approval to a facilities plan that outlines specific infrastructure requirements to begin significant expansion of recycled water projects within the City’s service territory. Included in the plan are large diameter pipelines to transfer recycled water from the RWQCP to selected areas within the Water System’s service area for municipal service. The projects, referred to as the Jackson Street and Arlington Avenue Recycled Water Pipeline Projects, would provide up to an estimated 3,370 AFY and 1,600 AFY, respectively, of recycled water (820 AFY and 1,600 AFY of direct potable offset, respectively) and are described below.

Jackson Street Recycled Water Pipeline Project. In August 2018, the City completed construction of the first phase of approximately 3.5 miles of recycled water transmission and distribution pipelines from Van Buren Boulevard to Cleveland Avenue, a recycled water pump station and associated upgrades to the recycled water pumping plant at the City's wastewater treatment plant. The first phase extends from the intersection of Van Buren Boulevard and Jackson Street to Don Derr Park on Monroe Avenue. The second phase will continue from Don Derr Park up to the intersection of Cleveland Avenue and Jackson Street. The second phase has an estimated cost of \$9.6 million, which is currently unfunded and is not anticipated to be scheduled for construction within the next four years. This project will introduce highly treated recycled water at the Mockingbird Reservoir for direct potable reuse when the regulatory framework is established in the future to permit such usage.

If completed, the Jackson Street Recycled Water Pipeline Project could provide over 820 AFY of direct irrigation use for potential recycled water customers along the pipeline alignment and an additional 2,550 AFY of recycled water to be exchanged with WMWD for a total of 3,370 AFY. The Jackson Street Recycled Water Pipeline Project has a total estimated cost of \$21 million, which is anticipated to be financed using a combination of available funding, including a grant of \$1 million, cash reserves and future bond funds. There can be no assurance that the project will be completed as currently contemplated, or as to the timeline for completion.

Arlington Avenue Recycled Water Pipeline Project. The City plans to augment recycled water use by constructing an additional 3 miles of recycled water transmission and distribution pipelines within and south of Arlington Avenue just west of Van Buren Boulevard. The additional piping will provide an additional 1,600 AFY of recycled water for direct irrigation use for potential recycled water customers along the pipeline alignment. This project has an estimated cost of \$6.4 million, and is currently unfunded. There can be no assurance that the project will be completed as currently contemplated, or as to the timeline for completion.

Seven Oaks Dam. In 1999, the U.S. Army Corps 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 in order to allow the dam to be used for seasonal water storage. The dam is operated by local flood control agencies in accordance with 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 (the "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 Seven Oaks Dam. In its current form, the WCM for Seven Oaks Dam provides some water conservation benefits by capturing floods that would have otherwise flowed out of the San Bernardino Basin Area (the "SBBA"). This water is then released at controlled rates that are most often lower than pre-dam natural flood event rates. The 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 USACE for further modifications to the WCM to provide additional conservation benefits by extending the period that captured flood flows are retained behind Seven Oaks Dam.

In April 2010, the SWRCB issued its final Decision Partially Approving Water Right Applications 31165 and 31370 submitted by SBVMWD and WMWD to capture and store storm water behind Seven Oaks Dam. Under the terms of the permit, up to 198,000 AFY can be captured and diverted from behind the dam for groundwater recharge or direct delivery to water purveyors. Rainfall analysis over a 40-year hydrological cycle indicated that the average diversions will be approximately 11,000 AFY. The terms of the 1969 Judgment provide for approximately 24% 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.

The City estimates that its share of water from Seven Oaks Dam will reach, on average, approximately 2,800 AFY once additional recharge facilities are constructed. In 2015, the court-appointed Watermaster approved 1,719 AFY as the City's share of the new yield from this conjunctive use project as part of the annual monitoring process under the 1969 Judgment; this share was not impacted by the recently-ended drought. The Watermaster also approved a storage account of approximately 9,600 acre feet made available to the City from conservation activities that occurred at Seven Oaks Dam from 1998-2012. The full yield from this project is anticipated to be available by 2022.

Riverside North Aquifer Storage and Recovery Project. The City, in conjunction with WMWD and SBVMWD, has proposed the construction of an inflatable rubber dam in the Santa Ana River. The dam will be inflated to capture lower storm flows and recharge the storm water within the riverbed and in off-channel percolation basins on property owned by the City. The dam will also be used to divert up to 100 cubic feet per second to the Riverside Canal. The recharge that occurs behind the rubber dam will help sustain groundwater supplies for the City's nearby Flume wells. Peak storm flows will not be captured or reduced. On average, the project is projected to yield approximately 3,250 AFY of additional surface water recharge in the Riverside Basin. The project is being led by SBVMWD and is currently in the planning phase. There can be no assurance that the project will be completed as currently contemplated, or as to the timeline for completion.

Water Use Efficiency. Although California faces long-term water supply challenges, the City believes that 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 and a Recycled Water Master Facilities Plan. Plumbing codes adopted by the City address retrofit of indoor plumbing fixtures upon issuance of building permits. 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. The City has implemented a Water-Efficient Landscaping Ordinance, as well as a new Water Use Efficiency Ordinance in addition to the existing municipal code restrictions on wasting water. In partnership with WMWD, the City's Planning and Utility Department helped develop new water efficient landscape design guidelines to assist new development.

On November 10, 2009, the Governor signed SBX7-7, which requires the State of California to achieve a 20% reduction in urban per capita water use by December 31, 2020. Additionally, on May 31, 2018, the Governor signed long-term water-use efficiency bills Senate Bill 606 and Assembly Bill 1668 into law to provide standards for indoor residential water use of 55 gallons per capita per day ("gpcd") until 2025, 52.5 gpcd from 2025 to 2030, and 50 gpcd beginning in 2030.

The City established its urban water use targets for 2020 in accordance with the above legislation. The 2020 urban water use target for the Water System's service area (213 gpcd) was calculated in the City's 2015 Urban Water Management Plan to reflect the use of the DWR Population Tool. The City intends and expects to meet the conservation requirements of the above legislation through increased use of recycled water and implementation of additional conservation measures.

Education. The City continues to offer customers a wide variety of water conservation programs that help reduce their water usage and utility costs and help the City meet State conservation mandates. These programs provide rebates for residents and businesses to help them save money by conserving water. In an effort to streamline and automate the rebate process, the City formed a partnership with MWD to administer and process rebates for high-efficiency toilets, clothes washers, irrigation controllers and many other water-saving devices.

Another City program, called the Smart Irrigation Program, provides participants with irrigation audits, smart irrigation controllers, and high-efficiency sprinkler nozzle retrofit installations at little to no cost.

In addition, the City created the “Less Water, More Color” marketing campaign to promote efficient water use and management for residents and businesses. The “Less Water, More Color” campaign provides resources to explore water rebates, information on water quality, water efficiency tips and resources to assist individuals to create a water-efficient property.

To further provide comprehensive resources and guidance as to how to implement water efficiency practices at residents and businesses, the City created the Street Park Turf Conversion and Demonstration Garden at the Janet Goeske Center. The Demonstration Garden allows residents and businesses to interact with water conservation materials and techniques that conserve water, elevate customer awareness, increase incentive program participation, provide educational opportunities and demonstrate water conservation best practices.

At the Janet Goeske Center, the City has partnered with local assets such as Riverside Corona Resources Conservation District to offer a free series of training classes around the “Less Water, More Color” campaign. The classes teach residents and businesses how to manage their soil, program their irrigation controller properly, troubleshoot their irrigation system, convert traditional irrigation to drip and to remove and replace their lawn with low water use plants.

The City also developed the Riverside Public Utilities School Education Program, which is designed to teach science concepts related to water and conservation. The Water Education Program is offered to fifth-grade classrooms in the City’s Public Utilities service territory. The class content is aligned with the California Next Generation Science Standards to keep current with trends in science education and to increase the emphasis on environmental literacy. The program focuses on water conservation and promotes the Department as as a unique community asset.

Projected Additional Water Supply

The following table shows the expected future water supply projects or programs of the Water System through 2040, as set forth in the City’s 2015 Urban Water Management Plan, which was adopted by the City Council on June 28, 2016. There can be no assurance that the below-described projects or programs will be completed as currently contemplated, or as to the respective timelines for completion.

**TABLE 5
EXPECTED FUTURE ADDITIONAL WATER SUPPLY PROJECTS OR PROGRAMS**

<i>Name of Future Projects or Programs</i>	<i>Planned Implementation Year</i>	<i>Expected Increase in Water Supply (AFY)</i>
Seven Oaks Dam Conservation Project Enhanced Phase II	2022	1,000
Riverside North Aquifer Storage and Recovery	2025	2,000
Jackson Street and Arlington Avenue Pipelines	2025	4,970
Recycled Water Regional Concept Pipeline	2020	1,200
Bunker Hill Basin (BHB) Groundwater Banking	2025	2,000
Bunker Hill Basin Active Recharge Project	2025	1,500
Stormwater Recharge at Columbia, Marlborough, and Kansas Detention Basins	2025	1,500
Box Spring Local Stream Recharge and Direct Use	2030	<u>2,800</u>
Total		16,970

Source: City.

The following table shows the anticipated water supplies available to the City through 2040:

**TABLE 6
ACTUAL AND PLANNED SUPPLIES
(IN ACRE FEET)**

<i>Water Supply Type</i>	<i>Water Supply Source</i>	<i>Actual 2015⁽¹⁾</i>	<i>2020</i>	<i>2025</i>	<i>2030</i>	<i>2035</i>	<i>2040</i>
Groundwater	Bunker Hill	53,793	55,263	55,263	55,263	55,263	55,263
Groundwater	Banking BH Conjunctive Use	0	0	2,000	2,000	2,000	2,000
Groundwater	Seven Oaks Dam Phase II (Enhanced)	0	1,000	1,000	1,000	1,000	1,000
Groundwater	BH Active Recharge 2025	0	0	1,500	1,500	1,500	1,500
Groundwater	Riverside North	6,357	10,902	10,902	10,902	10,902	10,902
Groundwater	RNASR ⁽³⁾	0	2,000	2,000	2,000	2,000	2,000
Groundwater	Riverside South	13,571	16,880	16,880	16,880	16,880	16,880
Groundwater	Box Springs	0	0	0	2,800	2,800	2,800
Groundwater	Columbia, Etc. Stormwater	0	0	1,500	1,500	1,500	1,500
Groundwater	Rialto-Colton	1,205	2,728	2,728	2,728	2,728	2,728
Recycled water	RWQCP	200	6,430	6,430	6,430	6,430	6,430
Purchased or Imported Water ⁽²⁾	From WMWD	<u>0</u>	<u>21,700</u>	<u>21,700</u>	<u>21,700</u>	<u>21,700</u>	<u>21,700</u>
Total		75,126	116,903	121,903	124,703	124,703	124,703

(1) Actual 2015 amounts reflect calendar year totals of available water supply.

(2) Imported water from WMWD is shown as a supply available to the City. The City intends to use this supply only if needed.

(3) "RNASR" means Riverside North Aquifer Storage and Recovery Project.

Source: City.

Water Quality

General. The City operates its water system under a permit granted by the SWRCB Division of Drinking Water ("DDW"). The City complies with all federal and state regulatory requirements and runs its system in accordance with accepted water utility industry practices using a variety of approved treatment techniques to treat its water for public consumption. The City monitors water quality by taking numerous water samples at various locations, including production wells, treatment plants (pre- and post-treatment), transmission pipelines, compliance points and numerous critical locations throughout the distribution system. The City collects an average of 18,000 samples throughout its water system annually. All water samples are tested by an independent, state certified laboratory in accordance with all state and federal guidelines.

The concentration of any detected natural or man-made contaminant above the DDW's detection limits for reporting is conveyed to all the City's customers via U.S. mail annually in a formal Water Quality Annual Report. The report is also posted on the City's website. The results of the City's water quality compliance testing are electronically transmitted to the DDW by the City's independent State-certified laboratory, which is available to county, state, and federal regulatory agencies. The City has consistently surpassed all state and federal public health standards for water quality.

Existing Contamination. Portions of the City's groundwater aquifers are contaminated by anthropogenic chemicals as a result of previous agricultural and defense contractor activities, which include TCE, perchlorate and DBCP. To contain and treat these contaminants, several wells and regional treatment facilities have been constructed. As described under the caption "—Water Quality Settlements" below, Lockheed Martin Corporation ("Lockheed Martin") has constructed three regional GAC facilities (Tippecanoe, Sunnyside and Raub) to treat TCE at nine of the City wells. In addition, Lockheed Martin has also constructed two individual IX treatment facilities (Gage 46-1 and Gage 66-1) and three regional facilities (Tippecanoe, Sunnyside and Raub) for removal of perchlorate from ten of the City's wells. The Gage 66-1

wellhead IX treatment facility is no longer in use. The Gage 66-1 well is now treated at the Sunnyside treatment facility along with Gage 51-1.

Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, Best Fertilizer Company and Occidental Petroleum Corporation (collectively, 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 because one of the two wells no longer contains DBCP, and the other well has been abandoned due to decreasing production. See the caption “—Water Quality Settlements” below for discussions of operational costs funded by other parties.

Regulatory Outlook. In 2011, the United States Environmental Protection Agency (“USEPA”) announced plans to establish a federal drinking water standard for perchlorate. The timetable for completion of a federal Maximum Contaminant Level (“MCL”) for perchlorate is unknown. Presently USEPA is requesting peer review of its draft Biologically Based Dose-Response Model to develop a perchlorate MCL goal. Once an MCL goal is established, USEPA will begin the process of developing an MCL. The State of California MCL for perchlorate is 6 parts per billion (“ppb”). The MCL may be considered for possible revision as a result of the California Environmental Protection Agency’s 2015 reduction in the perchlorate Public Health Goal from 6 ppb to 1 ppb. In addition, the DDW is currently evaluating lowering the perchlorate detection limit for reporting purposes from 4 ppb to as low as 0.5 ppb.

In December 2016, USEPA completed its third review of existing National Primary Drinking Water Regulations (“NPDWR”) (i.e., the Six-Year Review 3). USEPA determined that 68 of the 76 NPDWR remain appropriate (i.e., do not need to be revised) and that eight NPDWRs are candidates for regulatory revision. These eight NPDWRs are included in the Stage 1 and the Stage 2 Disinfectants and Disinfection Byproducts Rules, the Surface Water Treatment Rule, the Interim Enhanced Surface Water Treatment Rule and the Long Term 1 Enhanced Surface Water Treatment Rule. The eight NPDWRs are chlorite, Cryptosporidium, Giardia lamblia, haloacetic acids (HAA5), heterotrophic bacteria, Legionella, total trihalomethanes (TTHM) and viruses.

On December 14, 2017, the SWRCB adopted an MCL for 1,2,3-Trichloropropane (“**1,2,3-TCP**”) of 0.000005 mg/L or (5 parts per trillion). To date, six of the City’s potable wells show detection of 1,2,3-TCP and exceed the MCL. These wells extract water from the same aquifers that are contaminated by the anthropogenic chemicals noted under the caption “—Existing Contamination” and are currently being treated by existing GAC treatment facilities.

PFAS. The SWRCB’s Division of Drinking Water (the “**Division**”) has lowered the Notification Levels for Perfluorooctanoic acid (“**PFOA**”) and Perfluorooctanesulfonic acid (“**PFOS**”) to 5.1 and 6.5 parts per trillion (“**PPT**”), respectively. PFOA and PFOS are fluorinated organic chemicals which are part of a family of compounds referred to as per- and polyfluoroalkyl substances (“**PFAS**”). PFAS are synthetic compounds that are water and lipid resistant and are useful for a variety of manufacturing processes and industrial applications.

The City believes that PFAS have been in the groundwater basins from which the City draws water in very low concentrations for many years. Recent technological advances enabled water agencies to detect PFAS compounds at such low concentrations.

The City understands that the Division may recommend that the Response Level for PFOA and PFOS be lowered from 70 PPT, combined, to about 10 to 12 PPT, each. The City’s goal is to remain below the Notification Levels, which are lower than the Response Level. In fall 2019, the Board approved the expenditure of approximately \$850,000 to treat a well with higher levels of PFAS as well as to develop a long term water treatment strategy.

The City does not anticipate that implementation of the proposed lower Response Level would have a material adverse effect on the operation of the Water System or the costs thereof. The projected operating results which are set forth under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” do not assume significant increases in water treatment costs to meet State regulations relating to PFAS.

Water Quality Settlements

The City has reached agreement with several parties relating 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. 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 nine wells currently are being treated. 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, 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, February 22, 2005, and May 31, 2007, with each amendment increasing the number of wells from an original four wells to nine 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 and is treating them via blending with other sources. The possibility of a treatment plant at this location is being explored given the possibility that the perchlorate MCL may be lowered and the City could not meet the new perchlorate standard utilizing its blending capacity.

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 (i.e., filtration) removal and replacement costs and major maintenance costs. However, certain operating costs are reimbursed by Lockheed Martin directly to the City. For fiscal year 2018-19, 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 which has been 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 cost funded by the DBCP Defendants was approximately \$4 million. In fiscal year 2017-18, approximately \$600,000 of operating costs was reimbursed to the City by the DBCP Defendants relating to the existing treatment facilities.

MTBE Settlement. In March 2008, the City settled a lawsuit that 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 (the “**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 that exceed federal and state limits for MTBE. To date, MTBE levels have not been detected exceeding federal and state limits. 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.

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 or earnings. Except as disclosed under the caption “—Water Quality—Regulatory Outlook,” 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 USEPA requirements 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.

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 USEPA, the California Water Code and regulations promulgated by the SWRCB.

The City operates its recycled water system pursuant to RWQCB Order No. R8-2013-0016 (amending Order No. R8-2009-0052, NPDES No. CA0105350), a permit that prescribes Waste Discharge and Producer/User Reclamation Requirements for the RWQCP for the discharge of tertiary treated wastewater to Reach 3 of the Santa Ana River and for the use of recycled water. See the caption “—New Sources of Supply” above for information about plans for an expanded recycled water system. The City also applied for a separate permit that delineates the responsibilities for producing and distributing recycled water between the Public Works Department and the Department. The new recycling permit for the Department (there is a separate one for the Public Works Department) was issued by the RWQCB in May 2013 and has no expiration date.

Endangered Species Act. In December 2010, the United States Fish and Wildlife Service (“**USFWS**”) 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 Seven Oaks Dam into Orange County as critical habitat. Under the Endangered Species Act of 1973, projects with a federal nexus are required to complete consultation with USFWS prior to constructing those projects. Specifically, federal

agencies (e.g., USACE) will be required to consult with USFWS 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. Accordingly, on August 23, 2011, the City, along with eleven other public agencies potentially affected by this decision, filed a lawsuit in federal court entitled *Bear Valley Mutual Water Company, et al., vs. Kenneth L. Salazar, et al.*, Case No SACV 11-01263-JVS(ANx), challenging the critical habitat designation made by USFWS. The trial court issued a ruling on October 23, 2012, upholding the critical habitat designation, which was upheld by the 9th Circuit Court of Appeals on June 25, 2015. On September 22, 2015, the City filed a joint appeal (through a petition for writ of certiorari) with the United States Supreme Court to the 9th Circuit decision. Fifteen other water and/or public agencies have joined in the appeal. In January 2016, the United States Supreme Court declined to take review of the case. The City is a member of a recently formed collaborative among a number of the agencies involved in the lawsuit – USFWS, the California Department of Fish and Wildlife, and USACE – and is seeking projects to improve habitat and serve as mitigation for planned projects within the Santa Ana River. The City intends to remain engaged and continue to advocate at the state and federal level for sound environmental policy.

In January 2013, USFWS issued a final rule designating portions of the Santa Ana River as critical habitat for the southwestern willow flycatcher (*Empidonax traillii extimus*), a federally threatened bird species. This ruling is not anticipated to have a significant impact on water supply projects planned within the vicinity of the Santa Ana River, such as the Riverside North Aquifer Storage and Recovery Project. Additional construction time might be required to implement the appropriate environmental mitigation at a nominal cost to the project.

In fall 2014, the City partnered in a collaborative effort to begin work on establishing a Habitat Conservation Plan (“HCP”) within the upper Santa Ana River Watershed. This effort includes 12 resource agencies within the Santa Ana River Watershed, US Fish and Wildlife Service, California Department of Fish and Wildlife, and several other governmental agencies and stakeholders. The Upper Santa Ana River HCP is focused primarily on aquatic species within the Santa Ana River; however, upland species are also included. When completed in 2020, the HCP will include coverage for 11 agencies within the watershed. The establishment of an HCP will assist the agencies in obtaining permits for species listed within the plan, including Santa Ana sucker and southwestern willow flycatcher.

Customers and Water Sales

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

**TABLE 7
NUMBER OF METERED CUSTOMERS BILLED**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019⁽¹⁾</i>
Residential	58,922	59,137	59,453	59,601	59,456
Commercial / Industrial	5,594	5,619	5,640	5,705	5,045
Other	<u>355</u>	<u>338</u>	<u>335</u>	<u>334</u>	<u>1,302</u>
Total - All Classes	64,871	65,094	65,428	65,640	65,803

⁽¹⁾ Changes in fiscal year 2018-19 reflect reclassification of certain Commercial / Industrial accounts as Other accounts in connection with current Water Rate Plan. See the caption “—Water Rates and Charges—General.”

Source: City.

The following tables set forth the total water sold by customer class, average daily production, maximum day distribution and average daily sales per capita during the last five fiscal years.

