

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2019**NEW ISSUE – FULL BOOK-ENTRY****RATINGS:****S&P:** “ ”**Fitch:** “ ”

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 2019A 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 2019A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”

\$ _____ *

**CITY OF RIVERSIDE, CALIFORNIA
WATER REVENUE/REFUNDING BONDS, ISSUE OF 2019A**

Dated: Date of Delivery**Due: October 1, as shown on inside cover**

Description of the 2019A Bonds. The bonds captioned above (the “2019A Bonds”) will be issued by the City of Riverside (the “City”) in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2019A Bonds. Purchasers of the 2019A Bonds will not receive physical certificates representing their interests in 2019A Bonds purchased. Principal of, premium, if any, and interest on the 2019A Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2019A Bonds.

The 2019A Bonds will bear interest at the rates per annum shown on the inside cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months). Each 2019A Bond will bear interest from the interest payment date before its date of authentication (i) unless it is authenticated (a) during the period after a Record Date but on or before the next interest payment date, in which event it will bear interest from that interest payment date, or (b) prior to the first Record Date, in which event it will bear interest from the dated date of the 2019A Bonds, or (ii) unless at the time of authentication interest is in default, in which event it will bear interest from the interest payment date to which interest has been paid or provided for. “Record Date” means the close of business on the 15th day of each month preceding an interest payment date.

Interest will be payable semiannually on April 1 and October 1, commencing April 1, 2019.

Redemption Prior to Maturity. The 2019A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See “DESCRIPTION OF THE 2019A BONDS – Redemption Provisions.”

Purpose of the 2019A Bonds. The 2019A Bonds are being issued to (i) defease and refund in full the City’s outstanding Water Revenue Bonds, Issue of 2008B; (ii) defease and refund all or a portion of the City’s outstanding Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (the “2011A Bonds” or the “Prior Variable Rate Bonds”), as determined based on market conditions on the pricing date of the 2019A Bonds; (iii) pay all or a portion of the termination cost associated with the City’s outstanding interest rate swap allocated or related to the refunded portions of the Prior Variable Rate Bonds; and (iv) finance capital projects for the City’s water utility system (the “Water System”). Proceeds of the 2019A Bonds will also be used to pay certain costs of issuance. See “PLAN OF FINANCE.”

Security for the 2019A Bonds. The 2019A Bonds are special limited obligations of the City, and are a charge upon and are payable solely from and secured by a lien upon the Net Operating Revenues of the Water System and other funds, assets and security described in the Resolution (as described in this Official Statement). They do not constitute a general obligation or indebtedness of the City. “Net Operating Revenues” is generally defined as Gross Operating Revenues less Operating and Maintenance Expenses. See “THE WATER SYSTEM.” **The City is not funding a debt service reserve account for the 2019A Bonds.**

Existing Parity Debt. The 2019A Bonds are secured by and payable from Net Operating Revenues on a parity with outstanding bonds in the aggregate principal amount of \$177,250,000 as of January 1, 2019, which are referred to in this Official Statement as the “Prior Parity Bonds.” See “PLAN OF FINANCE – Outstanding Parity Bonds.”

Future Parity Debt. The City is authorized to issue additional bonded indebtedness and to incur additional obligations that are secured by a lien upon and payable from Net Operating Revenues on a parity with the Prior Parity Bonds and 2019A Bonds, as described in this Official Statement.

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

The 2019A Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality 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. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City, and Norton Rose Fulbright US LLP, Los Angeles, California, is acting as counsel to the Underwriters. It is expected that the 2019A Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about _____, 2019.

Citigroup

J.P. Morgan

Dated: _____, 2019.

* Preliminary, subject to change.

**CITY OF RIVERSIDE, CALIFORNIA
WATER REVENUE/REFUNDING BONDS
ISSUE OF 2019A**

MATURITY SCHEDULE*
Base CUSIP: 769076†

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <u>Number†</u>
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\$ _____ % Term Bond due October 1, 20____, Yield: _____% Price: _____ CUSIP:† 769076

* Preliminary; subject to change.

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CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Rusty Bailey, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Mike Soubirous, 3rd Ward
Chuck Conder, 4th Ward

Chris Mac Arthur, 5th Ward
Jim Perry, 6th Ward
Steve Adams, 7th Ward

BOARD OF PUBLIC UTILITIES

Jo Lynne Russo-Pereyra, Chair
David Austin, Vice Chair

David M. Crohn
Kevin D. Foust
Jeanette Hernandez
Jennifer C. O'Farrell

Gildardo Ocegueda
Elizabeth E. Sanchez-Monville
Andrew C. Walcker

CITY OFFICIALS

Al Zelinka, *City Manager*

Edward Enriquez,
Chief Financial Officer/City Treasurer

Todd Corbin,
Utilities General Manager

Gary G. Geuss
City Attorney

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

Susan D. Wilson,
Assistant City Attorney

Aileen Ma,
*Interim Utilities Assistant General Manager
Finance & Administration*

Colleen J. Nicol,
City Clerk

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

Marie Ricci,
Assistant Chief Financial Officer

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

BOND COUNSEL

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

MUNICIPAL ADVISOR

PFM Financial Advisors LLC.
Los Angeles, California

DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Samuel Klein and Company
New York, New York

Neither the City nor the Underwriters have authorized any dealer, broker, salesman or other person to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2019A Bonds in any jurisdiction in which such offer to sell or solicitation of an offer to buy is unlawful.

This Official Statement is not to be construed as a contract with the purchasers of the 2019A Bonds. Statements contained in this Official Statement that 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 information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2019A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Water System since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE 2019A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2019A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

The City maintains a website; however, the information that it contains is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2019A Bonds.

TABLE OF CONTENTS

INTRODUCTION.....	1	Projected Additional Water Supply	41
PLAN OF FINANCE	5	Water Quality	42
General.....	5	Water Quality Settlements	43
Refunding Plan.....	5	Environmental Matters	45
Potential Termination of 2005 Swap Agreement.....	7	Customers and Water Sales	47
Financing of Capital Projects for the Water System	7	Unrestricted Cash Reserves	63
Estimated Sources and Uses of Funds.....	8	CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY.....	67
Outstanding Parity Bonds	9	Articles XIIC and XIID of the State Constitution	67
Debt Service Requirements	10	Future Initiatives.....	70
DESCRIPTION OF THE 2019A BONDS	11	Demand and Usage; Drought; Climate Change	71
General.....	11	Water System Expenses and Collections....	72
Redemption Provisions*	11	Rate Regulation	73
SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS.....	14	Casualty Risk	73
Net Operating Revenues.....	14	Security of the Water System	74
Limited Obligation.....	15	Cybersecurity	75
Resolution Flow of Funds.....	15	Certain Other Limitations on Fees and Charges	75
Rate Covenant	17	Articles XIIC and XIID of the California Constitution	76
Debt Service Reserve Account Not Funded.....	18	Change in Law	76
Additional Bonds and Parity Debt	18	Loss of Tax Exemption	76
Subordinate Obligations.....	20	Secondary Market.....	76
THE PUBLIC UTILITIES DEPARTMENT.....	23	TAX MATTERS.....	77
Management of the Public Utilities Department	23	CERTAIN LEGAL MATTERS.....	79
Board of Public Utilities	24	LITIGATION	79
Employee Matters	25	FINANCIAL STATEMENTS	79
Investment Policy and Controls.....	30	RATINGS	79
THE WATER SYSTEM	31	UNDERWRITING.....	80
General.....	31	MUNICIPAL ADVISOR	80
History of the Water System	32	CONTINUING DISCLOSURE	81
Existing Facilities.....	32	VERIFICATION OF MATHEMATICAL ACCURACY.....	81
Water Supply	34	MISCELLANEOUS.....	82
New Sources of Supply	37		
APPENDIX A	– CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION		
APPENDIX B	– AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE WATER UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2018		
APPENDIX C	– SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION		
APPENDIX D	– FORM OF CONTINUING DISCLOSURE CERTIFICATE		
APPENDIX E	– PROPOSED FORM OF BOND COUNSEL OPINION		
APPENDIX F	– BOOK-ENTRY ONLY SYSTEM		

OFFICIAL STATEMENT

\$ _____ *

CITY OF RIVERSIDE
WATER REVENUE/REFUNDING BONDS, ISSUE OF 2019A

INTRODUCTION

This Official Statement, including its appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the “**City**”), of the bonds captioned above (the “**2019A Bonds**”).

Authority for the 2019A Bonds

The 2019A Bonds are authorized and issued pursuant to the following, which are referred to collectively in this Official Statement as the “**Law**”:

- (i) the City Charter;
- (ii) Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005; and
- (iii) Resolution No. 17664 adopted by the City Council on January 8, 1991 (the “**Master Resolution**”), as previously amended and supplemented, and as amended and supplemented by a ninth supplemental resolution providing for the issuance of the 2019A Bonds (the “**Ninth Supplemental Resolution**”), which was adopted by the City Council on [January 22], 2019. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Ninth Supplemental Resolution, is referred to collectively in this Official Statement as the “**Resolution**.”

Purpose of the 2019A Bonds

The 2019A Bonds are being issued to:

- (i) defease and refund in full the City’s Water Revenue Bonds, Issue of 2008B, which were issued in the aggregate principal amount of \$58,235,000 and are currently outstanding in the aggregate principal amount of \$53,880,000 (the “**2008B Bonds**”);
- (ii) defease and refund all or a portion of the City’s Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (the “**2011A Bonds**” or the “**Prior Variable Rate Bonds**”), which were issued in the aggregate principal amount of \$59,000,000 and

* Preliminary, subject to change.

are currently outstanding in the aggregate principal amount of \$52,425,000, as determined based on market conditions on the pricing date of the 2019A Bonds;

- (iii) pay all or a portion of the termination cost associated with the City's outstanding interest rate swap allocated or related to the refunded portions of the Prior Variable Rate Bonds (the "**Swap Termination Cost**"); and
- (iv) finance capital projects for the Water System (defined below).

