

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER __, 2022

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS:

S&P: ☐

Fitch: ☐

See the caption “RATINGS.”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2022A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2022A Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION” with respect to tax consequences relating to the 2022A Bonds, including with respect to the alternative minimum tax imposed on certain large corporations for tax years beginning after December 31, 2022.

\$ _____ *

**CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds, Issue of 2022A**

Dated: Date of Delivery

Due: October 1, as shown on inside front cover page

Description of the 2022A Bonds. The 2022A Bonds will be issued by the City of Riverside in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. DTC will act as securities depository for the 2022A Bonds. Purchasers of the 2022A Bonds will not receive physical certificates representing their interests in 2022A Bonds purchased. Principal of, premium, if any, and interest on the 2022A Bonds are payable directly to DTC by U.S. Bank Trust Company, National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2022A Bonds.

The 2022A Bonds will bear interest at the rates per annum shown on the inside cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months). Each 2022A Bond will bear interest from the interest payment date before its date of authentication: (i) unless it is authenticated: (a) during the period after a Record Date but on or before the next interest payment date, in which event it will bear interest from that interest payment date; or (b) prior to the first Record Date, in which event it will bear interest from the dated date of the 2022A Bonds; or (ii) unless at the time of authentication interest is in default, in which event it will bear interest from the interest payment date to which interest has been paid or provided for. “Record Date” means the close of business on the 15th day of each month preceding an interest payment date.

Interest will be payable semiannually on April 1 and October 1, commencing April 1, 2023.

Security for the 2022A Bonds. The 2022A Bonds are special limited obligations of the City and are secured by a pledge of and lien upon, and are payable solely from, the Net Operating Revenues (as such term is defined under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Net Operating Revenues”) of the Water System and other funds, assets and security described in the Resolution. The 2022A Bonds do not constitute a general obligation or indebtedness of the City. The City is not funding a debt service reserve account for the 2022A Bonds.

Purpose of the 2022A Bonds. The 2022A Bonds are being issued: (i) to finance capital projects for the City’s water utility system; and (ii) to pay certain costs of issuance of the 2022A Bonds. See the caption “PLAN OF FINANCE.”

Redemption Prior to Maturity. Certain of the 2022A Bonds are subject to redemption prior to maturity. See the caption “DESCRIPTION OF THE 2022A BONDS—Redemption Provisions.”

Existing Parity Debt. The 2022A Bonds are secured by and payable from Net Operating Revenues on parity with certain outstanding bonds, which are referred to in this Official Statement as the “Prior Parity Bonds.” See the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt.”

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 parity with the Prior Parity Bonds and the 2022A Bonds, as described in this Official Statement.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the issuance. Investors are advised to read the entire Official 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 Official Statement.

MATURITY SCHEDULE

(See inside front cover page)

The 2022A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of the valid, legal and binding nature of the 2022A Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain matters will be passed upon for the City by the City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California, and for the Fiscal Agent by its counsel. It is anticipated that the 2022A Bonds will be available for delivery through the facilities of The Depository Trust Company on or about December 1, 2022.

Morgan Stanley

Ramirez & Co., Inc.

Dated: November __, 2022

\$ _____ *

CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds, Issue of 2022A

MATURITY SCHEDULE
BASE CUSIP[†] _____

\$ _____ Serial 2022A Bonds

<i>Maturity (October 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
20__	\$	%	%		

\$ _____ % Term 2022A Bonds Due October 1, 20 __, Yield: ____ %, Price: _____, CUSIP[†] _____

* Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Patricia Lock Dawson, Mayor

Erin Edwards, 1st Ward
Clarissa Cervantes, 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*

David M. Crohn, Chair
Rebecca A. Goldware, Vice Chair

Nipunjeet Gujral
Rosemary Heru
Gary Montgomery

Nancy E. Melendrez
Gildardo Ocegüera
Peter Wolgemuth

CITY OFFICIALS

Michael Moore, *Interim City Manager*

Edward Enriquez
Chief Financial Officer/Treasurer

Todd Corbin
Utilities General Manager

Phaedra Norton
City Attorney

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

Susan D. Wilson, Esq.
Assistant City Attorney

Carlie Myers
Assistant General Manager/Business Systems and Customer Service

Donesia Gause
City Clerk

David A. Garcia
Assistant General Manager/Water

Daniel Honeyfield
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

U.S. Bank Trust Company, National Association
Los Angeles, California

* There is currently one vacancy on the Board of Public Utilities. See the caption "THE PUBLIC UTILITIES DEPARTMENT—Board of Public Utilities" for a discussion of the plan to fill this vacancy.

Neither the City nor the Underwriters have authorized any dealer, broker, salesman or other person to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2022A Bonds in any jurisdiction in which such offer to sell or solicitation of an offer to buy is unlawful.

This Official Statement is not to be construed as a contract with the purchasers of the 2022A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made of the 2022A 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 Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2022A BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2022A 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 Official 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 2022A Bonds have not been registered under the Securities Act in reliance upon an exception from the registration requirements contained therein. The 2022A 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 Official Statement and should not be relied upon in making investment decisions with respect to the 2022A Bonds.

TABLE OF CONTENTS

INTRODUCTION	1	Conveyance Agreements.....	46
Authority for the 2022A Bonds.....	1	Projected Demand	47
Purpose of the 2022A Bonds.....	1	Water Rates and Charges	47
The Water System.....	1	Connection and Capacity Fees	50
Security for the 2022A Bonds; Rate Covenant	1	Billings and Collections	52
Outstanding Prior Debt	2	Uncollectible Accounts	52
Additional Bonds and Parity Debt	2	Capital Improvement Program	53
2022A Reserve Account Not Funded.....	2	Insurance	54
Subordinate Obligations.....	3	Water System Litigation	55
Redemption of the 2022A Bonds	3	Industry Recognition.....	56
Continuing Disclosure.....	3	CERTAIN FINANCIAL INFORMATION.....	57
Summaries and References to Documents	3	Transfers to the City’s General Fund	57
PLAN OF FINANCE	3	Significant Accounting Policies	57
Financing of Capital Projects for the Water		Summary of Operations	58
System	3	Unrestricted Cash Reserves.....	62
Estimated Sources and Uses of Funds.....	4	Outstanding Obligations of the Water System	62
PRIOR DEBT AND DEBT SERVICE	4	WATER SYSTEM STRATEGIC PLAN	63
Outstanding Prior Debt	4	RISK FACTORS	64
2011A Bonds Remarketing	5	The 2022A Bonds Are Limited Obligations	64
Debt Service Requirements.....	5	Limitations on Remedies	64
DESCRIPTION OF THE 2022A BONDS	7	Accuracy of Assumptions	64
General.....	7	Debt Service Reserve Account Not Funded.....	65
Redemption Provisions	8	Demand and Usage; Drought	65
SECURITY AND SOURCES OF PAYMENT		Water System Expenses and Collections	65
FOR THE 2022A BONDS	9	Rate Regulation.....	66
Net Operating Revenues	9	Limited Recourse on Default	66
Limited Obligation.....	10	Drinking Water Regulation	66
Resolution Flow of Funds	10	Casualty Risk	66
Rate Covenant.....	13	Rate Covenant Not a Guarantee	67
2022A Reserve Account Moneys.....	13	Certain Other Limitations on Fees and Charges ..	67
Additional Bonds and Parity Debt	14	Articles XIIC and XIID of the California	
Subordinate Obligations.....	15	Constitution	68
THE CITY	18	Loss of Tax Exemption	68
COVID-19 OUTBREAK	18	Parity Obligations	68
THE PUBLIC UTILITIES DEPARTMENT.....	19	Secondary Market	68
Management of the Public Utilities		Climate Change.....	68
Department	19	Security of the Water System.....	69
Board of Public Utilities	20	Cyber Security	69
Employment Matters.....	21	CONSTITUTIONAL LIMITATIONS	70
Investment Policy and Controls	28	Article XIII B.....	70
THE WATER SYSTEM	28	Articles XIIC and XIID of the California	
General.....	28	Constitution	70
History of the Water System.....	29	Future Initiatives	74
Existing Facilities.....	29	TAX MATTERS	74
Water Supply	31	CERTAIN LEGAL MATTERS	76
New Sources of Supply.....	35	LITIGATION	76
Projected Additional Water Supply	38	FINANCIAL STATEMENTS.....	76
Water Quality.....	39	RATINGS.....	76
Water Quality Settlements	41	UNDERWRITING	77
Environmental Matters.....	42	MUNICIPAL ADVISOR	78
Customers and Water Sales.....	44	CONTINUING DISCLOSURE.....	78
Customer Concentration	46	MISCELLANEOUS	79

APPENDIX A	CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION.....	A-1
APPENDIX B	AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021.....	B-1
APPENDIX C	SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.....	C-1
APPENDIX D	FORM OF CONTINUING DISCLOSURE CERTIFICATE	D-1
APPENDIX E	FORM OF BOND COUNSEL OPINION	E-1
APPENDIX F	DTC AND THE BOOK-ENTRY ONLY SYSTEM.....	F-1

\$ _____*

CITY OF RIVERSIDE, CALIFORNIA
Water Revenue Bonds, Issue of 2022A

INTRODUCTION

This Official Statement, including its appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the “City”), of the bonds captioned above (the “**2022A Bonds**”).

Authority for the 2022A Bonds

The 2022A Bonds were authorized and issued pursuant to the following, which are referred to collectively in this Official Statement as the “**Law**”:

- (i) the City Charter;
- (ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005; 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. [], the eleventh supplemental resolution, which provides for the issuance of the 2022A Bonds (the “**Eleventh Supplemental Resolution**”), which was adopted by the City Council on [November 8, 2022]. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Eleventh Supplemental Resolution, is referred to collectively in this Official Statement as the “**Resolution**.”

Purpose of the 2022A Bonds

The 2022A Bonds are being issued: (i) to finance capital projects for the City’s water utility system; and (ii) to pay certain costs of issuance of the 2022A Bonds. See the caption “PLAN OF FINANCE.”

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 66,372 metered customer accounts in the service area during fiscal year 2021-22, which represents a population served of approximately 317,000. See the caption “THE WATER SYSTEM.”

Security for the 2022A Bonds; Rate Covenant

Nature of Pledge. Pursuant to the Law, the 2022A Bonds are special limited obligations of the City and are secured by a pledge of and lien upon, and are 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 2022A 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

* Preliminary, subject to change.

sufficient to pay from Net Operating Revenues: (i) the Operating and Maintenance Expenses of the Water System; (ii) together with amounts on deposit in Surplus Account, at least 1.25 times the debt service on all Bonds and any Parity Debt; and (iii) all other obligations that are charges, liens or encumbrances upon or payable from Net Operating Revenues. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A 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 2022A Bonds, nor is the credit or the taxing power of the City pledged to the payment of the principal of or interest and redemption premium (if any) on the 2022A 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 2022A 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 2022A Bonds.

Outstanding Prior Debt

The 2022A Bonds are secured by and payable from Net Operating Revenues on parity with Prior Parity Bonds (as such term is defined under the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt”) which were outstanding in the aggregate principal amount of \$185,275,000 as of October 1, 2022.

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 parity with the 2022A Bonds and the Prior Parity Bonds. The 2022A Bonds, together with the Prior Parity Bonds and any Additional Bonds, are referred to in this Official Statement as the “**Bonds**.” See the caption “PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt” for a description of outstanding Prior Parity 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 parity with the Bonds. Any such obligations are referred to in this Official Statement as “**Parity Debt**.” The City currently has no outstanding Parity Debt. See the caption “THE WATER SYSTEM—Capital Improvement Program—Possible Additional Parity Debt Obligation” for a discussion of the City’s possible execution of a Parity Debt obligation.

See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Additional Bonds and Parity Debt” for a discussion of the conditions under which the City may issue Additional Bonds and Parity Debt.

2022A Reserve Account Not Funded

The City has established a debt service reserve account for the 2022A Bonds, but the 2022A 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 2022A BONDS—Subordinate Obligations.”

Redemption of the 2022A Bonds

Certain of the 2022A Bonds are subject to optional and mandatory sinking account redemption as described under the caption “DESCRIPTION OF THE 2022A BONDS—Redemption Provisions.”

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2022A Bonds to provide certain financial information and operating data relating to the Water System and notices of the occurrence of certain enumerated events. See the caption “CONTINUING DISCLOSURE” and Appendix D.

Summaries and References to Documents

Brief descriptions of the 2022A Bonds, the security and sources of payment for the 2022A Bonds and the Water System and summaries of the Resolution and certain other documents are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references in this Official Statement to the 2022A Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557.

A copy of the most recent annual report of the Water System may be obtained from the Utilities Assistant General Manager, Finance and Administration of the City of Riverside Public Utilities Department, at the same address. Financial and statistical information set forth in this Official Statement, except for the audited financial statements included in Appendix B or as otherwise indicated, is unaudited.

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

PLAN OF FINANCE

Financing of Capital Projects for the Water System

A portion of the proceeds of the 2022A Bonds will be deposited into the 2022 Construction Fund and used to finance a portion of the Water System’s Capital Improvement Program, as described below. See the caption “THE WATER SYSTEM—Capital Improvement Program” for a detailed discussion of the Water System’s current Capital Improvement Program.

1. Well projects, including facility rehabilitations and potable/irrigation well replacements;
2. Transmission pipeline projects;
3. Distribution pipeline projects, including system expansions, water stock, facilities replacements, service lateral replacements, hydrant check valves and main replacements;
4. Distribution facility projects, including facility rehabilitations and meters;
5. Treatment plant projects, including facility rehabilitations;

6. Reservoir projects, including facility rehabilitations;
7. System automation projects, including technology governance (cyber), work, asset and inventory management, mobile applications, network communication systems (SCADA Phase 1), advanced metering infrastructure, SCADA Upgrades (SCADA Phase 2) and distributed automation/reliability (SCADA Phase 3); and
8. Other Water System capital projects within the City's Capital Improvement Plan

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2022A Bonds:

Sources⁽¹⁾	
Principal Amount of 2022A Bonds	\$
Plus/Less Net Original Issue Premium/Discount	
Total Sources	\$
Uses⁽¹⁾	
Deposit to 2022 Construction Fund	\$
Costs of Issuance ⁽²⁾	
Total Uses	\$

(1) Amounts rounded to the nearest dollar. Totals may not add due to rounding.

(2) Includes certain legal, municipal advisory, financing, rating agency and Fiscal Agent fees, Underwriters' discount and printing costs.

PRIOR DEBT AND DEBT SERVICE

Outstanding Prior Debt

The 2022A Bonds are secured by and payable from Net Operating Revenues on 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⁽¹⁾</i>
Water Revenue/Refunding Bonds, Issue of 2009B (Federally Taxable-Build America Bonds) ⁽²⁾ (the " 2009B Bonds ")	\$ 62,760,000
Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (Index Interest Rate Period) ⁽³⁾ (the " 2011A Bonds ")	24,050,000
Water Revenue/Refunding Bonds, Issue of 2019A ⁽⁴⁾ (the " 2019A Bonds ")	98,465,000
Total	\$185,275,000

(1) As of October 1, 2022.

(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. 22203, adopted on April 26, 2011 (the "**Eighth Supplemental Resolution**"). See the caption "—2011A Bonds Remarketing" below.

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

Source: City.

