

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2018**NEW ISSUE – BOOK-ENTRY ONLY**

Ratings:
Moody's: "____"
S&P: "____"
 See "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 Series 2018A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2018A Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" herein.

\$ _____ *

CITY OF RIVERSIDE**REFUNDING SEWER REVENUE BONDS, SERIES 2018A**

[City Logo]

Dated: Date of Delivery

Due: August 1, as shown on inside cover

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

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

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

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

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

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

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

The Series 2018A Bonds will be offered when, as and if issued and received by the Underwriters, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney and Jones Hall, A Professional Law Corporation, San Francisco, California, Disclosure Counsel. Nixon Peabody LLP is acting as counsel to the Underwriters. It is anticipated that the Series 2018A Bonds in definitive form will be available for delivery to DTC on or about _____, 2018.

BofA Merrill Lynch

Citigroup

Dated: _____, 2018

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such

\$ _____
CITY OF RIVERSIDE
REFUNDING SEWER REVENUE BONDS, SERIES 2018A

MATURITY SCHEDULE

(BASE CUSIP†: 769047)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
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No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations in connection with the offer or sale of the Series 2018A Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2018A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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

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

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

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

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

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

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

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

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

CITY STAFF

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

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Newport Beach, California

Municipal Advisor

NHA Advisors, LLC
San Rafael, California

Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Fiscal Agent

U.S. Bank National Association
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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OFFICIAL STATEMENT

\$ _____ *

CITY OF RIVERSIDE
REFUNDING SEWER REVENUE BONDS, SERIES 2018A

INTRODUCTION

General

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

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

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

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

* Preliminary, subject to change.

aggregate principal amount of Sewer Revenue Bonds, Series 2015A (the “Series 2015A Bonds”) pursuant to the Master Resolution and Resolution No. 22281 adopted by the City Council on March 17, 2015 (the “Fourth Supplemental Resolution”), the proceeds of which were used to refinance all of the Series 2014A Bonds. As of June 30, 2018, \$200,030,000 in principal amount of Series 2015A Bonds remained outstanding.

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

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

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

Purpose of the Series 2018A Bonds

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

Official Statement Reflects Amended Terms of Master Resolution

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

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

It should be noted, however, that the table showing historical and projected revenues, expenses and debt service coverage set forth under the caption “FINANCIAL RESULTS OF THE SEWER SYSTEM – Historical and Projected Revenues, Expenses and Coverage” presents historical debt service coverage calculated pursuant to the terms of the Master Resolution that

were in effect prior to the issuance of the Series 2018A Bonds and projected debt service coverage calculated pursuant to the as-amended terms of the Master Resolution.

Security and Rate Covenant

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

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

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

2018A Reserve Account Not Funded

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

The Sewer System

The Sewer System serves an area of approximately 109.86 square miles, of which approximately 81.5 square miles are within the limits of the City. The Sewer System provides wastewater collection and treatment service to approximately 151,000 equivalent dwelling units in the City and in the Jurupa, Rubidoux and Edgemont Community Services Districts (collectively,

the “CSDs”). Beginning in 2015, the City began adding new service accounts and providing wastewater collection and treatment services in the unincorporated community of Highgrove.

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

Continuing Disclosure

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

Summaries and References to Documents

Brief descriptions of the Series 2018A Bonds, the security and sources of payment therefor, the Sewer System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Series 2018A Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557.

A copy of the audited financial statements of the City for the fiscal year ended June 30, 2017, is attached to this Official Statement as APPENDIX B. A copy of the most recent annual report of the City is available on the City’s website at www.riversideca.gov. Information set forth on such website is not incorporated by reference herein.

PLAN OF FINANCE

General

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

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

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

(1) To be defeased only because maturity date coincides with redemption date of August 1, 2019, as described below.

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

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

Estimated Sources and Uses of Funds

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

Sources:

Principal Amount of Series 2018A Bonds	\$
Plus/Less [Net] Original Issue Premium/Discount	
Plus Amounts Related to Series 2009B Bonds	
Total Sources	<hr/> \$

Uses:

Defease and Redeem Series 2009B Bonds	\$
Cost of Issuance ⁽¹⁾	
Total Uses	<hr/> \$

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

Source: Underwriters.

DESCRIPTION OF THE SERIES 2018A BONDS

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

General

The Series 2018A Bonds will be dated their date of delivery, will mature on the dates and in the respective amounts, and will bear interest at the respective rates per annum shown on the inside cover of this Official Statement. The Series 2018A Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the Series 2018A Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2019, to the owners of record at the close of business on the 15th day of the preceding calendar month (a "Record Date") by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such Series 2018A Bonds as of the close of business on the Record Date at such persons' addresses as they appear on such registration books, except that an Owner of \$1,000,000 or more in principal amount of Series 2018A Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least thirty (30) days preceding any interest payment date specifying the wire transfer instructions for such Owner. Such notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM."

Each Series 2018A Bond shall bear interest from the interest payment date before the date of authentication thereof unless it is authenticated during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it shall bear interest from the dated date of the Series 2018A Bonds.

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

Redemption Provisions*

Optional Redemption. The Series 2018A Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to maturity. The Series 2018A Bonds maturing on or after August 1, 20__ are subject to optional redemption by the City on any date on or after August 1, 20__, 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.

* Preliminary; subject to change.

Mandatory Sinking Account Redemption. The Series 2018A Bonds maturing on August 1, 20__ are subject to mandatory sinking account redemption, in part, on August 1, 20__, and on each August 1 thereafter, at a redemption price equal to 100% of the principal amount of such Series 2018A Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Sewer Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (August 1)	Principal Amount
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The Series 2018A Bonds maturing on August 1, 20__ are hereinafter referred to as "Series 2018A Term Bonds." Mandatory Sinking Account Payments for the Series 2018A Term Bonds shall be reduced to the extent the City has purchased Series 2018A Term Bonds and surrendered such Series 2018A Term Bonds to the Fiscal Agent for cancellation. If Series 2018A Term Bonds have been redeemed as provided for under the caption "–Optional Redemption" above, then the amount of the Series 2018A Term Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such Series 2018A Term Bonds as nearly as practicable, pro rata or as otherwise provided by the City. A reduction of Mandatory Sinking Account Payments in any 12 month period ending on August 1 will reduce the principal amount of Series 2018A Term Bonds redeemed on that August 1.