Proceeds of the 2019A Bonds will also be used to pay certain costs of issuance. See "PLAN OF FINANCE."

The Water System

The City's water public utility system (the "**Water System**") serves an area of approximately 74.2 square miles, of which approximately 70.5 square miles are within the boundaries of the City. The City typically obtains 100% of its potable and non-potable water from local groundwater basins. The Water System provided service to 65,640 metered customer accounts in the service area during fiscal year 2017-18, which represents a population served of approximately 325,800. See "THE WATER SYSTEM."

Security for the 2019A Bonds; Rate Covenant

Nature of Pledge. Pursuant to the Law, the 2019A 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 Water System and other funds, assets and security described under the Resolution, on a parity with the 2009 Bonds, unrefunded 2011A Bonds and any other Bonds or Parity Debt issued in the future.

Rate Covenant. The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay the operating and maintenance expenses of the Water System, to pay debt service on all Bonds and Parity Debt and to pay all other obligations which are charges, liens or encumbrances upon or payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS" herein. Water rates are established by the City of Riverside Board of Public Utilities (the "**Board**"), subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "**CPUC**") or any other State agency. See "THE WATER SYSTEM – Water Rates and Charges" herein for a description of City's current and historic rates and charges.

Limited Obligation. The general fund of the City is not liable for the payment of principal of the 2019A 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 2019A 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 2019A 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 Water System and other funds, security or assets which are,

under the terms of the Resolution, pledged to the payment of principal of the 2019A Bonds, interest thereon and any premium upon redemption.

Outstanding Parity Bonds

The 2019A Bonds are secured by and payable from Net Operating Revenues on a parity with outstanding bonds in the aggregate principal amount of \$177,250,000 as of January 1, 2019, which are referred to in this Official Statement as the “**Prior Parity Bonds**.” See “PLAN OF FINANCE – Outstanding Bonds.”

Additional Bonds and Parity Debt

The City is authorized under the Resolution to issue additional bonds (“**Additional Bonds**”) that are secured by a pledge of and a charge upon, and that are payable from, Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 2019A Bonds and the Prior Parity Bonds. The Prior Parity Bonds, the 2019A Bonds and any Additional Bonds are referred to in this Official Statement as the “**Bonds**.”

The City is also authorized to issue and incur additional parity obligations that do not constitute Bonds, but are secured by and payable from Net Operating Revenues on a parity with the Bonds (“**Parity Debt**”).

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Additional Bonds and Parity Debt.”

Debt Service Reserve Account Not Funded

A separate reserve account is being established for the 2019A Bonds; however, the City is not funding the account and has no obligation to fund the account in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Debt Service Reserve Account Not Funded.”

Subordinate Obligations

The City has incurred certain obligations and has the right to issue additional obligations that are secured by and payable from Net Operating Revenues on a subordinate basis to the Bonds and Parity Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations.”

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2019A Bonds to provide certain financial information and operating data relating to the Water 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 2019A Bonds, the security and sources of payment therefor, the Water System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be

comprehensive or definitive. All references herein to the 2019A Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557.

A copy of the most recent Financial Report of the Water System may be obtained from the Utilities Assistant General Manager / Finance and Administration of the City of Riverside Public Utilities Department, at 3750 University Avenue, 3rd Floor, Riverside, California 92501.

Financial and statistical information set forth in this Official Statement, except for the audited financial statements included in APPENDIX B and unless otherwise indicated, is unaudited. The source of such information is the City, unless otherwise stated.

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

PLAN OF FINANCE

General

The 2019A Bonds are issued to provide funds to (i) defease and refund all of the 2008B Bonds, (ii) defease and refund all or a portion of the Prior Variable Rate Bonds, as determined based on market conditions on the pricing date of the 2019A Bonds, (iii) pay all or a portion of the termination cost associated with the City's outstanding interest rate swap allocated or related to the refunded portions of the Prior Variable Rate Bonds and (iv) finance capital projects for the Water System.

Proceeds of the 2019A Bonds will also be used to pay certain costs of issuance.

Refunding Plan

The City will deliver a portion of the proceeds of the 2019A Bonds to the Fiscal Agent, as escrow agent (the "**Escrow Agent**"), for deposit into escrow funds (each, an "**Escrow Fund**") established under escrow agreements (each, an "**Escrow Agreement**"), as described below.

On the Closing Date, the City and the Escrow Agent will enter into an Escrow Agreement relating to each of the 2008B Bonds and 2011A Bonds. Under these Escrow Agreements, on the Closing Date, the City will cause to be transferred to the Escrow Agent for deposit into the Escrow Funds the amounts of \$_____ and \$_____, respectively, in immediately available funds, and the Escrow Agent will invest such amounts in Federal Securities. The City will redeem all of the 2008B Bonds and all or a portion of the 2011A Bonds (such portions, the "**Redeemed Prior Variable Rate Bonds**," and collectively with the 2008B Bonds, the "**Redeemed Prior Bonds**") on April 1, 2019. Any portion of unredeemed Prior Variable Rate Bonds will remain outstanding on a parity basis with the 2019A Bonds, as described under the heading entitled "– Outstanding Parity Bonds."

The redemption price of the Redeemed Prior Bonds will equal the par amount to be redeemed, together with accrued interest to the redemption date, without premium. On the Closing Date, as a result of the deposit of funds into each Escrow Fund, the Redeemed Prior Bonds will be defeased, and all liability of the City with respect to them will be discharged.

Sufficiency of the deposits in each Escrow Fund for the purposes of the related Escrow Agreement will be verified by Samuel Klein and Company, New York, New York (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY" below.

The amounts held by the Escrow Agent in each Escrow Fund are pledged solely to the payment of the related Redeemed Prior Bonds. None of the funds deposited in any Escrow Fund will be available for the payment of debt service on the 2019A Bonds.

2008B Bonds. The 2008B Bonds consist of the maturities listed below.

**City of Riverside
Water Revenue Bonds, Issue of 2008B**

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>Number</u> <u>(Base: 769076)†</u>
2019	\$ 1,220,000	4.000%	SV3
2020	1,245,000	4.000	SW1
2021	1,320,000	4.000	SX9
2022	1,380,000	5.000	SY7
2023	1,410,000	5.000	SZ4
2024	1,490,000	5.000	TA8
2025	1,555,000	5.000	TB6
2026	1,625,000	5.000	TC4
2027	1,705,000	5.000	TD2
2028	2,585,000	5.000	TE0
2033 ^T	11,810,000	5.000	TF7
2038 ^T	26,535,000	5.000	TG5

^T Term Bond.

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2011A Bonds. The 2011A Bonds consist of a single term bond scheduled to mature on October 1, 2035. A schedule of mandatory sinking account redemptions for the 2011A Bonds is provided below. The principal amount of the 2011A Bonds being redeemed will be credited against the mandatory sinking account payments for the 2011A Bonds as set forth in the table below.

**City of Riverside
Water Revenue Bonds, Issue of 2011A
CUSIP Number[†] 769076 UH1**

Redemption Date (October 1)	Principal Amount Outstanding	Principal Amount to be Redeemed*
2019	\$2,375,000	
2020	2,475,000	
2021	2,525,000	
2022	2,600,000	
2023	2,725,000	
2024	2,800,000	
2025	2,900,000	
2026	3,000,000	
2027	3,100,000	
2028	2,400,000	
2029	3,275,000	
2030	3,400,000	
2031	3,525,000	
2032	2,375,000	
2033	3,700,000	
2034	3,825,000	
2035 (maturity)	3,950,000	

* To be determined based on market conditions on the pricing date of the 2019A Bonds.

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Potential Termination of 2005 Swap Agreement

The City previously entered into the 2005 Swap Agreement (defined herein) in order to hedge against adverse interest rate movements associated with the Prior Variable Rate Bonds. The City may use a portion of the proceeds of the 2019A Bonds to pay some or all of the Swap Termination Cost.

For more information about the 2005 Swap Agreement, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations – Existing Subordinate Debt."

Financing of Capital Projects for the Water System

A portion of the 2019A Bonds will be used to fund capital improvements to the Water System. The Water System's current 5-year Capital Improvement Program is categorized into seven main sections: Distribution Facilities, Distribution Pipelines, Reservoir Projects, System Automation, Transmission Pipelines, Water Supply, and Well Projects, and totals approximately

\$129.1 million. The majority of the five-year CIP, approximately \$95 million, is expected to be funded through bond financing, with the balance funded by a combination of rates, reserves and other resources. For additional details on the current capital improvement program, see “THE WATER SYSTEM – Capital Improvement Program.”

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the 2019A Bonds are as follows:

Sources:

Principal Amount of 2019A Bonds	\$
[Plus/Less:] Net Original Issue [Premium/Discount]	
Amounts Related to 2008B Bonds and 2011A Bonds	
[City Contribution]	
Total Sources	<hr/> \$

Uses:

Escrow Funds ⁽¹⁾	\$
2008B Bonds	
2011A Bonds	
Swap Termination Cost ⁽²⁾	
2019 Construction Fund ⁽³⁾	
Costs of Issuance ⁽⁴⁾	
Underwriters' Discount	
Total Uses	<hr/> \$

(1) See “– Refunding Plan.”

(2) See “– Potential Termination of 2005 Swap Agreement.”