2011A Bonds Remarketing

The 2011A Bonds currently bear interest in an Index Rate Interest Period at a SIFMA Index Interest Rate (as such terms are defined in the Eighth Supplemental Resolution). The 2011A Bonds are subject to an Index Rate Scheduled Purchase Date (as such term is defined in the Eighth Supplemental Resolution) of January 18, 2023. Prior to such date, on or about December 1, 2022, the City expects to effect an unscheduled mandatory tender and remarketing of the 2011A Bonds, at which time the 2011A Bonds will be converted to bear interest in a Daily Interest Rate Period.

There can be no assurance that the City will be able to effect a mandatory tender and remarketing of the 2011A Bonds as currently contemplated. In the event that the City is unable to convert the 2011A Bonds to another interest rate mode, or to refund the 2011A Bonds from the proceeds of an Additional Bond issuance, on or before January 18, 2023, the Index Rate Interest Period would terminate and the 2011A Bonds would bear interest at a rate of 10% per annum in a Purchase Default Period (as such terms are defined in the Eighth Supplemental Resolution). Such a purchase could be funded from existing City reserves or the proceeds of a draw on the Revolving Credit Facility. See the captions “CERTAIN FINANCIAL INFORMATION—Unrestricted Cash Reserves” and “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Subordinate Obligations—Existing Subordinate Obligations—Revolving Credit Facility.”

The projected debt service set forth under the captions “—Debt Service Requirements” and “CERTAIN FINANCIAL INFORMATION—Summary of Operations” assume that the 2011A Bonds will bear interest at the 2005 Swap Rate of 3.20% per annum. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Subordinate Obligations—Existing Subordinate Obligations—2005 Swap Agreement” for a discussion of the 2005 Swap Agreement.

Debt Service Requirements

The following table sets forth the estimated debt service on the Prior Parity Bonds and the 2022A 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>2022A Bonds Principal</i>	<i>2022A 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>
2023	\$ 6,915,000	\$ 9,786,639	\$	\$	\$	(1,315,180)	\$
2024	7,215,000	9,413,440				(1,265,689)	
2025	7,540,000	9,014,218				(1,211,157)	
2026	7,875,000	8,597,286				(1,154,453)	
2027	8,230,000	8,161,840				(1,095,474)	
2028	8,600,000	7,706,974				(1,034,170)	
2029	8,980,000	7,231,980				(970,390)	
2030	9,580,000	6,743,060				(904,032)	
2031	9,510,000	6,285,553				(834,667)	
2032	9,890,000	5,819,671				(762,126)	
2033	10,295,000	5,330,000				(686,617)	
2034	10,725,000	4,806,028				(608,038)	
2035	11,155,000	4,275,144				(525,339)	
2036	11,610,000	3,719,277				(438,271)	
2037	12,085,000	3,125,107				(347,537)	
2038	12,645,000	2,446,017				(253,030)	
2039	13,245,000	1,735,431				(154,647)	
2040	6,665,000	1,171,749				(52,230)	
2041	1,760,000	927,500				-	
2042	1,850,000	837,250				-	
2043	1,945,000	742,375				-	
2044	2,040,000	642,750				-	
2045	2,140,000	538,250				-	
2046	2,250,000	428,500				-	
2047	2,360,000	313,250				-	
2048	2,480,000	192,250				-	
2049	2,605,000	65,125				-	
Total	\$192,190,000	\$110,056,664	\$	\$	\$	-	\$

⁽¹⁾ Totals may not add due to rounding. Excludes projected debt service on WIFIA Obligation. See the caption “THE WATER SYSTEM—Capital Improvement Program—Possible Additional Parity Debt Obligation.”

⁽²⁾ Assumes an annual interest rate of 3.20% on the 2011A Bonds, reflecting the effect of the 2005 Swap Agreement. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A 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 2022A 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. The sequester includes a 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. 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 was previously anticipated in order to offset the impact of the sequester. Under a federal budget bill enacted in 2019, the reduction of sequester was expected to continue through September 30, 2029. However, in light of the federal deficit increase resulting from the American Rescue Plan Act of 2021 (which is discussed in detail under the caption “COVID-19 OUTBREAK”), the Congressional Budget Office has estimated that Build America Bond credits may be subject to elimination entirely starting January 1, 2023 through September 30, 2026 without action by Congress to waive or postpone such elimination. The above numbers reflect the City’s assumption that the amounts payable to issuers of Build America Bonds will be reduced by 5.7% for the period from October 1, 2022 through and including the final maturity of the 2009B Bonds on October 1, 2039, and do not reflect the potential elimination of such credits.
- Source: PFM Financial Advisors LLC.

DESCRIPTION OF THE 2022A BONDS

The following is a summary of certain provisions of the 2022A Bonds. Reference is made to the 2022A Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion in this Official Statement is qualified by such reference. See Appendix C.

General

The 2022A Bonds will be dated their date of delivery and mature on the dates and in the respective amounts, and bear interest at the respective rates per annum (calculated on the basis of a 360-day year consisting of twelve 30-day months), shown on the inside front cover page of this Official Statement. The 2022A Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the 2022A Bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2023 (each, an “**Interest Payment Date**”), to the owners of record at the close of business on the 15th day of the preceding calendar month (a “**Record Date**”) by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such 2022A Bonds as of the close of business on the Record Date at such persons’ addresses as they appear on such registration books, except that an Owner of \$1,000,000 or more in principal amount of 2022A Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least 30 days preceding any interest payment date specifying the wire transfer instructions for such Owner. The notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. Payments of defaulted interest will be paid by check to the Owners as of a special record date to be fixed by the Fiscal Agent, notice of which special record date will be given to the Owners by the Fiscal Agent not less than 10 days prior to that date. See Appendix F.

Each 2022A Bond will bear interest from the Interest Payment Date before its date of authentication: (a) unless it is authenticated: (i) during the period after a Record Date but on or before the next Interest Payment Date, in which event it will bear interest from that Interest Payment Date; or (ii) prior to the first Record Date, in which event it will bear interest from the dated date of the 2022A Bonds; or (b) unless at the time of authentication interest is in default, in which event it will bear interest from the Interest Payment Date to which interest has been paid or provided for.

So long as any 2022A Bond is registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”), procedures with respect to the transfer of ownership, redemption and payment of principal, redemption price, premium, if any, and interest on such 2022A Bond will be in accordance with arrangements among the City, the Fiscal Agent and DTC. See Appendix F.

Redemption Provisions

Optional Redemption. The 2022A Bonds maturing on or before October 1, 20__, are not subject to optional redemption prior to maturity. The 2022A Bonds maturing on or after October 1, 20__ are subject to optional redemption by the City on ____ 1, 20__ or any date thereafter, 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 2022A Bonds are subject to mandatory sinking account redemption, in part, on October 1, 20__, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2022A 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>
20__	\$
20__ [†]	

[†] Maturity

Mandatory Sinking Account Payments for 2022A Bonds will be reduced to the extent that the City has purchased 2022A Bonds and surrendered such 2022A Bonds to the Fiscal Agent for cancellation. If 2022A Bonds have been redeemed as provided for under the subcaption “—Optional Redemption” above, then the amount of the 2022A Bonds so redeemed will be credited to such future Mandatory Sinking Account Payments for such 2022A 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 2022A Bonds redeemed on that October 1.

Selection of 2022A Bonds for Redemption. If less than all the 2022A Bonds are to be redeemed, the maturities of the 2022A Bonds to be redeemed will be selected by the City. The City will give written notice of its selection not later than 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the 2022A Bonds. If less than all of the 2022A Bonds of any maturity are to be redeemed prior to maturity, then the particular 2022A Bonds will be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. The Fiscal Agent will give notice of the redemption of 2022A Bonds to: (i) the Owners of the 2022A 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 2022A 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 2022A 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 2022A Bonds of such maturity to be redeemed and, in the case of 2022A 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 2022A 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 2022A 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 2022A Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2022A 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 2022A 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 2022A 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 2022A Bonds or portions thereof so called for redemption will become due and payable on the redemption date, and upon presentation and surrender of such 2022A Bonds at the place specified in such notice of redemption, such 2022A Bonds will be redeemed and paid at said redemption price. If on the redemption date, moneys for the redemption of the 2022A Bonds to be redeemed will be available therefor, then from and after the redemption date, interest on the 2022A 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 2022A 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 2022A 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 2022A Bond, the City will execute and the Fiscal Agent will authenticate and deliver, upon surrender of such 2022A Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2022A Bond so surrendered, a 2022A Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all of the 2022A 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 2022A 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 2022A 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.

SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS

Net Operating Revenues

Pursuant to the Law, the 2022A Bonds are special limited obligations of the City, secured by a pledge of and lien upon, and are payable solely from, “Net Operating Revenues” (as such term is defined below) and other funds, assets and security described in the Resolution, on 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, *and holders of the 2022A Bonds, by purchasing the 2022A Bonds, agree that the 2022A Bonds shall be subject to such amendment and restatement*; 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 City’s General Fund is not liable for the payment of the principal of or interest and redemption premium on the 2022A 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 2022A 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 2022A 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 2022A 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 2022A 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 2022A 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, *and holders of the 2022A Bonds, by purchasing the 2022A Bonds, agree that the 2022A Bonds shall be subject to such addition*; 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.

2022A 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 2022A Bonds, but the 2022A Bond Reserve Requirement is \$0. Consequently, no amounts have been deposited into such debt service reserve account. The owners of the 2022A 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."

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.

Any of the following items may be added to such Net Operating Revenues for the purpose of meeting the requirement described in clause (ii) in the preceding paragraph:

- (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 an initial 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-rate 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**”) was 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 was used to refund the 2008A Bonds and the 2005 Swap Agreement was integrated to the 2011A Bonds on their delivery date. The City also applied a portion of the proceeds of the 2019A Bonds to terminate an amount of the 2005 Swap Agreement corresponding to the principal amount of 2011A Bonds redeemed from 2019A Bond proceeds (\$26,900,000). 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 (3.20%) on the outstanding 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. See the subcaption “—LIBOR Termination” below for a discussion of the upcoming termination of LIBOR.

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 2022A 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 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. The 2005 Swap Agreement had a fair market value of approximately negative \$1,514,154 as of October 1, 2022, inclusive of accrued interest.

LIBOR Termination. As discussed under the subcaption “—2005 Swap Agreement,” pursuant to the 2005 Swap Agreement, the 2005 Swap Provider pays the City a variable rate of interest equal to a percentage of the LIBOR one-month index plus 12 basis points on a like notional amount of 2011A Bonds. LIBOR is currently administered by the Intercontinental Exchange Benchmark Administration (the “**IBA**”), an independent administrator authorized and regulated by the Financial Conduct Authority (the “**FCA**”), the regulatory authority in the United Kingdom that is responsible for the supervision of LIBOR.

Central banks and regulators have been working for a number of years to coordinate the review and reform of certain global interest rate benchmarks and to address their potential discontinuation. On July 27, 2017, the FCA announced that it would no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021 (later extended to June 30, 2023 as discussed below) (the “**FCA Announcement**”). As a result of the FCA Announcement, central banks, regulators and industry working groups have been preparing for a transition from the use of LIBOR to alternative reference rates for floating rate interest calculations in contracts that currently utilize LIBOR-based rates.

In response to the FCA Announcement, on October 23, 2020, the International Swaps and Derivatives Association (“**ISDA**”), a trade organization for derivatives market participants, released amendments to certain definitions which apply to swap agreements (including the 2005 Swap Agreement) that are governed by ISDA standards (the “**Amendments**”) as well as a LIBOR Fallback Protocol (the “**Protocol**”) and the form of bilateral agreements which, if adhered to or adopted by parties to a swap agreement with an effective date that is prior to the Amendments, would incorporate the Amendments therein. The Amendments took effect on January 25, 2021 and include new provisions for derivative contracts which reference an interbank offered rate (such as LIBOR) in the event that such interbank offered rate is unavailable. *The City has elected to adhere to the Protocol and the Amendments are therefore expected to apply to the 2005 Swap Agreement.*

On March 5, 2021, the FCA announced (the “**Termination Announcement**”) that one-month USD LIBOR, and other LIBOR terms, will be discontinued on June 30, 2023 (the “**Index Cessation Effective Date**”). The date of the Termination Announcement will serve as an “Index Cessation Event” under the Amendments.

As discussed under the subcaption “—2005 Swap Agreement,” the 2005 Swap Agreement terminates in 2035, which is after the expected discontinuation of LIBOR. Accordingly, after the Index Cessation Effective Date, the 2005 Swap Agreement will be governed by the Protocol and the Amendments.

The following are some of the effects of the Amendments on the 2005 Swap Agreement:

- United States Dollar (“**USD**”) LIBOR will be replaced by an alternative rate (the “**Fallback Rate**”) after the Index Cessation Effective Date. The Fallback Rate calculation is described in the Amendments and is generally based on the Secured Overnight Financing Rate (“**SOFR**”), for a similar tenor (a measure of the cost of borrowing cash overnight which is secured by United States Treasury securities), plus a spread (the “**Spread**”) equal to the median difference between USD LIBOR of the applicable tenor and SOFR of the

applicable tenor over the five year period ending on the date of the Termination Announcement. The Spread for each tenor of LIBOR was announced on March 5, 2021 in connection with the Termination Announcement.

- SOFR will change based on market conditions (and could change daily), while the Spread will not change. ISDA has engaged Bloomberg to calculate and publish the Fallback Rate daily. As a result of the foregoing, the rate payable to the City under the 2005 Swap Agreement will not be known until shortly before the conclusion of each payment period for the 2005 Swap Agreement.

- The transition to a SOFR-based rate could change the mark-to-market value of one or more of the 2005 Swap Agreements, which could require the City to post collateral in favor of the 2005 Swap Provider. In addition, because SOFR-based rates will differ from LIBOR-based rates, the economic value of the 2005 Swap Agreement to the City could be affected.

The Governmental Accounting Standards Board has issued guidance which declares SOFR to be a “Benchmark Rate” that is eligible for hedge accounting. In addition, the Internal Revenue Service has issued guidance to the effect that transitioning derivative contracts from LIBOR-based to SOFR-based rates will not result in a reissuance or be treated as a termination of a qualified hedge.

The City is unable to determine at this time the ultimate effects of the discontinuation of LIBOR as a reference rate and transition to an alternate benchmark rate. The Fallback Rate is not expected to match the USD LIBOR rate that it replaces, so changes in the level of the floating rate amounts that will be due to the City from the 2005 Swap Provider and the resulting net amounts that will be payable by the City are likely to occur. The City is also unable to determine at this time whether it will be required to post collateral as a result of the cessation of LIBOR, or the effect of the cessation of LIBOR on the economic value of the swap agreement. There can be no assurance that the City’s election to adhere to the Protocol with respect to the 2005 Swap Agreement, and the transition to SOFR, will not have a material financial impact on the City for the reasons discussed in the foregoing sentence or otherwise.

Revolving Credit Facility. On February 1, 2022, the City entered into a revolving credit agreement (the “**Revolving Credit Agreement**”) with U.S. Bank National Association (“USB”). 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 the Bloomberg Short-Term Bank Yield Index on the first calendar day of each month. The Revolving Credit Facility matures on August 1, 2025 (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. USB, 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. To date, the City has not drawn on the Revolving Credit Facility.

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 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 parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

THE CITY

General information about the City, its location and its demographics is set forth in Appendix A.