**TABLE 8
WATER SOLD BY CUSTOMER CLASS
(IN MILLIONS OF GALLONS)**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019⁽⁴⁾</i>
Residential	11,539	9,819	10,637	11,643	10,590
Commercial/Industrial	7,115	5,993	6,496	7,161	5,694
Other	670	572	631	674	1,784
Subtotal Retail Sales ⁽¹⁾	19,324	16,384	17,764	19,478	18,067
Wholesale Sales ⁽²⁾	<u>131</u>	<u>470</u>	<u>1,192</u>	<u>1,104</u>	<u>1,252</u>
Total	19,455	16,854	18,956	20,582	19,319
Estimated Water Loss ⁽³⁾	8.0%	11.1%	8.4%	8.8%	8.0%

- ⁽¹⁾ Retail sales decreased by 15.2% in fiscal year 2015-16 from the prior year due to consumer conservation measures taken as a result of drought conditions. See the caption “—Water Supply—Drought Conditions.”
- ⁽²⁾ Increases in wholesale sales in fiscal years 2016-17 and 2017-18 is due to WMWD Agreement. See the caption “—Conveyance Agreements—WMWD Agreement.”
- ⁽³⁾ Water loss is the difference between potable urban water produced and the sum of water sold through customer meters, wholesale sales and wheeled water. See the caption “—Water Loss/Unaccounted for Water” below.
- ⁽⁴⁾ Decreases in fiscal year 2018-19 reflect wet hydrological year.

Source: City.

**TABLE 9
WATER SALES AND DISTRIBUTION**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Retail Water Sales ⁽¹⁾⁽²⁾	19,324	16,384	17,764	19,478	18,067
Average Daily Production ⁽²⁾⁽³⁾	57.9	49.3	61.0	67.0	59.0
Maximum Day Distribution ⁽¹⁾	73.9	74.7	81.2	82.8	90.2
Average Daily Sales per Meter ⁽⁴⁾	816	690	744	813	752

- ⁽¹⁾ Retail water sales to Water System customers only. Excludes wholesale sales and wheeled water.
- ⁽²⁾ In millions of gallons. Decrease in fiscal year 2015-16 from prior year primarily due to decreased demand resulting from conservation in connection with the State’s ongoing drought. See the caption “—Water Supply—Drought Conditions.”
- ⁽³⁾ Average Daily Production includes retail and wholesale water.
- ⁽⁴⁾ In gallons.

Source: City.

Water Loss/Unaccounted for Water. Water loss (the difference between potable urban water production and the sum of water sold through customer meters, wholesale sales and wheeled water) 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. As shown in the table provided above entitled “Water Sold by Customer Class,” water loss increased from 8.0% in the fiscal year ended June 30, 2015, to 11.1% in the fiscal year ended June 30, 2016, before falling back in more recent fiscal years. The temporary increase in water loss through the transmission and distribution system is partially a result of decreased demand during the relevant time period, while the system conditions (operating pressure, etc.) remained similar to 2014. In the last two years and with the re-emergence of increasing demand, the City’s water loss is stabilizing back to previous years rates.

The City remains committed to its customer meter replacement program, main replacement program and investments in new well meters and telemetry. The City continues to make an effort to replace customer meters greater than 20 years old. In addition, 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. The City is committed to further reducing unaccounted for water. As the new water conservation measures under Senate Bill 606 and Assembly Bill 1668 are implemented as an outcome of Executive Order B-37-16 “Making Water Conservation a California Way of Life”, the City will follow the recommendations of its water loss audits in accordance with the American Water Works Association and follow the instituted performance measures rather than the traditional percentage goal.

Customer Concentration

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

**TABLE 10
TOP TEN RETAIL WATER CUSTOMERS
FISCAL YEAR ENDED JUNE 30, 2019**

<i>Water Customer Identified by Category</i>	<i>Water Revenues</i>	<i>Percent of Total Retail Water Revenues</i>
Local Government	\$ 2,070,033	3.59%
Local School District	765,491	1.33
Local School District	641,836	1.11
Local Government	469,258	0.81
Corporation	320,896	0.56
Local University	249,285	0.43
Local Government	216,838	0.38
Local Hospital	194,171	0.34
Local University	180,892	0.31
Local University	<u>167,763</u>	<u>0.29</u>
Total	\$ 5,276,463	9.15%

Source: City.

The Water System has a diverse customer base with little exposure to customer concentration. The Water System’s top ten retail customers were responsible for a combined 9.15% of total retail revenues in fiscal year 2018-19. The Water System’s five largest retail customers were responsible for approximately 7.40% of revenues in fiscal year 2018-19.

Conveyance Agreements

WMWD Agreement. On May 16, 2017, the City and WMWD executed a “2017 Cooperative Agreement For Long-Term Wheeling and Surplus Water Sales Agreement” (the “**WMWD Agreement**”), which amended and restated the terms of a “Cooperative Agreement for Water Production and Conveyance” between the City and WMWD dated April 21, 2009. Under the terms of the WMWD Agreement, the City provides to WMWD potable production and conveyance for BHB water rights controlled by WMWD to the extent that the City has capacity available. The WMWD 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.

Amending and restating the WMWD Agreement in 2017 provided: (1) assurances to the City that deliveries to WMWD are secondary to the City’s retail customers and any other existing obligation or commitment; (2) a new long-term commitment by the City to produce, treat, and convey a firm annual volume of 5,408 AFY of WMWD-acquired water for 20 years in accordance with the agreed-upon pricing structure; and (3) a new long-term commitment by the City to produce, treat and convey a firm annual volume of 2,000 AFY of the City’s export right to WMWD for 10 years in accordance with the agreed-upon pricing structure. Under the terms of the WMWD Agreement, the City expects to monetize unused and potentially expiring local water production and export rights through pre-planned and pre-executed water sales agreements. The City estimates revenues from wheeled water over the 20-year term of up to \$83 million, and from surplus water sales over the 10-year term of up to \$17 million.

The City received \$4.3 million from WMWD for fiscal year 2018-19.

UCR Conveyance Agreement. In November 2015, the City entered into a “Water Production, Conveyance and Reciprocal Sales Agreement” (the “**UCR Conveyance Agreement**”) with the Regents of the University of California for water service at the University of California, Riverside (“**UCR**”) campus. Under the terms of the UCR Conveyance Agreement, the City produces and conveys the Regents’-owned water to the UCR campus at the City’s cost, including energy, operation and maintenance, facility capital replacement and assessments. Any water deliveries in excess of UCR’s annual water rights are billed to UCR at the standard commercial/industrial water rates. The estimated annual revenue from the UCR Conveyance Agreement is \$250,000 per year.

A reciprocal sales clause is included in the UCR Conveyance Agreement, such that in the event that UCR uses less than its full annual production or export right of water, the City would then have the right to lease those rights on an annual basis for \$225 per acre foot for each acre foot actually used by the City for delivery to other customers. It is not anticipated that this water would be available until UCR completes construction and commissions a new agricultural well on the campus. The City is not obligated to exercise this right to lease, but may find it more economical than constructing new capital improvements.

Projected Demand

The following table shows the historical (in 2015) and projected (2020–2040) water demand in the Water System’s service area, as set forth in the Water System’s Final 2015 Urban Water Management Plan, which was adopted by the City Council on June 28, 2016.

**TABLE 11
HISTORICAL AND PROJECTED WATER DEMAND
(IN ACRE FEET)**

<i>Demand</i>	<i>2015</i>	<i>2020</i>	<i>2025</i>	<i>2030</i>	<i>2035</i>	<i>2040</i>
Potable and Raw Water	74,928	88,791	90,104	92,585	95,159	97,827
Recycled Water Demand	200	6,430	6,430	6,430	6,430	6,430
Total Water Demand	75,128	95,221	96,534	99,015	101,589	104,257

Source: City.

The City prepared projections of future demand by using the year 2015 as a starting point and escalating retail demands by an annual growth percentage. The annual growth percentage incorporated two factors: (i) the expected increase in service area population; and (ii) the expected change in per-capita consumption. Because of the prior drought and ongoing conservation efforts, the City’s per-capita consumption fell five years in a row and currently stands at approximately 180 gpcd. While some conservation achievements are due to relatively permanent changes, such as fixture replacements, some of the reduction is due to behavioral changes that could be reversed. The City assumed that the per-capita consumption would rise approximately 5 percent from 2015 to 2020 due to changes in temporary behaviors

adopted during the most recent drought. While the City will continue to emphasize the importance of water conservation, prudent planning requires considering the possibility that consumption will experience some rebound from its currently low level. Since the rescission of the Emergency Drought Declaration in April 2017, a rebound in water usage has been observed; apart from any future restrictions limiting water use, this trend is expected to continue for the next several years.

Water Rates and Charges

General. The City is obligated by the Law (including the Resolution) to establish rates and collect charges in an amount that is sufficient to meet all Water System Operating and Maintenance Expenses and debt service on the Water System's indebtedness, with specified requirements as to priority and coverage. The City funds Water System operations and maintenance entirely from water service charges. Water rates are established by the Board and are subject to approval by the City Council. Such rates are examined each year and adjusted as needed to meet budgetary requirements. Water rates are not subject to regulation by the California Public Utilities Commission or any other State agency. See the caption "CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution" in this Remarketing Statement for additional information.

At present, the Water System has 12 rate schedules in effect. The City provides no free water service.

A rate proposal was provided to the Board and City Council in August and September 2017, respectively. In October and November 2017, staff conducted a comprehensive community outreach effort to present and obtain feedback on the rate proposal. Outreach efforts included various community meetings hosted by the Department as well as distribution of information materials to multiple neighborhood and business groups. Joint workshops with the Board and City Council were held in November 2017 and January 2018 to discuss the results of outreach and obtain direction for a required public hearing and subsequent rate adoption. At the January 2018 joint workshop, the City Council conceptually approved the rate proposal and directed the Board to establish an Agricultural Water Rate Task Force to develop agricultural water rate alternative recommendations and to return with the recommendations by July 1, 2019. The rates of the current 194 agricultural water rate customers were directed to be frozen until receiving recommendations from the Agricultural Water Rate Task Force. After holding the required public hearing on May 14, 2018, the Board adopted and recommended that the City Council approve the five-year Water Rate Plan.

On May 22, 2018, the City Council approved a new five-year Water Rate Plan, which provides for rate increases effective on July 1, 2018, 2019, 2020, 2021 and 2022 with annual reviews of the adopted rates by City Council. Under the five-year Water Rate Plan, the system average rate increase effective on July 1, 2018 was 4.50%, followed by system average rate increases of 5.75% to be effective on July 1, 2019 through 2021, and a system average rate increase of 6.50% to be effective on July 1, 2022 for the final year of the rate plan. Actual increases vary by customer class and usage level. The Water Rate Plan includes a redesign of the Water System's rates over a five-year period to better align with its cost of serving customers and its revenue requirement. The water rate restructuring is designed to provide financial stability and correct the imbalance of costs versus revenue recovery by increasing fixed cost recovery through monthly service charges to reflect the nature of underlying costs.

Rate Structures. For customers of the Water System, water rates are composed of a: (i) monthly service charge designed to cover a portion of the fixed costs of the Water System; and (ii) monthly quantity charge for potable water usage designed to cover a portion of the variable costs. These charges are described below.

**TABLE 12
WATER RATES FOR RESIDENTIAL CUSTOMERS**

<i>Rate Type</i>	<i>Rate Effective July 1, 2019</i>	<i>Rate Effective July 1, 2020</i>	<i>Rate Effective July 1, 2021</i>	<i>Rate Effective July 1, 2022</i>
<u>Quantity Rates</u>				
First 9 ccf ⁽²⁾	\$1.19 ⁽³⁾ / 1.19 ⁽⁴⁾	\$1.22 ⁽³⁾ / 1.22 ⁽⁴⁾	\$1.26 ⁽³⁾ / 1.26 ⁽⁴⁾	\$1.30 ⁽³⁾ / 1.30 ⁽⁴⁾
10 - 35 ccf ⁽²⁾	1.50 ⁽³⁾ / 1.50 ⁽⁴⁾	1.54 ⁽³⁾ / 1.54 ⁽⁴⁾	1.58 ⁽³⁾ / 1.58 ⁽⁴⁾	1.64 ⁽³⁾ / 1.64 ⁽⁴⁾
Over 35 ccf ⁽²⁾	3.37 ⁽³⁾ / 2.76 ⁽⁴⁾	3.46 ⁽³⁾ / 2.84 ⁽⁴⁾	3.55 ⁽³⁾ / 2.91 ⁽⁴⁾	3.66 ⁽³⁾ / 3.01 ⁽⁴⁾
<u>Service Charges</u>				
5/8" and 3/4" meter	\$18.07	\$20.53	\$ 23.08	\$ 26.00
1" meter	28.69	32.58	36.63	41.26
1.5" meter	55.00	62.45	70.22	79.08
2" meter	86.70	98.45	110.68	124.64

(1) Effective as of July 1, 2019.

(2) "ccf" = 100 cubic feet.

(3) Monthly summer rate per ccf. Summer months are June through October.

(4) Monthly winter rate per ccf. Summer months are November through May.

Source: City.

There is a surcharge for customers outside the City limits. At the present time, the surcharge rates are in effect for 3,938 customers outside the City. Revenues received from the surcharge were approximately \$1,363,000 for fiscal year 2018-19.

Water Conservation Surcharge. In June 2004, the City began collecting a surcharge for Water Conservation programs. This surcharge was approved by the City Council and phased in over a three-year period with a 0.5% surcharge effective as of June 1, 2004, 1.0% effective as of June 1, 2005 and 1.5% effective as of June 1, 2006. The surcharge, which generated approximately \$875,000 and \$866,000 in fiscal years 2017-18 and 2018-19, respectively, is used to fund programs: (a) to promote conservation, education and water-use efficiency; and (b) for research, development and demonstration programs to advance science and technology with respect to water conservation. The surcharge was originally scheduled to be in effect for services rendered on or after June 1, 2004, and through May 31, 2014. On April 22, 2014, City Council approved the renewal of the 1.5% water conservation surcharge, effective for an additional ten-year period.

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

**TABLE 13
AVERAGE BILLING PRICE (DOLLARS) PER HUNDRED CUBIC FEET⁽¹⁾
(RETAIL SALES)**

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Residential	\$2.35	\$2.44	\$2.46	\$2.39	\$2.50
Commercial	1.90	2.00	1.99	1.94	2.25
Other	2.12	2.20	2.07	2.09	2.16

(1) Figures above do not include water conservation surcharge of 1.5%.

Source: City.

Rate Comparison. 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 July 1, 2019 (including the water conservation surcharge), the City’s average residential customer’s rates would be from 104% to 98% higher if served by the other local major water suppliers in the region.

Connection and Capacity Fees

Connection and capacity fees are collected by the City to pay for capital improvements attributable to new development. The City relies on a portion of revenues from capacity fees to pay debt service on its outstanding obligations.

The current connection and capacity fees are summarized below:

**TABLE 14
CONNECTION AND CAPACITY FEES**

<i>Connection Fees</i>	<i>Fee Amount</i>
3/4” meter	\$ 1,305
1” meter	1,320
1.5” meter	2,254
2” meter	2,294
3” meter and larger	Est. cost of installation
Fire service connection	Est. cost of installation
<i>Distribution System Fees</i>	<i>Fee Amount</i>
Per foot of parcel or lot frontage	\$ 49
<i>Elevation Fees</i>	<i>Fee Amount</i>
Based on Gravity Zone	\$0 to \$3,090
<i>Backup Facility Capacity Fees</i>	<i>Fee Amount</i>
3/4” meter	\$ 2,250
1” meter	5,060
1.5” meter	9,560
2” meter	14,400
3” meter	25,300
4” meter	39,380
6” meter	73,130
8” meter	108,000
10” meter	135,000

Source: City.

Set forth in the following table is history of connection fee revenue received by the City in the last five fiscal years.

TABLE 15
CONNECTION AND CAPACITY FEE REVENUE
(DOLLARS IN THOUSANDS)

<i>Fiscal Year</i>	<i>Connection and Capacity Fee Revenue⁽¹⁾</i>	<i>Number of New Connections</i>
2014-15	\$3,800	241
2015-16	2,950	145
2016-17	2,934	90
2017-18	3,017	279
2018-19	2,453	214

⁽¹⁾ Includes Connection Fees, Distribution System Fees, Elevation Fees, Backup Facility Capacity Fees and non-cash contribution in aid from developers.

Source: City.

Billings and Collections

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

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

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

In September 2018, California’s Governor signed Senate Bill 998 (“**SB 998**”), a bill which restricts the discontinuation of water service to delinquent customers effective February 1, 2020. SB 998 includes the following provisions: (i) a requirement to make discontinuation policies available in multiple languages; (ii) a prohibition on discontinuing service until payment is 60 days late; (iii) an obligation to contact delinquent customers by telephone and provide appeal, extension and alternative payment information; and (iv) an obligation to contact tenants when service is at risk of discontinuation due to landlord nonpayment. Water service may not be discontinued if a doctor certifies that there would be a serious medical threat to a delinquent resident who is unable to pay but willing to make alternative payment arrangements.

Certain provisions of SB 998 conflict with the City’s current discontinuation policies. The City is reviewing the provisions of SB 998 and anticipates amending its Water Rule 7 – Discontinuation of Service ordinance prior to February 1, 2020 in order to comply with the new requirements.

Uncollectible Accounts

Based on the average annual amount of billable revenues reflected in the table below (\$57.1 million), the City experienced an annual average of 0.12%, or approximately \$66,800, of uncollectible accounts for the past five years. The City’s management of its collection activities is effective as reflected by write-offs below the industry average. The following table shows the historical results of the Water System’s accounts receivable and collection efforts.

TABLE 16
HISTORY OF BILLINGS AND COLLECTIONS
AS OF JUNE 30,
(DOLLARS IN THOUSANDS)

<i>Fiscal Year</i>	<i>Billings</i>	<i>Payments</i>	<i>Write-Off as % of Billing⁽¹⁾</i>	<i>Write-Off</i>	<i>Ending Accounts Receivable Balance⁽²⁾</i>
2014-15	\$57,485	\$59,180	0.134%	\$77	\$6,147
2015-16	50,525 ⁽³⁾	50,181	0.148	75	6,416
2016-17	55,023	54,395	0.099	54	6,990
2017-18	58,905	58,988	0.083	49	6,858
2018-19 ⁽⁴⁾	58,240	58,173	0.115	67	6,445

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

⁽²⁾ The ending accounts receivable balance of any fiscal year is equal to the beginning balance of that fiscal year plus billings, minus the sum of payments and write-offs for that fiscal year.

⁽³⁾ Decrease from previous year primarily due to decreased demand resulting from conservation in connection with the State’s drought. See the caption “—Water Supply—Drought Conditions.”

⁽⁴⁾ Reflects unaudited actual fiscal year 2018-19 amounts.

Source: City.

Capital Improvement Program

General. As part of its budget and planning process, the City prepared a five-year Water System Capital Improvement Program (“CIP”) for fiscal years ending June 30, 2019, through June 30, 2023, totaling approximately \$129.1 million, as shown in the following table. This amount includes \$3.7 million in planned recycled water infrastructure during this time period, based on its current rate plan (see the caption “—New Sources of Supply—Recycled Water”). The improvements are needed to maintain system reliability, secure new water resources, serve new residential and commercial developments, and refurbish the Water System.

**Five-Year CIP
(\$000)
Fiscal Years
2018-19 – 2022-23**

Distribution Pipelines	\$ 43,473
Transmission Pipelines	29,681
System Automation Projects	17,674
Well Projects	14,947
Distribution Facilities	11,395
Water Supply Projects	10,791
Reservoir Projects	<u>1,151</u>
Total*	\$ 129,113

* Total may not add due to rounding.

Source: City.

The five-year plan incorporates portions of the Water Master, Water Supply, Urban Water Management, Integrated Water Master and Asset Management Plans. The first two years are included in the biennial operating budget that was adopted by the City Council on June 12, 2018. The Water System’s Capital Improvement Program is categorized into seven main sections: Distribution Facilities, Distribution Pipelines, Reservoir Projects, System Automation, Transmission Pipelines, Water Supply, and Well Projects.

Distribution Facilities – Water distribution and distribution network edge equipment to deliver and meter water throughout the system.

Distribution Pipelines – Neighborhood pipelines 6” to 12” diameter for water service and firefighting.

Reservoir Projects – System storage for emergency, operational, and system efficiency improvements.

System Automation – Technology, security and system automation tools and applications to improve cyber security and overall efficiency.

Transmission Pipelines – Arterial pipelines 16” to 72” diameter for water supply from San Bernardino and Riverside basins and in system transmission.

Water Supply – Projects to increase water supply through direct supplement and augmentation of groundwater basins.

Well Projects – Water supply wells in Riverside and San Bernardino groundwater basins.

The majority of the five-year CIP, approximately \$95 million, is expected to be funded through bond financing, with the balance funded by a combination of rates, reserves and other resources.

Insurance

The City, including the City’s Water System, is insured by commercial insurance policies designed to help mitigate the costs of high severity losses, catastrophes and high frequency losses.

The City carries two General Liability policies: a primary and an excess General Liability policy. The primary General Liability policy provides the City with an aggregate limit of \$20,000,000 and the excess General Liability policy provides the City with an additional \$10,000,000 of coverage. Both the primary and excess General liability policies cover general and automobile liability claims, including but not limited to Law Enforcement Liability and Public Officials Errors and Omissions coverage. The City also purchases an excess Workers Compensation policy with an aggregate limit of \$25,000,000. Both the General Liability and

Worker's Compensation programs have self-insured retentions of \$3,000,000. A self-insured retention is the dollar amount that the City must pay before an insurance policy responds to a loss.

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

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

Water System Litigation

General. 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.

Perchlorate Litigation. The City has detected perchlorate in the Flume Well tract in the North Riverside Basin. The levels of contamination are below the applicable MCL, and the City has been analyzing the impacts of these detections on its water operations. The City believes that this contamination comes from releases at the Rockets, Flares, and Fireworks SuperFund Site (also informally referred to as the "Goodrich Site"), and is pursuing litigation against the responsible parties to recover all costs and damages resulting from this contamination. The lawsuit was filed on March 31, 2009. On May 24, 2018, the State trial court dismissed the action, with prejudice, for failure to join the federal Department of Defense, with instructions to refile the lawsuit in federal court and include the Department of Defense as a party. The City has appealed such dismissal, and no hearing has been set on the City's appeal.