(3) See “– Financing of Capital Projects for the Water System.”

(4) Includes legal fees; fees of the Fiscal Agent, Municipal Advisor, Verification Agent, Escrow Agent, and rating agencies; printing costs; and other costs incurred or to be incurred in connection with the issuance of the 2019A Bonds.

Outstanding Parity Bonds

Following the issuance of the 2019A Bonds, the 2019A Bonds will be secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds, which consist of the Bonds listed in the table below.

<u>Name of Issue</u>	<u>Outstanding Principal Amount*</u>
Water Revenue Bonds, Issue of 2008B ⁽¹⁾	\$ 53,880,000
Water Revenue/Refunding Bonds, Issue of 2009A (Tax-Exempt) ⁽²⁾	4,630,000
Water Revenue/Refunding Bonds, Issue of 2009B (Federally Taxable-Build America Bonds) ⁽²⁾	67,790,000
Variable Rate Refunding Water Revenue Bonds, Issue of 2011A ⁽³⁾	52,425,000
Total	<u>\$177,250,000</u>

* Preliminary; subject to change. Includes the outstanding principal amount of the Prior Variable Rate Bonds; however, as described above and under the heading “– Refunding Plan,” a portion of the proceeds of the 2019A Bonds may be used to refund all or a portion of the Prior Variable Rate Bonds, as determined based on market conditions on the pricing date of the 2019A Bonds.

(1) Issued pursuant to Resolution No. 21622, adopted on May 6, 2008. The 2008B Bonds are expected to be refunded in full, with a portion of the proceeds of the 2019A Bonds.

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

(3) Issued pursuant to Resolution No. 22203, adopted on April 26, 2011. The 2011A Bonds are multi-modal bonds and currently accrue interest at a variable rate (based on a spread to SIFMA) pursuant to an index interest rate, and are subject to mandatory tender on January 15, 2020. During an index interest rate period, if the City failed to pay the purchase price of the 2011A Bonds on a mandatory tender date, the 2011A Bonds would become subject to mandatory redemption consisting of substantially equal payments every 18 months over a four-and-a-half year period and would bear interest at a fixed rate of 10% per annum. For more information, see “Note 4 – Long-Term Obligations” in the Water System’s audited financial statements for the fiscal year ended June 30, 2018, which is attached to this Official Statement as APPENDIX B.

Debt Service Requirements

The following table sets forth the estimated debt service on the Prior Parity Bonds and the 2019A Bonds.

Debt Service Requirements⁽¹⁾

Period Ending (Oct. 1)	Prior Parity Bonds Principal	Prior Parity Bonds Interest ⁽²⁾	2019A Bonds Principal*	2019A Bonds Interest*	Total Bonds Debt Service*	Treasury Credits ^{(3)(4)*}	Total Bonds Debt Service Net of Treasury Credits ^{(3)(4)*}
2019	\$ 5,865,000	\$ 8,669,930				\$ (1,372,484)	
2020	6,080,000	8,454,330				(1,372,484)	
2021	6,320,000	8,213,330				(1,372,484)	
2022	6,535,000	7,952,886				(1,330,842)	
2023	6,780,000	7,662,793				(1,285,571)	
2024	7,040,000	7,343,086				(1,232,385)	
2025	7,315,000	7,010,549				(1,177,086)	
2026	7,600,000	6,664,824				(1,119,577)	
2027	7,895,000	6,305,355				(1,059,754)	
2028	8,205,000	5,931,643				(997,619)	
2029	8,540,000	5,528,368				(932,870)	
2030	8,870,000	5,122,686				(865,608)	
2031	9,220,000	4,698,686				(794,876)	
2032	9,585,000	4,257,756				(721,294)	
2033	9,985,000	3,776,076				(644,659)	
2034	10,375,000	3,296,446				(564,970)	
2035	10,790,000	2,791,642				(480,136)	
2036	11,225,000	2,266,045				(391,759)	
2037	11,745,000	1,645,169				(299,629)	
2038	12,295,000	995,865				(203,748)	
2039	4,985,000	316,498				(103,906)	
Total	\$177,250,000	\$108,903,963				\$(18,323,741)	

* Preliminary; subject to change.

(1) Totals may not add due to rounding.

(2) Assumes an annual interest rate of 3.20% on the 2011A Bonds, reflecting the anticipated effect of the 2005 Swap Agreement. [confirm]

(3) Reflects amounts payable by the federal government under Section 6431 of the Internal Revenue Code of 1986 ("Section 6431"), which the City will elect to receive under Section 54AA(g)(1) of the Internal Revenue Code of 1986. These amounts are included in Gross Operating Revenues. See also "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Rate Covenant – Future Change in Rate Covenant."

(4) On March 1, 2013, automatic spending cuts within the federal government took effect as a result of the so-called "sequester." For the period of October 1, 2018, through and including September 30, 2019, the cuts include a 6.2% reduction in amounts payable by the federal government to issuers of Build America Bonds (and other direct pay bonds) under Section 6431 of the Code, as determined by the Office of Management and Budget (the "2018-19 Sequestration Rate"). Because the 2009B Bonds were issued as Build America Bonds and will be affected by the reduction in credits (absent future Congressional action), more Net Operating Revenues will be needed to pay debt service on the 2009B Bonds than previously scheduled in order to offset the impact of the sequester. Pursuant to the Bipartisan Budget Act of 2018, the sequester extends through fiscal year 2027. The sequestration rate for federal fiscal years 2020 through 2027 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage; however, this table assumes that the 2018-19 Sequestration Rate remains in effect through the final maturity of the 2009B Bonds on October 1, 2039.

DESCRIPTION OF THE 2019A BONDS

The following is a summary of certain provisions of the 2019A Bonds. Reference is made to the 2019A 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 2019A 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 2019A Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the 2019A Bonds will be payable on April 1 and October 1 of each year, commencing April 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 2019A 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 2019A 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. Payments of defaulted interest will be paid by check to the Owners as of a special record date to be fixed by the Fiscal Agent, notice of which special record date will be given to the Owners by the Fiscal Agent not less than 10 days prior to that date. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM."

Each 2019A Bond shall bear interest from the interest payment date before the date of authentication thereof (a) unless it is authenticated (i) during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or (ii) prior to the first Record Date, in which event it shall bear interest from the dated date of the 2019A Bonds or (b) unless at the time of authentication interest is in default, in which event it will bear interest from the interest payment date to which interest has been paid or provided for.

So long as any 2019A 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 2019A Bonds maturing on or before _____ 1, 20__, are not subject to optional redemption prior to maturity. The 2019A Bonds maturing on or after _____ 1, 20__ are subject to optional redemption by the City on any date on or after _____ 1, 20__, as a whole or in part in an Authorized Denomination, at a Redemption Price of 100% of the

* Preliminary; subject to change.

principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

Mandatory Sinking Account Redemption. The 2019A Bonds maturing on October 1, 20__ are subject to mandatory sinking account redemption, in part, on October 1, 20__, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2019A Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Water Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
†	
† Maturity	

The 2019A Bonds maturing on October 1, 20__ are hereinafter referred to as “2019A Term Bonds.”

Mandatory Sinking Account Payments for the 2019A Term Bonds will be reduced to the extent the City has purchased 2019A Term Bonds and surrendered such 2019A Term Bonds to the Fiscal Agent for cancellation. If 2019A Term Bonds have been redeemed in part as provided for under the caption “—Optional Redemption” above, then the amount of the 2019A Term Bonds so redeemed will be credited to such future Mandatory Sinking Account Payments for such 2019A 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 October 1 will reduce the principal amount of 2019A Term Bonds redeemed on that October 1.

Selection of 2019A Bonds for Redemption. If less than all the 2019A Bonds are to be redeemed, the maturities of the 2019A Bonds to be redeemed will be selected by the City. The City will give written notice of its selection not later than 15 business days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the 2019A Bonds. If less than all of the 2019A Bonds of any maturity are to be redeemed prior to maturity, then the particular 2019A Bonds will be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. The Fiscal Agent will give notice of the redemption of 2019A Bonds to (i) the Owners of the 2019A Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption will be given by first-class mail to the Owners of 2019A 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 will not affect the sufficiency of the proceedings for the redemption of 2019A Bonds.

In the event of an optional redemption of 2019A Bonds, if the City will not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of the redemption price of the 2019A Bonds to be redeemed at the time of such mailing, such notice of redemption will state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefor with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2019A Bonds or portions thereof so called for redemption will become due and payable on the redemption date, and upon presentation and surrender of such 2019A Bonds at the place specified in such notice of redemption, such 2019A Bonds will be redeemed and paid at said redemption price. If on the redemption date moneys for the redemption of the 2019A Bonds to be redeemed will be available therefor, then from and after the redemption date, interest on the 2019A Bonds to be redeemed will cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS

Net Operating Revenues

Pursuant to the Law, the 2019A 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 Prior Parity Bonds and any other Bonds or Parity Debt issued in the future.

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

“**Gross Operating Revenues**” means (i) all revenues from rates, fees and charges for providing water service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Water System, including contributions in aid of construction, and (ii) all amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps (“**Subordinate Swap Receipts**”), including the 2005 Swap Agreement.

“**Operating and Maintenance Expenses**” means those expenses of operating and maintenance of the Water System and includes any necessary contribution to retirement of Water System employees.