COVID-19 OUTBREAK

The spread of the strains of coronavirus which are collectively called SARS-CoV-2, which cause the disease known as COVID-19 (“**COVID-19**”), and local, State and federal actions in response to COVID-19, have impacted the City’s operations and finances. In response to the initial outbreak of COVID-19, health officials recommended, and some governments mandated, a variety of responses ranging from travel bans and social distancing practices to complete shutdowns of certain services and facilities. The World Health Organization declared the COVID-19 outbreak to be a pandemic and, on March 4, 2020, as part of the State of California’s (the “**State**”) response to the outbreak, the State Governor declared a state of emergency. On March 13, 2020, the President declared a national emergency, freeing up funding for federal assistance to state and local governments.

On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory Statewide shelter-in-place order applicable to all non-essential services. Riverside County also declared a state of emergency in response to the COVID-19 outbreak. A phased re-opening of various sectors began in mid-2020 in accordance with a four-stage re-opening plan that ended with a full reopening of the economy on June 15, 2021. Similar restrictions may be reimposed as the pandemic evolves.

On March 27, 2020, the President signed the \$2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the “**CARES Act**”) which delivered, among other things, \$150 billion in financial aid to states and local governments to provide emergency reimbursement to those most significantly impacted by COVID-19. The City received a total reimbursement of \$27,991,888 under the CARES Act, which it applied to local business support, rental assistance, homelessness and other City programs, with effects on the Water System limited to indirect benefits resulting from support to Water System customers.

On March 11, 2021, the President signed the American Rescue Plan Act of 2021 (the “**ARP Act**”), a \$1.9 trillion economic stimulus package that was designed to help the United States’ economy recover from the adverse impacts of the COVID-19 pandemic. The City received a total of \$73,535,189 under the ARP Act and has developed a plan to expend ARP Act funds which addresses the following categories: public health, negative economic impacts, services to disproportionately impacted communities and infrastructure. ARP Act funds are not expected to directly support Water System revenues or operating costs.

The effects of the COVID-19 outbreak and governmental actions responsive to it have altered the behavior of businesses and people in a manner that has had significant negative impacts on global and local economies. In addition, financial markets have experienced significant volatility attributed to COVID-19 concerns, ensuing inflation and threats of a recession. Identified cases of COVID-19 and deaths attributable to the COVID-19 outbreak continue to occur throughout the United States, including Riverside County.

The Governor suspended utility service shutoffs and the collection (although not the imposition) of late fees and penalties for residential customers through December 31, 2021. The City does not assess late fees or penalties for delinquent Water System accounts and was not significantly affected by this suspension. The City

has an allowance for doubtful accounts as of June 30, 2022 of \$917,000, and, on August 1, 2022, re-instituted its standard collection procedures which were in place prior to the pandemic. See the caption “THE WATER SYSTEM—Billings and Collections.”

The City has made low income assistance programs available to delinquent customers and participated in the California Water and Wastewater Arrearage Payment Program (the “**CWWAPP**”), a State program that provided funds to water service providers to cover delinquencies during the period between March 4, 2020 and June 15, 2021. In early 2022, the City received approximately \$1.9 million under the CWWAPP.

In response to the COVID-19 outbreak, the City declared the Water System to be an essential service and staggered employee shifts and enabled certain employees to telecommute. In addition, the City temporarily closed many City facilities to the public, cancelled certain programs and community events and deferred several non-essential capital improvement projects. With improvements in local case rates, the City phased in the resumption of normal operations and activities while complying with public health orders and California Occupational Safety and Health Administration mandates.

The City has not experienced and does not at this time foresee a future negative impact on the Water System or the execution of City services as a result of the COVID-19 outbreak. The City reports that Water System revenues and expenses were not materially affected by the COVID-19 outbreak in any of fiscal years 2019-20 through 2021-22.

The City continues to actively monitor Water System usage, payment delinquencies, revenues and expenditures so that further impacts of the COVID-19 pandemic can be anticipated. The City does not currently expect that the pandemic will have a material adverse effect on the repayment of the 2022A Bonds.

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 (“**RPU**”) exercises jurisdiction over the electric and water utilities which are owned, controlled and operated by the City. RPU 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 RPU is as follows:

Mr. Todd Corbin, Utilities General Manager, holds a Certified Public Accountant license (inactive), 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. 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 RPU since 2007 and has served in various management roles including Market Operations Manager and Interim Planning Manager-Resources.

Ms. Carlie Myers, Assistant General Manager/Business Systems and Customer Service, holds a Bachelor of Science in Business Administration from the University of Phoenix and has over 20 years of management experience with the City, including as Deputy City Manager, and in various positions within the

Community and Economic Development Department and the Fire Department. She has been with the City since 1999.

Mr. David A. Garcia, Assistant General Manager/Water, holds a Bachelor of Science in Environmental Sciences from the University of California, Riverside, and a Master of Science in Environmental Policy and Planning from California State University, Fullerton. He has over 28 years of water utility experience throughout the Santa Ana River Watershed. Prior to coming to the City, he served as the Director of Water Operations for Eastern Municipal Water District and, previously, in various management roles, including Water Operations Manager for Riverside Public Utilities. He is also certified as a Grade 5 Water Treatment and Distribution Operator by the California State Water Resources Control Board.

Mr. Daniel Honeyfield, Assistant General Manager/Energy Delivery, holds a Bachelor of Science in Electrical Engineering from California Polytechnic State University, Pomona, a Master of Business Administration from the University of Phoenix and a professional engineering license through the State of California. He has over 17 years of utility experience, serving five years as Engineering Manager for the Sacramento Municipal Utility District and in various roles for Riverside Public Utilities, including Senior Electric Utilities Engineer.

Board of Public Utilities

The Board, created by Article XII, Section 1201, of the City Charter, currently consists of eight 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 biennial budget for RPU 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 RPU, 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 RPU, 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 RPU, segregated as to each separate utility, and monthly statements of the general condition of RPU 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 RPU head; (7) make such reports and recommendations to the City Council regarding RPU 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 RPU’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:

David M. Crohn – Chair of the Board, appointed to the Board in 2016, current term expires March 1, 2024. Mr. Crohn is an Associate Professor in the Department of Environmental Sciences at a local university.

Rebecca A. Goldware – Vice Chair of the Board, appointed to the Board in 2021, current term expires March 1, 2024. Ms. Goldware is a Vice Chancellor of a local community college district.

Nipunjeet Gujral – Appointed to the Board in 2022, current term expires March 1, 2026. Mr. Gujral is a data scientist with Global Infotek.

Rosemary Heru – Appointed to the Board in 2021, current term expires March 1, 2025. Ms. Heru has two decades of experience in leading customer service, procurement and administration teams and previously served on the City’s Cultural Heritage Board and Human Relations Commission.

Gary Montgomery – Appointed to the Board in 2021, current term expires March 1, 2025. Mr. Montgomery is an attorney and past Board Chair of the Greater Riverside Chambers of Commerce.

Nancy E. Melendez – Appointed to the Board in 2021, current term expires March 1, 2025. Ms. Hernandez is a past member of the Board of Library Trustees and, prior to her retirement, worked as Assistant Director of the Riverside Community College District Foundation and Executive Director of Keep Riverside Clean and Beautiful. In addition, she co-founded the Spanish Town Heritage Foundation.

Gildardo Ocegüera – Appointed to the Board in 2017, current term expires March 1, 2025. Mr. Ocegüera is a retired high school principal with prior experience as a teacher and high school and community college counselor.

Peter Wohlgemuth – Appointed to the Board in 2020, current term expires March 1, 2024. Mr. Wohlgemuth is a hydrologist with the United States Forest Service.

There is currently one vacancy on the Board of Public Utilities. On August 8, 2022 the City posted a Notice of Vacancy inviting any qualified elector of the City who wishes to be considered for appointment by the Mayor and City Council to the Board of Public Utilities to contact the City Clerk’s Office by November 2, 2022. Those expressing an interest in the appointment are expected to be interviewed by the Mayor and City Council in early 2023, with an appointment expected in or about February 2023.

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

Employment Matters

Employee Relations. As of June 30, 2022, 145 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 RPU. Substantially all the non-administrative City personnel assigned to the Electric 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 December 31, 2024. 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, 2025. While not under a memorandum of understanding, all unrepresented employees have compensation and benefit packages approved by the City Council. On September 20, 2022, the City Council approved changes for unrepresented employees through June 2025.

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 California Public Employees Retirement System's ("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, 2021, the employees contribute the entire required amount of 8% of their pensionable income.
 - The retirement formula is 2.7% at age 55 for SEIU employees hired before June 7, 2011. Effective January 1, 2020, employees contribute the entire required amount of 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, 2020, employees contribute the entire required amount of 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.

Contributions to the City's pension plan consist of: (a) contributions from plan participants (i.e., employees); and (b) contributions by the City. The City's contributions constitute an Operating and Maintenance Expense of the Water System that is payable prior to the 2022A Bonds.

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 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 2022
(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	\$305,000	\$161,969
Maximum Pensionable Income if also Participating in Social Security	N/A	134,974

Source: CalPERS.

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.

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.

The City is also required to contribute the actuarially determined remaining amounts necessary to fund benefits for its members. The required employer normal cost rates for fiscal year 2021-22 were 12.73% for each benefit level, and the required employer payment of the unfunded accrued liability was \$10,824,787. The required employer normal cost rates for fiscal year 2022-23 are 12.46% for each benefit level, and the required employer payment of the unfunded accrued liability is \$11,465,930. The City issued pension obligation bonds in June 2020 (the "**2020 Pension Obligation Bonds**"), reducing the City's unfunded accrued liability significantly compared to years prior to fiscal year 2021-22.

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, which funds pension benefits for current employees for the upcoming fiscal year (expressed as a percentage of payroll) plus the employer unfunded accrued liability contribution amount, which funds pension benefits that were previously earned by current and former employees (billed monthly). The normal cost rate is the annual cost of service accrual for the upcoming fiscal year of active employees.

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. The City's annual required contribution for the Miscellaneous plan's unfunded accrued liability in fiscal year 2022-23 is \$11,860,450. The share of such contributions which is attributable to the Water System is expected to be approximately 10% for fiscal year 2022-23. The funded status of the City's Miscellaneous plan is 104.3% per the June 30, 2021 CalPERS Actuarial Valuation.

The following table summarizes the schedule of funding for the City's CalPERS Miscellaneous plan as of June 30, 2022 (valuation date of June 30, 2021).

CALPERS MISCELLANEOUS PENSION PLAN – SCHEDULE OF FUNDING PROGRESS

<i>Valuation Date (June 30)</i>	<i>Accrued Liability</i>	<i>Market Value of Assets⁽¹⁾</i>	<i>Unfunded Liability</i>	<i>Funded Ratio</i>	<i>Annual Covered Payroll</i>
2017	\$1,317,421,178	\$1,029,759,135	\$287,662,043	78.2%	\$118,644,799
2018	1,401,014,728	1,090,728,598	310,286,130	77.9	119,987,924
2019	1,462,992,745	1,138,310,022	324,682,723	77.8	126,381,375
2020	1,520,527,010	1,368,575,052	151,951,959	90.0	129,401,884
2021	1,570,873,013	1,638,143,404	(67,270,391)	104.3	128,059,046

⁽¹⁾ Excludes funds held in a pension benefits trust fund established under Section 115 of the Internal Revenue Code. To date, the Water Fund has not made any contributions to such fund. Accordingly, amounts held in the fund are not available to reduce the Water Fund's pension obligations.

Source: CalPERS Actuarial Valuation Report as of June 30, 2021, dated July 2022.

For fiscal years 2019-20, 2020-21 and 2021-22, the City incurred Miscellaneous plan pension expenses of \$38,832,597, \$26,274,890 and \$27,329,625, respectively. The reduction in expenses in fiscal year 2020-21 reflects the City's issuance of the 2020 Pension Obligation Bonds in June 2020.

The Water System is also obligated to pay its share of the 2020 Pension Obligation Bonds and pension obligation bonds which the City issued in 2004 and partially refinanced in May 2017 (collectively, the “**Prior Pension Obligation Bonds**” and, together with the 2020 Pension Obligation Bonds, the “**Pension Obligation Bonds**”). The Water System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds was approximately \$19.48 million as of June 30, 2022. That share will amortize based on the respective amortization schedules of the Pension Obligation Bonds (which extend to 2045). See also Note 4 to RPU's audited financial statements for the fiscal year ended June 30, 2021, which is set forth in Appendix B, for further information.

A summary of principal assumptions and methods used to determine the total pension liability for fiscal year 2021-22 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	Fair Value of Assets
<i>Actuarial Assumptions:</i>	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by entry age and service
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: GASB 68 Accounting Report for City of Riverside Miscellaneous Plan.

Beginning in Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan's unfunded liability as dollar amounts instead of the prior method of a percentage of payroll. According to CalPERS, this change was intended to address potential funding issues that could arise from a declining payroll or a reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to underfunding of pension plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection for informational purposes only. Contributions toward a pension plan's unfunded liability will continue to be collected as set dollar amounts.

The City's required contributions to CalPERS fluctuate each year and, as noted, include a normal cost component and a component that is equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations, including, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the unfunded liability reflects certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years. As a result, the unfunded may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will fund under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability that the City owes to CalPERS.

The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City's required contributions to CalPERS in future years. Accordingly, the City cannot provide any assurances that the City's required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions. CalPERS earnings reports for fiscal years 2010-11 through 2020-21 report investment gains of approximately 21.7%, 0.1%, 13.2%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6%, 6.7%, 4.7% and 21.3%, respectively. The preliminary earnings report for fiscal year 2021-22 reflects investment losses of 6.1%, primarily as a result of declines in equity investments. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. 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 2022A Bonds.

The announcement on July 12, 2021 that CalPERS achieved investment returns of 21.3% in fiscal year 2020-21 caused the CalPERS Board of Administration to lower CalPERS' discount rate from 7.00% to 6.80% in fall 2021 in accordance with a risk mitigation policy that was adopted in 2015, which calls for the discount rate to be lowered if returns exceed the then-current discount rate by two or more percentage points. 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 who were not previously CalPERS members will also see their contribution rates rise under AB 340.

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</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2020	\$1,492,113,348	\$1,372,045,612	\$ 120,067,736
Balance at June 30, 2021	<u>1,549,561,496</u>	<u>1,638,244,651</u>	<u>(88,683,155)</u>
Net Changes for period from July 1, 2020 through June 30, 2021	\$ 57,448,148	\$ 266,199,039	\$(208,750,891)

Source: CalPERS GASB 68 Accounting Report prepared for the City of Riverside Miscellaneous Plan as of June 30, 2021.

The table below presents the net pension liability of the City's Miscellaneous plan, calculated using the discount rate applicable to fiscal year 2021-22 (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>Applicable Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
Plan's Net Pension Liability/(Asset)	\$118,862,556	\$(88,683,155)	\$(259,596,829)

Source: CalPERS GASB 68 Accounting Report prepared for the City of Riverside Miscellaneous Plan as of June 30, 2021.

For additional information relating to the City's CalPERS Miscellaneous pension plan, see Note 6 to RPU's audited financial statements for the fiscal year ended June 30, 2021, which is set forth in Appendix B.