See the caption "—Environmental Matters" for a discussion of ongoing litigation relating to a final rule of the USFWS.

Industry Recognition

2018 Environmental Steward Award. Keep Riverside Clean & Beautiful recognized the Janet Goeske Foundation & Senior Center as an outstanding example of environmental stewardship with the Streeter Park Turf Conversion and Demonstration Garden, which is expected to save 1.5 million gallons of water on an annual basis.

2018 Good Steward for Graffiti Award. Keep Riverside Clean & Beautiful recognized the City's 311 for City Services program for the commitment to provide access to local business owners and residents to take action against graffiti vandalism in the City of Riverside.

2017 Diamond Level Utility. The American Public Power Association (APPA) recognized the Department as an RP3 designated Diamond Level Utility. This is awarded to utilities that demonstrate high proficiency in reliability, safety, workforce development, and system improvement.

2017 Legislative Recognition. The California State Senate and State Assembly recognized the Department for collaborative work on a 3-year Fuel Cell Facility/Micro-synchrophasors project. This project had goals of developing a network of high-precision phasor measurement units and a high-speed database to improve operations, increase reliability and enable integration of renewables and other distributed resources.

2016 American Advertising Federation, Inland Empire ADDY Awards. The Department’s drought and water conservation awareness customer education and communications programs and reports received the following recognition from the Inland Empire Chapter of the American Advertising Federation’s ADDY Awards: Gold Award—Riverside Public Utilities “Less Water, More Color” Water Conservation & Drought Awareness Campaign; Silver Award—Riverside Public Utilities 2015 Financial Report; Bronze Award—Riverside Public Utilities—Podcast, The Green Power Report, “Shocking the Drought”; Bronze Award—Riverside Public Utilities—Public Drought Infographic.

Public Relations Society of America – Inland Empire, Polaris Awards. The Inland Empire Chapter of the Public Relations Society of America recognized the Department’s drought headquarters web site, and social media billboard campaigns with top honors including: Polaris Award—Riverside Public Utilities—BlueRiverside.com Water Conservation & Drought Awareness Website; Cappella Award—Riverside Public Utilities—H2O Billboard Advertisements.

Public Relations Society of America – Anvil Awards. The Public Relations Society of America presented the Department with its highest award, the Silver Anvil Award, for the Department’s ongoing Community Relations, “Drought & Water Conservation Awareness Campaign”.

CERTAIN FINANCIAL INFORMATION

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, the amendment of which requires voter approval. Such transfers were approved by the voters and adopted by the City Council on November 15, 1977. On June 4, 2013, the voters approved a further amendment to the City Charter approving the transfer as a general tax pursuant to Article XIIC of the California Constitution. The transfers 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, 2019, was \$6,584,300. The budgeted transfer for the fiscal year ending June 30, 2020, is \$6,693,000. See the caption “CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter” for additional details on the General Fund transfer.

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, if actual historical cost is not available, estimated historical cost. Costs include labor; materials; interest during

construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits; and administrative expenses. Contributed plant assets are valued at their estimated fair market value on the date of contribution. For accounting policies specifically relating to the Water System, see the notes to the financial statements in Appendix B. See also the caption “FINANCIAL STATEMENTS.”

Summary of Operations

The following table shows the Net Operating Revenues of the Water System available for debt service as calculated in accordance with the flow of funds in the Resolution. It has been prepared by the City based on audited financial statements for the Water System for fiscal years 2014-15 through 2017-18 and unaudited actual results for the Water System for Fiscal Year 2018-19.

TABLE 17
SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE
(DOLLARS IN THOUSANDS)

	<i>Fiscal Year Ended June 30,</i>				
	<i>2015</i>	<i>2016⁽¹⁾</i>	<i>2017</i>	<i>2018</i>	<i>2019⁽¹²⁾</i>
Operating Revenues⁽¹⁾⁽²⁾					
Water Sales					
Residential	\$ 36,266	\$ 32,061	\$ 34,994	\$ 37,148	\$ 35,408
Commercial	18,932	16,572	17,869	19,317	20,539
Other Sales	1,919	1,690	1,764	1,880	1,743
Water Conveyance	2,286	3,944	4,385	3,162	1,785
Other Operating Revenues ⁽³⁾	<u>2,094</u>	<u>1,566</u>	<u>2,495</u>	<u>4,306⁽¹¹⁾</u>	<u>4,672</u>
Total Water Revenues	\$ 61,497	\$ 55,833	\$ 61,507	\$ 65,813	\$ 64,147
Other Revenues					
Interest Income	\$ 749	\$ 1,075	\$ 17	\$ 250	\$ 2,044
Contributions in Aid ⁽⁴⁾	2,853	2,245	3,312	3,249	2,489
Non-Operating Revenues	<u>911</u>	<u>894</u>	<u>854</u>	<u>1,742</u>	<u>1,286</u>
Total Other Revenues	\$ 4,513	\$ 4,214	\$ 4,183	\$ 5,241	\$ 5,819
Total Revenues	\$ 66,010	\$ 60,047	\$ 65,690	\$ 71,054	\$ 69,966
Operating and Maintenance Expenses					
Operations and Maintenance	\$ 31,479	\$ 30,944	\$ 32,821	\$ 34,941	\$ 38,467
Purchased Energy	<u>5,248</u>	<u>4,664</u>	<u>5,136</u>	<u>5,827</u>	<u>5,748</u>
Total Operating and Maintenance Expenses⁽⁵⁾⁽⁶⁾	\$ 36,727	\$ 35,608	\$ 37,957	\$ 40,768	\$ 44,215
Net Operating Revenues	\$ 29,283	\$ 24,439	\$ 27,733	\$ 30,286	\$ 25,751
Debt Service net of BAB Subsidy⁽⁷⁾⁽⁸⁾	\$ 13,600	\$ 13,597	\$ 13,610	\$ 14,147	\$ 15,142
Debt Service w/o BAB Subsidy⁽⁸⁾	\$ 14,956	\$ 14,958	\$ 14,973	\$ 15,512	\$ 16,513
Debt Service (net of BAB Subsidy) Coverage Ratio⁽⁷⁾⁽⁹⁾	2.15x	1.80x	2.04x	2.14x	1.67x
Debt Service (w/o BAB Subsidy) Coverage Ratio⁽⁷⁾⁽⁹⁾	2.05x	1.72x	1.94x	2.04x	1.61x

(1) The City’s Water Conservation Programs (described under the caption “THE WATER SYSTEM—Water Rates and Charges—Water Conservation”) are limited to specific purposes. Therefore, the related service charge that the City collects is excluded.

(2) Payments received by the Water Fund from the General Fund in fiscal years 2014-15 and 2015-16 in connection with the City’s April 2013 settlement of a lawsuit challenging the General Fund transfer on Proposition 218 grounds (as described under the caption “CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter”) are excluded because General Fund transfer contributions do not constitute Operating and Maintenance Expenses. See footnote 6 below.

(3) Other Operating Revenues include revenues from wholesale water sales.

(4) Contributions in Aid reflect cash collections from a combination of connection fees by developers and grant funded projects.

(5) Excludes contributions to the City’s General Fund of \$7,098, \$6,430, \$5,673, \$6,173 and \$6,584 for fiscal years 2013-14 through 2018-19, respectively. These contributions do not constitute Operating and Maintenance Expenses and are subordinated to debt service on the Bonds. See the caption “CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter” for additional details on the General Fund transfer.

(6) Excludes GASB 68 non-cash adjustment of \$(941), \$(1,806), \$(85), \$3,119 and \$(482) for fiscal years 2014-15 through 2018-19, respectively. GASB 68 became effective July 1, 2014. Includes GASB 75 adjustments. GASB 75 became effective on July 1, 2017.

(7) Build America Bond (“BAB”) Subsidy is effective with respect to the 2009B Bonds for the semi-annual interest payment dates beginning on April 1, 2010, and ending on October 1, 2039; however, see footnote 4 to the table entitled “Debt Service Requirements”

under the caption “PRIOR DEBT AND DEBT SERVICE—Debt Service Requirements” regarding the effect of the federal government’s sequester, which became effective on March 1, 2013.

- (8) Includes debt service on Pension Obligation Bonds. See the caption “THE PUBLIC UTILITIES DEPARTMENT—Employment Matters—Employee Retirement Systems.”
- (9) Debt Service (net of BAB Subsidy) Coverage Ratio is calculated treating the BAB Subsidy as an offset to Debt Service, while Debt Service (w/o BAB Subsidy) Coverage Ratio is calculated treating the BAB Subsidy as part of Gross Operating Revenues.
- (10) Fiscal Year 2015-16 results reflect conservation measures in effect during such time. See the caption “THE WATER SYSTEM—Water Supply—Drought Conditions” for additional information about the impact of the drought on the Water System.
- (11) Differs from audited financial statements for fiscal year 2017-18 because the above number reflects reclassification of approximately \$1.9 million from Water Conveyance to Other Operating Revenues due to the classification of water sales to WMWD in fiscal year 2017-18.
- (12) Reflects unaudited actual results.
- Source: City.

The following table shows the estimated projected Net Operating Revenues of the Water System available for debt service as calculated in accordance with the flow of funds in the Resolution. The below projections reflect certain significant assumptions concerning future events and circumstances. The financial forecast represents the City’s estimate of projected financial results based upon its judgment of the probable occurrence of future events, including that the City will continue to operate under Stage One of its water shortage contingency plan (as described under the caption “THE WATER SYSTEM—Water Supply—Drought Conditions—Water Shortage Contingency Plan”) will not be in effect, and assumptions set forth in the footnotes to the table set forth below. All of such assumptions are material to the development of the City’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

TABLE 18
PROJECTED OPERATIONS AND DEBT SERVICE COVERAGE
(DOLLARS IN THOUSANDS)

	<i>Fiscal Year Ended June 30,</i>				
	<i>2020⁽¹⁴⁾</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>
Operating Revenues⁽¹⁾					
Water Sales ⁽²⁾					
Residential	\$ 40,599	\$ 42,823	\$ 45,222	\$ 48,028	\$ 50,646
Commercial	23,053	23,927	24,847	25,883	27,294
Other Sales	1,807	1,884	1,963	2,058	2,170
Water Conveyance ⁽³⁾	3,238	3,283	3,328	3,374	3,421
Other Operating Revenues ⁽⁴⁾	5,851	5,932	6,015	6,100	6,186
Total Water Revenues	<u>\$ 74,548</u>	<u>\$ 77,849</u>	<u>\$ 81,375</u>	<u>\$ 85,443</u>	<u>\$ 89,717</u>
Other Revenues					
Interest Income ⁽⁵⁾	\$ 1,047	\$ 1,150	\$ 1,412	\$ 1,719	\$ 1,307
Contributions in Aid ⁽⁶⁾	2,050	2,000	2,000	2,000	2,000
Non-Operating Revenues ⁽⁷⁾	1,126	1,141	1,155	1,169	1,183
Total Other Revenues	<u>\$ 4,223</u>	<u>\$ 4,291</u>	<u>\$ 4,567</u>	<u>\$ 4,888</u>	<u>\$ 4,490</u>
Total Revenues	\$ 78,771	\$ 82,140	\$ 85,942	\$ 90,331	\$ 94,207
Operating and Maintenance Expenses					
Operations and Maintenance ⁽⁸⁾	\$ 43,549	\$ 44,320	\$ 45,768	\$ 47,276	\$ 48,645
Purchased Energy ⁽⁹⁾	5,035	5,117	5,218	5,308	5,399
Total Operating and Maintenance Expenses⁽¹⁰⁾	<u>\$ 48,584</u>	<u>\$ 49,437</u>	<u>\$ 50,986</u>	<u>\$ 52,584</u>	<u>\$ 54,044</u>
Net Operating Revenues	\$ 30,187	\$ 32,703	\$ 34,956	\$ 37,747	\$ 40,163
Debt Service net of BAB Subsidy⁽¹¹⁾⁽¹²⁾	\$ 16,191	\$ 15,851	\$ 17,207	\$ 20,261	\$ 20,232
Debt Service w/o BAB Subsidy⁽¹²⁾	\$ 17,563	\$ 17,223	\$ 18,559	\$ 21,569	\$ 21,491
Debt Service (net of BAB Subsidy) Coverage Ratio⁽¹¹⁾⁽¹³⁾	1.86x	2.06x	2.03x	1.86x	1.99x
Debt Service (w/o BAB Subsidy) Coverage Ratio⁽¹¹⁾⁽¹³⁾	1.80x	1.98x	1.96x	1.81x	1.93x

(1) The City’s Water Conservation Programs (described under the caption “THE WATER SYSTEM—Water Rates and Charges—Water Conservation”) are limited to specific purposes. Therefore, the related service charge that the City collects is excluded.

(2) Reflects rate increases approved by the City Council through July 1, 2022 and projected rate increase of approximately 6.5% on July 1, 2023 which has not yet been adopted. See the caption “THE WATER SYSTEM—Water Rates and Charges.” All rate increases are

subject to City Council approval and the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected to take effect in Fiscal Year 2024 will be approved. See the caption “CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution.”

- (3) Projected to increase at approximately 1.4% per annum.
- (4) Other Operating Revenues include revenues from wholesale water sales. Projected to increase at approximately 1.4% per annum.
- (5) Reflects projected earnings at approximately 1.3% on Water System reserves in fiscal year 2020 and at approximately 2.0% per annum thereafter.
- (6) Contributions in Aid reflect cash collections from a combination of connection fees by developers and grant funded projects. Projected to decrease slightly in fiscal year 2021 and to remain stable thereafter.
- (7) Projected to increase at approximately 1.4% per annum.
- (8) Projected to increase at approximately 3.0% per annum.
- (9) Projected to increase at approximately 2.0% per annum.
- (10) Excludes projected contributions to the City’s General Fund. These contributions do not constitute Operating and Maintenance Expenses and are subordinated to debt service on the Bonds. See “CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter” for additional details on the General Fund transfer.
- (11) Build America Bond (“BAB”) Subsidy is effective with respect to the 2009B Bonds for the semi-annual interest payment dates beginning on April 1, 2010, and ending on October 1, 2039; however, see footnote 4 to the table entitled “Debt Service Requirements” under the caption “PRIOR DEBT AND DEBT SERVICE—Debt Service Requirements” regarding the effect of the federal government’s sequester, which became effective on March 1, 2013.
- (12) Includes projected debt service on Pension Obligation Bonds. See the caption “THE PUBLIC UTILITIES DEPARTMENT—Employment Matters—Employee Retirement Systems.” Also reflects additional projected debt issuance in the aggregate principal amount of approximately \$43 million in Fiscal Year 2022 to fund capital projects. See the caption “THE WATER SYSTEM—Capital Improvement Program.”
- (13) Debt Service (net of BAB Subsidy) Coverage Ratio is calculated treating the BAB Subsidy as an offset to Debt Service, while Debt Service (w/o BAB Subsidy) Coverage Ratio is calculated treating the BAB Subsidy as part of Gross Operating Revenues.
- (14) Reflects fiscal year 2019-20 budgeted amounts with certain adjustments.

Source: City.

Unrestricted Cash Reserves

On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy, which provided a defined level of unrestricted, undesignated and designated cash reserves in the Water System for strategic purposes. On July 24, 2018, the Cash Reserve Policy was updated and approved by City Council reflecting the establishment of an additional designated reserve, the use of the line of credit as available reserves and other minor revisions to bring it current. This policy sets target minimum and maximum levels for the undesignated reserve to mitigate risk in the following categories: operations and maintenance, rate stabilization, capital expenditures and debt service. The undesignated reserve can be used for any lawful purpose and has not been designated for specific capital and operating purposes. As of June 30, 2019, the balance was at \$31,522,339 for the unrestricted undesignated reserve. On February 1, 2019, the City entered into the Revolving Credit Facility, which will provide additional flexibility and operating liquidity for the Water System. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Subordinate Obligations—Revolving Credit Facility” for additional information on the Revolving Credit Facility.

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

Customers’ Deposits	\$ 626
Capital Repair and Replacement Reserve	2,276
Property Reserve	5,060
Recycled Water Reserve	<u>1,554</u>
Total	\$9,516 ⁽¹⁾

Source: City.

Outstanding Obligations of the Water System

The outstanding obligations of the City with respect to the Water System are described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Outstanding Parity Bonds.”

WATER SYSTEM STRATEGIC PLAN

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

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

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

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

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

During 2015, management engaged the community, the Board and City Council through a series meetings and workshops to create a Utility 2.0 Strategic Plan that provides the vision, changes and actions required to thrive as a Utility of the future. The Utility 2.0 Strategic Plan has been designed to facilitate and advance the strategic goals adopted by the City Council in the Riverside 2.0 Strategic Plan as well as the strategic goals of the Board. Areas of focus for Utility 2.0 include infrastructure improvement, workforce development, utilizing advanced technology and thriving financially which have been developed through a number of roadmaps. In October 2015, conceptual approval was given by the Board and City Council to implement the Utility 2.0 Strategic Plan.

The Thriving Financially Roadmap reviewed the areas of rates, reserves, debt and other related policies to ensure the financial balance of Riverside Public Utilities. Rates, cash reserves, debt and other

revenue sources were evaluated together with the development of a 10-year pro-forma (financial plan). Several dependent projects were completed during the development of the 10-year pro-forma and rate plan. These projects include the update and approval of the reserve policy, development and approval of an overall fiscal policy, and development and approval of electric and water cost of service studies.

An overall fiscal policy, including a comprehensive section on cash reserves, was completed and adopted by the City Council in July 2016 and subsequently updated and approved by City Council in July 2018. The electric and water 10-year pro-forma, cost of service and rate design studies were completed and presented to the City Council in September 2017. The Department recommended a redesign of its rates over a five-year period to better align with its cost of serving customers and its revenue requirement. The water rate restructuring is designed to provide financial stability to support the Water System's efforts to sustainably improve infrastructure reliability, follow legal and regulatory requirements, and correct the imbalance of costs versus revenue recovery by transitioning to reflect the nature of underlying costs. As described under the caption "THE WATER SYSTEM—Water Rates and Charges," on May 22, 2018, the City Council approved the 5-year Water Rate Plan, with rate increases effective starting July 1, 2018, 2019, 2020, 2021 and 2022 with annual review of adopted rates by City Council.

RISK FACTORS

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

The 2011A Bonds Are Limited Obligations

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

Risks Relating to 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 Remarketing 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 not entered into, and is not required to enter into, 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 index rate bonds (as described under the caption "DESCRIPTION OF THE 2011A BONDS—Provisions Related to the Index Rate Scheduled Purchase Date—City Policy Relating to Management of 2011A Bonds Index Interest Rate Program"), the City anticipates exercising its option to designate an Index Rate Unscheduled Purchase Date after the Call Protection Date in order 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. As the policy is not binding on the City, there can be no assurance that the City will in fact exercise such option.

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, 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 assurance that such other funds will be available for this purpose when needed.

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 has not funded 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.

The consequences of a Purchase Default Period are as follows, among others: (a) all 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 the caption "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; 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 the caption "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 because 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 has been deposited into such debt service reserve account. The owners of the 2011A Bonds have no rights to moneys in the reserve accounts established for other series of outstanding Bonds.

Demand and Usage; Drought

There can be no assurance that the local demand for services provided by the Water System will continue according to historical levels. In addition, drought conditions and voluntary or mandatory conservation measures could decrease usage of the services of the Water System or increase the cost of water supply (an Operating and Maintenance Expense) if more reliance on imported water is necessary. See the caption “THE WATER SYSTEM—Water Supply—Drought Conditions.”

Reductions in the level of demand or usage could require an increase in rates or charges in order to produce Net Operating Revenues in amounts that are sufficient to comply with the City’s rate covenants. Such rate increases could increase the likelihood of nonpayment.

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 Remarketing 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 or decrease demand. However, as described under the caption “THE WATER SYSTEM—Water Rates and Charges—Rate Comparison,” the City believes its water rates are significantly less than many other local water suppliers and, accordingly, the City believes that it will have financial flexibility to raise rates if required to do so.

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. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Rate Covenant.”

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 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 the caption “CONSTITUTIONAL LIMITATIONS.” The 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 that are typically 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 California Public Utilities Commission, 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 regulatory bodies 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 on 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 of California regulation will take. See “THE WATER SYSTEM—Water Quality.”

Casualty Risk

Any natural disaster or other physical calamity, without limitation, earthquake, wildfire, drought, high winds, landslide or flood, may have the effect of reducing Net Operating Revenues by causing damage to the Water System or adversely affecting the economy of the surrounding area. The Resolution requires the City to maintain insurance or self-insurance as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Water System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities or that specific losses will be covered by insurance. Certain portions of the Water System, such as underground pipelines, are not insured. The City does not currently maintain and it has not committed to maintain earthquake or flood insurance on the Water System’s facilities.

Earthquake. The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Water System facilities, including the San Andreas and San Joaquin. 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 distribution system because of pipe breaks or damage to water disinfection facilities.

Another potential hazard related to earthquakes is soil liquefaction. A number of wells and some major water transmission mains are located in potential liquefaction zones.

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.

Flood. According to the City’s June 2016 Urban Water Management Plan, 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 is expected to reduce the magnitude, frequency and vulnerability of wells to flooding, while increasing available water rights. See the caption “THE WATER SYSTEM—New Sources of Supply—Seven Oaks Dam.” Floods may lead to physical damage and/or loss of water infrastructure, as well as water contamination. The City has implemented measures to minimize the risk of groundwater contamination as a result of flooding.

Groundwater Contamination. The Water System can be impacted by groundwater contamination as a result of a variety of hazards, including contaminant plumes, chemical spills, agricultural return flows, leaky underground storage tanks and septic systems. See the captions “THE WATER SYSTEM—Water Quality” and “THE WATER SYSTEM—Water Quality Settlements” for a discussion of existing contamination impacting the Water System’s groundwater.