Future Change in Definition of Net Operating Revenues. Pursuant to the Seventh Supplemental Resolution, the definition of “Net Operating Revenues” will be amended and restated as follows; provided that such amendment and restatement will not take effect while the 2008B Bonds are outstanding (the final maturity date of the 2008B Bonds is October 1, 2038) or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps):

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

Although the 2008B Bonds are expected to be defeased and refunded in full by the 2019A Bonds, the definition of “Net Operating Revenues” will not be amended unless and until the 2005 Swap Agreement is no longer in effect or the 2005 Swap Provider (to the extent required by the 2005 Swap Agreement) has consented to such change.

Limited Obligation

The General Fund of the City is not liable for the payment of principal of the 2019A 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 2019A 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 2019A 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 Water System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of principal of the 2019A Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

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

The 2019A Reserve Account was created under the Ninth Supplemental Resolution to be held by the Fiscal Agent for the benefit of the 2019A Bonds. However, the 2019A Bond Reserve Requirement is \$0 and no amount will be deposited into the 2019A Reserve Account. See “—2019A Reserve Account Not Funded.”

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

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

Bond Service Account. Following the transfers required to pay Operating and Maintenance Expenses, there shall be set aside and transferred within the Water Revenue Fund to the Bond Service Account for transfer to the Interest Account and to the Principal Account, as applicable, the following amounts at the following times:

Interest Account. As soon as practicable in each month, the Treasurer will set aside (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 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), (ii) 110% of the interest which the Treasurer estimates in his or her reasonable judgment will accrue during that month on Bonds with a variable rate of interest, and (iii) only after all deposits have been made for such month in the Principal Account and the Reserve Accounts as described below, all Subordinate Payments

becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month).

No deposit need be made into the Interest Account if the amount contained therein is at least equal to (a) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (b) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (iii) above. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt will rank and be made *pari passu* with the payments required to be placed in the Interest Account.

Principal Account. As soon as practicable in each month, the Treasurer will deposit an amount equal to at least (i) one-sixth of any semiannual Bond Obligation becoming due and payable on outstanding Bonds within the next ensuing six months and (ii) one-twelfth of the yearly Bond Obligation becoming due and payable on the outstanding serial Bonds or of the amount becoming due on term Bonds within the next 12 months, provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their due dates or paid from amounts on deposit in a reserve account maintained for Bonds of that Series, no amounts need be set aside toward such principal. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt will rank and be made *pari passu* with the payments required to be placed in the Principal Account.

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

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

Excess Earnings Account. Following the transfers described above as required by the Resolution, the Treasurer will deposit in the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the 2019A 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 Water System to the extent provision therefor has not been made from other sources.

Surplus Account. On the first day of each calendar month, after 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 Water Revenue Fund will continue to be held in the Water 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, or (iii) used by the City in any other 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 2019A Bonds as it will become due and payable (including accrued interest on any 2019A 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 2019A Bonds maturing by their terms on October 1 of the years in which 2019A Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the 2019A Bonds to be redeemed from amounts on deposit in the Principal Account. Amounts on deposit in any reserve account for a Series of Bonds shall be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.

Rate Covenant

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

- (a) Operating and Maintenance Expenses;
- (b) the interest on and Bond Obligation (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) as they become due and payable;
- (c) all other payments required for compliance with the Resolution or any Supplemental Resolutions; and

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

The City has further covenanted under the Resolution that the City will prescribe, revise and collect rates and charges for the services, facilities and water of the Water System which will be at least sufficient to yield during each Fiscal Year Net Operating Revenues equal to 1.25 times the amounts payable under clause (b) above and 1.0 times the amounts payable under clauses (c) and (d) above.

Future Change in Rate Covenant. Pursuant to the Seventh Supplemental Resolution, the following paragraph will be added to the rate covenant; provided that such amendment will not take effect while the 2008B Bonds are outstanding (the final maturity date of the 2008B Bonds is October 1, 2038) or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps):

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

Although the 2008B Bonds are expected to be defeased and refunded in full by the 2019A Bonds, the definition of "Net Operating Revenues" will not be amended unless and until the 2005 Swap Agreement is no longer in effect or the 2005 Swap Provider (to the extent required by the 2005 Swap Agreement) has consented to such change.

Debt Service Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. Although a separate reserve account is being established for the 2019A Bonds, the City is not funding such account and has no obligation to fund the account in the future. The owners of the 2019A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Additional Bonds and Parity Debt

The City may incur additional obligations payable from Net Operating Revenues as described below.

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

Additional Bonds and Parity Debt. The Resolution provides that, except for 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 will be created or incurred unless:

First: The City is not in default under the terms of the Resolution; and

Second: Either (i) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Debt will be in operation as estimated by and set forth in an opinion of an independent consulting engineer or firm of independent consulting engineers employed by the City, plus, at the option of the City, either or all of the items in this covenant designated (a), (b) and (c), will have amounted to at least 1.25 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt.

Third: On the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt will be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The items either or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in clause “*Second*” above, are the following:

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

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

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

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

Subordinate Obligations

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

Existing Subordinate Obligations*.

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

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

The 2005 Swap Agreement has a stated termination date of October 1, 2035. Both the City and the 2005 Swap Provider will have the right to terminate the 2005 Swap Agreement prior to its stated termination date under certain conditions, in which event a termination payment may be owed by either party. Such termination payment could be substantial. See Note 4 to the financial statements of the Water System in Appendix B under the heading “Interest Rate Swaps on Revenue Bonds” for the termination value as of June 30, 2018.

* Preliminary; subject to change.

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

Amounts received by the City from the 2005 Swap Provider under the 2005 Swap Agreement constitute Gross Operating Revenues under the Resolution. Any amounts due from the City under the 2005 Swap Agreement, including regularly scheduled payments and any amount due upon an early termination of the 2005 Swap Agreement are payable by the City from Net Operating Revenues on a basis that is junior and subordinate to the Prior Parity Bonds, the 2019A Bonds, any Additional Bonds and any Parity Debt.

Following the payment of the Swap Termination Cost in connection with the delivery of the 2019A Bonds, the 2005 Swap Agreement will have an outstanding notional amount with respect to the 2011A Bonds of \$_____.*.

Revolving Credit Facility. On _____, 2019, the City entered into a revolving credit agreement (the “**Revolving Credit Agreement**”) with U.S. Bank National Association. Under the terms and conditions of the Revolving Credit Agreement, the City may borrow up to \$60,000,000 for purposes of the capital or operating financing needs of either the Water System or the City’s electric utility system (the “**Revolving Credit Facility**”). Each advance under the Revolving Credit Facility that is allocated to the Water System will be secured by a subordinate pledge of Net Operating Revenues and accrue interest at a variable rate calculated by reference to LIBOR on the first calendar day of each month. The Revolving Credit Facility matures on _____, 2022 (the “**Maturity Date**”); however, any advance not paid on the Maturity Date will convert to a term loan that will amortize in equal quarterly payments commencing 90 days after the Maturity Date, and the term loan will accrue interest at a variable rate and become due and payable in full on the third anniversary of the Maturity Date.

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

Future Subordinate Obligations. Nothing in the Resolution limits the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations), to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinate obligations are payable as to (but not limited to) principal, premium, interest and reserve fund requirements, if any, only out

* Preliminary; subject to change.

of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents. Further, nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith and which subordinated obligations are payable only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by this Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

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

Management of the Department is as follows:

Mr. Todd Corbin, Utilities General Manager, is a Certified Public Accountant, and holds a Bachelor of Science in Business Administration/Accounting from Indiana University of Pennsylvania and a Master of Public Administration from California State University, San Bernardino. He joined the City in November 2018 with nearly 30 years of California utility experience, including serving as General Manager of the Jurupa Community Services District for six years. Prior to that, he served in various management roles including Assistant General Manager of the Cucamonga Valley Water District in Rancho Cucamonga.

Mr. Todd L. Jorgenson, Utilities Assistant General Manager/Water, holds a Bachelor of Science and a Master of Science in Civil Engineering from Brigham Young University and a Master of Business Administration from California State University, San Bernardino. He has been with the City since 2004 and served in various management roles including Interim Utilities General Manager, Engineering Manager, Operations Manager and Senior Engineer. He has over 20 years of experience in the utility industry.

Ms. Aileen Ma, Interim Utilities Assistant General Manager/Finance & Administration, is a Certified Public Accountant, and holds a Bachelor of Science in Business Administration with an Accounting emphasis from California State University, Los Angeles and a Master of Business Administration from University of California, Irvine. She has over 21 years of experience in audit, accounting and finance administration. She has been with the Department since 2006 and has served in the positions of Utilities Principal Analyst and Utilities Fiscal Manager.

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

Mr. George R. Hanson, Utilities Assistant General Manager/Energy Delivery, holds a Bachelor of Science degree from University of California, Irvine and a Master of Science degree from California State University, Long Beach in Civil Engineering and is a registered Professional Engineer in the State of California. He has been with the Department since 2010 and has served in various management roles including Engineering Manager and Electric Field Manager. He has been involved in the electric utility industry for 27 years.

Board of Public Utilities

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

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

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

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

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

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

Kevin D. Foust – Appointed to the Board in 2016, term expires March 1, 2020. Mr. Foust is a Senior Engineering Specialist for a large corporation in Irvine.

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

Jennifer C. O'Farrell – Appointed to the Board in 2015, term expires March 1, 2019. Ms. O'Farrell is an Executive Director for a non-profit organization of the Inland Empire.

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

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

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

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

Employee Matters

Employee Relations. As of July 1, 2018, 159 City employees were assigned specifically to the Water System. Certain functions supporting Water System operations, including meter reading, customer billing and collections, are performed by the staff of the electric division of the Department. Substantially all the non-administrative City personnel assigned to the Water System are represented by the International Brotherhood of Electrical Workers ("**IBEW**"). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2021. Portions of the administrative staff are represented by the Service Employees International Union ("**SEIU**"). The City and the SEIU are parties to a Memorandum of Understanding that expires on June 30, 2020. While not under a memorandum of understanding, all unrepresented employees have compensation and benefit packages approved by the City Council. On December 13, 2016, the City Council approved changes for unrepresented employees through January 2021.