Selection of Series 2018A Bonds for Redemption. If less than all the Series 2018A Bonds are to be redeemed, the maturities of the Series 2018A Bonds to be redeemed shall be selected by the City. The City shall give written notice of its selection not later than 15 business days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the Series 2018A Bonds. If less than all of the Series 2018A Bonds of any maturity are to be redeemed prior to maturity, then the particular Series 2018A Bonds shall be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of Series 2018A Bonds to (i) the Owners of the Series 2018A Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first-class mail to the Owners of Series 2018A Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of Series 2018A Bonds.

With respect to any notice of optional redemption of the Series 2018A Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Series 2018A Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Fiscal Agent shall not be required to redeem such Series 2018A Bonds. In the event that such notice of redemption

contains such a condition and such moneys are not so received, the redemption shall not be made, and the Fiscal Agent shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

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

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

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

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

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

Pledge of Revenues

Pursuant to the Resolution, the Bonds of each Series (including the Series 2018A Bonds) are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and are payable, as to principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the outstanding principal amount of the State Loans, the Series 2015A Bonds and any other Bonds or Parity Debt issued in the future. Under the Resolution, the City pledges, places a charge upon and assigns all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt on a parity with the State Loans in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein, and the Net Operating Revenues so pledged constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt on a parity with the State Loans. There is also pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.

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

Definitions

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

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

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

Limited Obligation

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

Resolution Flow of Funds

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

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

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

Interest Account. As soon as practicable in each month, the Treasurer will set aside and deposit in the Interest Account (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on the State Loans, Parity Debt and the Bonds with a fixed rate of interest on the next interest payment date (excluding interest for which there are moneys deposited in the Interest Account), and (ii) 110% of the interest which the Treasurer estimates in his or her reasonable discretion will accrue during that month on Bonds with a variable rate of interest. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the interest payment date falling within the next six months upon the State Loans, Parity Debt and all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment date). Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made *pari passu* with the payments required to be placed in the Interest Account.

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

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

Excess Earnings Account. Following the transfers described above as required by the Resolution, the Treasurer will deposit in any excess earnings or rebate account established for

the Series 2018A Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

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

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

Rate Covenant

The City has covenanted under the Resolution that, to the fullest extent permitted by law, the City will fix, prescribe, revise and collect rates, fees and charges for the Sewer System which will be at least sufficient to yield during each Fiscal Year Net Operating Revenues equal to 110% of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Operating Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant. For a definition of "Debt Service," see APPENDIX C. See also "FINANCIAL RESULTS OF THE SEWER SYSTEM – Historical and Projected Revenues, Expenses and Coverage" herein for additional information regarding coverage.

Rate Stabilization Fund

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

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

2018A Reserve Account Not Funded

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

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

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

At the option of the City, amounts required to be held in a Reserve Account may be substituted, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond or other credit source in a stated amount equal to the amounts so substituted, provided that, among other things, the substitution of such credit facility will not result in a withdrawal or downgrading of any rating of the appropriate series of Bonds then in effect. No such credit facility will be in place for the Series 2018A Bonds.

Additional Bonds and Parity Debt

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

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

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

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

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

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

THE SEWER SYSTEM

General

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

The Sewer System's collection and conveyance system encompasses more than 800 miles of gravity sewers and 26 pump stations, consisting of 19 wastewater lift stations and 7 storm water pump stations. Wastewater treatment is carried out at the RWQCP, which provides preliminary, primary, secondary and tertiary treatment at a current rated capacity of 46 million gallons per day ("MGD"). The City recently completed a \$200 million major modernization of the RWQCP which included rehabilitation of existing treatment systems and the addition of new systems to increase capacity to 46 MGD. The modernization project ensures wastewater service levels can be maintained now and in the future to support the City's General Plan.

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

Organization and Management

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

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

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

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

Development of Treatment Facilities at the RWQCP

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

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

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

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

The 1978 Agreement. On May 4, 1978, the City entered into an Agreement for Regional Primary and Secondary Wastewater Treatment (the "1978 Agreement"), with Jurupa, Rubidoux and WMWD to construct additional primary and secondary facilities sufficient to receive an average daily flow of 3.8 MGD for the primary and secondary treatment of wastewater delivered by Jurupa and Rubidoux at the RWQCP. Under the 1978 Agreement, the City agreed to sell the capacity right of 2.3 MGD to Jurupa and 1.5 MGD to Rubidoux to deliver wastewater in quantity

and quality as further provided in the 1978 Agreement. Jurupa and Rubidoux would no longer treat their own wastewater but would collect and send it to the RWQCP for treatment.

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

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

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

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

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

1990 Agreements. In the late 1980s, Jurupa and Rubidoux explored plans to build a separate wastewater treatment plant and exit from the existing regional treatment arrangement with the City. In February 1990, the City estimated that Jurupa and Rubidoux contributed approximately 15% of the flow into the RWQCP and paid approximately 15% of the costs at the RWQCP. To continue the existing financial arrangement, and to settle Jurupa’s and Rubidoux’s outstanding obligations for the RWQCP upgrades needed to meet the then-current discharge limits, the City entered into separate agreements with Jurupa and Rubidoux in 1990 (collectively, the “1990 Agreements”).

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

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

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

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

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

The RWQCP's current NPDES Permit includes an effluent TIN limit of 10 mg/L for discharge from the RWQCP, which is more stringent than the previous limit of 13 mg/L. The City incorporated the new 10 mg/L TIN permit limit into the design of the RWQCP Phase 1 Rehabilitation ("Phase 1") project that was based on the 2008 Wastewater Master Plan.

Construction of the WQCP Phase 1 Plant expansion project started in 2012 and was completed June 2017, which increased the RWQCP capacity to 46 MGD.