Certain Other Limitations on Fees and Charges

On July 6, 2005, the California First District Court of Appeal certified for publication a decision in the matter of *The Regents of the University of California v. East Bay Municipal Utility District*, 31 Cal.Rptr.3d 278 (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 agency 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 on public agencies. However, the imposition of such fees on certain educational entities, such as the University of California, or state agencies is subject to certain limitations. These limitations include the following, among others: (i) for capital facilities fees imposed prior to July 21, 1986: (a) the fee must be necessary to defray the actual construction costs of that portion of a public utility facility actually serving the educational entity or state agency; and (b) any increase in the fee is limited to the percentage increase in the Implicit Price Deflator for State and Local Government Purchases; (ii) for new capital facilities fees imposed after July 21, 1986, or any increase in a capital facilities fee in excess of the amount set forth in clause (i)(b), an agreement must be reached through negotiations entered into by both parties; and (iii) capital facilities fees imposed for electric utility service are subject to certain additional procedural requirements including certain prior notice, hearing and disclosure requirements.

The impact of the *East Bay Municipal Utility District* decision has been to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges (i.e., rates) (but see the caption "CERTAIN FINANCIAL INFORMATION—Transfers to the City's General Fund" regarding the City voters' approval of contributions of Water System surplus funds to the City's General Fund as a general tax under Article XIIC of the California Constitution). The University of California's Riverside campus is the City's second largest water user. The City entered into a Potable Water Transportation Agreement, dated April 6, 1993, under which the Regents of the University of California have agreed to rates with the City, including capital facilities fees payable to the City. On November 3, 2015, the City renewed this agreement, which is now known as the 2015 Water Production, Conveyance, and Reciprocal Sales Agreement. See the caption "THE WATER SYSTEM—Conveyance Agreements—UCR Conveyance Agreement" above for additional details on this agreement.

Articles XIIC and XIID of the California Constitution

Proposition 218, which added Articles XIIC and XIID to the California Constitution, affects the City's ability to maintain existing Water System rates and impose rate increases, and no assurance can be given that future proposals to increase Water System rates will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed Water System rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Operating Revenues in the amounts required by the rate covenant. The City believes that its current Water System rates approved by the City Council were effected in accordance with the public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS—Articles XIIC and XIID of the California Constitution."

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2011A Bonds, the City has to comply with the applicable requirements of the Code, and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2011A Bonds thereunder. Interest on the 2011A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2011A Bonds as a result of acts or omissions of the City in violation of this or other covenants in the

Resolution. The 2011A Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Resolution.

Parity Obligations

The Resolution permits the City to enter into Additional Bonds and Parity Debt payable from Net Operating Revenues on a parity with the 2011A Bonds, subject to the terms and conditions set forth therein. The entry into of Additional Bonds and Parity Debt could result in reduced Net Operating Revenues available to pay the 2011A Bonds. The City has covenanted to maintain coverage of debt service on the 2011A Bonds, Additional Bonds and Parity Debt as further described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2011A BONDS—Additional Parity Bonds and Contracts.”

Climate Change

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

Security of the Water System

The security of the Water System is maintained through a combination of regular inspections by Water System personnel, intrusion and motion alarm systems, video surveillance systems, continuous water treatment process monitoring and analysis of incident reports. Water system facilities are secured by controlled entry access systems, fencing, gates, closed circuit television, and 24-hour alarm monitoring. In 2016, a physical security assessment was completed of all critical water facilities. The assessment identified physical water system vulnerabilities and recommended specific security improvements. Most security improvements have been made where feasible.

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

Cyber Security

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

The City’s Information Technology Department provides support for the Water System’s electronic system cyber security. This includes audits and recommended improvements to facility hardware and software to keep systems up to date with the latest cyber treat tools. To date, the City has not experienced an attack on

its computer operating systems. However, there can be no assurance that a future attack or attempted attack would not result in disruption of City operations. The City expects that any such disruptions would be temporary in nature.

CONSTITUTIONAL LIMITATIONS

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of the State of California and of any city, county, school district, authority, special district or other political subdivision of the State of California 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 State 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: (a) the financial responsibility for a service is transferred to another public entity or to a private entity; (b) the financial source for the provision of services is transferred from taxes to other revenues; or (c) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations that are subject to Article XIII B generally include the proceeds of taxes levied by or for the State of California or other entity of local government, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment, insurance and disability insurance funds. “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 that such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts that are 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 that were existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters, and payments that are required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

The City is of the opinion that its service charges do not exceed the costs that the City reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B.

Articles XIII C and XIII D of the California Constitution

General. An initiative measure entitled the “Right to Vote on Taxes Act” (the “**Initiative**”) was approved by California at the November 5, 1996 general election. The Initiative added Articles XIII C and XIII D to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIII D. Article XIII D defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIID requires that any agency which imposes or increases any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, because fees for water service and wastewater service are a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fees or charges may be limited by a majority protest.

In addition, Article XIID includes a number of limitations that are applicable to existing fees and charges, including provisions to the effect that: (a) revenues that are derived from the fee or charge may not exceed the funds which are required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge that is imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; and (d) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIID did not apply to charges for water and wastewater services that are “primarily based on the amount consumed” (i.e., metered water or wastewater rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “**Bighorn Case**”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The City complied with the notice, hearing and protest procedures in Article XIID, as further explained by the State Supreme Court in the *Bighorn Case*, with respect to the water rate increases that were approved in 2018. See the caption “THE WATER SYSTEM—Water Rates and Charges—General.”

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the “**SJC Case**”), upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion included a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The City’s residential water rates, which are described under the captions “THE WATER SYSTEM—Water Rates and Charges—Rate Structures” include tiered rates based on usage. The City believes that its current water rates comply with the requirements of Proposition 218, including the *SJC Case*, and expects that any future water rate increases will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto.

Article XIIC. Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the California Supreme Court held in the *Bighorn Case* that the provisions of Article XIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations.

On November 15, 2018, the California Court of Appeal, Third District, issued an opinion in *Wilde v. City of Dunsmuir* (2018) 29 Cal.App.5th 158 (the “**Wilde Case**”) holding that taxpayers have the right under

the Initiative to place a referendum on the ballot and vote on whether to repeal a city's water rates. The *Wilde* Case concerned increases in water rates to fund specific water storage and delivery projects of the city (rather than to fund general operations of a water system) which the court concluded were legislative in nature and therefore subject to referendum. The City has reviewed the *Wilde* Case decision and determined that the decision does not directly impact the City and its water rate structure.

In any event, the City does not believe that Article XIII C grants to the voters within the City the power (whether by initiative under Article XIII C or otherwise, or by referendum, which is not authorized under Article XIII C) to repeal or reduce rates and charges for water service in a manner that would interfere with the contractual obligations of the City or the obligation of the City to maintain and operate the Water System. However, there can be no assurance as to the availability of particular remedies adequate to protect the owners of the 2011A Bonds. Remedies that are available to owners of the 2011A Bonds in the event of a default by the City are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. So long as the 2011A Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2011A Bonds and the rights and remedies of the 2011A Bond owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies which are contained in the applicable documents themselves, the rights and obligations with respect to the 2011A Bonds, the Resolution is subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Water Utility Revenue Transfer Under the City Charter. As described under the caption "CERTAIN FINANCIAL INFORMATION—Transfers to the City's General Fund," Section 1204 of the 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 System (the "**Revenue Transfer**"). This requirement has been in the City Charter since 1907, when the City Charter was approved and adopted by the electorate. Prior to 1968, the Water System was obligated to transfer all excess funds after all required expenditures had been made at the end of each fiscal year. In 1968, the electorate approved a change requiring a transfer of 11.5% of Gross Operating Revenues. In 1977, the electorate approved a change requiring the transfer to be an amount "not to exceed" 11.5% of gross operating revenues. On June 4, 2013, the electorate reaffirmed the transfer as a general tax pursuant to Article XIII C by approving Section 1204.1 of the City Charter (the "**Revenue Transfer Re-Approval**").

The holding in the *Bighorn* case makes clear that the City's water service charges are property-related fees or charges that must comply with Article XIII D. This means that the revenues derived from these charges may not exceed the cost to the City of providing the related services.

In April 2013, prior to the Revenue Transfer Re-Approval, the City settled a lawsuit filed against it in 2012 challenging the Revenue Transfer on Proposition 218 grounds. Under the settlement agreement, the City's General Fund paid \$10 million in equal installments to the Water Fund over a three-year period, which began in fiscal year 2013-14 and ended in fiscal year 2015-16. The City ceased the Revenue Transfer after the lawsuit's filing and until the Revenue Transfer Re-Approval.

Proposition 26. On November 2, 2010, California voters approved Proposition 26 and approved revising provisions of Articles XIII A and XIII C 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 of California “taxes,” a two-thirds vote of both houses of the California Legislature is required. The State of California 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 Water System rates and charges are not taxes for purposes of Proposition 26, a court could conclude that, to the extent that the City transfers surplus funds to the General Fund, Water System rates and charges constitute “taxes” for purposes of Proposition 26. This would mean that, so long as the City continued to make transfers of surplus funds to the General Fund, the City could not increase 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, in January 2015, in *Citizens for Fair REU Rates v. City of Redding*, an appellate court ruled against the City of Redding in a lawsuit that challenged a transfer similar to the City’s Revenue Transfer, finding that the transfers constituted a tax under Proposition 26 requiring two-thirds voter approval. The City’s Revenue Transfer is distinguishable from the transfer described in the Redding case because of the Revenue Transfer Re-Approval.

Proposition 26 amended Article XIIC 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 XIIC and Article XIID 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 XIIC and Article XIID 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 XIIB, XIIC, XIID 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

Opinion Rendered by Bond Counsel Upon Original Issuance of the 2011A Bonds. On May 26, 2011, in connection with the original issuance of the 2011A Bonds, Hawkins Delafield & Wood LLP, Bond

Counsel to the City, rendered its opinion to the effect that under then-existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein: (i) interest on the 2011A Bonds was excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and (ii) interest on the 2011A Bonds was not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, was 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 relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2011A Bonds, and Bond Counsel 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, on May 26, 2011, in connection with the original issuance of the 2011A Bonds, Bond Counsel rendered its opinion to the effect that under then-existing statutes interest on the 2011A Bonds was exempt from State of California personal income taxes.

The form of the opinion rendered by Bond Counsel on May 26, 2011, is attached to this Remarketing Statement as part of Appendix E.

Opinion Rendered by Bond Counsel on January 12, 2017. Jones Hall, A Professional Law Corporation (“**Jones Hall**”), previous Bond Counsel to the City, rendered on January 12, 2017 (the “**Prior Conversion Date**”), an opinion that the conversion of the interest rate on the 2011A Bonds from an Index Interest Rate Period to another Index Interest Rate Period, in and of itself, had no adverse effect upon: (i) the exclusion of interest on the 2011A Bonds from gross income for federal income tax purposes; (ii) the status of interest on the 2011A Bonds as not being treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; or (iii) the exemption of interest on the 2011A Bonds from State of California personal income taxes.

Opinion Rendered by Bond Counsel on the Remarketing Date. In the opinion of Stradling Yocca Carlson & Rauth (“**Stradling**”), current Bond Counsel to the City, to be rendered on January 9, 2020 (the “**Conversion Date**”), the conversion of the interest rate on the 2011A Bonds from an Index Interest Rate Period to another Index Interest Rate Period, in and of itself, will have no adverse effect upon the exclusion of interest on the 2011A Bonds from gross income for federal income tax purposes.

The form of Jones Hall’s and Stradling’s conversion opinions are attached to this Remarketing Statement as part of Appendix E. The opinion expressed in each conversion opinion set forth in Appendix E is as of the applicable date only. Neither Jones Hall nor Stradling has been asked to, and does not, express any opinion as to whether interest on the 2011A Bonds is currently excludable from gross income for federal income tax purposes. Such opinion will not constitute a reaffirmation of any original approving Bond Counsel opinion issued in connection with the original issuance of the 2011A Bonds or any other opinion previously rendered by Bond Counsel with respect to the 2011A Bonds. In addition, we note that pursuant to the Tax Cuts and Jobs Act, P.L. 115-97, H.R. 1 (2017), the alternative minimum tax on corporations was repealed for tax years beginning after December 31, 2017.

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 its 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 or otherwise prevent beneficial owners of the 2011A Bonds from realizing the full current benefit

of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2011A Bonds. For example, the Fiscal Year 2015 Budget proposed by the Obama Administration recommended a 28% limitation on “all itemized deductions, as well as other tax benefits” including “tax-exempt interest.” The net effect of such a proposal, had it been enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond, regardless of issue date.

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

CERTAIN LEGAL MATTERS

Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel, rendered its opinion with respect to the 2011A Bonds on the date that the 2011A Bonds were issued. A form of the opinion is included in Appendix E to this Remarketing Statement. The opinion speaks only as of its date and there has been no action to update such opinion or to determine if interest on the 2011A Bonds is presently exempt from federal or State of California taxation.

On January 9, 2020, Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, Bond Counsel, will render the opinion that is described under the caption “TAX MATTERS—Opinion of Bond Counsel—Opinion of Bond Counsel—Opinion Rendered by Bond Counsel on the Remarketing Date” in connection with the remarketing of the 2011A Bonds. A form of such opinion is included in Appendix E.

Certain legal matters will be passed upon for the City by the City Attorney. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is acting as Disclosure Counsel to the City, and Kutak Rock LLP, Los Angeles, California, is acting as counsel to the Remarketing Agent.

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

LITIGATION

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

For information about lawsuits arising in the normal course of business, see the caption “THE WATER SYSTEM—Water System Litigation.” The City’s management and its City Attorney are of the opinion that no pending actions are likely to have a material adverse effect on the City’s ability to perform its obligations under the Resolution and the 2011A Bonds.

FINANCIAL STATEMENTS

The financial statements of the City’s Water System for the fiscal year ended June 30, 201[8] (the “**Financial Statements**”) included in Appendix B to this Remarketing Statement have been audited by Macias Gini & O’Connell LLP, independent accountants (the “**Auditor**”), as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor’s consent to including its report in Appendix B. The Auditor’s review in connection with the Financial Statements included in

Appendix B included events only as of June 30, 201[8], and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the Financial Statements.

RATINGS

On May 5, May 4, and May 16, 2011, respectively, S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), Fitch Ratings, Inc. ("**Fitch**"), and Moody's Investors Service, Inc. ("**Moody's**" and, together with S&P and Fitch, the "**Rating Agencies**"), assigned short-term ratings of "A-1+," "F1+" and "VMIG 1," respectively, to the 2011A Bonds. Fitch and Moody's 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 assigned the long-term rating for the Prior Parity Bonds of "AAA."

There is no assurance that the credit rating given to the 2011A Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by a Rating Agency, if in the judgment of such Rating Agency, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011A Bonds. Such ratings reflect only the views of the respective Rating Agencies, and an explanation of the significance of such ratings may be obtained from the applicable Rating Agency. Generally, rating agencies base their ratings on information and materials that is furnished to them (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

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

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

REMARKETING AGENT

Stifel, Nicolaus & Company, Incorporated, has been appointed to serve as Remarketing Agent for the 2011A Bonds. The Remarketing Agent will carry out the duties and obligations provided for the Remarketing Agent under and in accordance with the provisions of the Resolution and a Remarketing Agreement for the 2011A Bonds, dated as of May 1, 2011, by and between the City and the Remarketing Agent.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, Los Angeles, California, as municipal advisor (the "**Municipal Advisor**") in connection with remarketing of the 2011A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Remarketing Statement. The Municipal Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CONTINUING DISCLOSURE

In connection with its original issuance of the 2011A Bonds, the City executed a Continuing Disclosure Certificate in which it 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), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City on EMMA. 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. These covenants were made in order to assist the Remarketing Agent in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended.

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

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

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

MISCELLANEOUS

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

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

CITY OF RIVERSIDE, CALIFORNIA

By: _____
City Treasurer

By: _____
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 Remarketing Statement for background purposes only.

General

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

The County and the County of San Bernardino cover 27,400 square miles, a land area larger than the State of Virginia. As of 2018, the County had a population estimated at 2,415,955 and San Bernardino County had a population estimated at 2,174,938. With a population of over 4.4 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“**MSAs**”) in the United States. The County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties’ population.

Municipal Government

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

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

Services and Facilities

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

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

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

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

Population

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

POPULATION		
<i>Year</i>	<i>City of Riverside</i>	<i>Riverside County</i>
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2010	302,597	2,179,692
2011	307,207	2,212,874
2012	311,332	2,239,715
2013	316,162	2,266,549
2014	318,511	2,291,093
2015	321,655	2,317,924
2016	324,696	2,347,828
2017	323,190	2,382,640
2018	325,860	2,415,955
2019	328,101	2,440,124

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

Effective Buying Income

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

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

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

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

Source: The Nielsen Company (US), Inc.

Education

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

Employment

The City is included in the PMSA. The unemployment rate in the PMSA was 4.5 percent in August 2018. This compares with an unadjusted unemployment rate of 4.3 percent for California and 3.9 percent for the nation during the same period. The unemployment rate was 4.7 percent in the County and 4.2 percent in San Bernardino County.

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

**RIVERSIDE-SAN BERNARDINO PRIMARY MSA
CIVILIAN LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT (ANNUAL AVERAGES)
(For Calendar Years 2013 Through 2017)**

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

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

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

Source: State of California Employment Development Department.

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

**CITY OF RIVERSIDE – LARGEST EMPLOYERS
As of June 30, 2018**

<i>Employer Name</i>	<i>Number of Employees</i>	<i>% of Total City-wide Employment</i>
County of Riverside	11,865	8.1%
University of California	8,686	6.0
Riverside Unified School District	4,000	2.7
Kaiser	3,484	2.4
City of Riverside	2,504	1.7
California Baptist University	2,285	1.6
Riverside Community Hospital	2,200	1.5
Alvord Unified School District	1,800	1.2
UTC Aerospace Systems	1,200	0.8
Parkview Community Hospital	<u>897</u>	<u>0.6</u>
Total	38,921	26.7%

Source: City of Riverside (as presented in the City's 2018 Comprehensive Annual Financial Report).

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

<i>Employer Name</i>	<i>Location</i>	<i>Industry</i>
Abbott Vascular Inc	Temecula	Physicians & Surgeons Equip & Supls-Whls
Amazon.com Inc	Moreno Valley	Internet & Catalog Shopping
Corrections Dept	Norco	Government Offices-State
Desert Regional Medical Ctr	Palm Springs	Hospitals
Eisenhower Health	Rancho Mirage	Hospitals
Fantasy Springs Resort Casino	Indio	Casinos
Handsome Rewards	Perris	Internet & Catalog Shopping
Hemet Valley Medical Ctr	Hemet	Hospitals
Indio Bingo Palace & Casino	Indio	Resorts
Kleinfelder Construction Svc	Riverside	Engineers-Structural
La Quinta Golf Course	La Quinta	Golf Courses
Parkview Community Hospital	Riverside	Hospitals
Pechanga Resort & Casino	Temecula	Casinos
Renaissance	Indian Wells	Hotels & Motels
Riverside Community Hospital	Riverside	Hospitals
Riverside University Health	Moreno Valley	Hospitals
Robertson's Ready Mix Ltd A Ca	Corona	Concrete-Ready Mixed
Southwest Healthcare System	Murrieta	Hospitals
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products	Perris	E-Commerce
Sun World Intl LLC	Coachella	Fruits & Vegetables-Wholesale
Uhs George Wa University Hosp	Corona	Hospitals
Universal Protection Svc	Palm Desert	Security Control Equip & Systems-Mfrs
US Air Force Dept	March Arb	Military Bases
Wachter Inc	Riverside	Electric Contractors

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2019 1st Edition.

Construction Activity

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

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

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

Source: City of Riverside Community Development Department.

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

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

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

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

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

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

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

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

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED
JUNE 30, 201[8]**

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution that are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Resolution for a full and complete statement of the provisions thereof.

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions

Unless the context otherwise requires, the terms defined in the Resolution will, for all purposes of the Resolution and of any Supplemental Resolution and of any certificate, opinion or other document mentioned therein, have the meanings specified below, to be equally applicable to both the singular and plural forms of any of the terms defined below. Unless otherwise defined in the Resolution, all terms used therein will have the meanings assigned to such terms in the Law.

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

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

“Alternate Credit Support Instrument” means a Credit Support Instrument issued to replace a Credit Support Instrument to support 2011A Bonds other than 2011A Bonds in a Long-Term Interest Rate Period to the Maturity Date thereof (i.e., Fixed Rate Bonds) or an Index Interest Rate Period.

“Applicable Index Spread” means either the Applicable LIBOR Spread or the Applicable SIFMA Spread, as the case may be, for an Index Interest Rate Period.

“Applicable LIBOR Factor” means, during an Index Interest Rate Period, the percentage, which will not be lower than 65% of higher than 135%, determined by the Remarketing Agent on or before the first day of such LIBOR Index Interest Accrual Period that, when multiplied by LIBOR and when the Applicable LIBOR Spread is added or subtracted (as the case may be) from such product, would equal the minimum interest rate per annum that would enable the Remarketing Agent or such other entity to sell the 2011A Bonds on such date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

“Applicable LIBOR Spread” means, during an Index Interest Rate Period, designated by the City to be at the LIBOR Index Interest Rate, the number of basis points determined by the Remarketing Agent before the first day of such Index Interest Rate Period (which may include a schedule for the Applicable LIBOR Spread based upon the ratings assigned to the long term debt of the City) that, when added to the product of LIBOR and multiplied by the Applicable LIBOR Factor, would equal the minimum interest rate per annum that would enable the Remarketing Agent or such other entity to sell the 2011A Bonds on such date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

“Applicable SIFMA Spread” means, with respect to each Index Interest Rate Period designated by the City to be at the SIFMA Index Interest Rate, the number of basis points determined by the Remarketing Agent before the first day of such Index Interest Rate Period (which may include a schedule for the Applicable SIFMA Spread based upon the ratings assigned to the long term debt of the City) that, when added to SIFMA as of such determination date, would equal the minimum interest rate per annum that would enable the Remarketing Agent or such other

entity to sell the 2011A Bonds on such date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

“Authorized Denominations” means, with respect to the 2011A Bonds, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

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

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

“Bond” or “Bonds” means the City of Riverside 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 Interest Term” means, with respect to any 2011A Bond, each period established under the Eighth Supplemental Resolution during which such 2011A Bond bears interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means, with respect to each 2011A Bond, a non-variable interest rate on such 2011A Bonds established periodically in accordance with the Eighth Supplemental Resolution.