The Water System has not faced any strikes or other work stoppages within the last ten years, and the City does not anticipate any in the near future.

Employee Retirement Systems. Retirement benefits to City employees, including those assigned to the Water System, are provided through the City's participation in the Public Employees Retirement System ("**CalPERS**") of California, an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. CalPERS issues a separate, publicly available financial report that includes financial statements and required supplemental information of participating public entities within the State of California. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95811 or at www.calpers.ca.gov. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

The City has contributed at the actuarially determined rate provided by CalPERS' actuaries. Participants are required to contribute 8 percent of their annual covered salary. The City has a multiple tier retirement plan with benefits varying by plan. All permanent full-time and selected part-time employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. All of the bargaining units included in the Miscellaneous CalPERS plan, including Management, SEIU, and IBEW employees of the Water System and the City's electric utility ("**Electric System**"), agreed to change the calculation of the CalPERS retirement benefit for new employees from utilizing the highest year of salary to the average of the highest three years of salary, which addressed concerns associated with salary increases in the year immediately prior to retirement. This change was effective for employees hired on or after December 9, 2011.

The California Public Employees' Pension Reform Act of 2012 ("**PEPRA**") enacted statewide pension reforms effective January 1, 2013, which the City has implemented. Employees hired after January 1, 2013, may retire at age 62 and receive 2.0% of their highest salary for each year of service completed. The formula is adjusted to encourage employees to retire at later ages, with a 2.5% cap at age 67. The average highest three years of salary continue to be used to calculate the retirement benefit under the new plan. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

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

- 1st Tier -
 - The retirement formula is 2.7 percent at age 55 for unrepresented employees hired before October 19, 2011. Effective January 1, 2018, the employees were required to pay 2 percent of the employee contribution of their pensionable income, with the City contributing the other 6 percent. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion is a three-year increase of 2 percent (2019), 2 percent (2020) and 2 percent (2021). By 2021, employees will be contributing the entire 8 percent of their pensionable income.
 - The retirement formula is 2.7 percent at age 55 for SEIU employees hired before June 7, 2011. The employees were required to pay 6 percent of their pensionable income with the City contributing the other 2 percent. Effective January 1, 2019, employees are required to pay an additional portion of their pensionable income. This portion is a two-year increase of 1 percent (2019) and 1 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.
 - The retirement formula is 2.7 percent at age 55 for IBEW employees hired before October 19, 2011. Effective November 1, 2017 employees contributed 2 percent of their total pensionable income with the City paying the remaining 6 percent. Effective November 1, 2018, employees are required to pay an additional portion of their pensionable income. This portion is a three-year increase of 2 percent (2018), 2 percent (2019) and 2 percent (2020). By 2020, employees will be contributing the entire 8 percent of their pensionable income.

- 2nd Tier - The retirement formula is 2.7 percent at age 55, and:
 - SEIU employees hired on or after June 7, 2011 pay their share (8 percent) of contributions.
 - All other miscellaneous employees hired on or after October 19, 2011 pay their share (8 percent) of contributions.
- 3rd Tier - The retirement formula is 2 percent at age 62 for new members hired on or after January 1, 2013 and the employee must pay the employee share ranging from 7 percent to 8 percent based on bargaining group classification. Classic members (CalPERS members prior to December 31, 2012) hired on or after January 1, 2013 may be placed in a different tier.

PEPRA also established a cap on the amount of compensation that can be used to calculate the retirement benefit for employees hired on or after January 1, 2013, which limits the benefit to 120% of the Social Security wage index limit for 2017 of \$142,530 for employees not covered by Social Security and \$118,775 for employees participating in Social Security. This cap will be adjusted annually by the Consumer Price Index for all Urban Consumers. PEPRA also prevents employers from offering defined benefit plans for compensation in excess of the cap, but does allow for contributions to a defined contribution plan for compensation in excess of the cap. PEPRA specifies that employees will not have a vested right to any employer contributions to defined contribution plans related to this provision. The City has not made any enhancements to the compensation package for employees hired on or after January 1, 2013, with compensation exceeding the cap.

CalPERS Discount Rate Adjustment. On March 14, 2012, the CalPERS Board voted to lower the CalPERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "**CalPERS Discount Rate**") from 7.75% to 7.5%. On November 17, 2015, the CalPERS Board approved a new funding risk mitigation policy to incrementally lower the CalPERS 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 CalPERS Discount Rate by at least four percentage points. On December 21, 2016, the CalPERS Board voted to lower the CalPERS Discount Rate to 7.0% over the 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 rates went into effect on July 1, 2018, for the City. Lowering the CalPERS Discount Rate likely means employers that contract with CalPERS 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 PEPRA, 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.

The Water System's total contribution to CalPERS as of June 30, 2018 and 2017 was \$3,227,000 and \$3,286,000, respectively. In addition, the Water System is obligated to pay its share of the City's pension obligation bonds, which the City issued in 2005 and refinanced a portion in May 2017 (the "**Pension Obligation Bonds**"). The Water System's total proportional share of the outstanding principal amount of the Pension Obligation Bonds was \$3,756,000 and \$4,439,000 as of June 30, 2018 and 2017, respectively. That share will amortize based on the amortization schedule of the Pension Obligation Bonds. Payments made by the Water System to fund its share of the City's Pension Obligation Bonds are payable as an Operating and

Maintenance Expense. Citywide information relating to the Pension Obligation Bonds, net pension liability, contributions to CalPERS, and recent trend information may be found in the notes to the basic financial statements in the City's Comprehensive Annual Financial Report ("CAFR") for the Fiscal Year ended June 30, 2018, which may be obtained on the City's website. See also Note 1 to the financial statements of the Water System in Appendix B for further discussion.

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

Table 1
History of City's Contribution Rate and Unfunded Liability Payments Due⁽¹⁾

<u>Fiscal Year</u>	<u>Employer Normal Cost</u>	<u>Unfunded Rate</u>	<u>Total Employer Contribution Rate</u>	<u>Unfunded Liability Payment Due</u>
2007-08	11.877%	1.418%	13.295%	N/A
2008-09	11.962	2.207	14.169	N/A
2009-10	12.043	2.176	14.219	N/A
2010-11	11.987	2.520	14.507	N/A
2011-12	11.823	6.615	18.438	N/A
2012-13	11.814	6.463	18.277	N/A
2013-14	11.851	6.463	18.314	N/A
2014-15	11.554	7.440	18.994	N/A
2015-16 ⁽²⁾	11.871	9.141	21.012	N/A
2016-17 ⁽²⁾	12.250	10.728	22.978	N/A
2017-18 ⁽²⁾	12.136	N/A	N/A	\$15,683,043
2018-19 ⁽²⁾	12.314	N/A	N/A	\$19,422,351
2019-20 ⁽²⁾	12.866	N/A	N/A	\$22,752,102

(1) Beginning with fiscal year 2017-18, CalPERS will collect employer contributions toward the plan's unfunded liability as dollar amounts instead of the prior method of a contribution rate. This change will address potential funding issues that could arise from a declining payroll or reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to the underfunding of the plans. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability payment, the plan's normal cost contribution will continue to be collected as a percentage of payroll.

(2) Sourced from CalPERS' Annual Valuation Report, dated July 2018. The rates reflect the effect of PEPRAs enactment. PEPRAs is discussed earlier in this section.

In addition, the report provides the recent history of the actuarial accrued liability, the market value of assets, funded ratio and the annual covered payroll as shown in the table below. The funded ratio is an indicator of the short-term solvency of the Miscellaneous Plan.

Table 2
City's Funding History

<u>Valuation Date (June 30)</u>	<u>Accrued Liability</u>	<u>Market Value of Assets (MVA)</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
2007	\$ 770,088,775	\$847,867,117	N/A ⁽¹⁾	110.1%	\$102,434,585
2008	828,351,283	795,222,167	N/A ⁽¹⁾	96.0	110,869,947
2009	921,349,334	590,044,979	\$331,304,355	64.0	110,317,579
2010	952,499,597	660,844,061	291,655,536	69.4	106,590,492
2011	998,216,259	786,080,314	212,135,945	78.7	108,106,192
2012	1,046,199,578	766,804,452	279,395,126	73.3	110,037,157
2013	1,086,925,211	847,232,156	239,693,055	77.9	110,552,014
2014	1,180,549,024	972,056,589	208,492,435	82.3	110,534,205
2015	1,228,644,007	969,285,454	259,358,553	78.9	111,185,202
2016	1,277,998,975	949,866,377	328,132,598	74.3	113,072,729
2017	1,317,421,178	1,029,759,135	287,662,043	78.2	118,644,799

(1) Information on Unfunded Liability not available for Valuation Date of June 30, 2007 and June 30, 2008.

Other Post-Employment Benefits. The City contributes to two single-employer defined benefit healthcare plans (neither of which is provided through the City's participation in CalPERS): the Stipend Plan and Implied Subsidy Plan. These plans provide other post-employment health care benefits ("OPEB") for eligible retirees and beneficiaries.

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

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

Effective for the fiscal year ended June 30, 2018, 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. GASB Statement 75 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 Water System was \$262,639. The Water System's net OPEB liability as of June 30, 2018 was \$3,410,000.