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

Wastewater Collection and Treatment Procedures at the RWQCP. The City’s wastewater collection system is divided into five basins. The wastewater collection system includes over 800 miles of gravity sewers ranging in size from 6 to 51 inches in diameter. The system also includes 19 wastewater lift stations and 7 storm water pump stations. Most of the wastewater lift stations are designed for flows of 100 to 2,000 gallons per minute (“gpm”). The City and each of the CSDs are responsible for the operation and maintenance of their own collection facilities. In 2015, the City added new service accounts to serve Highgrove. The City will provide wastewater collection and treatment services for these accounts in Highgrove.

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

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

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

Since December 2010, the final effluent is discharged to the Santa Ana River or is distributed as recycled water for landscaping and other uses. Prior to 2010, the final effluent had been conveyed to the nearby Hidden Valley Wetlands before being discharged to the Santa Ana

River. The 100-acre Hidden Valley Wetlands had been used in the 1990s and 2000s for further nitrogen treatment. A heavy storm in December 2010 significantly damaged the Hidden Valley Wetlands and redirected the Santa Ana River channel, destroying the effluent conveyance channel and lowering the riverbed, making conveyance channel repair practically impossible. At this time, no effluent flows to the Hidden Valley Wetlands and the City does not have any future plans to reconstruct the conveyance to the Hidden Valley Wetlands.

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

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

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

Capital Improvement Plans

The 2008 Wastewater Master Plan was prepared to identify and plan for needed expansion and replacement through 2025. The 2008 Wastewater Master Plan evaluated certain Sewer System facilities and made recommendations to upgrade, rehabilitate and replace them based on projected environmental regulations, population growth and evaluations contained in prior studies and ongoing plans. The 2008 Wastewater Master Plan developed a capital improvement plan and an asset management plan related to rehabilitation and replacement of aged facilities. As a result of these capital improvement and asset management plans, the City will be in full compliance with the State mandate for 50% landfill diversion of biosolids by January 1, 2020.

In March 2014, the City released a Capital Improvement Program and Rate Development Study (the “2014 Capital Improvement Plan”) to update the City’s 2008 Wastewater Master Plan and Capital Improvement Program. The 2014 Capital Improvement Plan specifically assessed and evaluated the schedule that reallocates the City’s needs and priorities and proposed a

financial plan and rate structure for fiscal years 2014-15 through 2018-19. The 2014 Capital Improvement Plan identified and prioritized specific projects among the pipeline projects, lift stations improvements and collection system improvement projects. The 2014 Capital Improvement Plan also identified remaining components of Phase 1 at the RWQCP, and clarified the components of Phase 2 Rehabilitation ("Phase 2") at the RWQCP.

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

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

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

With this upgrade project, the RWQCP has been upgraded to an increased wastewater capacity of 46 MGD and 52 MGD of solids treatment capacity. Additional improvements in Phase 1 primarily address improvements regarding solids handling processes that substantially improve odor control and add primary clarifiers, aeration basin, membrane bioreactor ("MBR") system, chlorine contact basin, solids blending station, digesters, fats-oil- grease station, digester gas holder, digester gas flare, and equalization basins.

Although many existing facilities at the RWQCP have been rehabilitated or expanded in Phase 1, additional work will be necessary in other key facilities to reliably maintain the facilities. In connection with the preparation of the 2014 Capital Improvement Plan, the City conducted a condition assessment of the headworks, the Plant 2 secondary treatment facilities, the tertiary filters, and plant site improvements. Through that process, the City identified approximately \$43 million in necessary Phase 2 capital projects to be completed over the next 10 to 20 years. The near-term projects include: headworks rehabilitation, improvements to the Activated Plant (Plant 2), tertiary sand filter system assessment and replacement, installation of new sludge dewatering equipment, and the rehabilitation of filter piping and systems. During that time, part of Phase 2 is scheduled to commence but the 2014 Capital Improvement Plan extended the overall Phase 2

schedule to 10 to 20 years. The City also expects to replace influent metering systems, replace two major electrical switchgear installations; improve site security and improve flood protection to comply with regulatory requirements. See also “– Recycled Water Master Plan” below for a description of improvements being contemplated to increase recycled water deliveries.

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

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

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

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

Projected Capital Improvement Projects

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

A list of the top unfunded projects of the Sewer System follows. These items are not yet part of the City's 5-year Capital Improvement Plan for the Sewer System. However, the City

believes it can fund these projects in a timely manner through a combination of available Series 2015A Bond proceeds and operating revenues or future rate increases that may occur.

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

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

Source: City of Riverside.

CSD Litigation and Settlements

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

On August 12, 2012, the City filed a Complaint for Declaratory Relief ("Complaint") in Riverside County Superior Court against Jurupa, Rubidoux and Edgemont seeking judicial determination of proportionate share of CSD Costs for RWQCP and to "pay their proportionate share of [CSD Costs for RWQCP]." On May 6, 2013, the City filed a First Amended Complaint for Declaratory Relief against the CSDs seeking judicial determination that the CSDs are obligated to pay their proportionate share of the "Master Plan Rehabilitation and Replacement Costs, the Increased Influent Concentration Costs and the Revised Permit Upgrade Costs based upon their obligations" under (i) the 1976 Agreement and the 1978 Agreement, as amended and supplemented by subsequent agreements, the parties' past practices, and custom and usage in the industry, as to Jurupa and Rubidoux and (ii) the Edgemont Agreement, as amended in 1986 and as further amended, as to Edgemont. In June 2013, the CSDs filed their respective Answers to the City's First Amended Complaint. In addition, in February 2013, Jurupa filed a Cross-Complaint for breach of contract, unjust enrichment, negligence and damages against the City, and Rubidoux filed a Cross-Complaint alleging breach of contract, breach of covenant of good faith and fair dealing and implied contractual indemnity and seeking declaratory relief.

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

uses outside the RWQCP when calculating the treatment costs billed monthly and received annually under Edgemont's 1990 Agreement.

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

At this time, the City cannot predict the schedule or the outcome of the Complaint as to Rubidoux. The matter is in current litigation. The judge has recently rested the case and a judgement is forthcoming possibly by the end of 2018 or soon thereafter.