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, 2020, 2021 and 2022, the OPEB expense recorded for the Water System was approximately \$197,000, \$73,000 and \$210,000, respectively. The Water System’s net OPEB liability as of June 30, 2020, 2021 and 2022 was \$4,382,000, \$4,550,000 and \$4,286,000, 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</i>		<i>Net Post-Employment</i>
	<i>Post-Employment</i>	<i>Plan Fiduciary</i>	<i>Benefit Plan</i>
	<i>Benefit Plan Liability</i>	<i>Net Position</i>	<i>Liability / (Asset)</i>
Balance at June 30, 2020	\$52,275,951	\$0	\$52,275,951
Balance at June 30, 2021	<u>48,770,385</u>	<u>0</u>	<u>48,770,385</u>
Net Changes for period from July 1, 2020 through June 30, 2021	\$ 3,505,566	\$0	\$ 3,505,566

Source: City of Riverside Actuarial Study of Retiree Health Liabilities Under GASB 74/75 as of June 30, 2021.

The following table presents the net liability of the City’s OPEB plan, calculated using the discount rate applicable to fiscal year 2021-22 (2.16%), as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.16%) or 1 percentage point higher (3.16%) than the current rate:

SENSITIVITY OF OPEB PLAN NET LIABILITY TO CHANGES IN THE DISCOUNT RATE
(Dollars in Thousands)

	<i>Discount Rate – 1%</i> <i>(1.16%)</i>	<i>Current Discount</i> <i>Rate (2.16%)</i>	<i>Discount Rate +</i> <i>1% (3.16%)</i>
Plan’s Net Liability/(Asset)	\$52,937,675	\$48,770,385	\$44,908,302

Source: City of Riverside Actuarial Study of Retiree Health Liabilities Under GASB 74/75 as of June 30, 2021.

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 2022A Bonds.

For additional information relating to the City’s OPEB plan, see Note 7 to RPU’s audited financial statements for the fiscal year ended June 30, 2021, which is set forth in Appendix B.

Investment Policy and Controls

Unexpended revenues from the operation of the Water System, including amounts held in the Water Revenue Fund prior to expenditure as described in this Official Statement, are invested under the direction of the City 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 2022A 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 RPU's audited financial statements attached as Appendix B and Note 3 to the City's basic financial statements for the fiscal year ended June 30, 2021, which may be obtained on the City's website at <https://www.riversideca.gov/finance/acfr>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official 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 66,372 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 317,000. 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 State Water Project or Colorado River 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>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
Service Connections Billed	65,640	65,803	66,031	66,198	66,372
Annual Potable Urban Water Production ⁽¹⁾					
Local Groundwater Wells	24,623	21,948 ⁽⁴⁾	22,786	24,966	23,775
Purchases from WMWD	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	24,623	21,948	22,786	24,966	23,775
Peak Daily Distribution ⁽²⁾	87.0	90.1	93.8	91.8	82.7
Average Daily Production ⁽²⁾⁽³⁾	66.8	59.7	62.0	67.8	64.6

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

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

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

⁽⁴⁾ Decrease from prior year reflects wet hydrological year.

Source: City of Riverside Public Utilities Department.

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 was undertaken beginning in 1960 due to the combination of the following events: (1) increased demand and population growth 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.

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 53 wells for supplying domestic and irrigation water to its service area, of which 46 potable water wells are currently active. Distribution and transmission pipelines for the Water System range in diameter from 2 to 72 inches and total approximately 993 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 the 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. The availability of imported water is dependent on the allocation availability of State Water Project water for each particular year. The City does not receive water from the Colorado River. See the caption “—Water Supply—Drought Conditions—State Orders.”

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 8,019 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>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
Miles of Pipeline	1,005	1,005	1,004	991 ⁽²⁾	993
Number of Active Domestic Wells	56	48 ⁽¹⁾	46	46	46
Number of Active Reservoirs	16	16	16	16	16

⁽¹⁾ Decrease in number of active domestic wells reflects deactivation of certain wells as a result of declining water levels.

⁽²⁾ Decrease reflects omission of Riverside Canal.

Source: City of Riverside Public Utilities Department.

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 is a 10 mgd submerged membrane ultrafiltration plant which includes a 50 mgd pump station and a high pressure class 48-inch diameter pipeline. The project includes adaptive reuse of existing facilities, coupled with RPU’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 in Proposition 50 grant funding from the State of California.

The JWNWTP, which began operations on September 4, 2008, allowed the City to become water independent, except for emergency conditions. Since fiscal year 2007-08, the City has not required either Colorado River water or State Water Project water purchases from WMWD.

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.

The City currently estimates that the BHB, Riverside North Basin and Riverside South Basin have a total usable storage capacity of approximately 6,786,000 acre feet (based on infrastructure which is currently in place), and the City believes that it has sufficient rights to accessible water in these basins to serve its customers for the next five years.

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. This non-potable water supply is used for irrigation purposes within the City or sold at wholesale to WMWD.

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. Since fiscal year 2017-18, no purchases have been 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 (such as 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 2022 (the most recent annual monitoring required under the 1969 Judgment), the average water level measured from the three wells was 5.94 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 approximately 27,000 AFY from the Riverside North Basin and Riverside South Basin.

Gage Canal Company. The City acquired the Gage Canal Company, which holds water rights in the BHB (described under the subcaption “—General—Bunker Hill Basin”), in 1965 through the eminent domain process. An Operating Agreement corresponding to the 1965 condemnation order governs the relationship between the two agencies, providing assurances to the Gage Canal Company’s shareholders while also protecting the City’s water right investment. The City currently owns 60% of the shares of the Gage Canal Company and holds 3 of 11 seats on its 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 Governor declared a drought state of emergency (the “**Declaration**”) with immediate effect. The Declaration included an order encouraging local urban water suppliers, including the City, to implement their local water shortage contingency plans; the City’s plan is discussed under the subcaption “—Water Shortage Contingency Plan.” On April 7, 2017, after significant improvement in water supply conditions across the State, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most counties in the State (including Riverside County).

In 2018, the 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 State Water Resources Control Board (the “**SWRCB**”) to adopt long-term standards for the following: (i) indoor residential water use; (ii) outdoor

residential water use; (iii) commercial, industrial and institutional water use for landscape irrigation; and (iv) water loss. The indoor water use standard has been defined as 55 gallons per person per day (“GPCD”) until January 2025; the standard will decrease to 50 GPCD in January 2030. Standards for outdoor residential water use and commercial, industrial and institutional water use for landscape irrigation are still being developed. Urban water suppliers will be required to stay within annual water budgets, based on these standards, for their service areas. [UPDATE IF REGULATIONS RELEASED BEFORE POSTING]

The City is prepared to meet the 55 GPCD standard for indoor water use, and annual State-mandated water use efficiency standards, based on the City’s current water demands and ongoing efforts to encourage conservation, as described below under the subcaption “—Water Shortage Contingency Plan.” The City continually monitors the ongoing conservation proposals made by the State.

On October 19, 2021, the Governor declared a Statewide drought state of emergency and requested that all water users voluntarily reduce water use by 15%. The declaration encouraged water agencies to draw upon supplies other than groundwater and to implement their water shortage contingency plans and authorized the State Water Resources Control Board (the “SWRCB”) to adopt regulations that prohibit wasteful water use (such as the use of potable water to wash paved surfaces or to irrigate landscaping during the two days following rainfall).

In August 2021, the federal government declared a water shortage at Lake Mead, which is a major storage reservoir on the Colorado River. As discussed under the caption “—General—Imported Water,” Colorado River supplies are among the water sources for MWD, which provides water to the City’s water wholesaler, WMWD. The water shortage declaration triggered mandatory cuts in water allocations for water users in Arizona and Nevada, although not for MWD or other users in California. Notwithstanding the foregoing, in December 2021, water users in California (including MWD), Arizona and Nevada agreed to voluntary cuts of 500,000 acre feet of water from the Colorado River in both 2022 and 2023, and MWD agreed to pay up to \$20 million to certain agricultural rights holders that leave their land fallow. There can be no assurance that subsequent declarations with respect to the Colorado River will not require mandatory water cuts to MWD should dry conditions persist in 2022 or future years. As discussed under the subcaption “—General—Western Municipal Water District,” the City does not expect to purchase water from WMWD except under emergency conditions, and therefore does not expect to be directly affected by the foregoing matters at this time. In addition, the groundwater underlying the City has lower concentrations of total dissolved solids than concentrations found within the Colorado River Aqueduct system and the City is thus prevented by the State from accessing Colorado River water. If Colorado River water were used within the Riverside North Basin or Riverside South Basin, it would increase salt concentrations and degrade the quality of the groundwater. For this reason, the City can only access imported supplies from the State Water Project.

There can be no assurance that subsequent State declarations will not impose mandatory water use restrictions should dry conditions persist in 2022 or future years. On March 28, 2022, the Governor issued Executive Order N0-27-22, which directed the SWRCB to issue drought regulations, including a recommendation to have urban water suppliers initiate Stage Two of their water shortage contingency plan. Such regulations were released by the SWRCB in May 2022. In order to achieve compliance with these regulations, the RPU Board has recommended implementing Stage Two of the water shortage contingency plan, although the City Council has not yet approved the recommendation. However, the City believes that it has significant water supplies and storage and is well positioned to respond to both drought and regulatory requirements. At this time, the City does not foresee a water supply shortage. See the caption “—Water Shortage Contingency Plan.”

The City’s customer base is primarily residential and its water rate structure consists of variable and fixed rate components, which partially mitigates the effect of any reduced water usage by non-residential customers. In fiscal year 2021-22, the variable portion of the City’s water sales revenues was approximately 64% and the fixed rate component was approximately 36%. The City experienced an increase in water usage in fiscal years 2020-21 and 2021-22 as compared to the prior years, attributed primarily to less precipitation than

in typical years. The City believes that its rate structure enhances its ability to generate sufficient Net Operating Revenues to pay the 2022A 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.

See also 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. The City is currently operating in Stage Two in compliance with State regulations. See the subcaption “—State Orders” above.

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 and 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.

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. SGMA constitutes a legislative effort to regulate groundwater on a statewide basis. At its core, 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 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 in 2008 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 Urban Water Management Plan (a 5-year plan which is scheduled to be updated in 2025), approximately 5,700 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 were adopted by the City Council in June 2007. 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 a project that will ultimately consist 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, on which the City expended approximately \$8.1 million, 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 the second phase 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. In 2015, the cost of this project was estimated cost to be \$6.4 million, which amount is currently unfunded and expected to be higher at current prices. There can be no assurance that the project will be completed as currently contemplated, or as to the timeline for completion.

2022 Non-Potable and Recycled Water Master Plan Project. The City has retained a consultant to evaluate potential opportunities for expanding the City's use of its recycled water resources in addition to non-potable sources of water to augment the City's water supply portfolio and support the environment. Completion of the study will provide direction for future non-potable and recycled water infrastructure development for both the near- and long-term planning horizons. This project is anticipated to be completed by the fall of 2023.

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 in place to facilitate this transaction.

The City estimates that its share of water from Seven Oaks Dam will ultimately 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 drought that

ended in 2017. 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 in future years. The City currently has adequate wells and transmission facilities to extract and deliver the expected annually available water to its service territory.

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 of water 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. It is currently in the planning phase and is included in the Upper Santa Ana River Habitat Conservation Plan, which is expected to help to secure required environmental approvals. Once the environmental approvals for the Upper Santa Ana River Habitat Conservation Plan are in place, planning efforts for the project are expected to move forward. As shown in Table 5 below, RPU's planning documents assume that the project will be completed by 2030.

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 required the State to achieve a 20% reduction in urban per capita water use by December 31, 2020. RPU met the CAP's water-related goals and the 20% water savings target of SBX7-7 in 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 GPCD until 2025, 52.5 GPCD from 2025 to 2030 and 50 GPCD beginning in 2030. See the caption "—Water Supply—Drought Conditions."

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 2020 Urban Water Management Plan to reflect the use of the California Department of Water Resources 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 MWD-funded 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 residences 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 classes 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 RPU 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 calendar year 2030, as set forth in the City’s 2020 Urban Water Management Plan. 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. None of the below-described projects have been approved by the City Council.

TABLE 5
EXPECTED FUTURE ADDITIONAL WATER SUPPLY PROJECTS OR PROGRAMS

<i>Name of Future Projects or Programs</i>	<i>Planned Implementation (Calendar Year)</i>	<i>Expected Increase in Water Supply (AFY)</i>
Seven Oaks Dam Conservation Project Enhanced Phase II	2025	1,000
Jackson Street and Arlington Avenue Pipelines	2025	2,420
Bunker Hill Basin Active Recharge Project	2025	1,500
Riverside North Aquifer Storage and Recovery	2030	2,000
Riverside Habitat, Parks and Water Project	2030	11,000
Box Spring Local Stream Recharge and Direct Use	2035	2,800
Stormwater Recharge at Columbia, Marlborough, and Kansas Detention Basins	2040	<u>1,500</u>
Total		22,220

Source: City of Riverside Public Utilities Department.

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>2025</i>	<i>2030</i>	<i>2035</i>	<i>2040</i>	<i>2045</i>
Groundwater	Bunker Hill	55,263	55,263	55,263	55,263	55,263
Groundwater	Seven Oaks Dam Phase II (Enhanced)	1,000	1,000	1,000	1,000	1,000
Groundwater	Bunker Hill Active Recharge 2025	750	1,000	1,500	1,500	1,500
Groundwater	Riverside North	10,902	10,902	10,902	10,902	10,902
Groundwater	RNASR ⁽²⁾	0	2,000	2,000	2,000	2,000
Groundwater	Riverside South	16,880	16,880	16,880	16,880	16,880
Groundwater	Box Springs ⁽³⁾	0	0	2,800	2,800	2,800
Groundwater	Columbia, Etc. Stormwater ⁽⁴⁾	0	0	0	1,500	1,500
Groundwater	Rialto-Colton	2,728	2,728	2,728	2,728	2,728
Recycled water	RWQCP	5,700	13,420	13,420	13,420	13,420
Purchased or Imported Water ⁽¹⁾	From WMWD	<u>21,700</u>	<u>21,700</u>	<u>21,700</u>	<u>21,700</u>	<u>21,700</u>
Total		114,923	124,893	128,193	129,693	129,693

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

(2) “RNASR” means Riverside North Aquifer Storage and Recovery Project. This project is expected to be completed by 2030. See the caption “—New Sources of Supply-- Riverside North Aquifer Storage and Recovery Project” and Table 5 above.

(3) Expected to come online by 2035.

(4) Expected to come online by 2040.

Source: City of Riverside Public Utilities Department.

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 29,000 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, USEPA announced plans to establish a federal drinking water standard for perchlorate. However, USEPA ultimately decided not to regulate perchlorate in drinking water. The State of California Maximum Contaminant Level (“**MCL**”) for perchlorate is 6 parts per billion (“**ppb**”). DDW is currently evaluating lowering the perchlorate MCL, taking a phased approach to such evaluation. In 2021, the detection limit for reporting purposes (the “**DLR**”) was lowered from 4 ppb to 2 ppb. In 2024, DDW is scheduled to lower the DLR from 2 ppb to 1 ppb. This phased reduction of the DLR enables DDW to collect more occurrence data to see if the MCL necessitates a reduction closer to the public health goal.

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 NPDWRs 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 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. See the caption “—Water System Litigation—1,2,3-TCP Litigation” for a discussion of a lawsuit filed by the City against certain parties that the City asserts are responsible for 1,2,3-TCP contamination in the City’s wells.