Additional information regarding the City's citywide retirement plans and OPEB, including information regarding the assumptions used to determine the pension and OPEB liabilities and the funding requirements therefor, can be found in Notes 14 and 15 to the basic financial statements in the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2018, which may be obtained on the City's website at <https://www.riversideca.gov/finance/cafr>. *This Internet address is included for reference only, and the information on this Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this Internet site.*

Investment Policy and Controls

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

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

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds, federal agency securities, corporate notes that are rated at least "A", certificates of deposit and money market funds, including the State of California Local Agency Investment Fund. The City entered into certain interest rate swap agreements in connection with previously issued Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations."

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

THE WATER SYSTEM

General

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

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

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

The following table sets forth certain general statistical information relating to the Water System for fiscal years 2013-14 through 2017-18.

Table 3
Water System General Statistics
Fiscal Years Ended June 30, 2014 Through June 30, 2018

		Fiscal Year Ended June 30,			
	2014	2015	2016	2017	2018
Service Connections Billed	64,829	64,871	65,094	65,428	65,640
<u>Annual Potable Urban Water Production⁽¹⁾</u>					
Local Groundwater Wells	25,216	22,854 ⁽⁴⁾	21,132 ⁽⁴⁾	22,240	24,623
Purchases from WMWD	0	0	0	0	0
Total	25,216	22,854	21,132	22,240	24,623
Peak Daily Distribution ⁽²⁾	90.0	86.6	74.7	87.6	87.5
Average Daily Production ⁽²⁾⁽³⁾	63.6	57.9	49.3	61.0	67.0

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

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

(3) Average Daily Production = Average Daily Distribution at the entry point to the distribution system.

(4) Decrease from prior year primarily due to decreased demand resulting from conservation in connection with the State's ongoing drought. See "– Water Supply – Drought Conditions."

History of the Water System

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

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

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

Existing Facilities

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

In order to receive imported water supplies and services, the City maintains three major water system interconnections for emergency and back-up water from the Mills Filtration Plant, which is operated by the Metropolitan Water District of Southern California ("**MWD**"). The first interconnection is located at Alessandro Boulevard, near the Mills Filtration Plant, and provides capacity of approximately 19 million gallons ("**mgd**") per day to the Water System's upper pressure zones. The second interconnection is located along a multi-agency pipeline that traverses through Riverside County from Mills Filtration Plant to the City of Corona ("**Mills Highline**"). The City's connection is at Van Buren Boulevard and provides capacity of approximately 19 mgd to the Water System's middle pressure zones. The third interconnection is along the Mills Highline at Green Orchard Place and provides additional capacity of 6.5 mgd to the Water System's upper southern pressure zones.

Four smaller interconnections provide emergency and back-up water supply to the higher-pressure zones in case of mechanical failure or electric outage at the booster pumping stations. Because the unit cost of imported water is considerably higher than producing local groundwater,

the additional supply is currently used only as an emergency supply. The availability of additional imported water significantly enhances the reliability of the Water System.

The City also maintains over 8,173 fire hydrants throughout the distribution system. The Water System currently has a Class 2 rating (the second most favorable of ten classifications) assigned by the Insurance Services Office, a source of information about property/casualty insurance risk.

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

Table 4
Water System Facilities

	<u>Fiscal Year Ended June 30,</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Utility Plant (less provision for accumulated depreciation) ⁽¹⁾	\$427,017	\$445,329	\$456,494	\$454,000	\$462,496
Construction in Progress ⁽¹⁾	\$15,828	\$ 12,028	\$6,655	\$13,973	\$23,969 ⁽²⁾
Miles of Pipeline	1,000	1,000	1,000	1,003	1,005
Number of Active Domestic Wells	54	55	56	56	56
Number of Active Reservoirs	15	15	16	16	16

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

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

For information about planned capital improvements to the Water System, see “– Capital Improvements Program.”

John W. North Water Treatment Plant (the “JWNWTP”). The JWNWTP was constructed to bring new water supplies online and eliminate the City’s reliance on imported water (other than in emergency situations). This innovative project includes adaptive reuse of existing facilities, coupled with the Department’s first Design-Build project. The JWNWTP cost approximately \$25.7 million, with approximately 50% of Proposition 50 grant funds from the State of California (authorized by ballot initiative in November 2002 to construct water-related infrastructure that reduces Southern California’s consumption of imported water), with the remaining portion funded with the proceeds of the 2005 Bonds and 2008B Bonds. The City received a total of \$12.8 million from the State of California.

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

The JWNWTP enabled four existing irrigation wells (the Flume Wells) to be converted to a potable water supply. The plant is located on the site of the former Grand Terrace Pump Station, a five-acre site owned by the City within the City of Grand Terrace. The JWNWTP is a 10 mgd submerged membrane ultrafiltration plant designed to treat groundwater under the influence of surface water. In order to deliver the additional capacity to the City, the JWNWTP included a new 50 mgd pump station and the replacement of 8,500 linear feet of the 42-inch Waterman

Transmission Pipeline downstream of the plant with new higher pressure class 48-inch diameter pipeline.

Water Supply

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

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

Riverside North Basin and Riverside South Basin. Another source of groundwater for the City’s potable system is pumped from a total of 15 wells in the Riverside North Basin and Riverside South Basin. Within the Riverside South Basin, eight wells are located in the North Orange Well Field and conveyed to the distribution system through the 60-inch North Orange transmission pipeline. Four of these wells pump through the Palmyrita Treatment Plant to remove DBCP. In the Riverside North Basin, four wells pump to the JWNWTP (see “- Existing Facilities - John W. North Water Treatment Plant”), and two wells pump directly into the 60-inch Gage Pipeline.

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

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

Western Municipal Water District. Imported water obtained from MWD through WMWD, a member agency of MWD and the wholesale distributor for the Riverside area, is used only for emergency purposes. In the fiscal year ended June 30, 2018, no purchases were made from WMWD.

If imported water is required in the future, the water would be treated and delivered from the Mills Filtration Plant by WMWD for purchase by the City on a wholesale basis. This water was historically used by the City only during peak summer months because of its higher cost and the availability of sufficient groundwater rights to meet the City’s annual demand. With the completion of the JWNWTP (see “- Existing Facilities - John W. North Water Treatment Plant”), this source is used only for emergency supply purposes.

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

As a result of a court decision in 1969 (the “**1969 Judgment**”), the City’s rights to export water from the BHB were fixed at 49,542 acre-feet per year (“**AFY**”). An acre-foot of water is the amount of water required to cover one acre of area to a depth of one foot (one acre-foot is approximately 325,850 gallons). The administration of the 1969 Judgment and the “safe yield” determination are assigned to a “Watermaster” (as defined in the 1969 Judgment) consisting of a representative from each of WMWD and San Bernardino Valley Municipal Water District (“**SBVMWD**”). The natural safe yield of the BHB was determined by court order in the 1969 Judgment and is 232,100 AFY. The natural safe yield is based on a 40-year hydrologic cycle.

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

Rights to water in the Riverside North Basin, Riverside South Basin and Colton Basin are defined in the 1969 Judgement. Base period (1959-63) extractions from these basins for use in Riverside County were determined at a total amount of about 54,100 AFY. The City has the entitlement to a major portion of this base period extraction and can increase its production beyond the base period extraction due to conservation activities (as was accomplished with Seven Oaks Dam). Under the terms of the 1969 Judgment, SBVMWD and WMWD are obligated to replenish the Colton Basin and Riverside North Basin. The replenishment obligation is triggered if extractions exceed the “adjusted” base year extractions or the average water level in three specified wells falls below 822.04 feet above mean sea level. As of November 2017 (the most recent annual monitoring required under the 1969 Judgment), the average water level measured from the three wells was 0.24 feet above the minimum requirement. The next Western-San Bernardino Watermaster Report will be submitted to the Court in August 2019, and will include the November 2018 measurement. Should the water level be below the minimum requirement, SBVMWD will incur an obligation to provide replenishment water. These basins are considered another reliable long-term source of water to meet the City’s needs because of the replenishment obligations identified in the 1969 Judgment, and actions have been taken to increase production of domestic water from the Riverside North Basin and Riverside South Basin. These basins currently supply approximately 35% of the City’s water requirements under normal conditions. Over the past five fiscal years, the City has pumped an average of 27,000 AFY from the Riverside North Basin and Riverside South Basin.

Water Production. Water is pumped from local groundwater wells and, in emergency situations, purchased from WMWD. See the table entitled “WATER SYSTEM GENERAL STATISTICS,” above.

Gage Canal Company. The City pumps water from irrigation wells into its Riverside Canal, along with direct pumping from the Olivewood wells, to transmit irrigation water to the Gage Canal Company. In exchange, the City receives potable water produced by Gage Canal Company from the BHB (see “- General - Bunker Hill Basin” above) under an agreement with the Gage Canal Company. The City currently owns 60% of the shares of Gage Canal Company and holds 3 of 11 seats on the board of directors. The City has the right to terminate the agreement upon notice of the agreement’s breach by Gage Canal Company and failure of Gage Canal Company to correct that breach within ten days. The City, upon notice, may also cancel the

agreement if Gage Canal Company engages in an activity or enterprise detrimental to, contrary to or in conflict with its performance obligations under the agreement.

Drought Conditions. California is recovering from six years of drought (2011- 2017), resulting in severe impacts to California's water supplies and its ability to meet all the demands for water in the State. Beginning on January 17, 2014 the Governor issued a number of executive orders regarding a drought state of emergency. In response to these orders, the State Water Resources Control Board ("**SWRCB**") issued and revised emergency regulations mandating water conservation efforts by the City and other water agencies throughout the State.