Recycled Water Master Plan

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

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

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

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

The City's recycled water operations are subject to regulation under Section 402 of the federal Clean Water Act, implementing regulations adopted by the U.S. Environmental Protection Agency, the California Water Code and regulations promulgated by the California Department of Public Health. The City operates its recycled water system pursuant to RWQCB Order No. R8-2013-0016 (amending Order No. R8-2009-0052, NPDES No. CA0105350), a permit that prescribes Waste Discharge and Producer User Reclamation Requirements for the RWQCP for the discharge of tertiary treated wastewater to Reach 3 of the Santa Ana River and for the use of recycled water. The City also applied for a separate permit that delineates the responsibilities for producing and distributing recycled water between the Public Works Department and the Public Utilities Department. The new recycling permit for the Public Utilities Department was issued by the RWQCB in May 2013.

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

Environmental Compliance

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

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

In addition to federal requirements, the City must comply with State requirements which are generally more stringent. The primary State law concerned with the control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended. The basic tenor of that act sets policy that the waters of the State must be protected for use and enjoyment by the people of the State. The Porter-Cologne Act directly addresses the problem of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements.

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

Seismic Issues

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

Employee Relations

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

Pension Plans

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

Implementation of GASB Nos. 68 and 71. In June 2012 and November 2013, the Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* ("**GASB Statement No. 68**") and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* ("**GASB Statement No. 71**"), respectively. The primary objective of GASB Statement No. 68, as amended, is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 68, as amended, revised the accounting treatment of defined benefit pension plans, changing the way expenses and liabilities are calculated and how state and local government employers report those expenses and liabilities in their financial statements. Major

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

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

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

In calculating the annual actuarially recommended contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the PERS Plans, which include two components, the normal cost and the unfunded actuarial accrued liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that PERS will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. The assumed rate of investment return utilized in the actuarial valuation is established by PERS and the City has no ability to predict the assumed rate of return. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that PERS will fund under the PERS Plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the City owes to PERS under their respective PERS Plans.

PERS Actuarial Assumptions and Policies. In the aftermath of the economic downturn in 2008, the PERS Board has on several occasions adopted policies aimed at properly funding the pension system, while also attempting to lessen the resulting negative impacts on member agencies in the form of higher rates. These policies are used to set employer contribution rates

for each city. While investment returns in the years since the economic downturn have largely reversed previous losses, the changes are designed to limit the possibility of the pension system becoming significantly underfunded in the future.

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

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

Funding Status. As of June 30, 2017, the date of the most recent actuarial valuation report, the market value of assets in the Miscellaneous Plan was approximately \$1,029,759,135, and the accrued liability was approximately \$1,317,421,178. The Miscellaneous Plan was approximately 78.2% funded on a market value of assets basis as of June 30, 2017, with an Unfunded Liability of approximately \$287,662,043.

The Sewer System's total contribution to PERS including the unfunded liability as of June 30, 2018, 2017 and 2016 was \$2,119,952 (unaudited), \$2,113,251 and \$2,051,771, respectively. In addition, the Sewer System is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 (the "Pension Obligation Bonds"). The Sewer System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds as of June 30, 2018, 2017 and 2016 was \$2,386,903 (unaudited), \$2,820,809 and \$2,775,446, respectively, which is payable as Operating and Maintenance Expenses. That share is recorded as an outstanding obligation of the Sewer Revenue Fund and is amortized based on the amortization schedule of the Pension Obligation Bonds. Citywide information concerning elements of the

unfunded actuarial accrued liabilities, contributions to PERS, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the year ended June 30, 2017, which is attached as APPENDIX B to this Official Statement. More recent information as to the actuarial status of the City's Miscellaneous Plan has been provided in CalPERS Annual Valuation Report, dated July 2018, with respect to the City.

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

**CITY OF RIVERSIDE
MISCELLANEOUS PLAN**

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

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

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

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

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

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

(1) Represents a blended rate for all three tiers of employees.

Source: PERS Actuarial Reports for June 30, 2011 through June 30, 2016.

City employees' contribution rates in pension tiers 1 and 2 are 9% for public safety employees and 8% for miscellaneous employees, calculated as a percentage of their monthly earnings. The City pays the employees' contribution to PERS for both miscellaneous and safety employees in pension tier 1 hired before specific dates as outlined in the following table. For any employee hired on or after those dates, the employee pays their full share. This second tier of

pension benefits also included a change in the number of years' salary utilized to compute the retirement benefit and, for certain bargaining units, a change to the formula used to calculate the benefit amount. For tier 3 employees, their contribution is set at 50% of the normal cost, not to exceed 8% for miscellaneous employees and 12% for safety employees, as required by PEPRa.

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

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

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

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

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

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

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

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

Other Post-Employment Benefits (OPEB)

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

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

The Implied Subsidy Plan allows retirees and current employees to be insured together as a group and allows a lower rate for retirees than if they were insured separately. Upon

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

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

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

Insurance

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

OPERATING INFORMATION RELATED TO THE SEWER SYSTEM

Customers

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

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

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

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

(2) Includes customer accounts in Highgrove.

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

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

Source: City of Riverside.

The customer category represented as "Community Service Districts" in the above table includes wastewater service revenue from the CSDs for wastewater treatment services provided as set forth in their respective agreements with the City. For wastewater treatment services provided to Jurupa, Rubidoux and Edgemont, the City has a capacity arrangement with each CSD. As a result, rates and charges specifically noted in such agreements govern the City's revenues realized rather than the rates and charges related to the City's Sewer System as further described in this Official Statement. As to Highgrove, the City's existing agreement to provide wastewater service within the Highgrove unincorporated area allows for the collection of the City's rates and charges in effect with respect to the Sewer System as described herein. In addition, the existing billing and collection procedures of the City will apply to customers within Highgrove. See "– Historical Wastewater Flows" below for additional information regarding the CSD contracts. See also "THE SEWER SYSTEM – Development of Treatment Facilities at the RWQCP" and "– CSD Litigation and Settlements."