PFAS. In 2019, the DDW lowered the Notification Levels (the “**NLs**”) for Perfluorooctanoic acid (“**PFOA**”) and Perfluorooctanesulfonic acid (“**PFOS**”) to 5.1 and 6.5 parts per trillion (“**PPT**”), respectively. NLs are non-regulatory, precautionary health-based measures for concentrations of chemicals in drinking water that warrant notification and further monitoring and assessment. In 2020, the DDW lowered the Response Level (the “**RL**”) for PFOA and PFOS from 70 PPT, combined, to 10 and 40 PPT, respectively. RLs are non-regulatory, precautionary health-based measures that are set at higher levels than NLs and represent thresholds at which the DDW recommends that water systems remove a water source from use or treat it. Draft MCLs are anticipated from USEPA and the State in 2022 and 2023, respectively.

PFOA and PFOS are fluorinated organic chemicals which are part of a family of synthetic compounds referred to as per- and polyfluoroalkyl substances (“**PFAS**”). PFAS are water and lipid resistant substances that were previously used in a variety of manufacturing processes and industrial applications. They are often present in water supplies which are impacted by wastewater treatment plant effluent or active or former military installations. The City understands that recent technological advances have enabled water agencies to detect PFAS compounds at very low concentrations.

In addition to PFOS and PFOA, the DDW tasked the California Office of Environmental Health Hazard Assessment with evaluating and recommending NLs for the following additional PFAS compounds on February

6, 2020: perfluorohexane sulfonic acid (known as PFHxS), perfluorobutane sulfonic acid (known as PFBS), perfluorohexanoic acid (known as PFHxA), perfluoroheptanoic acid (known as PFHpA), perfluorononanoic acid (known as PFNA), perfluorodecanoic acid (known as PFDA) 4,8-dioxia-3H-perfluorononanoic acid (known as ADONA). There can be no assurance as to the timing of the release of such recommendations.

The City's goal is to remain below the NLs, which are lower than the RLs. PFAS has been detected in varying amounts in 38 of the City's 46 potable water wells. RPU blends all of its well water in a 32 million-gallon reservoir complex prior to such supplies entering the distribution system. Although PFAS levels in water drawn from certain of the wells exceed the NLs on occasion, PFOA and PFOS levels in the water delivered to customers are below the applicable NLs as a result of the blending process. In fall 2019, the Board approved the expenditure of approximately \$850,000 to develop a long-term PFAS treatment strategy. Such funds were expended to prepare a technical memorandum proposing three options for future treatment if needed to comply with future State and federal MCLs. RPU also utilized a portion of the funding to compare the efficacy of coconut shell-based GAC filters and bituminous coal-based GAC filters in removing current contaminants and PFAS compounds. This study will allow the City to utilize the best performing GAC material to reduce PFAS in its current water treatment facilities.

The City does not anticipate that implementation of the lower RL will 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.

See the caption "Water System Litigation—PFAS Litigation" for a discussion of the City's participation in a lawsuit against PFAS manufacturers to recover the costs of treating PFAS in the City's groundwater supplies.

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 with 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 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 2021-22, the amount of operating costs (City labor, power, lab analyses, and associated expenses) reimbursed by Lockheed Martin was approximately \$1.6 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 2021-22, approximately \$629,909 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 additives 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 costs to remove MTBE and will help the City maintain a potable water supply that does not exceed federal and state limits for MTBE.

Drinking Water Principles. In February 2022, the City Council adopted drinking water quality policy principles. These principals are intended to memorialize the City’s approach when discussing and negotiating contamination clean-up efforts with potential responsible and responsible parties. The policy principles can be used to guide staff’s discussions with parties about expectations surrounding treatment and removal of contaminants from the City’s water supply sources.

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 RPU. The new recycling permit for RPU (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*), a freshwater fish species. 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 a consultation with USFWS prior to being constructed. 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 collaborative among a number of the agencies involved in the lawsuit – including USFWS, the California Department of Fish and Wildlife ("**CDFW**") 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 eximius*), 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 any projects that may affect potential habitat.

In February 2022, CDFW listed the San Bernardino kangaroo rat (the "**SBKR**") as endangered under the California Endangered Species Act. The SBKR had already been listed as endangered by the USFWS in 1998, and thus the City had already been undertaking due diligence with respect to this species when working on properties likely inhabited by the SBKR.

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 11 other resource

agencies within the Santa Ana River Watershed, including USFWS, CDFW 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. A draft Environmental Impact Report and draft Habitat Conservation Plan document were released to the public for comment in 2021. The HCP team being led by SBVMWD is strengthening the documents based on the feedback received and plans to finalize the documents in late 2022 or 2023. When completed, the HCP is expected to include environmental coverage for future water supply projects and operation and maintenance efforts for the 12 agencies within the watershed. The establishment of an HCP will assist the agencies in obtaining permits for species listed within the plan, including the SBKR, 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>				
	2018	2019	2020	2021	2022
Residential	59,601	59,456	59,598	59,782	59,876
Commercial / Industrial	5,705	6,028	6,068	6,080	6,153
Other	<u>334</u>	<u>319</u>	<u>365</u>	<u>336</u>	<u>343</u>
Total - All Classes	65,640	65,803	66,031	66,198	66,372

Source: City of Riverside Public Utilities Department.

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>				
	2018	2019⁽²⁾	2020	2021	2022
Residential	11,643	10,590	10,929	12,081	11,492
Commercial/Industrial	7,161	6,875	6,827	7,532	7,664
Other	<u>674</u>	<u>602</u>	<u>589</u>	<u>625</u>	<u>652</u>
Subtotal Retail Sales	<u>19,478</u>	<u>18,067</u>	<u>18,345</u>	<u>20,238</u>	<u>19,808</u>
Wholesale Sales	<u>1,104</u>	<u>1,252</u>	<u>750</u>	<u>1,175</u>	<u>274</u>
Total	20,582	19,319	19,095	21,413	20,082
Estimated Water Loss ⁽¹⁾	8.8%	8.0%	8.2%	8.6%	9.1%

⁽¹⁾ 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.

⁽²⁾ Decreases in fiscal year 2018-19 reflect wet hydrological year.

Source: City of Riverside Public Utilities Department.

TABLE 9
WATER SALES AND DISTRIBUTION

	<i>Fiscal Year Ended June 30,</i>				
	2018	2019	2020	2021	2022
Retail Water Sales ⁽¹⁾⁽²⁾	19,478	18,067	18,345	20,238	19,808
Average Daily Production ⁽²⁾⁽³⁾	66.8	59.7	62.0	67.8	64.6
Peak Daily Distribution ⁽¹⁾⁽²⁾	87.0	90.1	93.8	91.8	82.7
Average Daily Sales per Meter ⁽⁴⁾	813	752	759	838	818

⁽¹⁾ Retail water sales to Water System customers only. Excludes wholesale sales and wheeled water.

⁽²⁾ In millions of gallons.

⁽³⁾ Includes retail sales, wholesale sales and wheeled water.

⁽⁴⁾ In gallons.

Source: City of Riverside Public Utilities Department.

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 above entitled “Water Sold by Customer Class,” water losses have averaged slightly above 8% in the last five years, in line with historical levels.

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, 2022⁽¹⁾

<i>Water Customer Identified by Category</i>	<i>Water Revenues</i>	<i>Percent of Total Retail Water Revenues</i>
Local Government	\$2,672,550	3.67%
Local School District	880,932	1.21
Local School District	609,438	0.84
Local Government	518,859	0.71
Corporation	331,513	0.45
Local University	320,638	0.44
Local Hospital	214,119	0.29
Local University	208,322	0.29
Local University	201,578	0.28
Corporation	<u>196,613</u>	<u>0.27</u>
Total	\$6,154,562	8.45%

⁽¹⁾ Based on unaudited actual revenues.

Source: City of Riverside Public Utilities Department.

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 8.45% of total retail revenues in fiscal year 2021-22 (based on unaudited actual revenues). The Water System's five largest retail customers were responsible for approximately 6.88% of revenues in fiscal year 2021-22 (based on unaudited actual revenues).

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 approximately \$4.0 million from WMWD under the WMWD Agreement in fiscal year 2021-22 (based on unaudited actual revenues).

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 calendar year 2020) and projected (calendar years 2025-2045) water demand in the Water System’s service area, as set forth in the Water System’s 2020 Urban Water Management Plan.

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

<i>Demand</i>	<i>Calendar Year</i>					
	<i>2020</i>	<i>2025</i>	<i>2030</i>	<i>2035</i>	<i>2040</i>	<i>2045</i>
Potable and Raw Water	81,197	85,012	87,383	89,840	92,387	95,027
Recycled Water Demand	<u>141</u>	<u>5,700</u>	<u>13,420</u>	<u>13,420</u>	<u>13,420</u>	<u>13,420</u>
Total Water Demand	81,338	90,712	100,803	103,260	105,807	108,447

Source: City of Riverside Public Utilities Department.

The City prepared projections of future demand by using the year 2020 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 drought prior to 2020 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. 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.

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 11 rate schedules in effect. The City provides no free water service.

On May 22, 2018, the City Council approved a new five-year Water Rate Plan, which provided 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% effective on July 1, 2019 through 2021, and a system average rate increase of 6.50% 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.

On March 14, 2022, the Board approved a professional consulting service agreement with a consultant to complete a water utility cost of service adjustment and rate design project for financial planning purposes and to prepare for the next water utility rate plan. The project is underway and is expected to result in a recommended water utility rate plan as of July 1, 2023. The projected Water System operating results that are set forth under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” assume rate increases averaging 6.30% per annum beginning July 1, 2023 through June 30, 2026, and 5.50% per annum thereafter.

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 ⁽¹⁾	\$1.19 ⁽²⁾ / 1.19 ⁽³⁾	\$1.22 ⁽²⁾ / 1.22 ⁽³⁾	\$1.26 ⁽²⁾ / 1.26 ⁽³⁾	\$1.30 ⁽²⁾ / 1.30 ⁽³⁾
10 - 35 ccf ⁽¹⁾	1.50 ⁽²⁾ / 1.50 ⁽³⁾	1.54 ⁽²⁾ / 1.54 ⁽³⁾	1.58 ⁽²⁾ / 1.58 ⁽³⁾	1.64 ⁽²⁾ / 1.64 ⁽³⁾
Over 35 ccf ⁽¹⁾	3.37 ⁽²⁾ / 2.76 ⁽³⁾	3.46 ⁽²⁾ / 2.84 ⁽³⁾	3.55 ⁽²⁾ / 2.91 ⁽³⁾	3.66 ⁽²⁾ / 3.01 ⁽³⁾
<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) "ccf" = 100 cubic feet.

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

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

Source: City of Riverside Public Utilities Department.

There is a surcharge for customers outside the City limits. At the present time, the surcharge rates are in effect for 3,954 customers outside the City. Revenues received from the surcharge were approximately \$1.7 million for fiscal year 2021-22.

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, a 1.0% surcharge effective as of June 1, 2005 and a 1.5% surcharge effective as of June 1, 2006. The surcharge, which generated approximately \$1.1 million in fiscal year 2021-22, 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 through May 31, 2014. On April 22, 2014, City Council approved the renewal of the 1.5% water conservation surcharge for an additional ten-year period, and staff currently expects that the City Council will consider a further renewal of the surcharge in connection with the next water utility rate plan commencing as of July 1, 2023. See the subcaption "—General" above. Proceeds of the Water Conservation surcharge constitute Gross Operating Revenues. However, such proceeds are not reflected in the City's historic and projected operating results set forth under the caption "CERTAIN FINANCIAL INFORMATION—Summary of Operations" because the surcharge is devoted to specific purposes.

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>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022⁽²⁾</i>
Residential	\$2.39	\$2.50	\$2.67	\$2.77	\$2.98
Commercial	1.94	2.25	2.33	2.35	2.41
Other	2.09	2.16	2.39	2.82	2.81

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

⁽²⁾ Based on preliminary unaudited results. Subject to change.

Source: City of Riverside Public Utilities Department.

Rate Comparison. Due to the City's valuable water rights in local groundwater, its rates have historically been lower than surrounding communities. The table below sets forth a comparison of the City's current water rates and charges for a single family residential user to those of nearby water purveyors. All amounts reflect average usage of 20 ccf of water per month:

WATER SERVICE CHARGE COMPARISON

<i>Water Purveyor</i>	<i>Monthly Bill</i>
City of Glendale	\$95
WMWD	94
Eastern Municipal Water District	91
City of Pasadena	90
City of Ontario	83
City of Burbank	83
City of Corona	70
City of Anaheim	69
City of Pomona	67
City of San Bernardino	60
City of Riverside	46

Source: City of Riverside Public Utilities Department.

Connection and Capacity Fees

Connection and capacity fees, which were last adjusted over a decade ago and do not include automatic adjustments to account for inflation or other factors, are one-time fees which are collected by the City to pay for capital improvements attributable to new development within the Water System service area. The City relies on a portion of the revenues from capacity fees to pay debt service on its outstanding obligations. Connection and capacity fee revenues received in any fiscal year will increase to the extent that there is increased development in the Water System service area.

The water utility rate plan that is scheduled to be presented to the City Council for approval in 2023 (as discussed under the caption “—Water Rates and Charges—General”) is not expected to include any changes to Water System capacity fees. A review of most of the City's connection fees (including but not limited to Water System connection fees) was commenced in early 2022 but is currently on hold. There is no assurance as to when this review will be completed or as to whether the review will result in any recommended changes to

current Water System connection fees, nor is there any assurance to the timeframe for City Council consideration of any changes to such fees. The projected Water System operating results which are set forth under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” do not reflect any adjustments to the Water System’s current connection or capacity fees.

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 of Riverside Public Utilities Department.

Set forth in the following table is a 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>
2017-18	\$3,017	279
2018-19	2,453	214
2019-20	3,129	219
2020-21	1,949	167
2021-22 ⁽²⁾	3,606	215

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

⁽²⁾ Based on unaudited actual revenues.

Source: City of Riverside Public Utilities Department.

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 RPU.

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 and California Health and Safety Code Section 116908. 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 notice is delivered by Utility Field Service staff 10 days prior to proposed discontinuance of service, and the customer is charged a \$20 notification fee. If payment is not received after a total of 60 days, 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.

RPU 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/no activity.

Uncollectible Accounts

See the caption "COVID-19 OUTBREAK" for a discussion of the suspension of water shutoffs for delinquent accounts during the height of the COVID-19 pandemic. The City has recorded a total of approximately \$867,052 in bad debt expenses (for fiscal years 2019-20 through 2021-22 combined, including uncollected late fees, representing approximately 1% of total Water System revenues in fiscal year 2021-22. The City resumed its shutoff procedure (as described under the caption "—Billings and Collections") for delinquent accounts on August 1, 2022.

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>
2017-18	\$58,905	\$58,988	0.083%	\$49	\$ 6,858
2018-19	58,240	58,173	0.115	67	6,445
2019-20	62,583	62,528	0.089	56	8,016
2020-21	70,485	70,445	0.056	39	10,097
2021-22 ⁽³⁾	73,381	73,372	0.011	8	10,640

⁽¹⁾ Represents the amount shown under the column entitled “Write-Off” divided by the 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⁾ Based on unaudited actual revenues.

Source: City of Riverside Public Utilities Department.