From June 2015 through February 2016, the City was required to conserve 28% of its water usage (measured in terms of residential water usage, gallons per capita per day as compared to its usage in 2013). In February 2016, the SWRCB made changes to the regulation such that the City's conservation standard (goal) was modified from 28% to 25%.

On May 9, 2016, Governor Brown issued Executive Order B-37-16, which called for extending the emergency regulations through January 2017 and authorizing the SWRCB to make further changes based upon lessons learned from the drought response to date. The SWRCB revised the mandatory emergency water conservation regulations at its May 18, 2016 meeting. The revised regulations allow water supply agencies to review their own supply and demand under drought conditions and certify that they have adequate supply to adopt a conservation standard equal to any projected shortfall. Based on the City's water supplies exceeding projected water demands for the next three years, assuming extended drought conditions, the City Council self-certified to a zero conservation standard in July 2016.

Governor Brown's April 2017 Executive Order lifted his January 2014 drought declaration for most of the state and replaced it with a long-term plan to better prepare the state for future droughts. The order included establishing a framework for efficient water use that reflects the state's diverse climate, landscape and population growth. In April 2017, five state agencies (State Water Resources Control Board, Department of Water Resources, Energy Commission, Public Utilities Commission, and Department of Food and Agriculture) published a framework document that was used to formulate the water conservation legislation.

The City's groundwater basins have significant buffering capacity for drought conditions. However, if the drought were to have continued, the City would expect diminished groundwater extraction capability. In the short-term (one to five years), sufficient groundwater supplies exist to meet reduced demands. In the future, if a drought were to continue a decade or more, recharge from imported or surface water, or, alternatively, an increased reliance on imported water, would be required to mitigate the depleted groundwater supplies. As noted above, the unit cost of imported water is considerably higher than producing local groundwater. Local and regional planning efforts are ongoing to address these scenarios.

In July 2014, in response to the drought conditions, the City Council implemented Stage Two (Minimum Water Shortage) under Section 14.22.040 of the Water Conservation Ordinance, limiting all outdoor irrigation to no more than four days per week between the hours of 6:00 p.m. and 10:00 a.m. In June 2015, the City Council adopted a new ordinance that limited outdoor irrigation to no more than three days a week for April through October and no more than two days a week for November through March. In June 2016, the City adopted a resolution declaring Stage One of the Water Conservation Ordinance, indicating normal water supply conditions, in light of the City's self-certification to the State of a conservation standard of zero. Stage One eliminates mandatory outdoor watering restrictions and encourages customers to use water efficiently at

their home and/or business, which includes watering vegetation only between the hours of 6:00 pm and 10:00 am. The use of recycled water, gray water, drip irrigation or micro-spray irrigation is exempt from this recommendation. The City Council also adopted an ordinance updating Chapter 14.22 of the Riverside Municipal Code to address the State's extended emergency drought regulations.

For information on the impact of drought conditions on the finances of the Water System, see "HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM – Summary of Operations."

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

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

Section 10720.8(a) requires the watermaster or a local agency within a Listed Basin (i) by April 1, 2016, to submit to DWR a copy of a governing final judgment, or other judicial order or decree, and any amendments entered before April 1, 2016; (ii) within 90 days of entry by a court, submit to DWR a copy of any amendment made and entered by the court to the governing final judgment or other judicial order or decree on or after April 1, 2016; and (iii) by April 1, 2016, and annually thereafter, submit to DWR a report containing certain prescribed information to the extent available for the portion of the Listed Basin subject to the adjudication.

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

New Sources of Supply

General. The City is actively developing and securing additional water supplies to meet projected increased demands. Growth in the City is still anticipated, and certain parts of this

growth area are served by special districts and other water suppliers. Completion of the JWNWTP permitted the City to reactivate four wells and increase water production from the Riverside North Basin.

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

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

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

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

This project will provide over 820 AFY of direct irrigation use for potential recycled water customers along the pipeline alignment and an additional 2,550 AFY of recycled water to be exchanged with WMWD for a total of 3,370 AFY. The Jackson Street Recycled Water Pipeline Project has a total estimated cost of \$21 million, which is anticipated to be financed using a combination of available funding including a grant of \$1 million, cash reserves and future bond funds.

Arlington Avenue Recycled Water Pipeline Project. The City plans to augment recycled water use by constructing an additional 3 miles of recycled water transmission and distribution pipelines within and south of Arlington Avenue just west of Van Buren Boulevard. The additional piping will provide an additional 1,600 AFY of recycled water

for direct irrigation use for potential recycled water customers along the pipeline alignment. This project has an estimated cost of \$6.4 million, and is currently unfunded.

Seven Oaks Dam. In 1999, the U.S. Army Corps of Engineers (“USACE”) completed construction of the Seven Oaks Dam, east of Mentone, California. Although the primary purpose of the dam is to provide flood protection along the main stem of the Santa Ana River, the City and other water purveyors provided funding during construction for enhancements to the dam’s abutments and blanket drain to allow the dam to be used for seasonal water storage. The dam is operated by local flood control agencies in accordance with the USACE operating instructions. Presently, all of the storage space (148,600 acre-feet) behind Seven Oaks Dam is allocated to flood control purposes. The basic plan of operation is to store flood runoff until the reservoir elevation at Prado Dam (35 miles downstream) peaks and begins to decline. At that point, flood control releases at Seven Oaks Dam are increased in accordance with the Water Control Manual (“WCM”). Under the WCM, the maximum scheduled release is 7,000 cubic feet per second and varies in a step-wise fashion depending on the elevation of the flood pools at Prado Dam and the Seven Oaks Dam. In its current form, the WCM for the Seven Oaks Dam provides some water conservation benefits by capturing floods that would have otherwise flowed out of the San Bernardino Basin Area (“SBBA”). This water is then released at controlled rates that are most often lower than pre-dam natural flood event rates. This slower release of flows also results in longer flow duration than the natural flood event. The net result is an enhanced capability for the diversion of flood runoff that used to flow out of the SBBA. Water districts, including the City, are actively negotiating with the USACE for further modification to the WCM to provide additional conservation benefits by extending the period that captured flood flows are retained behind the dam.

In April 2010, the SWRCB issued its final Decision Partially Approving Water Right Applications 31165 and 31370 submitted by SBVMWD and WMWD to capture and store storm water behind the Seven Oaks Dam. Under the terms of the permit, up to 198,000 AFY can be captured and diverted from behind the dam for groundwater recharge or direct delivery to water purveyors. Rainfall analysis over a 40-year hydrological cycle indicated that the average diversions will be approximately 11,000 AFY. The terms of the 1969 Judgment provide for approximately 24% of any such diversions to be available to the City for recharge and extraction as potable water. The City has prior agreements with WMWD and SBVMWD to facilitate this transaction. The City has adequate wells and transmission facilities to extract and deliver the expected annually available water to its service territory.

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

Riverside North Aquifer Storage and Recovery Project. The City, in conjunction with WMWD and SBVMWD, has proposed the construction of an inflatable rubber dam in the Santa Ana River. The dam will be inflated to capture lower storm flows and recharge the storm water within the riverbed and in off-channel percolation basins on property owned by the City. The dam will also be used to divert up to 100 cubic feet per second to the Riverside Canal. The recharge that occurs behind the rubber dam will help sustain groundwater supplies for the City’s nearby

Flume wells. Peak storm flows will not be captured or reduced. On average, the project is projected to yield approximately 3,250 AFY of additional surface water recharge in the Riverside Basin. The project is being led by SBVMWD and is currently in the planning phase.

Water Use Efficiency. Although California faces long-term water supply challenges, the City believes it is well positioned to satisfy its water supply requirements. The City is working to meet future challenges by continuing to educate customers on responsible water use practices, obtaining new water resources, and participating in future water supply projects.

The City has completed a Water Use Efficiency Master Plan and a Recycled Water Master Facilities Plan. Plumbing codes adopted by the City address retrofit of indoor plumbing fixtures upon issuance of building permits. To promote conservation for new development, the City has implemented a “green-builder program” that provides incentives for ultra-high efficiency landscaping and indoor plumbing fixtures. The City has implemented a Water-Efficient Landscaping Ordinance, as well as a new Water Use Efficiency Ordinance in addition to the existing municipal code restrictions on wasting water. In partnership with WMWD, the City’s Planning and Utility Department helped develop new water efficient landscape design guidelines to assist new development.

On November 10, 2009, the Governor signed SBX7-7, which requires the State of California to achieve a (i) 10% reduction in urban per capita water use by December 31, 2015, and (ii) 20% reduction in urban per capita water use by December 31, 2020. Additionally, in May 31, 2018, the Governor signed long-term water-use efficiency bills AB 1668 and SB 606 into law to provide standards for indoor residential water use of 55 gallons per capita per day (“gpcd”) until 2025, 52.5 gpcd from 2025 to 2030, and 50 gpcd beginning in 2030.

The City established its urban water use targets for 2015 and 2020, respectively, in accordance with the above law and bills. The 2015 and 2020 urban water use targets for the Water System’s service area were recalculated in the 2015 Urban Water Management Plan to reflect the use of DWR Population Tool. They are 239 gpcd and 213 gpcd, respectively. The City intends to meet the conservation requirements of SBX7-7, AB 1668, and SB 606 through increased use of recycled water and implementation of additional conservation measures.

In 2015, the annual daily per capita water use in the Water System’s service area was 180 gpcd, which is well below the City’s 2015 and 2020 conservation targets. The Water System’s total potable water demand dropped by about 10,000 acre-feet in 2015 over the previous year due to the Governor’s mandatory restrictions on outdoor watering and other drought conservation measures. See “– Water Supply – Drought Conditions” and “–Customers and Water Sales.”