Sewer Rates and Fees

General. Title 14 of the Riverside Municipal Code sets forth regulations governing the City's Sewer System, including provisions for sewer service charges and sewer pumping surcharges. Residential units are charged flat monthly amounts with a pumping surcharge applied

to certain geographic areas where pumping is required in order for the wastewater to reach the RWQCP. Industrial and commercial facilities sewer service charges are based on water usage and the resulting quantity and type of discharge. Industrial and commercial accounts are assigned to service classes that match the process costs required for treating their discharge. The Wastewater Division employs waste inspectors and laboratory personnel who perform a random testing program on discharge. Because of this monitoring program commercial accounts have improved the composition of their discharge through improved operations or pretreatment programs.

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

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

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

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

The key findings of the rate study made several recommendations. As to the rates and charges of the Sewer System, the rate study concluded that an annual user rate increase of 8.5% will be required in each year of the study period to fund the activities of

the Sewer System. The 2014 rate study also recommended increasing capacity fees. To implement these increases, the City has sent and published notices as required under existing laws. The 2014 Rate Increase permitted rate increases by the City Council, effective July 1, 2014 through June 30, 2019; however, the City Council chose to leave rates unchanged for Fiscal Year 2018-19 from the prior year.

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

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

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

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

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

Source: City of Riverside.

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

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

Capacity Fees

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

A Capacity Charge is a one-time fee for a new, additional or larger connection to the Sewer System within the City. Capacity Charges are not treated as operating income for financial reporting purposes but are deposited in the Sewer Revenue Fund, and included in the calculation of debt service coverage, all as provided in the Resolution. Pursuant to State law, Capacity Charges are applied only to capital expansion, bonds, contracts, or other indebtedness of the Sewer System related to expansion. Capacity Charges are primarily collected on new construction within the service area and revenues therefrom vary based upon construction activity.

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

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

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

(1) Reflects net amount of connection fees projected for fiscal year 2008-09, taking into account refunds of previously collected connection fees attributable to expired building permits.

(2) Reflects actual amounts currently being paid by CSDs for capital costs. But see "THE SEWER SYSTEM –CSD Litigation and Settlements" for a description of pending litigation.

(3) Does not include amounts paid by Edgemont or Jurupa in settlement of claims made by the City, as described under "THE SEWER SYSTEM –CSD Litigation and Settlements" herein.

(4) Does not reflect \$64,815 in deferred capacity charges from a contract settlement that were recognized as Miscellaneous Income.

(5) Excludes \$269,503 in connection fees remitted to the Sewer Fund through operating transfers.

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

Source: City of Riverside

On June 1, 1980, the City Council adopted Resolution No. 14226 which established sewer connection fees. Until 2008, the City Council had not increased such fees. In addition, the City Council adopted Resolution No. 20400 on April 22, 2003 and Resolution No. 21085 on December 6, 2005 to reduce sewer connection fees for specific property uses identified in such resolutions. Pursuant to Resolution No. 21713, adopted on September 23, 2008, the City Council considered

and approved increases to Capacity Charges applicable to residential, commercial and industrial customers. The increased rates were effective on July 1, 2009 as to residential and commercial customers and on December 1, 2008 as to industrial customers.

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

In addition to approving increased Capacity Charges, the City Council also adopted a new basis for the assessment of Capacity Charges in some cases. As was the case under the 2008 Rate Increase, the Capacity Charge (and now referred to as Capacity Fee) basis for residential development will continue to be charged on a per unit basis. Similarly, commercial and industrial developments will continue to be assessed on the usable floor space of buildings constructed. The Capacity Fee would be based on the amount of flow and composition of the sewage to be contributed to the Sewer System by the category of development. As a result, effective July 1, 2014 through June 30, 2019 under the 2014 Rate Increase, the Capacity Fee for commercial developments will continue to be based on usable floor space and depend on the category of use.

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

CITY OF RIVERSIDE
Capacity Fee
For Residential and Commercial Customers

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

Source: City of Riverside.

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

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

CITY OF RIVERSIDE
Supplemental Capacity Charge for
Industrial Customers

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

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

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

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

Source: City of Riverside.

Comparative Rates and Charges

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

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

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

Source: City of Riverside.

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

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

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

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

(2) Treatment Level Categories:

"1" - Primary treatment.

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

"3" - Secondary treatment

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

"5" - Tertiary treatment.

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

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

(5) Source: Information obtained from Carollo.

Principal Users

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

represent less than 1.00% of the total revenues, and the charges of the ten principal users, combined, represent less than 8% of the total revenues.

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

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

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

Historical Wastewater Flows

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Billing and Collection; Delinquencies

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

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

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

FINANCIAL RESULTS OF THE SEWER SYSTEM

Transfers to the City's General Fund

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

Investment Policy and Controls

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

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

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

Significant Accounting Policies

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

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

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

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

Summary of Operations

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

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

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

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

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

Reserves

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

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

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

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

(1) The change in operating capital can be attributed to \$13.5 million moved from the Rate Stabilization Fund to claims on cash in fiscal year 2017-18.

(2) Debt Service reserve relates to reserve funds held with respect to Series 2015A Bonds and Series 2009B Bonds, a portion of which will be released upon the refunding of the Series 2009B Bonds.

Source: City of Riverside.

Outstanding Long-Term Obligations

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

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

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

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

Source: City of Riverside.