Capital Improvement Program

General. As part of its biennial budget and planning process, the City prepared a five-year Water System Capital Improvement Program (“CIP”) for the fiscal years ending June 30, 2023, through June 30, 2027, totaling approximately \$148.1 million, as shown in the following table. The improvements are needed to maintain system reliability, secure new water resources, serve new residential and commercial developments, and refurbish the Water System.

<i>Capital Project</i>	<i>Five-Year CIP (\$000)</i> <i>(Fiscal Years 2022-23 – 2026-27)</i>
Distribution Pipelines	\$ 68,570
Transmission Pipelines	29,426
System Automation Projects	20,547
Well Projects	19,280
Distribution Facilities	7,649
Reservoir Projects	1,880
Treatment Plants	<u>752</u>
Total*	\$148,104

* Total may not add due to rounding.

Source: City of Riverside Public Utilities Department.

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 21, 2022. 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.

Treatment Plants – Treatment plant membrane filters.

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

The majority of the five-year CIP, approximately \$117 million, is expected to be funded through bond financing, including the 2022A Bonds, with the balance funded by a combination of rates, reserves and other resources. The projected operating results and debt service coverage set forth in Table 18 under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” reflect debt service on the 2022A Bonds. Currently, the City expects to issue Additional Bonds in 2026 (the “**2026 Bonds**”) in the initial aggregate principal amount of \$69 million in order to fund the five-year CIP. The projected Water System debt service that is set forth under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” reflect the assumed debt service on the 2026 Bonds.

Possible Additional Parity Debt Obligation. Certain local agencies in the Water System service area have formed a joint exercise of powers authority known as the Upper Santa Ana River Joint Powers Authority (the “**USARJPA**”). In or about 2023, the USARJPA is expected to enter into a Water Infrastructure Finance and Innovation Act agreement (the “**WIFIA Loan**”) with the United States Environmental Protection Agency (“**USEPA**”) to finance certain water supply projects on behalf of USARJPA members. The total principal amount, interest rate and repayment schedule for the WIFIA Loan have not yet been determined. Although the City is not currently a USARJPA member, the City has identified a USARJPA water supply project in which the City may be interested in participating. The City’s participation in the project has not yet been approved by the City Council and the City has not yet determined whether to seek funding under the WIFIA Loan for a proportionate share of the project costs.

If the City were to participate in the project and seek to fund it from WIFIA Loan proceeds, the City Council would need to include the project in the Water System Capital Improvement Program, approve the City’s membership in the USARJPA and approve the execution of a funding agreement with the USARJPA and USEPA to fund the City’s portion of the project costs (the “**WIFIA Obligation**”). Currently, the City estimates that its share of the project costs would be approximately \$28 million, or 26% of the total anticipated project costs. None of: (i) the City’s participation in the project; (ii) the City’s membership in the USARJPA; or (iii) the City’s pursuit of WIFIA Loan funding for the project are currently slated to be considered by the City Council at this time. The City can make no assurances that it will pursue the project or WIFIA Loan funding for the project.

If the City enters into the WIFIA Obligation, it would expect to repay the WIFIA Obligation from Net Operating Revenues of the Water System on parity with the 2022A Bonds. The projected Water System debt service that is set forth under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” does *not* reflect the City’s entry into the WIFIA Obligation.

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 multiple General Liability policies: a primary liability policy and three excess liability policies. The primary General Liability policy provides the City with \$4,000,000 in total aggregate limits and the excess General Liability policies provide the City with \$21,000,000 in coverage, for a total of \$25,000,000 in combined General Liability 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 appealed such dismissal, and on May 6, 2020, the appellate court overturned the trial court's dismissal. The appellate court remanded the case back to the trial court and the parties are now waiting for the trial court to set a trial date. The City has settled with three of the responsible parties but the trial will continue against the remaining defendants once a trial date is set.

Agricultural Rate Litigation. On December 16, 2019, a lawsuit entitled *Pongs v. City of Riverside* was filed against the City challenging the City's Water Rate WA-12, "Agricultural Water," alleging that the City is overcharging customers for agricultural water service under this rate in violation of Article XIIID, Section 6 of the California Constitution. The plaintiff is seeking invalidation of Water Rate WA-12 and a refund to all WA-12 customers of moneys collected under this rate. No trial date has been set for this action, and the lawsuit has been stayed pending resolution of a related case (*Simpson v. City of Riverside*) challenging the City's transfer of Water System revenues to the City's General Fund. See the caption "CONSTITUTIONAL LIMITATIONS—Articles XIIIC and XIIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter." Revenues from agricultural customers represent less than 10% of the Water System's revenues.

1,2,3-TCP Litigation. On December 4, 2020, the City filed a lawsuit against Shell Oil Company, The Dow Chemical Company and other defendants regarding 1,2,3-TCP contamination in some of the City's wells located within the BHB, Riverside North Basin and Riverside South Basin. See the caption "—Water Quality—Regulatory Outlook." Many of these wells were also impacted by DBCP (as discussed under the caption "—

Existing Facilities—General” and as such, are already receiving treatment. Discovery is continuing in this lawsuit, and a trial date has not yet been set.

PFAS Litigation. The City has joined a lawsuit against 3M Company (f/k/a Minnesota Mining and Manufacturing, Co.), E.I. DuPont De Nemours and Company and other PFAS manufacturers (the “**PFAS Lawsuit**”) seeking to recover the costs of designing, constructing and operating and maintaining treatment facilities to address PFAS contamination in many of the City’s wells located within the BHB, Riverside North Basin and Riverside South Basin. See the caption “—Water Quality—PFAS.” The PFAS Lawsuit is being litigated in the United States District Court for the District of South Carolina, Charleston Division, in the Multi-District Litigation (MDL No. 2:18-mn-2873-RMG) titled *In Re: Aqueous Film-Forming Foams Products Liability Litigation*. As of [late August] 2022, the status of the Multi-District Litigation is as follows: Expert depositions have commenced and are expected to be completed in August 2022; motions for summary judgement and discovery motions will be filed in the “bellwether” cases, which are test cases representative of similarly situated cases, in August 2022; and the first bellwether cases are on track for trial in April 2023, although an exact trial date has not been set. The result of the bellwether trials will influence, but not establish, the value of the City’s PFAS Lawsuit. Any monetary award under the PFAS Lawsuit could reimburse the City for its costs to design, construct, operate and maintain PFAS treatment facilities for its groundwater supplies and other associated costs. The City will not incur any monetary loss if it does not prevail in the PFAS lawsuit.

General Fund Transfer. See the caption “CONSTITUTIONAL LIMITATIONS—Articles XIIIC and XIIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter” for a discussion of ongoing litigation relating to a transfer of Water System revenues to the City’s General Fund.

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’s Streeter Park Turf Conversion and Demonstration Garden, which is expected to save 1.5 million gallons of water on an annual basis, as an outstanding example of environmental stewardship.

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 recognized RPU 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 RPU 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. RPU’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. In 2017, the Inland Empire Chapter of the Public Relations Society of America recognized RPU’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. In 2018, the Public Relations Society of America presented RPU with its highest award, the Silver Anvil Award, for RPU’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 XIII C 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 Water System’s 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, 2022, was \$7.7 million. The budgeted transfer for the fiscal year ending June 30, 2023, is \$8.0 million. See the caption “CONSTITUTIONAL LIMITATIONS—Articles XIII C and XIII D of the California Constitution—Water Utility Revenue Transfer Under the City Charter” for additional details on the General Fund transfer, including certain ongoing litigation relating thereto.

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 2017-18 through 2020-21 and preliminary unaudited actual results for the Water System for fiscal year 2021-22, excluding certain receipts which are not included as Gross Operating Revenues under the Resolution and certain non-cash items and including certain other adjustments.

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

	<i>Fiscal Year Ended June 30,</i>				
	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022⁽¹¹⁾</i>
Operating Revenues⁽¹⁾					
Water Sales					
Residential	\$ 37,148	\$ 35,408	\$ 39,001	\$ 44,781	\$ 45,784
Commercial	19,317	20,539	21,244	23,704	24,635
Other Sales	1,880	1,743	1,885	2,357	2,446
Water Conveyance	3,162	1,785	3,255	2,964	3,572
Other Operating Revenues ⁽²⁾	<u>4,306⁽¹⁰⁾</u>	<u>4,672</u>	<u>3,312</u>	<u>5,384</u>	<u>2,685</u>
Total Water Revenues	\$ 65,813	\$ 64,147	\$ 68,697	\$ 79,190	\$ 79,122
Other Revenues					
Investment Income (Loss) ⁽³⁾	\$ 756	\$ 1,169	\$ 1,498	\$ 533	\$ 497
Contributions in Aid ⁽⁴⁾	3,249	2,489	2,530	3,062	3,590
Non-Operating Revenues	<u>1,742</u>	<u>1,286</u>	<u>1,043</u>	<u>1,259</u>	<u>3,553</u>
Total Other Revenues	\$ 5,747	\$ 4,944	\$ 5,071	\$ 4,854	\$ 7,640
Total Revenues	\$ 71,560	\$ 69,091	\$ 73,768	\$ 84,044	\$ 86,762
Operating and Maintenance Expenses					
Operations and Maintenance	\$ 34,647	\$ 38,831	\$ 40,242	\$ 39,372	\$ 40,324
Pension Expense ⁽⁵⁾	818	841	708	1,358	1,767
Purchased Energy	<u>5,827</u>	<u>5,748</u>	<u>5,583</u>	<u>6,523</u>	<u>6,864</u>
Total Operating and Maintenance Expenses⁽⁶⁾⁽⁷⁾	\$ 41,292	\$ 45,420	\$ 46,533	\$ 47,253	\$ 48,955
Net Operating Revenues	\$ 30,268	\$ 23,671	\$ 27,235	\$ 36,791	\$ 37,807
Debt Service net of BAB Subsidy⁽⁸⁾	\$ 13,329	\$ 14,301	\$ 15,103	\$ 15,334	\$ 15,302
Debt Service w/o BAB Subsidy	\$ 14,694	\$ 15,672	\$ 16,476	\$ 16,717	\$ 16,679
Debt Service (net of BAB Subsidy) Coverage Ratio⁽⁸⁾⁽⁹⁾	2.27x	1.66x	1.80x	2.40x	2.47x
Debt Service (w/o BAB Subsidy) Coverage Ratio⁽⁸⁾⁽⁹⁾	2.15x	1.60x	1.74x	2.28x	2.35x

⁽¹⁾ The City's water conservation programs are limited to specific purposes. Therefore, the related Water Conservation surcharge that the City collects, the proceeds of which constitute Gross Operating Revenues, is excluded from this table. The Water Conservation generated approximately \$1.1 million in fiscal year 2021-22. See the caption "THE WATER SYSTEM—Water Rates and Charges—Water Conservation Surcharge."

⁽²⁾ Other Operating Revenues include revenues from wholesale water sales. Decrease in fiscal year 2021-22 reflects reductions in wholesale water sales to WMWD.

⁽³⁾ Differs from audited financial statements because the above numbers exclude unrealized losses (and gains), consisting of market value adjustments to Water System investments in accordance with GASB Statement No. 31, of \$506, \$(875), \$(575), \$534 and \$1,922 in fiscal years 2017-18 through 2021-22, respectively.

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

⁽⁵⁾ Includes debt service on Pension Obligation Bonds which is allocated to the Water System. See the caption "THE PUBLIC UTILITIES DEPARTMENT—Employment Matters—Employee Retirement Systems."

⁽⁶⁾ Excludes contributions to the City's General Fund of \$6,173, \$6,584 \$6,518, \$6,972 and \$7,708 for fiscal years 2017-18 through 2021-22, 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 XIIIC and XIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter" for additional details on the General Fund transfer.

⁽⁷⁾ Excludes GASB 68 non-cash adjustment of \$3,119, \$(482), \$1,046, \$(1,107) and \$(4,891) for fiscal years 2017-18 through 2021-22, respectively. GASB 68 became effective July 1, 2014. Includes GASB 75 adjustments. GASB 75 became effective on July 1, 2017.

⁽⁸⁾ 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.

⁽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⁾ 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.

⁽¹¹⁾ Reflects preliminary unaudited results. Subject to change.

Source: City of Riverside Public Utilities Department.

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 operate under Stage Two of its water shortage contingency plan (as described under the caption "THE WATER SYSTEM—Water Supply—Drought Conditions—Water Shortage Contingency Plan") 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 Ending June 30,</i>				
	2023 ⁽¹⁵⁾	2024 ⁽¹⁵⁾	2025	2026	2027
Operating Revenues⁽¹⁾					
Water Sales ⁽²⁾					
Residential	\$ 46,052	\$ 49,094	\$ 52,531	\$ 56,214	\$ 59,596
Commercial	22,944	24,450	26,304	28,301	30,164
Other Sales	2,337	2,492	2,614	2,743	2,860
Water Conveyance ⁽³⁾	3,384	3,509	3,639	3,773	3,917
Other Operating Revenues ⁽⁴⁾	5,437	5,212	6,085	6,262	6,516
Total Water Revenues	\$ 80,154	\$ 84,757	\$ 91,173	\$ 97,293	\$ 103,053
Other Revenues					
Investment Income (Loss) ⁽⁵⁾	\$ 1,037	\$ 1,771	\$ 1,632	\$ 2,061	\$ 2,484
Contributions in Aid ⁽⁶⁾	2,000	2,000	2,000	2,000	2,000
Non-Operating Revenues ⁽⁷⁾	1,410	1,453	1,497	1,541	1,588
Total Other Revenues	\$ 4,447	\$ 5,224	\$ 5,129	\$ 5,602	\$ 6,072
Total Revenues	\$ 84,601	\$ 89,981	\$ 96,302	\$ 102,895	\$ 109,125
Operating and Maintenance Expenses					
Operations and Maintenance ⁽⁸⁾	\$ 44,770	\$ 44,536	\$ 46,944	\$ 47,880	\$ 48,711
Pension Expense ⁽⁹⁾	2,033	2,282	2,420	2,429	2,307
Purchased Energy ⁽¹⁰⁾	7,676	7,808	7,964	8,123	8,286
Total Operating and Maintenance Expenses⁽¹¹⁾	\$ 54,479	\$ 54,626	\$ 57,328	\$ 58,432	\$ 59,304
Net Operating Revenues	\$ 30,122	\$ 35,355	\$ 38,974	\$ 44,463	\$ 49,821
Debt Service net of BAB Subsidy^{(12)(13)*}	\$ 16,037	\$ 19,967	\$ 19,865	\$ 21,166	\$ 24,814
Debt Service w/o BAB Subsidy^{(13)*}	\$ 17,345	\$ 21,226	\$ 21,070	\$ 22,314	\$ 25,909
Debt Service (net of BAB Subsidy) Coverage Ratio⁽¹²⁾⁽¹⁴⁾	1.88x	1.77x	1.96x	2.10x	2.01x
Debt Service (w/o BAB Subsidy) Coverage Ratio⁽¹²⁾⁽¹⁴⁾	1.81x	1.72x	1.91x	2.04x	1.97x

(1) The City's water conservation programs are limited to specific purposes. Therefore, the related Water Conservation surcharge that the City collects, the proceeds of which constitute Gross Operating Revenues, is excluded from this table. The Water Conservation generated approximately \$1.1 million in fiscal year 2021-22. See the caption "THE WATER SYSTEM—Water Rates and Charges—Water Conservation Surcharge."