“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 Purchase Fund” means the trust fund with that name established with the Tender Agent pursuant to the Eighth Supplemental Resolution.

“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.

“Bond Year” means each period so identified in the Tax Certificate or, if no such periods are so identified, then each period concluding on June 30 of each year to and including the year in which the last of the 2011A Bonds is scheduled to finally mature.

“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.

“Calculation Agent” means a calculation agent appointed pursuant to the Eighth Supplemental Resolution. The initial Calculation Agent will be U.S. Bank National Association.

“Call Protection Date” means the Tender Period Halfway Date from an Index Rate Scheduled Purchase Date.

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

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

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

“City” means the City of Riverside, California.

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

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

“Closing Certificate of the City” means a Certificate of the Treasurer of the City (or the Treasurer’s designee) delivered at the time of the initial issuance of the 2011A Bonds, substantially in the form attached to the Eighth Supplemental Resolution, that among other things, provides certain terms of the 2011A Bonds to be issued pursuant to the Ninth Supplemental Resolution, all as authorized pursuant to the terms of the Resolution.

“Closing Date” means the date of initial delivery of the 2011A Bonds against payment therefor.

“Code” means the Internal Revenue Code of 1986.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed and delivered by the City in connection with the issuance of the 2011A Bonds.

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

“Conversion,” “Convert” or “Converted” means or refers to a conversion of the 2011A Bonds from one Interest Rate Period to another Interest Rate Period as provided in the Eighth Supplemental Resolution.

“Conversion Date” means the effective date of a Conversion of the 2011A Bonds.

“Credit Facility” means a letter of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of 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.

“Credit Provider” means the provider of a Credit Support Instrument, that is performing in all material respects its obligations under such Credit Support Instrument, and its successors and permitted assigns, and, upon the effective date of an Alternate Credit Support Instrument, the bank or banks or other financial institution or

financial institutions or other Person or Persons issuing such Alternate Credit Support Instrument, their successors and assigns. If any Alternate Credit Support Instrument is issued by more than one bank, financial institution or other Person, notices required to be given to the Credit Provider may be given to the bank, financial institution or other Person under such Alternate Credit Support Instrument appointed to act as agent for all such banks, financial institutions or other Persons.

“Credit Support Agreement” means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the City and the applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the reimbursement to the Credit Provider for payments under such Credit Support Instrument or for extensions of credit made to the City by the Credit Provider, and the interest thereon, and includes any subsequent agreement pursuant to which an Alternate Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document. A Credit Support Agreement, together with any Credit Support Instrument related thereto, constitutes a Credit Facility for purposes of the Master Resolution.

“Credit Support Instrument” means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit and/or liquidity support with respect to the payment of interest, principal, redemption price or Purchase Price of any Parity Debt, but will not include a line of credit, letter of credit, insurance policy, surety bond or other credit source meeting the requirements of the Eighth Supplemental Resolution relating to the 2011A Reserve Account, and any Alternate Credit Support Instrument delivered pursuant to the Eighth Supplemental Resolution and with terms that are not inconsistent with the terms of the Eighth Supplemental Resolution.

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

“Daily Interest Rate” means a variable interest rate for the 2011A Bonds established in accordance with the Eighth Supplemental Resolution.

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the 2011A Bonds.

“Designated Investments” means, with respect to the 2011A Bonds and subject to such further or other parameters as may be specified in the Closing Certificate of the City, the following:

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

(b) repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the overcollateralization is at 103% or 104%, computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank has possession of such obligations; (iii) the Fiscal Agent has perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

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

(d) the Local Agency Investment Fund 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.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Eighth Supplemental Resolution” means the resolution of the City Council approving the 2011A Bonds, and any amendments, modifications or supplements thereto.

“Eligible Account” means a depository account that is maintained with a federal chartered depository institution or a state chartered depository institution.

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

“Favorable Opinion of Bond Counsel” means an Opinion of Bond Counsel addressed to the City, the Fiscal Agent and the Remarketing Agent (if any) to the effect that an action proposed to be taken is not prohibited by the laws of the State or the Eighth Supplemental Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds.

“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 U.S. Bank National Association, the fiscal agent appointed pursuant to the Eighth Supplemental Resolution, and any successor appointed in accordance with the Resolution.

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

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

“Fixed Rate Bonds” means any 2011A Bonds in a Long-Term Interest Rate Period bearing interest at Long-Term Interest Rates extending to the day immediately preceding the Maturity Date or Dates of the 2011A Bonds.

“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.

“Index Interest Rate” means a variable interest rate for the 2011A Bonds in an Index Interest Rate Period, either the LIBOR Index Interest Rate or the SIFMA Index Interest Rate, as designated by the City under the Eighth Supplemental Resolution and as further described therein.

“Index Interest Rate Period” means, with respect to the 2011A Bonds bearing interest at the Index Interest Rate, each period from an Index Rate Purchase Date of the immediately preceding Index Interest Rate Period to the first to occur of: (i) the immediately succeeding Index Rate Purchase Date; (ii) the first date on which the 2011A Bonds bear interest in an Interest Rate Period other than the Index Interest Rate; (iii) a conversion to Fixed Rate Bonds; or (iv) a date on which all 2011A Bonds are redeemed in accordance with the terms of the Eighth Supplemental Resolution or all principal and accrued interest on all 2011A Bonds are otherwise paid in full; provided, however, during any Purchase Default Period of the 2011A Bonds, there will be no Index Interest Rate Period in effect with respect to such 2011A Bonds.

“Index Rate Scheduled Purchase Date” means, with respect to an Index Interest Rate Period, the date on which the 2011A Bonds will be subject to scheduled mandatory tender for purchase as specified by the City to the Remarketing Agent on or before the first day of such Index Interest Rate Period and used to determine the Applicable LIBOR Factor and Applicable LIBOR Spread or the Applicable SIFMA Spread, as the case may be, which will result in the 2011A Bonds bearing interest during such Index Interest Rate Period at the minimum interest rate per annum that would enable the Remarketing Agent on the first day of such Index Interest Rate Period to sell the 2011A Bonds at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

“Index Rate Unscheduled Purchase Date” means, during an Index Interest Rate Period, any Business Day from and after the Call Protection Date designated by the City to require that the Owners of the 2011A Bonds tender their 2011A Bonds for purchase, as provided in the Eighth Supplemental Resolution.

“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 Accrual Date” means, with respect to the 2011A Bonds, the first day of the LIBOR Index Interest Accrual Period or the SIFMA Index Interest Accrual Period, as provided in the Eighth Supplemental Resolution.

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

“Interest Payment Date” means the first Business Day of each month and each Index Rate Purchase Date.

“Interest Period” means the period from and including each Interest Payment Date to and including the day next preceding the next Interest Payment Date; provided, however, that the first Interest Period for any 2011A Bond will begin on (and include) the Closing Date of such 2011A Bond and the final Interest Period will end the day next preceding the Maturity Date of such 2011A Bond.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period or Index Interest Rate Period.

“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.

“LIBOR” means, for any date of determination, the rate per annum equal to the rate for deposits in U.S. Dollars for a period of one month commencing on the related LIBOR Rate Determination Date that appears on the Reuters Screen LIBOR01 (or such other page as may replace LIBOR01 or such other service as may be nominated by the British Bankers’ Association as an information vendor for the purpose of displaying British Bankers’ Association Interest Settlement Rate for U.S. Dollar deposits) as of 11:00 a.m. London time, on such LIBOR Rate

Determination Date; provided that if such rate is not reported on a London Business Day, LIBOR will mean the rate as determined by the Calculation Agent (who may rely upon an opinion of a commercial or investment banking firm knowledgeable in municipal finance) or from another recognized source of interbank quotation of which the City has received written notice.

“LIBOR Index Interest Accrual Period” means, during an Index Interest Rate Period, while the 2011A Bonds bear the LIBOR Index Interest Rate, the period from (and including) the Index Rate Conversion Date to (but excluding) the first Interest Payment Date thereafter and thereafter will mean the period from (and including) an Interest Payment Date to but not including the following Interest Payment Date (or, if sooner, to but excluding the Index Rate Purchase Date).

“LIBOR Index Interest Rate” means a per annum rate of interest equal to the sum of the Applicable LIBOR Spread plus the product of LIBOR multiplied by the Applicable LIBOR Factor.

“LIBOR Rate Determination Date” means the date that is two London business days preceding the first day of each LIBOR Index Interest Accrual Period.

“Long-Term Interest Rate” means a term, non-variable interest rate established in accordance with the Eighth Supplemental Resolution.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect for the 2011A Bonds.

“Mandatory 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.

“Maturity Date” means October 1, 2035, as specified in the Closing Certificate of the City.

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

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

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

(c) if the Parity Debt or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Debt or Bonds, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the greater of 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 will be excluded to the extent such payments are to be paid from amounts on deposit as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to

be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

(e) in determining the principal amount due in each Fiscal Year, payment will (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 will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date; and

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

(1) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a net variable interest rate with respect to such Bonds and Subordinate Swap by the City, the interest rate on such Bonds for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Subordinate Swap is in effect) to be equal to the sum of: (i) the fixed rate or rates stated in such Bonds; minus (ii) the fixed rate paid by the Subordinate Swap Provider to the City; plus (iii) the lesser of: (A) the interest rate cap, if any, provided by a Subordinate Swap Provider with respect to such Subordinate Swap (but only during the period that such interest rate cap is in effect); and (B) the applicable variable interest rate calculated in accordance with 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 will be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap.

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

“Maximum Bond Interest Rate” means the lesser of: (a) the rate of 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the 2011A Bonds; and (b) the Maximum Lawful Rate.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

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

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

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

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

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

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

“Net Operating Revenues” means Gross Operating Revenues, less Operating and Maintenance Expenses.

“Nominee” means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant hereto.

“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 has been discharged in accordance with the Resolution, including Bonds (or portions of Bonds) referred to in the Resolution; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

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

“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).

“Participants” means with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

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

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

“Purchase Date” means the date on which 2011A Bonds are required to be purchased pursuant to the Eighth Supplemental Resolution.

“Purchase Default Period” means, upon a failure to purchase 2011A Bonds on an Index Rate Scheduled Purchase Date, a period commencing on such Index Rate Scheduled Purchase Date and ending on the date as provided in the Eighth Supplemental Resolution.

“Purchase Default Rate” means 10% per annum.

“Rating Agencies” means Fitch, Moody’s and Standard & Poor’s with respect to the 2011A Bonds, and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.

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

“Record Date” means the Business Day preceding an Interest Payment Date.

“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.

“Remarketing Account” means the account with that name established within the Bond Purchase Fund.

“Remarketing Agent” means each Person qualified under the Eighth Supplemental Resolution to act as Remarketing Agent for the 2011A Bonds and appointed by the City from time to time under the Remarketing Agreement.

“Remarketing Agreement” means the Remarketing Agreement between the City and a Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of a Remarketing Agent with respect to the 2011A Bonds under the Eighth Supplemental Resolution, as amended from time to time.

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

“Representation Letter” means the Letter of Representations from the City to DTC relating to the 2011A Bonds.

“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 DTC, or, in accordance with then-current guidelines of the U.S. Securities and Exchange Commission, such other securities depository as the City may designate in a Certificate of the City delivered to the Fiscal Agent.

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

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

“Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms, during which 2011A Bonds bear interest at one or more Bond Interest Term Rates.

“SIFMA Municipal Swap Index” means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by Securities Industry and Financial Markets Association (formerly known as the Bond Market Association), its successors and assigns (the “Association”), or any person acting in cooperation with or under the sponsorship of the Association and acceptable to the Remarketing Agent and effective from such date.

“Special Mandatory Redemption Payments” mean such amounts designated as Mandatory Sinking Account Payments under the Resolution and deposited in the Principal Account of the Bond Service Account of the Water Revenue Fund for special mandatory redemptions contemplated under the Eighth Supplemental Resolution for special mandatory redemptions.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term “Standard & Poor’s,” unless otherwise provided in a Supplemental Resolution for a Series of Bonds, will refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

“State” means the State of California.

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

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

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

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

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

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

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

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

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

“Subordinate Swap Provider” means, with respect to each Subordinate Swap, the entity (other than the City and, if applicable, the Fiscal Agent) that is a party thereto, and its permitted successors and assigns, whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to “A2” and “A” from at least two nationally recognized credit rating agencies, or whose payment obligations under the Subordinate Swap are enhanced by a credit support provider or other similar entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to “A2” and “A” from at least two nationally recognized credit rating agencies and whose credit enhancement of the Subordinate Swap Provider’s obligations under the Subordinate Swap are pursuant to a guaranty or other form of credit enhancement (including, but not limited to, contingent swap counterparty arrangements, transfer/novation arrangements or option arrangements acceptable to the Treasurer or any duly authorized designee of the Treasurer designated by the Treasurer in writing to act on behalf of such officer for such purpose (such acceptance to be evidenced by the execution and delivery of any such Subordinate Swap)).

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

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

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

“Tax Certificate” means the Tax Certificate as to Arbitrage and the Provisions of Section 103 and 141-150 of the Code concerning certain matters pertaining to the use and investment of proceeds of the 2011A Bonds, executed and delivered by the City on the occasion of the delivery of the first to be delivered of the 2011A Bonds, as the same may be supplemented or amended, including any and all exhibits attached thereto.

“Tender Agent” means each Person qualified under the Eighth Supplemental Resolution to act as Tender Agent with respect to the 2011A Bonds and so appointed by the City and so acting from time to time, and its successors.

“Tender Period Halfway Date” means, with respect to an Index Interest Rate Period, unless another date is designated as provided in the Eighth Supplemental Resolution, the date occurring halfway between the commencement of such Index Interest Rate Period and the Index Rate Scheduled Purchase Date, which will be calculated by: (1) dividing: (i) the number of days from and including the date on which such Index Interest Rate Period commences to and not including the Index Rate Scheduled Purchase Date by; (ii) two, and if necessary, rounding the result down to the nearest whole number; and (2) adding the resulting number of days to the commencement of such Index Interest Rate Period.

“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.

“Undelivered Bond” means any 2011A Bond which constitutes an Undelivered Bond under the provisions of the Eighth Supplemental Resolution.

“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 will 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.

“Weekly Interest Rate” means a variable interest rate for the 2011A Bonds established in accordance with the Eighth Supplemental Resolution.

“Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect for the 2011A Bonds.

“2008A Bonds” means the City of Riverside Variable Rate Refunding Water Revenue Bonds, Issue of 2008A.

“2011A Bonds” means the City of Riverside Variable Rate Refunding Water Revenue Bonds, Issue of 2011A.

“2011A Rebate Account” means the Water Revenue Bonds, Issue of 2011A, Rebate Account established pursuant to the Eighth Supplemental Resolution.

“2019A Bonds” means the City of Riverside Water Revenue/Refunding Bonds, Issue of 2019.

Content of Certificates and Opinions

Every certificate or opinion provided for in the Resolution with respect to compliance with any provision of the Resolution will include: (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions in the Resolution relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement: (a) that, in the opinion of such Person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter; or (b) that he or she had made or caused to be made his or her examination or investigation with respect to the subject matter in accordance with specified professional standards; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer or employee of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an

accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer or employee of the City, unless such counsel, accountant or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such Person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer or employee of the City, or the same counsel or accountant or independent consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

THE BONDS

Interest on the 2011A Bonds

The interest rate and Interest Rate Period on and for the 2011A Bonds may be adjusted as set forth in the Eighth Supplemental Resolution. All 2011A Bonds will bear the same interest rate for the same Interest Rate Period. No 2011A Bond will, at any time, bear interest in excess of the Maximum Bond Interest Rate.

Interest will be paid on the 2011A Bonds on each Interest Payment Date therefor. Each 2011A Bond will bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof or, if such date of authentication is an Interest Payment Date to which interest on the 2011A Bonds has been paid in full or duly provided for, from such date of authentication or, if it is the first payment of interest on the 2011A Bonds, the date thereof. However, if, as shown by the records of the Fiscal Agent, interest on the 2011A Bonds is in default, 2011A Bonds issued in exchange for 2011A Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the 2011A Bonds so surrendered or, if no interest has been paid on the 2011A Bonds, from the date thereof.

For any Index Interest Rate Period for 2011A Bonds, interest on the 2011A Bonds will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Payment Date and ending on the day immediately preceding such Interest Payment Date or the Index Rate Purchase Date.

In any event, interest on the 2011A Bonds will be payable for the final Interest Rate Period to but not including the date on which the 2011A Bonds have been paid in full.

The terms of the 2011A Bonds will be divided into consecutive Interest Rate Periods during each of which the 2011A Bonds will bear interest at the Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rates, Index Interest Rate, or Long-Term Interest Rate(s). However, at any given time, all 2011A Bonds will bear interest at a Daily Interest Rate, a Weekly Interest Rate, Index Interest Rate or Long-Term Interest Rate(s) or at Bond Interest Term Rates.

Conversion to Weekly Interest Rate

Subject to the Eighth Supplemental Resolution, the City may, from time to time, by written direction to the Fiscal Agent, the Tender Agent (if any) and the Remarketing Agent (if any) for the 2011A Bonds, elect that the 2011A Bonds bear interest at a Weekly Interest Rate. The direction of the City will specify: (A) the proposed effective date of the Conversion to a Weekly Interest Rate for the 2011A Bonds, which will be: (1) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; and (2) an Interest Payment Date; and (B) the Purchase Date for the 2011A Bonds to be purchased, which will be the proposed effective date of the Conversion to a Weekly Interest Rate. In addition, the direction of the City will be accompanied by a form of notice to be mailed to the Owners of the 2011A Bonds by the Fiscal Agent as provided in the Eighth Supplemental Resolution. During each Weekly Interest Rate Period for the 2011A Bonds commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the 2011A Bonds will be a Weekly Interest Rate.

Notice of Conversion to Weekly Interest Rate

The Fiscal Agent will give notice by first-class mail of a Conversion to a Weekly Interest Rate Period to the Owners of the 2011A Bonds being Converted not less than 30-days prior to the proposed effective date of such Weekly Interest Rate Period. A copy of such notice will be sent to the Rating Agencies. Such notice will state: (A) that the interest rate will be Converted to a Weekly Interest Rate unless the City rescinds its election to Convert the interest rate to a Weekly Interest Rate as provided in the Eighth Supplemental Resolution; (B) the proposed effective date of the Weekly Interest Rate Period; (C) that the 2011A Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2011A Bonds; and (D) certain other information required by the Eighth Supplemental Resolution in connection with a mandatory tender.

Conversion to Daily Interest Rate

Subject to the Eighth Supplemental Resolution, the City may, from time to time, by written direction to the Fiscal Agent, the Tender Agent (if any), the Credit Provider (if any), and the Remarketing Agent (if any) for the 2011A Bonds, elect that the 2011A Bonds bear interest at a Daily Interest Rate. The direction of the City will specify: (A) the proposed effective date of such Conversion to a Daily Interest Rate, which will be: (1) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; and (2) in the case of a Conversion from an Index Interest Rate Period, an Interest Payment Date; and (B) the Purchase Date for the 2011A Bonds to be purchased, which will be the proposed effective date of the Conversion to a Daily Interest Rate. In addition, the direction of the City will be accompanied by a form of notice to be mailed to the Owners of the 2011A Bonds by the Fiscal Agent as provided in the Eighth Supplemental Resolution. During each Daily Interest Rate Period for the 2011A Bonds commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the 2011A Bonds will be a Daily Interest Rate.

Notice of Conversion to Daily Interest Rate

The Fiscal Agent will give notice by first-class mail of a Conversion to a Daily Interest Rate Period to the Owners of the 2011A Bonds being Converted not less than 30 days prior to the proposed effective date of such Daily Interest Rate Period. A copy of such notice will be sent to the Rating Agencies. Such notice will state: (A) that the interest rate will be Converted to a Daily Interest Rate unless the City rescinds its election to Convert the interest rate to a Daily Interest Rate as provided in the Eighth Supplemental Resolution; (B) the proposed effective date of the Daily Interest Rate Period; (C) that the 2011A Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2011A Bonds; and (D) certain other information required by the Eighth Supplemental Resolution in connection with a mandatory tender.

Conversion to Long-Term Interest Rate

Subject to the Eighth Supplemental Resolution, at any time, the City, by written direction to the Fiscal Agent, the Tender Agent (if any) and the Remarketing Agent (if any) for the 2011A Bonds, may elect that the 2011A Bonds will bear interest at a Long-Term Interest Rate. The direction of the City: (1) will specify the duration of the Long-Term Interest Rate Period; (2) will specify the proposed effective date of the Long-Term Interest Rate Period, which date will be: (x) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; (y) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period determined in accordance with the Resolution; and (z) in the case of a Conversion from an Index Interest Rate Period, an Interest Payment Date; (3) will specify the last day of the Long-Term Interest Rate Period (which last day will be either the day immediately prior to the Maturity Date of the 2011A Bonds (in which event, the 2011A Bonds will not thereafter be subject to subsequent Conversion), or a day which both immediately precedes a Business Day and is at least 181 days after the effective date thereof); (4) will specify a Purchase Date on or prior to which Owners of the 2011A Bonds are required to deliver their 2011A Bonds to be purchased; and (5) may specify redemption prices and periods (subject to the requirement of a Favorable Opinion of Bond Counsel as provided in the Eighth Supplemental Resolution) different than those set forth in the Eighth Supplemental Resolution, and, in connection

with a Conversion to a Long-Term Interest Rate Period extending to the day immediately prior to the Maturity Date of the 2011A Bonds, will provide for the 2011A Bonds to mature and/or be subject to annual mandatory sinking fund redemption as provided in the Eighth Supplemental Resolution.