Historical and Projected Revenues, Expenses and Coverage

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

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

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

	Audited			Estimated			Projected			
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<u>Gross Operating Revenues⁽¹⁾:</u>										
Charges for Services										
User Fee	\$42,703	\$46,783	\$49,329	\$54,808	\$60,165	\$59,546	\$60,082	\$60,622	\$61,168	\$61,719
Community Service Districts	<u>3,459</u>	<u>3,553</u>	<u>3,335</u>	<u>4,927</u>	<u>4,916</u>	<u>3,589</u>	<u>3,788</u>	<u>3,954</u>	<u>4,109</u>	<u>4,202</u>
Subtotal Charge for Services	46,162	50,336	52,664	59,735	65,081	63,135	63,870	64,576	65,277	65,921
Interest income	827	684	586	798	998	1,135	1,086	1,059	1,010	938
Connection fees ⁽²⁾	2,684	1,843	660	3,305	1,583	1,775	1,788	1,801	1,814	1,828
Nonoperating rev/reimbursements/Other ⁽³⁾	1,691	71	15,379	831	24	802	808	814	819	825
Total Gross Operating Revenue	51,364	52,934	69,289	64,669	67,686	66,847	67,552	68,250	68,920	69,512
<u>Operating and Maintenance Expense:</u>										
Personnel services ⁽⁴⁾	10,127	9,028	8,797	9,928	12,334	14,841	15,818	16,298	16,800	17,164
Contractual services	1,470	1,878	2,706	1,154	1,721	1,744	1,640	1,681	1,723	1,766
Maintenance and operation	7,486	7,505	8,244	8,891	8,567	9,455	9,585	9,873	10,188	10,497
General	6,119	5,065	8,348	5,683	4,591	5,129	5,341	5,708	5,936	6,079
Materials and supplies	3,440	3,498	3,501	3,260	3,876	4,075	4,081	4,183	4,287	4,394
Claims/Insurance	499	386	490	1,260	855	1,562	471	438	474	508
Total O&M Expense⁽⁵⁾	29,141	27,360	32,086	30,176	31,944	36,806	36,936	38,181	39,408	40,408
Net Operating Revenue⁽¹⁾	22,223	25,574	37,203	34,493	35,742	30,041	30,616	30,069	29,512	29,104
<u>Debt Service Components⁽⁶⁾</u>										
State Loans	817	817	817	817	817	817	340	340	-	-
Series 2009 Bonds ⁽⁷⁾	17,866	17,834	17,821	17,813	17,803	11,893	-	-	-	-
Series 2014A Bonds	-	298	-	-	-	-	-	-	-	-
Series 2015A Bonds ⁽⁸⁾	--	--	-	-	-	11,252	14,530	14,528	14,528	14,529
Series 2018A Bonds*	--	--	-	-	-	-	12,709	10,896	10,908	10,888
Total Debt Service*	18,683	18,949	18,638	18,630	18,620	23,962	27,579	25,764	25,436	25,417
<u>Debt Service Coverage Tests</u>										
Net Revenues Available for Debt Service — Projected	--	--	--	--	--	\$30,041	\$30,616	\$30,069	\$29,512	\$29,104
Net revenues Available for Debt Service - Historical⁽¹⁾	\$20,532	\$25,503	\$21,824	\$33,662	\$35,718	\$29,239	--	--	--	--
Rate Stabilization Fund balance ⁽⁹⁾	9,360	7,785	14,500	14,500	1,000	1,000	--	--	--	--
Coverage without Rate Stabilization Fund Contribution	1.10	1.35	1.17	1.81	1.92	1.22	1.11	1.17	1.16	1.15
Coverage with Rate Stabilization Fund Balance⁽¹⁾	1.60	1.76	1.95	2.59	1.97	1.26	--	--	--	--

** Preliminary; subject to change.*

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

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

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

(4) Includes pension bond expense allocated to Sewer Revenue Fund.

(5) Excludes depreciation expense.

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

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

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

(9) Sets forth Rate Stabilization Fund balance as of June 30 for the respective year. Rate Stabilization Fund was drawn-down in fiscal year 2017-18 to _____.

Source: City of Riverside.

RISK FACTORS

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

Series 2018A Bonds Are Limited Obligations

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

Limitations on Remedies; Bankruptcy

The enforceability of the rights and remedies of the owners of the Series 2018A Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

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

2018A Reserve Account Not Funded

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

Demand and Usage; Drought

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

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

Reduction in the level of demand or usage or continued economic downturn that produces less than currently projected increase in demand or usage could require an increase in rates or charges in order to produce Net Operating Revenues sufficient to comply with the City’s rate covenants. Such rate increases could increase the likelihood of nonpayment.

Sewer System Expenses and Collections

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Sewer System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Series 2018A Bonds.

The ability of the City to comply with its covenants under the Resolution and to generate Net Operating Revenues sufficient to pay principal of and interest on the Bonds, including the Series 2018A Bonds, and State Loans may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. Proposition 218, which added Articles XIIC and XIID to the California Constitution, affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See “CONSTITUTIONAL LIMITATIONS.”

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

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

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

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

Statutory and Regulatory Impact

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

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

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

Rate Regulation

The authority of the City to impose and collect rates and charges for wastewater collection and treatment services is not currently subject to the regulatory jurisdiction of the CPUC, and presently no other regulatory authority of the State of California limits or restricts such rates and charges. It is possible that future legislative changes could subject the rates or service areas of the City to the jurisdiction of the CPUC or to other limitations or requirements. See, however, a description of the existing arrangements related to customers of certain Community Service

Districts provided under the caption “OPERATING INFORMATION RELATED TO THE SEWER SYSTEM – Customers” herein.

Greenhouse Gas Emissions

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

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

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

Casualty Risk

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

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

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

Risks Relating to the Water Supply

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

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

Security of the Sewer System

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

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

Cybersecurity

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

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

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

Energy Costs

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

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

Certain Other Limitations on Fees and Charges

On July 6, 2005, the California First District Court of Appeals certified for publication *The Regents of the University of California v. East Bay Municipal Utility District*, No. A105674 (Cal. Ct. App. filed July 7, 2005), concluding that the capital component of a public utility's periodic water service charges constituted a capital facilities fee within the meaning of California Government Code Section 54999 et seq. (often referred as the "San Marcos Legislation").

The San Marcos Legislation authorizes any public agencies providing public utility service (which is defined to include, among other things, water and electric service) to continue to charge, increase or impose capital facilities fees, including upon public agencies; provided, that the imposition of such capital facilities fees upon certain educational entities, such as the University of California, or state agencies is subject to certain limitations. Among the limitations on the imposition of such capital facilities fees are the following requirements: (i) for capital facilities fees imposed prior to July 21, 1986, (a) the fee must be necessary to defray the actual construction costs of that portion of a public utility facility actually serving the educational entity or state agency

and (b) any increase in the fee is limited to the percentage increase in the Implicit Price Deflator for State and Local Government Purchases; (ii) for new capital facilities fees imposed after July 21, 1986, or any increase in a capital facilities fee in excess of the amount set forth in clause (i)(b), an agreement must be reached through negotiations entered into by both parties, and (iii) capital facilities fees imposed for electric utility service are subject to certain additional procedural requirements including certain prior notice, hearing and disclosure requirements.