(2) Reflects: (i) expectation of 1% growth in connections per annum; (ii) expectation of 10% reduction in water use from 3-year average because of customer conservation in light of Statewide drought; such reductions are expected to reduce revenues from commercial and other water customers in fiscal year 2022-23 because such customers' billings include more variable components (tied to water use) than residential billings; (iii) rate increases approved by the City Council through June 30, 2023; and (iv) projected rate increases averaging 6.30% per annum beginning July 1, 2023 through June 30, 2026, and 5.50% per annum thereafter, none of which have 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 2023-24 and thereafter will be approved. See the caption "CONSTITUTIONAL LIMITATIONS—Articles XIII C and XIII D of the California Constitution."

(3) Projected to increase at approximately 4% per annum.

(4) Other Operating Revenues include revenues from wholesale water sales. Increase in fiscal year 2022-23 from fiscal year 2021-22 amount reflects expectation of greater wholesale sales to WMWD.

(5) Reflects projected earnings at approximately 1.3% on Water System reserves in fiscal year 2022-23, 2.0% in fiscal year 2023-24 and 2.5% per annum thereafter.

(6) Contributions in Aid reflect cash collections from a combination of connection fees by developers and grant-funded projects. Projected to remain at fiscal year 2022-23 budgeted amount.

(7) Projected to increase at approximately 3% per annum.

(8) Increase in fiscal year 2022-23 from fiscal year 2021-22 amount reflects: (i) one-time grant-funded stipend to employees; (ii) additional expenditures for laboratory testing resulting from new testing regulations; and (iii) increases in the costs of chemicals, communications (including the City's annual water quality report), underground location services, active leak detection services and legal services. Projected to decrease slightly in fiscal year 2023-24 and to increase approximately 5.4% in fiscal year 2024-25, 2.0% in fiscal year 2025-26 and 1.7% in fiscal year 2026-27.

(9) Includes debt service on Pension Obligation Bonds which is allocated to the Water System. See the caption "THE PUBLIC UTILITIES DEPARTMENT—Employment Matters—Employee Retirement Systems."

(10) Projected to increase at approximately 2% per annum.

* Preliminary, subject to change.

- (11) 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 the caption "CONSTITUTIONAL LIMITATIONS—Articles XIIIIC and XIIID of the California Constitution—Water Utility Revenue Transfer Under the City Charter" for additional details on the General Fund transfer.
- (12) 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.
- (13) Excludes projected debt service on WIFIA Obligation. See the caption "THE WATER SYSTEM—Capital Improvement Program—Possible Additional Parity Debt Obligation." Assumes an annual interest rate of 3.20% on the 2011A Bonds, reflecting the effect of the 2005 Swap Agreement. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Subordinate Obligations—Existing Subordinate Obligations—2005 Swap Agreement." Reflects debt service on 2022A Bonds beginning in late 2022 and 2026 Bonds beginning in early 2026. See the caption "THE WATER SYSTEM—Capital Improvement Program—General" for a description of the 2026 Bonds.
- (14) 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.
- (15) Reflects fiscal year 2022-23 and 2023-24 budgeted amounts with certain adjustments.
- Source: City of Riverside Public Utilities Department.

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. On September 7, 2021, the Cash Reserve Policy was updated and approved by City Council to reflect impacts to the Water System resulting from the definition of reserves and updates to the operating (working capital) target minimum and maximum levels. 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, 2022, the balance was at \$38,918,243 for the unrestricted undesignated reserve. On February 1, 2022, 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 2022A BONDS—Subordinate Obligations—Existing 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, 2022, are as follows (dollars in thousands):

Customers' Deposits	\$ 832
Capital Repair and Replacement Reserve	2,363
Property Reserve	5,804
Recycled Water Reserve	<u>1,158</u>
Total	\$10,157 ⁽¹⁾

(1) Reflects preliminary unaudited results. Subject to change.
Source: City of Riverside Public Utilities Department.

Outstanding Obligations of the Water System

The outstanding obligations of the City with respect to the Water System are described under the caption "PRIOR DEBT AND DEBT SERVICE—Outstanding Prior Debt."

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 RPU’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 RPU.

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 RPU’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.

In 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. RPU 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.

On March 14, 2022, the Board approved a professional consulting service agreement with a consultant to complete a water utility cost of service adjustment and rate design project for financial planning purposes and to prepare for the next water utility rate plan. The project is underway and is expected to result in a recommended water utility rate plan as of July 1, 2023. The projected Water System operating results that are set forth under the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations” assume rate increases averaging 6.30% per annum beginning July 1, 2023 through June 30, 2026, and 5.50% per annum thereafter.

RISK FACTORS

The following information, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the 2022A 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 2022A 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 2022A Bonds.

The 2022A Bonds Are Limited Obligations

The City’s General Fund is not liable for the payment of debt service on the 2022A Bonds, nor is the credit or taxing power of the City pledged for the payment of debt service on the 2022A Bonds. No owner of any 2022A 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 2022A 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 2022A Bonds under the Resolution.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2022A 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 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 2022A 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.

Accuracy of Assumptions

To estimate the Net Operating Revenues available to pay the principal of and interest on the 2022A Bonds, the City has made certain assumptions with regard to future development within the City and increases in revenues resulting therefrom, the rates and charges to be imposed in future years, the expenses associated with operating the Water System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of such assumptions fail to materialize, the Net Operating Revenues available to pay the principal of and interest on the 2022A Bonds will, in all likelihood, be less than

those projected herein. See the caption “CERTAIN FINANCIAL INFORMATION—Summary of Operations.” The City may choose, however, to maintain compliance with the rate covenant set forth in the Resolution in part by means of contributions from other available reserves or resources. In such event, Net Operating Revenues may generate amounts which are less than 1.25 times Debt Service in any given Fiscal Year. See the captions “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Rate Covenant.”

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 2022A Bonds, but the 2022A Bond Reserve Requirement is \$0. Consequently, no amounts has been deposited into such debt service reserve account. The owners of the 2022A 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. Demand for water services could be reduced as a result of reduced levels of development in the Water System service area, hydrological conditions, an economic downturn (including as a result of the COVID-19 outbreak that is discussed under the caption “COVID-19 OUTBREAK”), conservation efforts or mandatory State conservation orders and other factors. 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. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant.” Such rate increases could increase the frequency of customer nonpayments.

Water System Expenses and Collections

There can be no assurance that the City’s expenses for the Water System will remain at the levels described in this Official Statement. Changes in technology, energy or other expenses, more stringent regulatory requirements 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 2022A Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2022A 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 2022A 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 2022A 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 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.

Limited Recourse on Default

If the City defaults on its obligation to pay the 2022A Bonds, Bondholders have the right to declare the total unpaid principal amount of the 2022A Bonds, together with the accrued interest thereon, to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient funds to pay such accelerated amounts from Net Operating Revenues.

Drinking Water Regulation

Drinking water standards are regulated, to a large extent, by the federal government and the State. 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 regulation will take. See the caption “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 faults. Earthquakes pose potential significant risks to the Water System, and could potentially result in water supply shortages and disruptions to the transmission/distribution systems. Groundwater produced from wells in the San Bernardino area is conveyed using two major transmission lines that cross several earthquake faults. In addition, harmful microorganisms could migrate into the distribution system because of pipe breaks or damage to water disinfection facilities.

Another potential hazard related to earthquakes is soil liquefaction, which occurs when solids take on properties of a liquid. A number of wells and some major water transmission mains are located in potential liquefaction zones. In the event of a liquefaction event, the affected wells could fail or become contaminated with sediment.

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 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.

Rate Covenant Not a Guarantee

The City's ability to pay the 2022A Bonds depends on its ability to generate Net Operating Revenues at the levels required by the Resolution. Although the City has covenanted in the Resolution to impose rates and charges as more particularly described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Rate Covenant," and although the City expects that sufficient Gross Operating Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Operating Revenues in amounts that are sufficient to pay the 2022A Bonds.

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 XIII C 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 a unique schedule of customized 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 XIII C and XIII D of the California Constitution

Proposition 218, which added Articles XIII C and XIII D 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 XIII C and XIII D 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 2022A Bonds, the City must comply with the applicable requirements of the Code, and may not 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 2022A Bonds thereunder. Interest on the 2022A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2022A Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Resolution. The 2022A 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 parity with the 2022A Bonds, subject to the terms and conditions set forth therein. The issuance of Additional Bonds or the incurrence of Parity Debt could result in reduced Net Operating Revenues available to pay the 2022A Bonds. The City has covenanted to maintain coverage of debt service on the 2022A Bonds, Additional Bonds and Parity Debt as further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2022A BONDS—Additional Bonds and Parity Debt."

Secondary Market

There can be no guarantee that there will be a secondary market for the 2022A Bonds or, if a secondary market exists, that the 2022A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history, incomplete or deficient continuing disclosure or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Climate Change

California has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere, 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.

The City's existing Economic Prosperity Plan and Climate Action Plan (the "CAP"), which was adopted in 2016, evaluated the impact of climate change through 2020 and established a roadmap by which the City could measure greenhouse gas emissions, assist City residents in adapting to the effects of climate change and increase the City's resilience to the effects of climate change. The CAP also sought to ensure that the City's climate change response supported economic development in the City, including by encouraging investments in green technology. With respect to Water System, the CAP established goals of conserving potable water and reducing water demand in the community and municipal operations by providing incentives to use water-efficient technology. The CAP's water-related goals were developed in concert with SBX7-7, which called for a Statewide 20% reduction in urban per capita water use by December 31, 2020. See the caption "THE WATER SYSTEM—New Sources of Supply—Water Use Efficiency." RPU met the CAP's water-related goals and the 20% water savings target of SBX7-7 in 2020.

The City is currently in the process of evaluating and updating the CAP. The updated CAP is expected to implement actions to reduce greenhouse gas emissions and measure progress with respect thereto, with one goal expected to be achieving carbon neutrality by 2040. Water conservation is expected to be an element of the updated CAP. There is currently no timeline for the finalization of a new CAP can be no assurance as to when the updated CAP will be adopted, or as to the ultimate content thereof.

Security of the Water System

The physical 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 2022A Bonds.

Cyber Security

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. In recent years, there have been significant cyber security incidents affecting municipal agencies, including a ransomware attack targeting Los Angeles Unified School District, 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, an attack that resulted in the temporary closure of the Port of Los Angeles' largest terminal and an attack on a water treatment facility in Oldsmar, Florida.

The City's Information Technology Department provides advisory support for the Water System's electronic system cyber security. This includes audits and recommended improvements to facility hardware and software to keep up to date with the latest cyber security best practices. The City uses multiple layers of security systems to safeguard against cyber-attacks. These systems are deployed at the perimeter as well as at end points of the City's network. The City's multi-level cyber protection scheme includes firewalls, anti-virus software, anti-spam/malware software, intrusion protection, intrusion detection, log monitoring and other security measures. One of the systems is artificial-intelligence based, which analyzes the behavior of users/devices on the network and takes corrective action if any anomaly is detected. The City's network is scanned by third party consultants on a regular basis. The City's Information Technology Department also conducts security awareness training for employees and maintains cloud-based backup storage for its digital files.

To date, the City has not experienced a successful attack against its network and servers. 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 due to its backup/restore procedures and disaster recovery planning.

CONSTITUTIONAL LIMITATIONS

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority, special district or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 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 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 XIIIID. Article XIIIID 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 XIIIID 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 XIIIID 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 XIIIID, the local government’s ability to increase such fees or charges may be limited by a majority protest.

In addition, Article XIIIID 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 XIIIID 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 XIIIID, as further explained by the State Supreme Court in the *Bighorn Case*, with respect to the water rate increases which were approved in 2018 and are currently in effect. 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.

The City does not believe that Article XIIC grants to the voters within the City the power (whether by initiative under Article XIIC or otherwise, or by referendum, which is not authorized under Article XIIC) 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 2022A Bonds. Remedies that are available to owners of the 2022A 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 2022A Bonds are held in book-entry form, DTC (or its nominee or successor) will be the sole registered owner of the 2022A Bonds and the rights and remedies of the 2022A 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 2022A 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.

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 the Water System’s Gross Operating Revenues. In 1977, the electorate approved a change requiring the transfer to be an amount “not to exceed” 11.5% of such Gross Operating Revenues. On June 4, 2013, the electorate reaffirmed the transfer as a general tax pursuant to Article XIIC 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 XIID. 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.

On December 19, 2019, a class action lawsuit entitled *Simpson v. City of Riverside* was filed against the City alleging that the Revenue Transfer results in the City overcharging customers for water utility service in violation of Article XIID, Section 6 of the State Constitution. The plaintiff is seeking refunds for all customers for moneys collected in violation of the Constitution in the three years prior to the filing of the lawsuit and an order that the court set aside the Revenue Transfer Re-Approval. No trial date has been set for this action. The City is unable to quantify the refund amount that could be owed in the event that the plaintiff were to prevail in its claims, but any refunds ordered by the court would come from the City's General Fund rather than the Water Fund. For this reason, an adverse ruling in this litigation would not be expected to have a material adverse effect on the Water System.

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."

Under Proposition 26, taxes do not include the following: (a) 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; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 applies to charges imposed or increased after November 2, 2010 and provides 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.

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 XIII C 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

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2022A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. However, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Code, generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, interest (and original issue discount) on the 2022A Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations.

In the further opinion of Bond Counsel, interest (and original issue discount) on the 2022A Bonds is exempt from State personal income tax.

In the opinion of Bond Counsel, the difference between the issue price of a 2022A Bond (the first price at which a substantial amount of the 2022A Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2022A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2022A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2022A Bond Owner will increase the 2022A Bond Owner's basis in the 2022A Bond.

The amount by which a 2022A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2022A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2022A Bond Owner's basis in the applicable 2022A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2022A Bond premium may result in a 2022A Bond Owner realizing a taxable gain when a 2022A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2022A Bond to the Owner. Purchasers of the 2022A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2022A Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2022A Bonds to assure that interest (and original issue discount) on the 2022A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2022A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2022A Bonds. The City has covenanted to comply with all such requirements.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2022A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2022A Bonds might be affected as a result of such an audit of the 2022A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2022A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2022A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2022A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2022A BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2022A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2022A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2022A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2022A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2022A BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the 2022A Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Resolution and the Tax Certificate relating to the 2022A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2022A Bonds for federal income tax purposes with respect to any 2022A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2022A Bonds is excluded from gross income for federal income tax purposes provided that the City continue to comply with certain requirements of the Code, the ownership of the 2022A Bonds and the accrual or receipt of interest (and original issue discount) on the 2022A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2022A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2022A Bonds.

Should interest (and original issue discount) on the 2022A Bonds become includable in gross income for federal income tax purposes, the 2022A Bonds are not subject to early redemption or an increase in interest rates and will remain outstanding until maturity or until redeemed in accordance with the Resolution.

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

CERTAIN LEGAL MATTERS

The valid, legal and binding nature of the 2022A Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Bond Counsel. The form of such legal opinion is attached as Appendix E, and such legal opinion will be attached to each 2022A Bond. Certain matters will be passed upon for the City by the City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel.

The payment of the fees and expenses of the Underwriters, Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent on the successful remarketing of the 2022A Bonds.