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

Notice of Conversion to or Continuation to Long-Term Interest Rate

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

Conversion to Bond Interest Term Rates

Subject to the Eighth Supplemental Resolution, the City may, from time to time, by written direction to the Fiscal Agent, the Tender Agent (if any) and the Remarketing Agent (if any), elect that the 2011A Bonds will bear interest at Bond Interest Term Rates. The direction of the City will specify: (A) the proposed effective date of the Short-Term Interest Rate Period (during which the 2011A Bonds will bear interest at Bond Interest Term Rates), which will be: (1) in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Fiscal Agent of such direction; and (2) an Interest Payment Date; and (B) the Purchase Date for the 2011A Bonds to be purchased, which will be the proposed effective date of the Short-Term Interest Rate Period. In addition, the direction of the City will be accompanied by a form of the notice to be mailed by the Fiscal Agent to the Owners of the 2011A Bonds as provided in the Eighth Supplemental Resolution. During each Short-Term Interest Rate Period commencing on the date specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, each 2011A Bond will bear interest at a Bond Interest Term Rate during each Bond Interest Term for that 2011A Bond.

Notice of Conversion to Bond Interest Term Rates

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

Determinations of Remarketing Agent Binding

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

Rescission of Conversion Election

Notwithstanding anything in the Eighth Supplemental Resolution, in connection with any Conversion of the Interest Rate Period for the 2011A Bonds, the City has the right (other than in connection with the Conversion at the end of an Index Interest Rate Period on an Index Rate Scheduled Purchase Date) to deliver to the Fiscal Agent, the Remarketing Agent (if any), the Tender Agent (if any) and the Calculation Agent (if any) for the 2011A Bonds, on or prior to 10:00 a.m., New York City time, on the second Business Day prior to any such Conversion a notice to the effect that the City elects to rescind its election to make such Conversion; provided, however, that the City has the right to deliver such rescission notice in connection with the Conversion at the end of the Initial Index Interest Rate Period or another Index Interest Rate Period, but prior to an Index Rate Unscheduled Purchase Date, as set forth in the Eighth Supplemental Resolution. If the City rescinds its election to make such Conversion, then the Interest Rate Period will not be Converted and the 2011A Bonds will continue to bear interest at an Index Interest Rate (but only upon rescission of Conversion on an Index Rate Unscheduled Purchase Date, as provided in the Eighth Supplemental Resolution) in effect immediately prior to such proposed Conversion. In any event, if notice of a Conversion has been mailed to the Owners of the 2011A Bonds as provided in the Eighth Supplemental Resolution and the City rescinds its election to make such Conversion, then the 2011A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Eighth Supplemental Resolution.

Certain Additional Conditions to Conversion

the case of any Conversion of the 2011A Bonds from any Index Interest Rate Period to any other 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. In the event that such Credit Support Instrument is not an Alternate Credit Support Instrument, such Credit Support Instrument nonetheless will meet all the requirements of a Credit Support Instrument set forth in the Eighth Supplemental Resolution as well as those of an Alternate Credit Support Instrument provided in the Eighth Supplemental Resolution.

Method and Place of Payment

The principal and Purchase Price of and premium, if any, and interest on the 2011A Bonds will be payable in lawful money of the United States of America. Such amounts will be paid by the Fiscal Agent on the applicable payment dates by wire transfer of immediately available funds on the applicable Record Date to an account specified by the Owner thereof in writing delivered to the Fiscal Agent, except that in the case of such an Owner of \$1,000,000 or more in aggregate principal amount of 2011A Bonds, upon the written request of such Owner to the Fiscal Agent at least two Business Days before the Record Date, specifying the account or accounts in the continental United States to which such payment will be made, such payments will be made by wire transfer of immediately available funds on the applicable payment date following such Record Date. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money.

Index Interest Rate Provisions

Designation of Index Interest Rates. During each Index Interest Rate Period, the 2011A Bonds will bear interest at the Index Interest Rate, either at the LIBOR Index Interest Rate or SIFMA Index Interest Rate, as designated by the City, as such rates are further described in the Eighth Supplemental Resolution. During the Initial Index Interest Rate Period, the City has designated that the 2011A Bonds will bear interest at the SIFMA Index Interest Rate. Prior to the commencement of each Index Interest Rate Period, the City will appoint or cause to be appointed a Remarketing Agent and the Remarketing Agent will determine the Applicable LIBOR Spread or the Applicable SIFMA Spread, as the case may be, based on the City's designation of the appropriate index, as provided in the Eighth Supplemental Resolution.

During an Index Interest Rate Period, interest on the 2011A Bonds will be payable (including during any Purchase Default Period): (a) monthly on the first Business Day of each calendar month, commencing on the date

set forth in the Closing Certificate; (b) on each Index Rate Unscheduled Purchase Date; and (c) on each Index Rate Scheduled Purchase Date.

During an Index Interest Rate Period (but not during any Purchase Default Period), no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Interest Payment Date, the Calculation Agent will deliver a written notice to the City, the Fiscal Agent and the Remarketing Agent, if any, specifying either the: (i) LIBOR and the LIBOR Index Interest Rate; or (ii) SIFMA and the SIFMA Index Interest Rate, as appropriate, for, and the aggregate amount of interest that accrued during, the Interest Period ending on such Business Day together with a detailed calculation of the foregoing. Determination by the Calculation Agent of the LIBOR and the LIBOR Index Interest Rate or the SIFMA and the SIFMA Index Interest Rate, as the case maybe, will be, absent manifest error, conclusive and binding on the Owners of the 2011A Bonds and the City, the Fiscal Agent and the Remarketing Agent, if any.

No Index Interest Rate Period will last beyond the Index Rate Purchase Date on which the Owners of all of the 2011A Bonds tender for purchase, and the City must purchase, all of the 2011A Bonds. During a Purchase Default Period, all of the 2011A Bonds will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period, all as provided in the Eighth Supplemental Resolution.

LIBOR Index Interest Rates during an Index Interest Rate Period. If LIBOR Index Interest Rate is designated by the City, such rate will be determined by the Calculation Agent on each LIBOR Rate Determination Date as the sum of the Applicable LIBOR Spread, plus the product of LIBOR multiplied by the Applicable LIBOR Factor. The LIBOR Index Interest Rate determined on each LIBOR Rate Determination Date will become effective on the first day of the LIBOR Index Interest Accrual Period next succeeding such LIBOR Rate Determination Date. The LIBOR Index Interest Rate will be rounded upward to the fifth decimal place. Interest accrued on the 2011A Bonds during each LIBOR Index Interest Accrual Period will be payable on each Interest Payment Date.

SIFMA Index Interest Rates during an Index Interest Rate Period. If SIFMA Index Interest Rate is designated by the City, such rate will be determined by the Calculation Agent on each SIFMA Rate Determination Date as the sum of the Applicable SIFMA Spread, plus SIFMA. The SIFMA Index Interest Rate determined on each SIFMA Rate Determination Date will become effective on each SIFMA Rate Reset Date. The SIFMA Index Interest Rate will be rounded upward to the fifth decimal place. Interest accrued on the 2011A Bonds will be payable on each Interest Payment Date.

Calculation Agent

(1) The Treasurer (or any duly authorized designee thereof) has been authorized, empowered and directed to appoint a Calculation Agent with respect to the 2011A Bonds. The Calculation Agent will signify its acceptance of the duties and obligations under the Eighth Supplemental Resolution by executing and delivering to the City a written acceptance in which the Calculation Agent agrees to perform said duties and obligations as set forth in the Eighth Supplemental Resolution. On or before the effective date of a Conversion to an Index Interest Rate Period, or upon the resignation or removal of the Calculation Agent, a Calculation Agent will be appointed by the City. Any Calculation Agent for 2011A Bonds must be: (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof and having a combined capital stock, surplus and undivided profits of at least \$30,000,000; or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it as the Calculation Agent under the Eighth Supplemental Resolution.

(2) The Calculation Agent may at any time resign and be discharged of the duties and obligations created by the Eighth Supplemental Resolution by giving at least 90 days' notice to the City. The Calculation Agent may be removed at any time by the City by written notice, delivered to the Calculation Agent and the Fiscal Agent. Upon any such resignation or removal, the Fiscal Agent at the direction of the City, will appoint a successor Calculation Agent meeting the requirements of the Eighth Supplemental Resolution. The Calculation Agent will continue to perform its duties until its successor has been appointed by the City, provided, however, that if a successor Calculation Agent has not been appointed within 45 days of the giving of such notice of resignation or removal of the Calculation Agent, the Calculation Agent may petition a court of competent jurisdiction to appoint a successor Calculation Agent. If the Calculation Agent has not been compensated for its services, the Calculation

Agent may resign by giving 30 days' notice to the City even if a successor Calculation Agent has not been appointed. The Fiscal Agent will not be liable for any action taken, suffered or omitted by the Calculation Agent.

(3) Subject to any applicable governmental restrictions, the Calculation Agent may be or become the owner of or trade in the 2011A Bonds with the same rights as if such entity were not the Calculation Agent.

(4) If the Calculation Agent resigns or is removed or dissolved, or if the property or affairs of the Calculation Agent are taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the City will use its best efforts to appoint a successor Calculation Agent.

(5) The Calculation Agent is acting as agent for the Fiscal Agent in connection with the determination of the LIBOR Index Interest Rate or the SIFMA Index Interest Rate, as the case may be. Except as otherwise agreed to by the Calculation Agent, in the absence of willful misconduct, negligent failure to act or negligence on its part, the Calculation Agent will not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Eighth Supplemental Resolution and will not be liable for any error of judgment made in good faith unless the Calculation Agent has been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(6) The Calculation Agent will not be responsible or liable for any failure or delay in the performance of its obligations under the Eighth Supplemental Resolution arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God, earthquakes; fires, floods, wars, civil or military disturbances, sabotage; acts of terrorism, epidemics, riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications services, accidents; labor disputes, acts of civil or military, or governmental actions; it being understood that the Calculation Agent will use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Notices of Amendments

While in an Index Interest Rate Period, all notices regarding amendments to the Eighth Supplemental Resolution will be delivered to the Calculation Agent at the time and in the same manner as such notices are delivered to the Owners of the 2011A Bonds. No such amendment will become effective with respect to the Calculation Agent without the consent of such party if it adversely affects the rights, duties, privileges, immunities and liabilities of the Calculation Agent.

Negotiability

Subject to the Eighth Supplemental Resolution and to the registration and payment provisions therein provided, the 2011A Bonds will be fully negotiable within the meaning of and for the purposes of the Uniform Commercial Code — Investment Securities, and each registered Owner will possess all rights enjoyed by registered Owners of negotiable instruments under the Uniform Commercial Code — Investment Securities.

Book-Entry System

The 2011A Bonds will be initially issued registered in the name of "Cede & Co.," as nominee for DTC and registered Owner of the 2011A Bonds, and held in the custody of the Securities Depository. A single certificate will be issued and delivered to the Securities Depository for each maturity of the 2011A Bonds, and the beneficial owners will not receive physical delivery of 2011A Bond certificates except as provided in the Eighth Supplemental Resolution. For so long as the Securities Depository continues to serve as securities depository for the 2011A Bonds as provided in the Eighth Supplemental Resolution, all transfers of beneficial ownership interests will be made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of 2011A Bonds will receive, hold or deliver any 2011A Bond certificate.

At the written direction of the City, with notice to the Fiscal Agent, any Tender Agent (if any) and any Remarketing Agent (if any), but without the consent of the Owners of the 2011A Bonds, the Fiscal Agent, and the Tender Agent, and with the consent of any Remarketing Agent, the City, may appoint a successor Securities Depository and enter into an agreement with the successor Securities Depository, to establish procedures with respect to a Book-Entry System for the 2011A Bonds not inconsistent with the provisions of the Eighth Supplemental Resolution. Any successor Securities Depository must be a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended.

The City, the Fiscal Agent, the Tender Agent and any Remarketing Agent may rely conclusively upon: (i) a certificate of the Securities Depository as to the identity of the Participants in the Book-Entry System with respect to the 2011A Bonds; and (ii) a certificate of any such Participant as to the identity of, and the respective principal amount of the 2011A Bonds beneficially owned by, the beneficial owners.

Whenever, during the term of the 2011A Bonds, the beneficial ownership thereof is determined by a book-entry at the Securities Depository, the requirements in the Eighth Supplemental Resolution of holding, delivering or transferring the 2011A Bonds will be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or transferring the book-entry to produce the same effect. Any provision of the Eighth Supplemental Resolution permitting or requiring delivery of the 2011A Bonds will, while the 2011A Bonds are in the Book-Entry System, be satisfied by the notation on the books of the Securities Depository in accordance with applicable state law.

Except as otherwise specifically provided in the Eighth Supplemental Resolution and the 2011A Bonds with respect to the rights of Participants and beneficial owners, when a Book-Entry System is in effect, the City, the Fiscal Agent, the Tender Agent and any Remarketing Agent may treat the Securities Depository (or its nominee) as the sole and exclusive Owner of the 2011A Bonds registered in its name for the purposes of payment of the principal of and interest on the 2011A Bonds or portion thereof to be redeemed or purchased, and of giving any notice permitted or required to be given to the Owners of 2011A Bonds under the Eighth Supplemental Resolution, and none of the City, the Fiscal Agent, the Tender Agent or any Remarketing Agent will be affected by any notice to the contrary. None of the City, the Fiscal Agent, the Tender Agent or any Remarketing Agent will have any responsibility or obligations to the Securities Depository, any Participant, any beneficial owner or any other Person which is not shown on the registration books required to be maintained by the Fiscal Agent, with respect to: (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any beneficial owner in respect of the principal amount or redemption or purchase price of, or interest on, any 2011A Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the beneficial owners to receive payment in the event of any partial redemption of the 2011A Bonds; or (v) any other action taken by the Securities Depository or any Participant. The Fiscal Agent will pay all principal of and interest on the 2011A Bonds registered in the name of Cede & Co. only to or upon the order of the Securities Depository, and all such payments will be valid and effective to fully satisfy and discharge the City’s obligations with respect to the principal of and interest on such 2011A Bonds to the extent of the sum or sums so paid.

When a Book-Entry System is in effect and 2011A Bonds are held by or on behalf of any Credit Provider by any Credit Provider’s designee, the City will provide certificated 2011A Bonds if and as required under the Credit Support Instrument and/or Credit Support Agreement or a separate CUSIP number to be used exclusively for Bank Bonds.

The Book-Entry System may be discontinued by the Fiscal Agent and the City, at the direction and expense of the City, and the City and the Fiscal Agent will cause the delivery of 2011A Bond certificates to such beneficial owners of the 2011A Bonds and registered in the names of such beneficial owners as will be specified to the Fiscal Agent by the Securities Depository in writing, under the following circumstances:

(1) The Securities Depository determines to discontinue providing its service with respect to the 2011A Bonds and no successor Securities Depository is appointed as described above. Such a determination may be made at any time by giving 30 days’ notice to the City, the Tender Agent and the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law, or

(2) The City determines not to continue the Book-Entry System through a Securities Depository, upon not less than 45 days' prior written notice to the Fiscal Agent, the Tender Agent and any Remarketing Agent.

When the Book-Entry System is not in effect, all references in the Eighth Supplemental Resolution to the Securities Depository will be of no further force or effect.

So long as any 2011A Bond is registered in the name of Cede, as nominee of DTC, all payments with respect to principal of and interest on such 2011A Bond and all notices with respect to such 2011A Bond will be made and given, respectively, in the manner provided in the Representation Letter.

In the event of a redemption or any other transaction necessitating a reduction in aggregate principal amount of 2011A Bonds Outstanding, DTC in its discretion: (a) may request the City and the Fiscal Agent to issue and authenticate a new 2011A Bond certificate, or (b) will make an appropriate notation on the 2011A Bond certificate indicating the date and amounts of such reduction in principal, except in the case of final maturity, in which case the certificate must be presented to the Fiscal Agent prior to payment.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period

The 2011A Bonds will be subject to mandatory tender for purchase on the first day of each Interest Rate Period at the Purchase Price, payable in immediately available funds, provided, however, that in a case of any failed Conversion from an Index Interest Rate Period on an Index Rate Scheduled Purchase Date, the Purchase Default Period provisions will govern. For payment of the Purchase Price on the Purchase Date, a 2011A Bond must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date. If delivered after that time, the Purchase Price will be paid on the next succeeding Business Day.

Execution of Bonds

Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series will be executed in the name and on behalf of the City with the facsimile or manual signature of the Mayor and the Treasurer, under seal attested by the facsimile or manual signature of the City Clerk. Such seal may be in the form of a facsimile of the City's seal and may be reproduced, imprinted or impressed on the Bonds. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series will be delivered to the Fiscal Agent for that Series for authentication by it. In case any of the Persons who signed or attested any of the Bonds ceases to hold their respective offices or positions before the Bonds so signed or attested have been authenticated or delivered by the Fiscal Agent or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, will be as binding upon the City as though those who signed and attested the same had continued to be such officers or employees, and also any Bond may be signed and attested on behalf of the City by such Persons as at the actual date of execution of such Bond are the proper officers or employees although at the nominal date of such Bond any such Person are not such officer or employee.

Except as provided in the Supplemental Resolution providing for the issuance thereof, only such of the Bonds as bear thereon a certificate of authentication substantially in the form recited in the Supplemental Resolution creating such Series, manually executed by the Fiscal Agent for such Series, will be valid or obligatory for any purpose or entitled to the benefits of the Resolution, and such certificate of authentication when manually executed by such Fiscal Agent will be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered under the Resolution and are entitled to the benefits of the Resolution.

Transfer of Bonds

Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the Person in whose name it is registered, in Person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond.

Whenever any Bond or Bonds of a Series are surrendered for transfer, the City will execute and the Fiscal Agent for that Series will authenticate and deliver a new Bond or Bonds, of the same Series, tenor and maturity and for a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to register a transfer of any Bonds within 15 days before the date of selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. A Fiscal Agent may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds

Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bond so selected for redemption. The Fiscal Agent will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Bond Register

The Fiscal Agent for each Series of Bonds will keep or cause to be kept, at its designated office sufficient books for the registration and transfer of the Bonds of that Series, which will at all times be open to inspection during normal business hours by the City; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Resolution.

Temporary Bonds

The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, will be of such denomination as may be determined by the City, will be in registered form and may contain such reference to any of the provisions of the Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond will be executed by the City and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Resolution as definitive Bonds authenticated and delivered thereunder.

Bonds Mutilated, Lost, Destroyed or Stolen

If any Bond becomes mutilated, the City at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond will be cancelled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and the City and indemnity satisfactory to them is given, the City at the expense of the Owner, will execute, and the Fiscal Agent will thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent for that Series may pay the same without surrender thereof upon receipt of the aforementioned indemnity). The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Resolution and of the expenses which may be incurred by the City and the Fiscal Agent in the premises. Any Bond issued under the provisions of the Resolution in lieu of any Bond

alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Resolution with all other Bonds secured by the Resolution. Neither the City nor any Fiscal Agent will be required to treat both the original Bond and any substitute Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Resolution or for the purpose of determining any percentage of Bonds Outstanding thereunder, but both the original and substitute Bond will be treated as one and the same.

REVENUES

Pledge of Net Operating Revenues for Bonds and for Subordinate Obligations

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

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

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

Establishment of Funds and Accounts; Application

(A) Pursuant to the Law, there is by the Resolution continued and there will be maintained by the Treasurer in accordance with the terms of the Resolution the Water Revenue Fund (sometimes called "Water

Revenue Fund”), in which there are created, renamed or continued, as the case may be, the following accounts and sub-accounts:

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

(i) Water Revenue Bonds, Principal Account (sometimes called the “Principal Account”); and

(ii) Water Revenue Bonds, Interest Account (sometimes called the “Interest Account”);

b. Water Revenue Bonds, Renewal and Replacement Account (sometimes called the “Renewal and Replacement Account”); and

c. Water Revenue Bonds, Surplus Account (sometimes called the “Surplus Account”).

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

Water Revenue Fund

The Gross Operating Revenues will be deposited in the Water Revenue Fund, and payments from said fund will 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 will 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 will be placed in the Bond Service Account.

Thereafter, following the transfers required by the Resolution, there will 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 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 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 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 Resolution and the Reserve Accounts as provided in the Resolution, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if 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) above. If the City will issue or incur any Parity Debt, the payments required to be placed in any debt service account to pay interest on such Parity Debt will rank and be made pari passu with the payments required to be placed in the Interest Account 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 will 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 will 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 will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Account will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there will 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 will 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 will rank and be made pari passu with the payments required to be placed in the Principal Account.

Application of Funds and Accounts

(A) Bond Service Account.

(i) Interest Account. Amounts in the Interest Account will be used and withdrawn by the Treasurer solely for the purpose of: (a) paying interest on the Bonds as it will 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 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.

(b) Notwithstanding clause (a), 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) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to the foregoing provisions will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

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

Establishment, Funding and Application of Redemption Account

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

Investment of Moneys in Funds and Accounts

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

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

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

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

COVENANTS OF THE CITY

Covenants

The City makes the following covenants with the Owners and the Subordinate Providers (to be performed by the City or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners and the Subordinate Providers; provided, however, that said covenants do not require or obligate the City to use any of its funds other than the Water Revenue Fund. Said covenants will be in effect subject to certain provisions of the Resolution, so long as any of the Bonds issued under the Resolution are Outstanding and unpaid, so long as any of the Subordinate Obligations are unpaid or so long as provision for the full payment and discharge of the Bonds at maturity or upon redemption thereof prior to maturity through the setting apart in the Bond Service Account or in the Redemption Account or in a special trust fund to insure the payment or redemption thereof (as the case may be) of money sufficient for that purpose has not been made.