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

Change in Law

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

Secondary Market

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

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the Series 2018A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2018A Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the Resolution. Should such an event of taxability occur, the Series 2018A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

CONSTITUTIONAL LIMITATIONS

Article XIIB of the State Constitution

Article XIIB of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect

changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

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

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

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

Articles XIII C and XIII D of the State Constitution

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

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIII C broadly define "tax," but specifically exclude, among other things:

"(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed

the reasonable costs to the local government of conferring the benefit or granting the privilege.

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

...

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

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

Property-Related Fees and Charges. Under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

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

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

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

In *Richmond v. Shasta Community Services District* (2004) 32 Cal. 4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIII D before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIII D, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIII C's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIII C authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

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

Proposition 218 and the City Sewer Rates. The City's proposed increases to the sewer rate structure as of July 1, 2014 was adopted under Resolution No. 22683 on May 13, 2014. In each instance, the City took the following actions to meet the requirements of Proposition 218:

- notices were sent to property owners on bill inserts with monthly bills (at least 45 days prior to a scheduled public hearing);
- published a notice in a local newspaper; and
- a protest hearing was conducted prior to acting on the resolutions that implemented the rate increase.

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

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

approve an initiative or initiatives that reduce or repeal local taxes, assessments, fees or charges currently in place.

Future Initiatives

Articles XIIIB, XIIIC, XIID and Propositions 26 and 218 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's revenues or ability to increase revenues.

TAX MATTERS

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

Bond Counsel's opinion as to the exclusion from gross income of interest on the Series 2018A Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2018A Bonds to assure that interest on the Series 2018A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Series 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2018A Bonds. The District has covenanted to comply with all such requirements.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2018A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2018A Bonds might be affected as a result of such an audit of the Series 2018A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2018A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2018A Bonds or their market value.

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

PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES 2018A BONDS.

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

Although Bond Counsel has rendered an opinion that interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Series 2018A Bonds and the accrual or receipt of interest on the Series 2018A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2018A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Series 2018A Bonds.

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

CERTAIN LEGAL MATTERS

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

LITIGATION

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

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

FINANCIAL STATEMENTS

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

RATINGS

Moody's Investors Service, Inc. and S&P Global Ratings, a Standard & Poor's Financial Services LLC business, have assigned their ratings of "___" and "___," respectively, to the Series 2018A Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies. There is no assurance such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2018A Bonds.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and Citigroup Global Markets Inc. (together, the "Underwriters"), have agreed, subject to certain conditions, to purchase the Series 2018A Bonds from the City at a price of \$_____ (which reflects \$_____ in Underwriters' discount and \$_____ in [net] original issue premium/discount) and to make a bona fide public offering of the Series 2018A Bonds at not in excess of the initial public offering prices. The Underwriters will be obligated to purchase all of the Series 2018A Bonds if any Series 2018A Bonds are purchased. The Underwriters may offer and sell the Series 2018A Bonds to certain dealers and others at prices lower than the respective initial public offering prices listed in this Official Statement, and the public offering prices may be changed from time to time by the Underwriters.

The current business of MLPF&S is being reorganized into two affiliated broker-dealers (i.e., MLPF&S and BofAML Securities, Inc.) in which BofAML Securities, Inc. will be the new legal entity for the institutional services that are now provided by MLPF&S. This transfer is expected to occur on or around October 29, 2018 (the “Transfer Date”). MLPF&S, an underwriter of the Series 2018A Bonds, will be assigning its rights and obligations as an underwriter to BofAML Securities, Inc. in the event that the settlement date for the Series 2018A Bonds occurs on or after the Transfer Date. For those Series 2018A Bonds that settle after the Transfer Date, the Series 2018A Bonds may be distributed by BofAML Securities, Inc. to MLPF&S pursuant to a distribution agreement between BofAML Securities, Inc. and MLPF&S. MLPF&S may in turn distribute the Series 2018A Bonds to investors. As part of this arrangement, BofAML Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Series 2018A Bonds.

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

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

MUNICIPAL ADVISOR

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

CONTINUING DISCLOSURE

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

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

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

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

VERIFICATION OF MATHEMATICAL ACCURACY

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

Grant Thornton LLP relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Grant Thornton LLP has relied on any information provided to it by the City’s retained advisors, consultants or legal counsel. Grant Thornton LLP was not engaged to perform audit or attest services under AICPA

auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

MISCELLANEOUS

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

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

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

CITY OF RIVERSIDE, CALIFORNIA

By: _____
[Acting] Chief Financial Officer/Treasurer

APPENDIX A

CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION

The Series 2018A Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Sewer System. The information set forth below is included in this Official Statement for background purposes only.

General

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

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

Municipal Government

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

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

Services and Facilities

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

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

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

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

Population

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

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

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

Personal Income

The following table is based on personal income, as reported by the U.S. Department of Commerce Bureau of Economic Analysis. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance.

Between 2014 and 2017, the per capita personal income increased by approximately 19.98% in the City and by approximately 59.5% in the County. Between 2014 and 2017, the per capita personal income increased by approximately 16.98% in the State and by approximately 9.31% in the United States. The table below summarizes the total for the City, the County, the State and the United States for 2014 through 2017.

CITY OF RIVERSIDE, RIVERSIDE COUNTY, STATE OF CALIFORNIA AND UNITED STATES PERSONAL INCOME (For Calendar Years 2014 Through 2017)

<u>Year</u>	<u>Area</u>	<u>Total Personal Income (in Thousands)</u>	<u>Per Capita Personal Income</u>
2014	City of Riverside	\$5,265,573	\$44,724
	Riverside County	78,852,989	33,867
	California	1,977,923,740	50,988
	United States	14,801,624,000	46,414
2015	City of Riverside	\$5,877,205	\$47,791
	Riverside County	84,025,987	35,589
	California	2,103,669,473	53,741
	United States	15,463,981,000	48,112
2016	City of Riverside	\$6,044,091	\$49,179
	Riverside County	47,509,909	50,287
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Riverside	\$6,556,518	\$53,659
	Riverside County	51,784,973	54,014
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Education

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

Employment

The City is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 4.5 percent in August 2018, down from a revised 4.6 percent in July 2018. This compares with an unadjusted unemployment rate of 4.3 percent for California and 3.9 percent for the nation during the same period. The unemployment rate was 4.7 percent in Riverside County, and 4.2 percent in San Bernardino County.