LITIGATION

At the time of the issuance of the 2022A 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 2022A Bonds or the power and authority of the City to issue the 2022A Bonds; (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2022A Bonds; or (iii) that, if determined adversely to the City, would affect the ability of the City to pay debt service on the 2022A 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 2022A Bonds.

FINANCIAL STATEMENTS

The financial statements of the City's Water System for the fiscal year ended June 30, 2021 (the "**Financial Statements**") included in Appendix B to this Official Statement have been audited by Lance, Soll & Lunghard, 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, 2021, and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the Financial Statements.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), and Fitch Ratings, Inc. ("**Fitch**"), are expected to assign the ratings of "[__]" and "[__]", respectively, to the 2022A Bonds.

A rating is not a recommendation to buy, sell or hold securities. Future events, including the impacts of the COVID-19 pandemic that is described under the caption "COVID-19 OUTBREAK" could have an adverse impact on the ratings of the 2022A Bonds, and there is no assurance that any credit rating given to the 2022A Bonds will be maintained for any period of time or that a rating may not be qualified, downgraded, lowered or withdrawn entirely by S&P or Fitch if, in the judgment of S&P or Fitch, as applicable, circumstances so warrant. Any such qualification, downgrade, lowering or withdrawal of a rating may have an adverse effect

on the market price of the 2022A Bonds. Such ratings reflects only the views of S&P and Fitch (which views and criteria could change at any time), and an explanation of the significance of such ratings may be obtained from S&P and Fitch, as applicable. Generally, rating agencies base their ratings on information and materials 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 2022A Bonds with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/> ("EMMA"). See the caption "CONTINUING DISCLOSURE" and Appendix D. Notwithstanding such covenant, information relating to rating changes on the 2022A Bonds may be publicly available from the applicable rating agency 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 2022A Bonds are directed to S&P and Fitch and their respective websites and official media outlets for the most current rating with respect to the 2022A Bonds after the initial issuance of the 2022A Bonds.

In providing a rating on the 2022A Bonds, S&P and Fitch may have performed independent calculations of coverage ratios using their 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.

UNDERWRITING

The 2022A Bonds are being purchased by Morgan Stanley & Co. LLC (the "**Representative**"), as representative of itself and Samuel A. Ramirez & Co., Inc. (together with the Representative, the "**Underwriters**") pursuant to a purchase contract, dated the date hereof, by and between the City and the Representative. The Underwriters will purchase the 2022A Bonds from the City at an aggregate purchase price of \$____, representing the principal amount of the 2022A Bonds, plus/less \$____ of net original issue premium/discount and less \$____ of Underwriters' discount.

The initial public offering prices stated on the inside front cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2022A Bonds to certain dealers (including dealers depositing 2022A Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

The Representative has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, the Representative may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Representative may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2022A Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses. In addition, certain affiliates of the Underwriters are lenders, and in some cases agents or managers for the lenders, under credit and liquidity facilities.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own

account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, Los Angeles, California, as municipal advisor (the “**Municipal Advisor**”) in connection with the issuance of the 2022A Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CONTINUING DISCLOSURE

In connection with the issuance of the 2022A Bonds, the City will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of Owners and beneficial owners of the 2022A 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 are set forth in Appendix D. These covenants were made in order to assist the Underwriters 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.

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) the City’s budget for fiscal year 2017-18 in connection with the City’s Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008; (3) a notice of successor trustee for a prior City debt obligation; and (4) certain fiscal year 2018-19 operating data in connection with the Prior Pension Obligation Bonds. In addition, the City did not link certain Fiscal Year 2017-18 information with respect to bonds of its electric system to all applicable CUSIPs.

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 Official Statement and should be read in their entirety. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

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

CITY OF RIVERSIDE, CALIFORNIA

By: _____
Chief Financial Officer/Treasurer

By: _____
Utilities General Manager

APPENDIX A

CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION

Set forth below is certain demographic information regarding the City of Riverside (the “City”), the County of Riverside (the “County”) and the State of California (the “State”). This information is provided for informational purposes and as general background only. The information set forth herein has been obtained from third party sources that are believed to be reliable, but such information is not guaranteed by the City as to accuracy or completeness. Neither the delivery of this Official Statement nor any sale of the securities offered hereby shall under any circumstances create any implication that there has been no change in any information contained in this Appendix since the date of the Official Statement. The Bonds are payable solely from the Net Operating Revenues of the City’s Water System as described in the Official Statement and will not be secured by any pledge of ad valorem taxes or City General Fund revenues. The information and data within this Appendix is the latest data available; however, the current state of the economy at City, County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the City. In particular, certain information herein reflects periods prior to the outbreak of COVID-19 and may not reflect current conditions.

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 Geronimo 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 2022, the County had a population estimated at 2,435,525 and San Bernardino County had a population estimated at 2,187,665. With a population of over 4.6 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“MSAs”) in the United States. The County alone is larger in area 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 225 sworn firefighters operating out of over a dozen 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 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, the 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, 2022, the population of the City was estimated to be 317,847. The following table presents historical 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
2020	316,307	2,418,185
2021	312,789	2,424,587
2022	317,847	2,435,525

Sources: 1950-2010 and 2020 U.S. Census; 2011-2022 California Department of Finance (Demographic Research Unit).

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, Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are California School for the Deaf and 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 4.0 percent in June 2022. This compares with an unadjusted unemployment rate of 4.0 percent for California and 3.6 percent for the nation during the same period. The unemployment rate was 4.0 percent in the County and 4.0 percent in San Bernardino County during the same period.

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 2017 Through 2021)**

	2017	2018	2019	2020	2021
Civilian Labor Force ⁽¹⁾	2,012,900	2,045,000	2,074,500	2,088,600	2,118,200
Employment	1,909,500	1,956,800	1,989,700	1,880,500	1,961,800
Unemployment	103,400	88,200	84,800	208,100	156,400
Unemployment Rate	5.1%	4.3%	4.1%	10.0%	7.4%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	14,500	14,500	15,400	14,100	13,900
Mining and Logging	1,000	1,200	1,200	1,300	1,400
Construction	97,400	105,200	107,200	104,900	109,200
Manufacturing	98,000	99,800	100,600	95,100	94,800
Wholesale Trade	63,100	66,100	67,700	65,600	67,000
Retail Trade	180,900	181,200	180,700	168,800	177,600
Transportation, Warehousing and Utilities	119,900	132,100	146,600	172,500	198,600
Information	11,600	11,400	11,500	9,400	9,600
Finance and Insurance	26,300	25,300	24,800	24,600	24,400
Real Estate and Rental and Leasing	18,400	19,300	20,200	19,500	20,500
Professional and Business Services	147,300	152,000	158,700	155,400	167,300
Educational and Health Services	226,700	239,500	250,300	248,700	253,400
Leisure and Hospitality	166,300	170,600	175,900	141,300	158,900
Other Services	45,400	45,800	46,200	40,200	43,000
Federal Government	20,600	20,700	21,100	22,100	21,100
State Government	30,400	30,600	31,100	31,300	31,500
Local Government	200,100	205,900	209,000	194,600	191,000
Total All Industries	1,467,800	1,521,100	1,568,100	1,509,300	1,583,000

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

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

Source: State of California Employment Development Department.

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

CITY OF RIVERSIDE – TEN LARGEST EMPLOYERS
As of June 30, 2019*

<i>Employer Name</i>	<i>Number of Employees</i>	<i>% of Total City-wide Employment</i>
County of Riverside	22,000	17.5%
University of California	8,735	6.9
March Air Force Reserve	7,000	5.6
Kaiser Permanente	4,346	3.5
Riverside Unified School District	4,313	3.4
City of Riverside	2,485	2.0
Riverside Community Hospital	2,200	1.8
Riverside Community College District	2,100	1.7
Alvord Unified School District	1,898	1.5
California Baptist University	<u>1,442</u>	<u>1.1</u>
Total	38,921	45.0%

*Data is not currently available for the fiscal year ended June 30, 2021 due to the disruption caused by the Coronavirus (COVID-19) pandemic.

Source: *City of Riverside (as presented in the City's 2021 audited financial statements).*

COUNTY OF RIVERSIDE – LARGEST EMPLOYERS
(LISTED ALPHABETICALLY)
As of August 2022

<i>Employer Name</i>	<i>Location</i>	<i>Industry</i>
Abbott Vascular Inc	Temecula	Hospital Equipment & Supplies-Mfrs
Agua Caliente Casino Resort Spa	Rancho Mirage	Casinos
Amazon Fulfillment Ctr	Moreno Valley	Mail Order Fulfillment Service
Citrus Club	La Quinta	Clubs
Collins Aerospace	Riverside	Aircraft Components-Manufacturers
Corona City Hall	Corona	City Hall
Corona Regional Medical Ctr	Corona	Hospitals
Department-Corrections-Rehab	Norco	State Govt-Correctional Institutions
Desert Regional Medical Ctr	Palm Springs	Hospitals
Eisenhower Health	Rancho Mirage	Hospitals
Fantasy Springs Resort Casino	Indio	Casinos
J Ginger Masonry	Riverside	Masonry Contractors
Kaiser Permanente Riverside MD	Riverside	Hospitals
Riverside Community Hospital	Riverside	Hospitals
Riverside County Public Health	Riverside	Government Offices-County
Riverside University Health	Moreno Valley	Hospitals
Southwest Healthcare System	Murrieta	Hospitals
Spa Resort Casino	Palm Springs	Casinos
Stagecoach Motor Inn	Banning	Hotels & Motels
Starcrest of California	Perris	Internet & Catalog Shopping
Starcrest Products	Perris	Internet & Catalog Shoppin
Sun World Intl LLC	Coachella	Fruits & Vegetables-Wholesale
Time Rack	Corona	Computer Software

Source: *California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2022 2nd 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 2017 Through 2021 (Valuation in Thousands of Dollars)

	2017	2018	2019	2020	2021
<u>Permit Valuation</u>					
New Single-family	\$ 46,666	\$ 42,412	\$ 35,621	\$ 76,746	\$ 81,057
New Multi-family	53,944	57,045	61,488	20,059	37,332
Res. Alterations/Additions	<u>19,471</u>	<u>10,426</u>	<u>8,154</u>	<u>6,182</u>	<u>4,411</u>
Total Residential	\$120,080	\$109,883	\$105,263	\$102,987	\$122,800
 New Commercial/Industrial	 \$ 97,799	 \$ 96,668	 \$ 49,409	 \$ 4,612	 \$ 0
New Other	14,861	12,305	7,977	17,103	6,537
Com. Alterations/Additions	<u>49,539</u>	<u>63,581</u>	<u>74,407</u>	<u>50,537</u>	<u>3,585</u>
Total Nonresidential	\$162,198	\$172,554	\$131,793	\$72,252	\$9,942
 <u>New Dwelling Units</u>					
Single Family	172	171	163	271	290
Multiple Family	<u>535</u>	<u>504</u>	<u>328</u>	<u>214</u>	<u>367</u>
TOTAL	707	675	491	485	707

Source: City of Riverside Community Development Department.

COUNTY OF RIVERSIDE BUILDING PERMIT ACTIVITY For Calendar Years 2017 Through 2021 (Valuation in Thousands of Dollars)

	2017	2018	2019	2020	2021
<u>Permit Valuation</u>					
New Single-family	\$1,670,542	\$2,200,021	\$1,834,822	\$2,315,365	\$2,013,159
New Multi-family	109,309	232,707	282,465	93,149	149,081
Res. Alterations/Additions	<u>123,567</u>	<u>125,353</u>	<u>158,118</u>	<u>110,789</u>	<u>100,402</u>
Total Residential	\$1,903,418	\$2,558,081	\$2,275,405	\$2,519,303	\$2,262,642
 New Commercial/Industrial	 \$965,629	 \$1,233,304	 \$805,908	 \$539,130	 \$792,812
New Other	104,352	410,606	179,861	233,710	460,224
Com. Alterations/Additions	<u>363,712</u>	<u>315,771</u>	<u>300,087</u>	<u>380,938</u>	<u>290,962</u>
Total Nonresidential	\$1,433,691	\$1,959,681	\$1,285,856	\$1,153,778	\$1,543,998
 <u>New Dwelling Units</u>					
Single Family	6,265	7,540	6,563	8,443	7,360
Multiple Family	<u>1,070</u>	<u>1,628</u>	<u>1,798</u>	<u>723</u>	<u>1,126</u>
TOTAL	7,335	9,168	8,361	9,166	8,486

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, County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, County voters approved extending Measure A until 2039. Measure A is expected to generate \$4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program, and that sales tax was similarly 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, 2021**

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.

[TO COME FROM BOND COUNSEL]

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the issuance of the 2022A Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

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 \$_____ Water Revenue Bonds, Issue of 2022A (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. __, adopted by the City Council on [November 8, 2022] (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 the City or 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 the City.

“Financial Obligation” shall mean a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

“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 Disclosure 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;

- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties; and
- (xvi) incurrence of a Financial Obligation of the City, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material.

“Official Statement” means the Official Statement dated November __, 2022 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” shall mean 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 2021-22, 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 of 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 other than the City. If by such date the Dissemination Agent, if other than the City, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with 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 other than the City 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 other than the City 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 Metered Customers Billed" 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 "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 Disclosure Certificate or the Resolution.

(d) Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Reports or notice of Notice Event hereunder, in addition to that which is required by this Disclosure Certificate. If the City chooses to do so, the City shall have no obligation under this Disclosure 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 Disclosure 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. 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 9. 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 10. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 11. 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 12. 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 13. 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 14. 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 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: December __, 2022

CITY OF RIVERSIDE

By: _____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: WATER REVENUE BONDS, ISSUE OF 2022A

Date of Issuance: December __, 2022

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 December __, 2022, 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 OPINION

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

December __, 2022

City of Riverside
Riverside, California

Re: \$_____ City of Riverside, California Water Revenue Bonds, Issue of 2022A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the “City”) of its \$_____ aggregate principal amount of the City’s Water Revenue Bonds, Issue of 2022A (the “Bonds”). The Bonds are being issued pursuant to the Charter of the City (the “Charter”), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the “Ordinance”), and Resolution No. 17664 adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. ____ adopted by the City Council on [November 8, 2022] (collectively, the “Resolution”).

In rendering the opinions that set forth below, we have examined the Constitution and statutes of the State of California, the Charter, the Ordinance and the Resolution, certified copies of the proceedings of the City and other information submitted to us relative to the issuance and sale by the City of the Bonds. We have examined originals, or copies identified to our satisfaction as being true copies of the Charter, the Ordinance, the Resolution and the Tax Certificate relating to the Bonds, opinions of counsel to the City, certificates of the City and others, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth in the Resolution, we are of the opinion that:

1. The Bonds constitute the valid and binding special revenue obligations of the City.
2. The Resolution was duly adopted at meetings of the City Council of the City.
3. The Resolution creates a valid pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Resolution to secure the payment of the principal of and interest on the Bonds. The general fund of the City is not liable for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest.
4. Other Parity Debt of the City has been and may from time to time hereafter be issued under the Resolution which is payable from Net Operating Revenues on a parity basis with the Bonds.

5. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Resolution, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals; however, for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), interest (and original issue discount) on the Bonds might be taken into account in determining adjusted financial statement income for the purposes of computing the alternative minimum tax imposed on such corporations.

6. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

7. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Bond.

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

The opinions that are expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the City and others and are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements.

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to the Bonds if any such action is taken or omitted based upon the opinion or advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions that are expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Resolution and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial

discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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.