Punctual Payment

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

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

Discharge Claims

The City has covenanted in the Resolution that in order to fully preserve and protect the priority and security of the Bonds and the subordinate priority and security of the Subordinate Obligations, the City will pay from the 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 will 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 has covenanted and agreed in the Resolution 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 has covenanted in the Resolution that the Water System will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the 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 will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor will any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City has further covenanted in the Resolution that it will not enter into any agreement which impairs the operation of the 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 will, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Water System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

The City has covenanted in the Resolution that any amounts received as awards as a result of the taking of all or any part of the 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, will either be used for the acquisition and/or construction of improvements and extensions of the Water System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution.

Insurance

The City has covenanted in the Resolution that it will at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the 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 is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Water System will be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, will be applied to the retirement of any Outstanding Bonds.

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

Records and Accounts

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

The City will cause the books and accounts of the 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 will 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 will be furnished free to any such public agency or any private Person or corporation, but each of the foregoing will pay the reasonable rental value of any property so used. Reasonable and proper charges for service rendered or quarters furnished to the Water System will be paid to the City from the Water Revenue Fund. The City will maintain and enforce valid regulations for the payment of bills for water service. Such regulations will at all times during such period provide that the City will, 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.

Establishment and Application of 2011A Rebate Account

(A) Establishment. The Fiscal Agent will establish a separate account for the 2011A Bonds designated the "2011A Rebate Account." Within the 2011A Rebate Account, the Fiscal Agent will maintain such other accounts as it is instructed by the City as will be necessary in order to comply with the terms and requirements of the Tax Certificate. Absent an opinion of bond counsel that the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds will not be adversely affected, the City will cause to be deposited in the 2011A Rebate Account such amounts as are required to be deposited therein pursuant to the Eighth Supplemental Resolution and the Tax Certificate. Subject to the transfer provisions provided in clauses (C) and (H) below, all money at any time deposited in the 2011A Rebate Account will be held by the Fiscal Agent in trust for payment to the United States Treasury, and no other person will have any rights in or claim to such money. All amounts on deposit in the 2011A Rebate Account for the 2011A Bonds will be governed by the Eighth Supplemental Resolution and the Tax Certificate for the 2011A Bonds, unless and to the extent that the City delivers to the Fiscal Agent an opinion of bond counsel that the exclusion from gross income for federal income tax purposes of interest on the 2011A Bonds will not be adversely affected if such requirements are not satisfied. The Fiscal Agent will be deemed conclusively to have complied with such provisions if it follows the directions of the City including supplying all

necessary information in the manner provided in the Tax Certificate, will not be required to take any actions thereunder, in the absence of written directions by the City, and will have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate. The Fiscal Agent has no responsibility to make any independent calculations or determinations or to review the City's calculations under the Eighth Supplemental Resolution.

(B) Computation. Within 45 days of the end of each fifth Bond Year (as defined in the Tax Certificate), the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (as defined in the Tax Certificate), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebate Amount"). The City is not required to calculate the Rebate Amount, and the Fiscal Agent is not required to deposit any amount to the 2011A Rebate Account in accordance with clause (B), with respect to all or a portion of the proceeds of the 2011A Bonds (including amounts treated as proceeds of the 2011A Bonds): (i) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said Sections is applicable; (ii) to the extent such proceeds are subject to an election by the City under Section 148(f)(4)(C)(vii) of the Code to pay a 1½% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied; or (iii) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a "bona fide debt service fund." In such event, and with respect to such amounts, the City will provide written direction to the Fiscal Agent that the Fiscal Agent is not required to deposit any amount to the 2011A Rebate Account in accordance with clause (B). The City will obtain expert advice as to the Rebate Amount to comply with the Rebate Fund provisions of the Eighth Supplemental Resolution;

(C) Transfer. Within 55 days of the end of each fifth Bond Year, upon the written request of the City an amount will be deposited to the 2011A Rebate Account by the Fiscal Agent from deposits by the City from any Net Operating Revenues legally available for such purpose (as specified by the City in the aforesaid written Request), if and to the extent required, so that the balance in the 2011A Rebate Account equals the Rebate Amount so calculated in accordance with clause (B). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the 2011A Rebate Account exceeds the amount required to be on deposit therein, upon written request of the City, the Fiscal Agent will withdraw the excess from the 2011A Rebate Account and then transfer such amounts to the Treasurer for credit to the Water Revenue Fund.

(D) Payment to the Treasury. The Fiscal Agent will pay, as directed by request of the City to the United States Treasury, out of amounts in the 2011A Rebate Account, subject to the exceptions contained in clause (B):

(i) not later than 60 days after the end of: (x) the fifth Bond Year; and (y) each applicable fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the Rebate Amount (calculated as of the end of such Bond Year) and all previous rebate payments; and

(ii) not later than 60 days after the payment of all the 2011A Bonds, an amount equal to 100% of the Rebate Amount calculated as of the date of such payment and any income attributable to the Rebate Amount determined to be due and payable, computed in accordance with Section 1.148-3 of the Treasury Regulations.

(E) Deficiencies. In the event that, prior to the time of any payment required to be made from the 2011A Rebate Account, the amount in the 2011A Rebate Account is not sufficient to make such payment when such payment is due, the City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due.

(F) Withdrawals of Excess Amounts. In the event that immediately following the calculation required by clause (B), but prior to any deposit made under clause (B), the amount on deposit in the 2011A Rebate Account exceeds the Rebate Amount calculated in accordance with clause (B), upon written instructions from the City, the

Fiscal Agent will withdraw the excess from the 2011A Rebate Account and credit such excess to the Interest Account of the Bond Service Account.

(G) Disposition of Unexpended Funds. Any funds remaining in the 2011A Rebate Account after redemption and payment in full of the 2011A Bonds and the payments described in clause (D) above being made may be withdrawn by the Fiscal Agent and remitted to the City and utilized in any manner by the City.

(H) Rebate Payments. Each payment required to be made pursuant to clause (D) will be made to the Internal Revenue Service Center, Ogden, Utah, on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, which will be completed by the City for execution by the City, or will be made in such other manner as provided under the Code.

(I) Survival of Defeasance. Notwithstanding anything in the Eighth Supplemental Resolution to the contrary, the obligation to remit the Rebate Amount to the United States and to comply with the requirements of the Eighth Supplemental Resolution and the Tax Certificate will survive the defeasance or payment in full of the 2011A Bonds.

(J) Recordkeeping. The City will retain records of all determinations made hereunder until six years after the complete retirement of the 2011A Bonds.

Tax Covenants

Notwithstanding any other provision of the Eighth Supplemental Resolution, absent an opinion of bond counsel that the exclusion from gross income of interest on the 2011A Bonds will not be adversely affected for federal income tax purposes, the City has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows.

(A) Private Activity. The City will not take or omit to take any action or make any use of the proceeds of the 2011A Bonds or of any other moneys or property which would cause the 2011A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(B) Arbitrage. The City will make no use of the proceeds of the 2011A Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the 2011A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(C) Federal Guarantee. The City will make no use of the proceeds of the 2011A Bonds or take or omit to take any action that would cause the 2011A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(D) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(E) Compliance with the Tax Certificate. The City will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the 2011A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein. In furtherance of the foregoing tax covenants of the Eighth Supplemental Resolution, the City will comply with the provisions of the Tax Certificate, which is incorporated in the Eighth Supplemental Resolution as if fully set forth therein. The foregoing covenants will survive payment in full or defeasance of the 2011A Bonds.

The foregoing tax covenants are not applicable to, and nothing contained in the Eighth Supplemental Resolution will be deemed to prevent the City from issuing, 2011A Bonds the interest on which has been determined by bond counsel to be subject to federal income taxation.

THE FISCAL AGENT

Appointment; Duties of Fiscal Agent

(A) The Treasurer (or the Treasurer's designee) is authorized, empowered and directed by the Resolution to appoint a Fiscal Agent with respect to the 2011A Bonds. The Fiscal Agent will signify its acceptance of the duties and obligations under the Resolution by executing and delivering to the City a written acceptance in which the Fiscal Agent agrees to perform said duties and obligations as set forth in the Resolution.

The City has agreed in the Resolution, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any liabilities it may incur in the exercise and performance of its powers and duties under the Resolution which are not due to its negligence or willful misconduct.

The City has acknowledged in the Resolution that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the City with periodic transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Resolution; provided that the Fiscal Agent is not obligated to provide an accounting for any fund or account that: (a) has a balance of \$0.00; and (b) has not had any activity since the last reporting date.

The obligation of the City described above will survive resignation or removal of the Fiscal Agent under the Ninth Supplemental Resolution and payment of the 2019 Bonds and discharge of the Ninth Supplemental Resolution.

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

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

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

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent will be either the Treasurer or a trust company or bank

having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company will have a combined capital and surplus of at least one hundred million dollars (\$100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the Resolution the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

Retention and Dissemination of Available Information

The Fiscal Agent for the 2011A Bonds will retain in its possession all reports, certificates and other documents received by it with respect to the 2011A Bonds, all of which will be subject at all reasonable times during regular business hours with reasonable prior notice to inspection by the City, the Securities Depository with respect to the 2011A Bonds and any other Person that the City reasonably determines to be a beneficial owner of 2011A Bonds held by such Securities Depository, and the agents and representatives of any thereof. Upon receipt by the Fiscal Agent of a written request of any Person described in the immediately preceding sentence, the Fiscal Agent will provide to such Person a copy of any such report, certificate or other document, provided that such Person will bear the direct cost of reproduction and delivery thereof. The Fiscal Agent will, at the cost of and at the written instruction of the City, disseminate all material written information received by the Fiscal Agent pursuant to the Resolution, to one or more officially recognized central information facilities or repositories with respect to information regarding obligations similar to the 2011A Bonds specified to the Fiscal Agent by the City.

Liability of Fiscal Agent

(A) The recitals of facts in the Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of the City, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Resolution. A Fiscal Agent and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it is proven that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Resolution and perform the duties required of it under the Resolution

by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

(C) No provision of the Resolution requires a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

(D) A Fiscal Agent is not required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Resolution and to file with such Fiscal Agent when due, such reports and certifications as the City is required to file with each Fiscal Agent under the Resolution.

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent imposes a duty to exercise such power, right or remedy.

(F) A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent determines to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

(G) Whether or not therein expressly so provided, every provision of the Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions described above.

Right of Fiscal Agent to Rely on Documents

A Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to the City, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith unless it is proven that a Fiscal Agent was negligent in ascertaining the pertinent facts.

Whenever in the administration of the duties imposed upon it by the Resolution a Fiscal Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be specifically prescribed in the Resolution) may be deemed to be conclusively proved and established by a Certificate of the City, and such Certificate will be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of the Resolution in reliance upon such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the City or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Resolution.

MODIFICATION OR AMENDMENT OF THE RESOLUTION

Amendments Permitted

(A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds, the Subordinate Providers and any Fiscal Agent may be modified or amended from time to time and at any time by

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

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

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

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

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

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

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute

later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of any of the Bonds;

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

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

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

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

Effect of Supplemental Resolution

From and after the time any Supplemental Resolution becomes effective pursuant to the Resolution, the Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Resolution of the City, each Fiscal Agent, all Owners of Bonds Outstanding and all Subordinate Providers will thereafter be determined, exercised and enforced under the Resolution subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Resolution for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Resolution may, and if a Fiscal Agent so determines will, bear a notation by endorsement or otherwise in form approved by the City Council and such Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his or her Bond for such purpose at the Corporate Trust Office of such Fiscal Agent or at such additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation will be made on such Bond. If a Supplemental Resolution so provides, new Bonds so modified as to conform, in the opinion of the Treasurer and the Fiscal Agent for such Series, to any modification or amendment contained in such Supplemental Resolution, will be prepared and executed by the City and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then outstanding will be exchanged at the Corporate Trust Office of such Fiscal Agent, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

Amendment of Particular Bonds

The foregoing provisions will not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him or, her, provided that due notation thereof is made on such Bonds.

REMARKETING AGENT; TENDER AGENT

Remarketing Agent

Each Remarketing Agent appointed by the City will designate its principal office in the Remarketing Agreement. The Remarketing Agent will signify its acceptance of the duties and obligations imposed upon it under the Eighth Supplemental Resolution by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the City, the Fiscal Agent and the Tender Agent under which the Remarketing Agent will agree, particularly, to keep such books and records as are consistent with prudent industry practice and to make such

books and records available for inspection by the City, the Fiscal Agent and the Tender Agent at all reasonable times.

Tender Agent

Each Tender Agent appointed by the City will designate to the City, the Fiscal Agent and the Remarketing Agent, its principal office for delivery of notices and delivery of 2011A Bonds and signify its acceptance of the duties and obligations imposed upon it under the Eighth Supplemental Resolution by a written instrument of acceptance delivered to the City, the Fiscal Agent and the Remarketing Agent. By acceptance of its appointment under the Eighth Supplemental Resolution, the Tender Agent has agreed:

(1) to hold all 2011A Bonds delivered to it pursuant to the Eighth Supplemental Resolution as agent and bailee of, and in escrow for the benefit of, the respective Owners which have delivered such 2011A Bonds until money representing the Purchase Price of such 2011A Bonds have been delivered to or for the account of or to the order of such Owners;

(2) to hold all 2011A Bonds registered in the name of the new Owners thereof which have been delivered to it by the Fiscal Agent for delivery to the Remarketing Agent;

(3) to hold 2011A Bonds for the account of the Credit Provider as stated in the Eighth Supplemental Resolution; and

(4) to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by the Fiscal Agent, the City and the Remarketing Agent at all reasonable times.

Qualifications of Remarketing Agent and Tender Agent; Resignation and Removal of Remarketing Agent and Tender Agent

Remarketing Agent. Each Remarketing Agent will be a member of the National Association of Securities Dealers and authorized by law to perform all the duties imposed upon it under the Eighth Supplemental Resolution and under the Remarketing Agreement. The Remarketing Agent may at any time resign and be discharged of the duties and obligations under the Eighth Supplemental Resolution by giving notice to the City, the Fiscal Agent and the Tender Agent. Such resignation will take effect on the 45th day after the receipt by the City of the notice of resignation. The Remarketing Agent may be removed at any time on 45 days' prior written notice, by an instrument signed by the City and delivered to the Remarketing Agent, the Fiscal Agent, the City and the Tender Agent.

Tender Agent. Each Tender Agent will be a commercial bank with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$100,000,000 and authorized by law to perform all the duties imposed upon it under the Eighth Supplemental Resolution. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the Eighth Supplemental Resolution by giving at least 60 days' notice to the City, the Fiscal Agent and the Remarketing Agent. A Tender Agent may be removed at any time by an instrument signed by the City, and filed with the Fiscal Agent. However, such resignation or removal will not take effect prior to the date that a successor Tender Agent has been appointed by the City and has accepted such appointment, such appointment has been approved by the Credit Provider, and the Credit Support Instrument, if any, has been transferred, in accordance with its terms, to that successor.

Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent will deliver any 2011A Bonds and money and Credit Support Instrument held by it in such capacity to its successor.

Notice of 2011A Bonds Delivered for Purchase; Purchase of 2011A Bonds; Deposit of Purchase Price

Determination by Tender Agent; Notice of Tender. For purposes of the Eighth Supplemental Resolution, the Tender Agent will determine timely and proper delivery of 2011A Bonds pursuant thereto and the proper

endorsement of 2011A Bonds delivered. That determination will be binding on the Owners of the 2011A Bonds, the City and the Remarketing Agent, absent manifest error.

Purchase of 2011A Bonds; Sources and Deposits of Purchase Price. Except as provided in the Eighth Supplemental Resolution, while the 2011A Bonds are in an Index Interest Rate Period, the 2011A Bonds required to be purchased in accordance with the Eighth Supplemental Resolution will be purchased from the Owners thereof, on the Purchase Date and at the Purchase Price. Funds for the payment of the Purchase Price will be received by the Tender Agent from the following sources and used in the order of priority indicated.

(1) proceeds of the sale of 2011A Bonds remarketed pursuant to the Eighth Supplemental Resolution and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; and

(2) any funds provided by the City, which funds will be furnished to the Fiscal Agent for deposit into the Principal Account or Interest Account for such purpose (any such funds being provided by the City in its sole discretion, there being no obligation of the City to so provide any such funds).

Undelivered Bonds; Purchase Price. If a 2011A Bond purchased as provided in the Eighth Supplemental Resolution is not presented to the Tender Agent, the Tender Agent will segregate and hold uninvested the money for the Purchase Price of such 2011A Bond in trust for the benefit of the former Owner of such 2011A Bond, who will, except as provided in the following sentences, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Purchase Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Purchase Price of any 2011A Bond which remains unclaimed for two years after the date of purchase will be paid to the City. After the payment of such unclaimed money to the City, the former Owner of such 2011A Bond will look only to the City for the payment thereof. The City will not be liable for any interest on unclaimed money and will not be regarded as a trustee of such money.

Inadequate Funds for Tenders. During an Interest Rate Period, other than an Index Interest Rate Period, if sufficient funds are not available for the purchase of all 2011A Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, all 2011A Bonds will bear interest at the SIFMA Municipal Swap Index plus 3% (provided, that in no event will 2011A Bonds bear interest at a rate in excess of the Maximum Bond Interest Rate) from the date of such failed purchase until all such 2011A Bonds are purchased as required in accordance with the Eighth Supplemental Resolution, and all tendered 2011A Bonds will be returned to their respective Owners. Notwithstanding any other provision of the Eighth Supplemental Resolution, such failed purchase and return will not constitute an Event of Default. Thereafter, the Fiscal Agent will continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent. Any obligation of the Remarketing Agent to cause the deposit of such funds from remarketing proceeds or proceeds of a Draw Request under the Credit Support Instrument, respectively, will remain enforceable pursuant to the Eighth Supplemental Resolution, and such obligation will only be discharged at such time as funds are deposited with the Fiscal Agent in an amount sufficient to purchase all such 2011A Bonds, together with any interest which has accrued on such 2011A Bonds to the subsequent actual Purchase Date; provided, however, while the 2011A Bonds are in an Index Interest Rate Period, the provisions of the Purchase Default Period will govern.

Remarketing of 2011A Bonds; Notice of Interest Rates

Upon a mandatory tender or notice of tender for purchase of 2011A Bonds, the Remarketing Agent will offer for sale and use its best efforts to sell such 2011A Bonds on the same date designated for purchase thereof at a price equal to the Purchase Price therefor in accordance with the Eighth Supplemental Resolution and, if not remarketed on such date, thereafter until sold. In so remarketing the 2011A Bonds, the Remarketing Agent will exercise its best efforts to remarket the 2011A Bonds at a rate of interest necessary to cause the 2011A Bonds to be remarketed, up to and including the Maximum Bond Interest Rate with respect to 2011A Bonds permitted by the Eighth Supplemental Resolution. No 2011A Bonds will be sold by the Remarketing Agent to the City.

Notice of Purchase and Remarketing

As soon as practicable, but in any event by no later than 4:00 p.m., New York City time, on the last Business Day prior to the Purchase Date, the Remarketing Agent will inform the Tender Agent by telephone, promptly confirmed in writing, or by written notice, of the principal amount of 2011A Bonds tendered for purchase sold by the Remarketing Agent pursuant to the Eighth Supplemental Resolution and the name, address and taxpayer identification number of each such purchaser, the principal amount of 2011A Bonds to be purchased and the denominations in which such 2011A Bonds are to be delivered. By no later than 12:00 noon, New York City time, on the Purchase Date, the Remarketing Agent will deliver to the Tender Agent the remarketing proceeds for which notice of remarketing was provided in accordance with the preceding sentence in immediately available funds.

Promptly upon receipt of such notice from the Remarketing Agent, but in any event by no later than 12:40 p.m., New York City time, on the Purchase Date, the Tender Agent will: (i) notify the City and the Fiscal Agent by telephone, promptly confirmed in writing, as to the aggregate purchase price of 2011A Bonds to be purchased and as to the amount of the difference between: (1) the total purchase price of those 2011A Bonds to be purchased pursuant to the Eighth Supplemental Resolution; and (2) the Purchase Price of those 2011A Bonds to be purchased pursuant to the Eighth Supplemental Resolution that have been remarketed by the Remarketing Agent pursuant to the Eighth Supplemental Resolution.

Delivery of 2011A Bonds

By 1:00 p.m., New York City time, on the Purchase Date, a principal amount of 2011A Bonds equal to the amount of 2011A Bonds purchased (or deemed purchased) with moneys described in the Eighth Supplemental Resolution will be made available by the Tender Agent to the Remarketing Agent against payment therefor. The Tender Agent will deliver at such time to the Remarketing Agent the due bills, if any, delivered to the Tender Agent in accordance with the Eighth Supplemental Resolution. Prior to such deliveries, the Tender Agent will register each 2011A Bond to be so delivered in the names as directed by the Remarketing Agent.

Delivery of Proceeds of Sale

The proceeds of the sale by the Remarketing Agent of any 2011A Bonds will be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund and in sufficient time to enable the Tender Agent to make payment of the Purchase Price of any 2011A Bonds being purchased with the proceeds thereof in accordance with the Eighth Supplemental Resolution.

Bond Purchase Fund

There will be established with and maintained by the Tender Agent a separate trust fund which will be referred to herein as the "Bond Purchase Fund," with a separate trust account therein referred to as the "Remarketing Account." While the 2011A Bonds are in the Index Interest Rate Period, the Tender Agent will also maintain a Purchase Account as provided in clause (B) below.

(A) Remarketing Account. Upon receipt of the proceeds of a remarketing of 2011A Bonds on a Purchase Date pursuant to the Eighth Supplemental Resolution, the Tender Agent will deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for such 2011A Bonds for application to the Purchase Price of such 2011A Bonds in accordance with the Eighth Supplemental Resolution and, if the Tender Agent is not a paying agent with respect to the 2011A Bonds, will transmit such proceeds to the Fiscal Agent for such application. Moneys in the Remarketing Account will be held in the name of the Tender Agent for the benefit of the Owners uninvested and without liability for interest thereon. The Remarketing Account will be an Eligible Account.