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

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Civilian Labor Force ⁽¹⁾	1,893,100	1,921,000	1,956,900	1,984,900	2,022,100
Employment	1,706,800	1,765,300	1,828,200	1,866,600	1,918,600
Unemployment	186,300	155,700	128,600	118,300	103,600
Unemployment Rate	9.8%	8.1%	6.6%	6.0%	5.1%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	14,500	14,400	14,800	14,600	14,400
Mining and Logging	71,200	78,900	86,900	92,900	98,000
Construction	87,300	91,300	96,100	98,600	98,700
Manufacturing	56,400	58,900	61,600	62,800	63,700
Wholesale Trade	164,800	169,400	174,300	178,000	182,100
Retail Trade	78,500	86,600	97,400	107,300	120,200
Transportation, Warehousing and Utilities	11,500	11,300	11,400	11,500	11,300
Information	26,200	26,600	26,900	26,700	26,200
Finance and Insurance	15,600	16,300	17,000	17,900	18,200
Real Estate and Rental and Leasing	131,900	138,700	147,400	145,000	147,200
Professional and Business Services	187,600	194,800	205,100	214,300	224,800
Educational and Health Services	135,900	144,800	151,700	160,200	165,700
Leisure and Hospitality	41,100	43,000	44,000	44,600	45,600
Other Services	20,300	20,200	20,300	20,400	20,600
Federal Government	27,800	28,200	28,700	29,700	30,700
State Government	177,100	180,400	184,400	192,200	198,600
Local Government	1,247,800	1,303,700	1,367,900	1,416,600	1,466,000
Total All Industries	1,893,100	1,921,000	1,956,900	1,984,900	2,022,100

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

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

Source: State of California Employment Development Department.

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

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

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

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

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

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

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

Construction Activity

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

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

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

Source: City of Riverside Community Development Department.

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

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

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

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

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

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

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

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

APPENDIX B

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

APPENDIX C

SUMMARY OF CERAIN PROVISIONS OF THE RESOLUTION

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) dated _____, 2018 is executed and delivered by the City of Riverside (the “Issuer”) in connection with the issuance and delivery of \$_____ City of Riverside Refunding Sewer Revenue Bonds, Series 2018A (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 21860 of the Issuer, adopted by the City Council on July 14, 2009, as amended and supplemented, including as supplemented by Resolution No. _____, adopted by the City Council on _____, 2018 (collectively, the “Resolution”).

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Disclosure Representative” shall mean the City Manager, Treasurer or Chief Financial Officer of the Issuer or either of their designees, or such other officer or employee as the Issuer shall designate in writing from time to time.

“Dissemination Agent” shall mean, initially, the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement relating to the Bonds dated _____, 2018.

“Participating Underwriter” shall mean each of Bank of America Merrill Lynch and Citigroup Global Markets, as the original underwriters of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than 270 days following the end of the Issuer's fiscal year (which presently ends on June 30), commencing with the report for the fiscal year ending June 30, 2018, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent (if other than the Issuer) of a change in the fiscal year dates. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is a person or entity other than the Issuer then, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in the form required by the MSRB.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer's Sewer System for the most recent fiscal year of the Issuer then ended, which may be a part of the Issuer's audited financial statements. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer's Sewer System in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer's Sewer System shall be audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) To the extent not included in the audited financial statements of the Issuer's Sewer System, the Annual Report shall also include the following:

- (1) the principal amount of the Bonds outstanding as of the end of the immediately preceding fiscal year and a list of Parity Debt issued and then currently outstanding under the Resolution and their respective principal amounts,
- (2) the balance in the 2018A Reserve Account as of the end of the immediately preceding fiscal year and a statement of the 2018A Bond Reserve Requirement,
- (3) updated information comparable to the information in the table entitled "Revenues by Customer Category" as it appears in the Official Statement,
- (4) updated information comparable to the information in the table entitled "Total Connection Fee Revenues" as it appears in the Official Statement, and
- (5) updated information comparable to the information in the table entitled "Historical Summary of Operations" as it appears in the Official Statement.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, or their failure to perform;
- (5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) ratings changes; and
- (9) bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination

of a definitive agreement relating to any such actions, other than pursuant to its terms;

- (3) appointment of a successor or additional trustee or the change of the name of a trustee;
- (4) nonpayment related defaults;
- (5) modifications to the rights of Owners of the Bonds;
- (6) notices of redemption; and
- (7) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsection (b), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by

the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counselor counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Certificate. In the event of a failure of the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is a person or entity other than the Issuer, this Section 11 shall apply. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: City of Riverside
3900 Main Street
Riverside, CA 92501

CITY OF RIVERSIDE

By: _____
Chief Financial Officer/Treasurer

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the Series 2018A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

City of Riverside
Riverside, California

Re: \$_____ City of Riverside Refunding Sewer Revenue Bonds, Series 2018A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the "City") of the \$_____ aggregate principal amount of the City's Sewer Revenue Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the "Ordinance"), and Resolution No. 21860 adopted by the City Council on July 14, 2009, as amended and supplemented, including as amended and supplemented by Resolution No. ____ adopted by the City Council on ____ __, 201__ (collectively, the "Resolution").

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

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

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

1. The Bonds constitute the valid and binding special revenue obligations of the City.
2. The Resolution was duly adopted at meetings of the City Council of the City.
3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Resolution. The general fund of the City is not liable for the payment of the Bonds, any

premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest.

4. Additional Bonds and other Parity Debt of the City have been and may from time to time hereafter be issued under the Resolution which are payable from Net Operating Revenues on a parity basis with the Bonds.

5. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Resolution, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

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

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

8. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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

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

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

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

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

Respectfully submitted,

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2018A Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2018A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2018A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2018A Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written

confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying

Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.