(B) Purchase Account. Upon receipt of any moneys from or on behalf of the City on a Purchase Date pursuant to the procedures set forth in the Eighth Supplemental Resolution, the Tender Agent will deposit such proceeds in the Purchase Account of the Bond Purchase Fund for such 2011A Bonds for application to the Purchase Price of such 2011A Bonds in accordance with the Eighth Supplemental Resolution and, if the Tender Agent is not a paying agent with respect to the 2011A Bonds, transmit such proceeds to the Fiscal Agent for such application.

Moneys in the Purchase Account will be held in the name of the Tender Agent for the benefit of the Owners uninvested and without liability for interest thereon. The Purchase Account will be an Eligible Account.

DEFEASANCE

Discharge of Resolution

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

- (a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem all Bonds Outstanding of the Series; or
- (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

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

Discharge of Liability on Bonds

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

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

Deposit of Money or Securities with Treasurer

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

(a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice, the amount to be deposited or held will be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will; in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series will have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series will have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Resolution

Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, will, upon Request of the City, be released from the trusts created by the Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of the City) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary will not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than the City) for any interest earned on, moneys so held. Any interest earned thereon will belong to the City and will be deposited monthly by the Treasurer into the Bond Service Account.

Defeasance of 2011A Bonds

In the case of any 2011A Bonds bearing interest at an Index Interest Rate, in addition to the requirements of the Master Resolution, such 2011A Bonds will be deemed to have been paid within the meaning of and with the effect expressed in the Master Resolution only if the interest due on such 2011A Bonds bearing interest at a Index Interest Rate on or prior to the maturity date or redemption date thereof, as the case may be, will be calculated at the Maximum Bond Interest Rate, provided, however, that if on any date, as a result of any of such 2011A Bonds having borne interest at less than the Maximum Bond Interest Rate for any period, the total amount of moneys and securities required for deposit with the Fiscal Agent, escrow agent or other fiduciary for the payment of interest on such 2011A Bonds is in excess of the total amount which would have been required to be deposited with the Fiscal Agent, escrow agent or other fiduciary on such date in respect of such 2011A Bonds in order for such 2011A Bonds to have been deemed paid within the meaning and with the effect expressed in the Master Resolution, the Fiscal Agent, escrow agent or other fiduciary will, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing such 2011A Bonds or otherwise existing under the Eighth

Supplemental Resolution. The Fiscal Agent, escrow agent or other fiduciary may not pay any excess referred to in the Eighth Supplemental Resolution to the City unless the Fiscal Agent, escrow agent or other fiduciary receives a certificate or other written evidence from an independent certified public accountant that an excess as described in the Eighth Supplemental Resolution exists and specifying the amount of such excess.

Notwithstanding any provision of the Eighth Supplemental Resolution to the contrary, if cash is not used, the City may cause any or all of the 2011A Bonds to be deemed to have been paid within the meaning of and with the effect expressed in the Master Resolution only with Federal Securities described in the Master Resolution which are non-callable.

2011A Bonds bearing interest at a Index Interest Rate will be deemed to have been paid within the meaning of and with the effect expressed in the Master Resolution only if such 2011A Bonds are required to be called for redemption on the next succeeding date on which they are subject to redemption prior to maturity pursuant to the Eighth Supplemental Resolution that occurs after the deposits required under the Master Resolution and the Eighth Supplemental Resolution have been made, or if such 2011A Bonds are tendered or deemed tendered for purchase prior to such date pursuant to the Eighth Supplemental Resolution, they are required to be redeemed on the Purchase Date thereof.

DEFAULTS AND REMEDIES

Events of Default

Each of the following events is an Event of Default under the Resolution:

(a) Default by the City in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the City in the due and punctual payment of the interest on any Bond;

(c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution (other than covenants, conditions or agreements for the exclusive benefit of one or more of the Subordinate Providers) or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) Destruction or damage to any substantial part of the 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 later constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the 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 of paragraphs (c) and (d) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Resolution, the City will not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Resolution includes without limitation acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City will, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the City, and the City will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City unfavorable to it.

Bondholders’ Committee

If an Event of Default has occurred and is continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders for the purpose of electing a Bondholders’ committee (a “Bondholders’ Committee”). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders’ Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders’ Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders’ Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders’ Committee. The Bondholders’ Committee is declared by the Resolution to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders’ Committee as trustee all the rights and powers conferred in the Resolution on any Owner; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders’ Committee either will be elected by or their election will be approved by or concurred in, and such committee will then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders’ Committee, including the names and addresses of its chairman and other members, will be filed with the City Clerk.

Acceleration

Upon the occurrence and continuation of an Event of Default described in paragraphs (e), (f) or (g) under the caption “—Events of Default,” the Bondholders’ Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds will forthwith become due and payable. Upon any such declaration the City will forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged for such purpose in the Resolution. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders’ Committee or, if there is none, the Owners of 25% in

aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequences. No such rescission or annulment will extend to or affect any subsequent default or impair any right consequent thereon.

Receiver

Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the 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 will be required of such receiver.

Other Remedies; Rights of Bondholders

Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to any other remedy given to the Bondholders under the Resolution or now or later existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Resolution by the Owners will extend to or affect any subsequent default or Event of Default or impair any rights or remedies consequent thereon.

Unconditional Right to Receive Principal, Accreted Value, Premium and Interest

Nothing in the Resolution will, however, affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Resolution, or the obligation of the City to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued under the Resolution to the respective holders thereof at the time and place, from the source and in the manner in the Resolution and in the Bonds expressed.

MISCELLANEOUS

Liability of City Limited to Net Operating Revenues

Notwithstanding anything in the Resolution or in the Bonds, the City is not required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Resolution for any of the purposes in the Resolution mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds, the payment of amounts due under the Subordinate Obligations, or for any other purpose of the Resolution.

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

Subordinate Provider may not compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption. Amounts payable under the Subordinate Obligations are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues (as provided in the Resolution).

Successor Is Deemed Included in All References to Predecessor

Whenever in the Resolution either the City, the Treasurer or any Fiscal Agent is named or referred to, such reference will include the successors or assigns thereof, and all the covenants and agreements in the Resolution contained by or on behalf of the City or any Fiscal Agent will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to City, Fiscal Agents, Bondholders and Subordinate Providers

Nothing in the Resolution or in the Bonds or the Subordinate Obligations expressed or implied is intended or may be construed to give to any Person other than the City, each Fiscal Agent, the Owners of the Bonds and the Subordinate Providers, as applicable, any legal or equitable right, remedy or claim under or in respect of the Resolution or any covenant, condition or provision therein or contained in the Resolution, as applicable; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the City, each Fiscal Agent, the Owners of the Bonds and the Subordinate Providers, as applicable.

Waiver of Notice

Whenever in the Resolution the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Destruction or Delivery of Cancelled Bonds

Whenever in the Resolution provision is made for the cancellation by a Fiscal Agent and the delivery to the Treasurer of any Bonds, such Fiscal Agent may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the Treasurer, if the Treasurer so requires), and deliver a certificate of such destruction to the Treasurer.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Resolution or in the Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Resolution, and the Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Resolution. The City Council has declared that it would have adopted the Resolution and each and every other section, paragraph, sentence, clause or phrase of the Resolution and authorized the issuance of the Bonds and the execution and delivery or issuance of the Subordinate Obligations pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Resolution may be held illegal, invalid or unenforceable.

Evidence of Rights of Bondholders

Any request, consent or other instrument required or permitted by the Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution

of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, will be sufficient for any purpose of the Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of the City if made in the manner provided in the Resolution.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Fiscal Agent for such Series. The Fiscal Agent of a Series may establish a record date as of which to measure consent of the Bondholders of such Series in order to determine whether the requisite consents are received.

Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any request, consent, or other instrument or writing of the Owner of any Bond of such Series will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or the City in accordance therewith or reliance thereon.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Resolution, Bonds which are owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Resolution if the pledgee establishes to the satisfaction of the Fiscal Agent for such Series the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent taken upon the advice of counsel will be full protection to such Fiscal Agent.

Money Held for Particular Bonds

The money held by the Treasurer or a Fiscal Agent for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on the City's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to certain provisions of the Resolution.

Funds and Accounts

Any fund required by the Resolution to be established and maintained by the Treasurer or a Fiscal Agent may be established and maintained in the accounting records of the Treasurer or a Fiscal Agent, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or an account; but all such records with respect to all such funds will at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

Proceedings Constitute Contract

The provisions of the Resolution will constitute a contract between the City and the Bondholders of such Bonds, and the provisions of the Resolution and thereof will be enforceable by any Bondholder for the equal benefit and protection of all Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other

suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction. The provisions of the Resolution also constitute a contract between the City and each Subordinate Provider, and the provisions of the Resolution will be enforceable by any such Provider by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction; provided, however, that no such action by such a Provider may in any manner adversely affect the benefits, securities or protections granted to Owner of Bonds or owners of Parity Debt under the Resolution.

No remedy conferred by the Resolution upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any subsequent default or breach of duty or contract or impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default will impair any such right or power or be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy will be brought or taken and the Bondholder will prevail, said Bondholder will be entitled to receive from the Water Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, the City and the Bondholder will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds of any Series, the Resolution will be irrevocable, but will be subject to modification to the extent and in the manner provided in the Resolution, but to no greater extent and in no other manner.

Future Contracts

Nothing contained in the Resolution will be deemed to restrict or prohibit the City from making contracts or creating bonded or other indebtedness payable from the general fund of the City, as the case may be, or from taxes or any source other than the Gross Operating Revenues, and from and after the sale of the Bonds of any Series, the general fund of the City will not include the Gross Operating Revenues and no contract or other obligation payable from the general fund of the City will be payable from the Gross Operating Revenues, except as provided in the Resolution.

Waiver of Personal Liability

No City Council member, officer, agent or employee of the City or any Fiscal Agent will be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or for the payment of amounts due under the Subordinate Obligations or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Resolution will relieve any such City Council member, officer, agent or employee of the City or any Fiscal Agent from the performance of any official duty provided by law or by the Resolution.

Governing Law

The Resolution will be construed and governed in accordance with the laws of the State of California.

Business Day

Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day will become due or be made on the next succeeding Business Day and no interest will accrue for such period.

Notices and Other Information to Rating Agencies

The Fiscal Agent, to the extent it has actual knowledge, will give immediate notice to Fitch, Moody's and Standard & Poor's in the event:

- (1) The Fiscal Agent, Tender Agent, Remarketing Agent or Calculation Agent resigns or is replaced;
- (2) The Eighth Supplemental Resolution or any Remarketing Agreement is amended or supplemented;
- (3) The 2011A Bonds are Converted from one Interest Rate Period to another Interest Rate Period;
- (4) There has been a redemption, defeasance or acceleration of the 2011A Bonds; or
- (5) There is a mandatory tender of the 2011A Bonds.

Notice of any of the foregoing will be given to Fitch, Moody's and Standard and Poor's at the addresses that are set forth in the Eighth Supplemental Resolution (or such other address as may have been filed in writing by such Rating Agencies with the Fiscal Agent):

The City will provide to the Rating Agencies such additional information as such Rating Agencies may reasonably request in order to maintain ratings on the 2011A Bonds.

Continuing Disclosure

The City has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be delivered by the City in connection with the issuance of the 2011A Bonds. Notwithstanding any other provision of the Master Resolution (including the Eighth Supplemental Resolution), failure of the City to comply with the Continuing Disclosure Certificate will not be considered an Event of Default under the Master Resolution (including the Eighth Supplemental Resolution).

Non-Business Days

If the date of maturity of principal of or interest on the 2011A Bonds or the date fixed for redemption of any 2011A Bonds or the last day for the performance of any act or the exercising of any right, as provided in the Eighth Supplemental Resolution is not a Business Day, then such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Eighth Supplemental Resolution and no interest will accrue for the period from and after such nominal date.

Notices Upon Transfer

If the Fiscal Agent makes any transfer of 2011A Bonds after the date of mailing of notice of Conversion, redemption or mandatory purchase given pursuant to the provisions of the Eighth Supplemental Resolution, the Fiscal Agent will provide to any transferee who becomes a 2011A Bondholder after such date and prior to the Conversion, redemption or mandatory purchase, a copy of any notice of Conversion, redemption or mandatory purchase so mailed.

Amendments to the Resolution

The Resolution has been amended to add subsection (g) the definition of "Maximum Annual Debt Service" as follows:

"(g) if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section

1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.”

The definition of “Net Operating Revenues” was amended and restated to read as follows:

“Net Operating Revenues” means Gross Operating Revenues, less Operating and Maintenance Expenses, plus, for the purposes of determining compliance with Section 6.10 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.”

The following paragraph is hereby added to the end of the provision described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant” in the Official Statement:

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

The above amendments will not take effect while any of the 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).

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 wider 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 26, 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 26, 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 26, 2011, in connection with the Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF RIVERSIDE, CALIFORNIA

By: _____

Title: _____

APPENDIX E

FORM OF BOND COUNSEL OPINIONS

Hawkins Delafield & Wood LLP, prior Bond Counsel, rendered its final approving opinion dated May 26, 2011 (the “Original Opinion”), in connection with the initial issuance of the 2011A Bonds in the following form. In connection with this Remarketing Statement, the Original Opinion is not being updated or reaffirmed, and it speaks only as of its date.

May 26, 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 adapted 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 2011. 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,

Jones Hall, A Professional Law Corporation, prior Bond Counsel, rendered an opinion dated January 12, 2017 (the “1.12.17 Opinion”), in connection with a prior remarketing of the 2011A Bonds in the following form. In connection with this Remarketing Statement, the 1.12.17 Opinion is not being updated or reaffirmed, and it speaks only as of its date.

January 12, 2017

City of Riverside, California
Riverside, California

Stifel, Nicolaus & Company, Incorporated,
as Remarketing Agent
Los Angeles, California

U.S. Bank National Association,
as Fiscal Agent
Los Angeles, California

Re: City of Riverside, California, Variable Rate Refunding Water Revenue Bonds,
Issue of 2011A (Index Interest Rate Period) – 2016 Remarketing

Ladies and Gentlemen:

We have acted as bond counsel to the City of Riverside, California (the “City”) in connection with the City’s remarketing of \$54,125,000 in outstanding aggregate principal amount of its Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (Index Interest Rate Period (the “Bonds”), issued pursuant to the provisions of the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended, and Resolution No. 17664 adopted by the City Council on January 8, 1991 (the “Master Resolution”), as previously amended and supplemented, and as further supplemented by an eighth supplemental resolution providing for the issuance of the Bonds adopted by the City Council on April 26, 2011 (the “Eighth Supplemental Resolution”). The Master Resolution, as previously amended and supplemented, and as further supplemented by the Eighth Supplemental Resolution, is referred to collectively as the “Resolution.” Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution. This opinion letter is being delivered in our capacity as bond counsel to the Issuer and not as counsel to the other addressees.

This opinion is rendered in connection with the City’s election to Convert the Interest Rate Period of the Bonds on this date to a new Index Interest Rate Period. Section 2.04(C)(3) of the Eighth Supplemental Resolution requires that the Fiscal Agent receive a Favorable Opinion of Bond Counsel with respect to such Conversion.

In connection with the rendering of this opinion, we have examined the Resolution and certain certificates of the City and such other documents and instruments as we have considered necessary or appropriate to render this opinion. We have not undertaken to verify through independent investigation the accuracy of the representations made in the foregoing documents. We have further assumed the genuineness and authenticity of all of the foregoing documents and of the signatures set forth thereon.

In order for interest with respect to the Bonds to be excluded from gross income for federal income tax purposes subsequent to the issuance of the Bonds, it was and is necessary that the applicable provisions of the Code be complied with on a continuous basis. We have made no independent investigation as to whether there has been such compliance in the present case. For purposes of this opinion, we have assumed that interest on the Bonds is excluded from gross income for federal income tax purposes and exempt for purposes of State of California personal income taxation, and we express no opinion whatsoever as to whether interest on the Bonds is presently excluded from gross income for federal income tax purposes or exempt for purposes of the State of California personal income tax as of the date of this opinion.

Based upon the foregoing, and in reliance thereon, we are of the opinion that the Conversion of the Bonds from an Index Interest Rate Period to another Index Interest Rate Period, in and of itself, will have no adverse effect upon (i) the exclusion of interest on the Bonds from gross income for federal income tax purposes; (ii) the status of interest on the Bonds as not being treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; or (iii) the exemption of interest on the Bonds from State of California personal income taxes. Such Conversion is also not prohibited by the laws of the State of California or the Eighth Supplemental Resolution.

The opinion expressed herein is based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions, and the foregoing opinion covers certain matters not directly addressed by such authorities. We call attention to the fact that such opinion may be affected by actions taken or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken or occur. In particular, we have assumed compliance with the covenants of the City for purposes of rendering this opinion.

Other than as specifically described herein, we have undertaken no investigation as to the use or investment of the proceeds of the Bonds and other matters affecting the exclusion from gross income for federal income tax purposes of interest on the Bonds since the date of issuance of the Bonds. Accordingly, except as set forth above, no opinion is expressed herein as to the exclusion from gross income for federal income tax purposes of interest on the Bonds. Further, we have not addressed, nor are we opining on, any collateral federal, state or local income tax consequences of the ownership or disposition of, or the receipt or accrual of interest on, the Bonds.

This opinion is rendered solely for your benefit in connection with the City's election to Convert the Interest Rate Period of the Bonds on this date to a new Index Interest Rate Period, and may not be relied upon, used, circulated, quoted or referred to, nor any copies hereof be delivered to, any other person without our prior written approval. We disclaim any obligation to supplement this letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in the law that may hereafter occur, and our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

Stradling Yocca Carlson & Rauth, Bond Counsel, proposes to render a final approving opinion related to the remarketing of the 2011A Bonds as described in this Remarketing Statement in substantially the following form.

January __, 2020

City of Riverside
Riverside, California

Stifel, Nicolaus & Company, Incorporated
Los Angeles, California

U.S. Bank National Association
Los Angeles, California

Re: City of Riverside Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (Index Interest Rate Period)

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Riverside (the “City”) in connection with the remarketing of the above captioned bonds (the “Bonds”). We are rendering this opinion pursuant to Section 2.04(C)(3) of the Eighth Supplemental Resolution (as such term is defined in the following sentence). The Bonds were originally issued on May 26, 2011 (the “Delivery Date”) pursuant to Resolution Nos. 17664 (as amended and supplemented from time to time, the “Master Resolution”) and 22203 (the “Eighth Supplemental Resolution” and, together with the Master Resolution, the “Resolution”), adopted on January 8, 1991 and April 26, 2011, respectively, by the City Council of the City.

Capitalized terms which are used herein and not defined have the meanings which are given to such terms in the Resolution.

The Bonds currently bear interest in an Index Interest Rate Period at the SIFMA Index Interest Rate, with an Index Rate Scheduled Purchase Date of January 15, 2020. The City has elected to Convert the Interest Rate Period of the 2011A Bonds to a new Index Interest Rate Period (the “Conversion”) on the Index Rate Unscheduled Purchase Date of January __, 2020 (the “Purchase Date”). In order to effect such Conversion, the Bonds will be subject to mandatory tender and remarketing on the Purchase Date.

Commencing on the Purchase Date, the Bonds will bear interest in an Index Interest Rate Period at the SIFMA Index Interest Rate, with an Index Rate Scheduled Purchase Date of ____ __, 20__ and a Call Protection Date of ____ __, 20__.

In rendering our opinions, we have examined the Resolution, certain certificates, notices and instructions related to the tender, purchase and remarketing of the Bonds on the Purchase Date and such other information and documents as we have deemed necessary to render the opinions that are set forth herein. As to questions of fact that are material to the opinions which are stated herein, we have relied upon the accuracy of the representations, statements of intention and statements of reasonable expectations made by the City which are contained in certain certificates that are dated the date hereof, the Tax Certificate related to the initial issuance of the Bonds (the “Tax Certificate”), the certified proceedings of the City and certifications of public officials of the City and others which have been furnished to us, and compliance by the City with the procedures and covenants that are set forth in such documents as to such tax matters, without undertaking to verify through independent investigation the accuracy of the representations and certifications that we have relied upon. We have also assumed due authorization and valid execution and delivery of certificates signed by the City in connection with the tender, purchase and remarketing of the Bonds on the Purchase Date.

Based upon and in reliance on the foregoing and such other information and documents as we consider necessary to render this opinion, but subject to the limitations set forth herein, we are of the opinion that the Conversion is not prohibited by the laws of the State of California or the Eighth Supplemental Resolution [ADD APPROVING LANGUAGE IF CALL PROTECTION DATE WILL NOT BE TENDER PERIOD HALFWAY DATE] and will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. In order for interest on the Bonds to be excluded from gross income for federal income tax purposes subsequent to their date of issuance, certain provisions of the Internal Revenue Code of 1986, as amended, must be complied with on a continuous basis. We have made no independent investigation as to whether there has been such compliance in the present case. Accordingly, we express no opinion as to whether interest on the Bonds is presently excluded from gross income for federal income tax purposes or exempt from State of California personal income taxation. This opinion does not constitute a reaffirmation of opinions dated the Delivery Date or any other opinion previously rendered by any firm in connection with the Bonds and/or any amendments thereto. Other than as expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The Resolution and the Tax Certificate permit certain actions to be taken or to be omitted if a Favorable Opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions that are expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters that are not directly addressed by such authorities. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

We call attention to the fact that the rights and obligations under the Resolution and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of any official statement, remarketing statement or other offering material relating to the Bonds, and we expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in any such document.

We further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Conversion terminates on the date hereof, and we disclaim any obligation to update the matters set forth herein.

This opinion letter may be relied upon only by you and may not be relied upon by any other party without our prior written consent.

Respectfully submitted,

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Securities, payment of principal, interest and other payments on the Securities to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Securities and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Securities (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Securities (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Securities, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Securities, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Securities, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“**DTC**”), New York, NY, will act as securities depository for the securities (the “**Securities**”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the

Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information contained on this Internet site is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of

such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.