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

The City goes beyond promoting sustainability; it puts this idea into practice with innovative conservation programs that lead to real water savings and the development of industry best practices. One program, called Smart Irrigation Program (SIP), provides participants with

irrigation audits, smart irrigation controllers, and high-efficiency sprinkler nozzle retrofit installations at little to no cost.

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

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

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

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

Projected Additional Water Supply

The following table shows the expected future water supply projects or programs to the Water System through 2040, as set forth in the Water System’s Final 2015 Urban Water Management Plan, which was adopted by the City Council on June 28, 2016.

Table 5
Expected Future Additional Water Supply Projects or Programs

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

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

Table 6
Actual and Planned Supplies
(In Acre-Feet)

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

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

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

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

Water Quality

General. The City operates its water system under a permit granted by the SWRCB Division of Drinking Water ("DDW"). It should be noted that on July 1, 2014, the Drinking Water Program moved from California Department of Public Health ("CDPH") to the SWRCB. The City complies with all federal and state regulatory requirements and runs its system in accordance with accepted water utility industry practices where it uses a variety of approved treatment techniques to treat its water for public consumption. The City monitors water quality by taking numerous water samples at various locations including production wells, treatment plants (pre- and post-treatment), transmission pipelines, compliance points and numerous critical locations throughout the distribution system. The City collects an average of 18,000 samples throughout its water system annually. All water samples are tested by an independent, state certified laboratory in accordance with all state and federal guidelines.

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

Existing Contamination. Portions of the City's groundwater aquifers are contaminated by anthropogenic chemicals, which include TCE, perchlorate, and DBCP. To contain and treat these contaminants, several wells and regional treatment facilities have been constructed. As described in "-Water Quality Settlements" below, Lockheed Martin Corporation ("Lockheed Martin") has constructed three regional GAC facilities (Tippecanoe, Sunnyside, and Raub) to

treat TCE at nine of the City wells. In addition, Lockheed Martin has also constructed two individual IX treatment facilities (Gage 46-1 and Gage 66-1) and three regional facilities (Tipppecanoe, Sunnyside, and Raub) for removal of perchlorate from ten of the City's wells. The Gage 66-1 wellhead IX treatment facility is no longer in use. The Gage 66-1 well is now treated at the Sunnyside treatment facility along with Gage 51-1.

Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, Best Fertilizer Company and Occidental Petroleum Corporation (collectively, the "**DBCP Defendants**") funded the construction of two regional GAC plants (Palmyrita and Garner) to treat DBCP at six of the City wells. However, effective April 15, 2009, the Garner regional GAC plant has been decommissioned since one of the two wells no longer contains DBCP and the other well has been abandoned due to decreasing production. See "– Water Quality Settlements" below for discussions on operational costs funded by other parties.

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

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

On December 14, 2017, the State Water Resources Control Board adopted an MCL for 1,2,3-Trichloropropane ("**1,2,3-TCP**") of 0.000005 mg/L or (5 parts per trillion (ppt)). Initial sampling began January 1, 2018, and will be completed by December 31, 2018. To date six of the City's potable wells show detection of 1,2,3-TCP and exceed the MCL. These wells extract water from the same aquifers that are contaminated by the anthropogenic chemicals noted in the preceding section and are currently being treated by existing GAC treatment facilities.

Water Quality Settlements

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

Lockheed Martin Corporation Settlement. On November 10, 1998, the City entered into an agreement with Lockheed Martin to address contamination of certain City wells by TCE. This contamination was caused by the Crafton-Redlands plume, a plume of TCE that is situated in the groundwater in the BHB of San Bernardino County, California. Pursuant to the agreement,

Lockheed Martin agreed to design and construct certain new components for the City's water system to address the contamination problem. Specifically, Lockheed Martin designed, purchased, constructed and installed water treatment systems in the City's Gage and Raub well fields to maintain water quality. The Gage and Raub well fields consist of approximately 24 groundwater extraction wells and associated equipment owned by the City in the BHB, of which nine wells currently are being treated. Lockheed Martin funded the design and construction of pipelines to transport water from supply wells in the North Orange area to the Linden-Evans reservoirs, as well as other costs associated with these projects. Construction of the majority of the treatment facilities was completed in fiscal year 2003-04. Lockheed Martin has funded approximately \$16.5 million of the costs to construct various treatment facilities.

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

In addition, the City has detected perchlorate in the Garner and Cooley Well Tracts and Stiles and Scheuer Wells in north San Bernardino and are treating them via blending with other sources. The possibility of a treatment plant at this location is being explored given the possibility that the perchlorate MCL may be lowered and the City could not meet the new perchlorate standard utilizing its blending capacity.

The majority of the operating costs for the TCE and perchlorate treatment facilities is paid directly by Lockheed Martin, including the GAC and IX media (i.e., filtration) removal and replacement costs and major maintenance costs. However, certain operating costs are reimbursed by Lockheed Martin directly to the City. For fiscal year 2017-18, the amount of operating costs (City labor, power, lab analyses, and associated expenses) reimbursed by Lockheed Martin was \$1.0 million.

DBCP Settlement. In May 2001, the City settled a lawsuit it had brought against certain manufacturers and distributors of DBCP, a pesticide that was banned in California in the mid-1970s that was detected in certain City-owned potable water wells. The forty-year settlement agreement with the DBCP Defendants provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating GAC treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for DBCP.

Construction of the existing treatment facilities was completed in fiscal year 2002-03. The construction cost funded by the DBCP Defendants was approximately \$4 million. For fiscal year 2017-18, the amount of operating costs reimbursed by the DBCP Defendants relating to these existing treatment facilities was \$0.6 million.

MTBE Settlement. In March 2008, the City settled a lawsuit it brought against certain manufacturers and distributors of methyl tertiary butyl ether ("**MTBE**") and tertiary butyl alcohol ("**TBA**"), which were used as either octane enhancers and/or additive to gasoline by certain

manufacturers and refiners of gasoline. The thirty-year settlement agreement, reached with such parties and related entities as BP America, Chevron, ConocoPhillips, Texaco, Shell, Marathon, Valero, CITGO, Sunoco, Hess, Flint Hills and Tesoro ("**MTBE Defendants**"), provides for the MTBE Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating treatment facilities to remove MTBE from certain City wells, with such treatment obligation triggered by detections of levels of MTBE in City water that exceed federal and state limits for MTBE. To date, MTBE levels have not been detected exceeding federal and state limits. The settlement agreement is expected to cover the majority of any future treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for MTBE.

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

Environmental Matters

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

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

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

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

Endangered Species Act. In December 2010, the United States Fish and Wildlife Service ("**USFWS**") published a final rule (the "**Final Rule**") in the Federal Register (USFWS Docket No. FWS-R8-ES-2009-0072) that designated critical habitat for the Santa Ana sucker (*Catostomus santaanae*). The Final Rule designates significant portions of the Santa Ana River

mainstem from below the Seven Oaks Dam into Orange County as critical habitat. Under the Endangered Species Act of 1973, projects with a federal nexus are required to complete consultation with the USFWS prior to constructing those projects. Specifically, federal agencies (e.g., USACE) will be required to consult with USFWS prior to issuing any permits that may affect critical habitat.

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

In January 2013, the USFWS issued a final rule designating portions of the Santa Ana River as critical habitat for the southwestern willow flycatcher (*Empidonax traillii extimus*), a federally threatened bird species. This ruling will have an impact on water supply projects planned within the vicinity of the Santa Ana River, such as the Riverside North Aquifer Storage and Recovery Project.

In fall 2014, the City partnered in a collaborative effort to begin work on establishing a Habitat Conservation Plan (“HCP”) within the upper watershed. This effort includes 12 resource agencies within the Santa Ana River Watershed, US Fish and Wildlife Service, California Department of Fish and Wildlife, and several other governmental agencies and stakeholders. The Upper Santa Ana River HCP is focusing primarily on aquatic species within the Santa Ana River; however, upland species are also included. When completed in 2019, the HCP will include coverage for 13 agencies within the watershed. The establishment of an HCP will assist the agencies in obtaining permits for species listed within the plan, including Santa Ana sucker and southwestern willow flycatcher.

Customers and Water Sales

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

Table 7
Number of Metered Customers Billed

	<u>Fiscal Year Ended June 30,</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	58,958	58,922	59,137	59,453	59,601
Commercial / Industrial	5,527	5,594	5,619	5,640	5,705
Other	344	355	338	335	334
Total - All Classes	<u>64,829</u>	<u>64,871</u>	<u>65,094</u>	<u>65,428</u>	<u>65,640</u>

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

Table 8
Water Sold by Customer Class
(In Millions of Gallons)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	13,040	11,539	9,819	10,637	11,643
Commercial/Industrial	7,699	7,115	5,993	6,496	7,161
Other	719	670	572	631	674
Subtotal Retail Sales ⁽¹⁾	21,458	19,324	16,384	17,764	19,478
Wholesale Sales ⁽²⁾	151	131	470	1,192	1,104
Total	<u>21,609</u>	<u>19,455</u>	<u>16,854</u>	<u>18,956</u>	<u>20,582</u>
Estimated Water Loss ⁽³⁾	8.2%	8.0%	11.1%	8.4%	8.8%

- (1) Retail sales decreased by 15.2% in Fiscal Year 2015-16 from the prior year due to consumer conservation measures taken as a result of the current drought conditions. See “– Water Supply – Drought Conditions.”
- (2) Increase in wholesale sales in Fiscal Years 2016-17 and 2017-18 is due to WMWD Agreement. See “– Conveyance Agreements – WMWD Agreement.”
- (3) Water loss is the difference between potable urban water produced and the sum of water sold through customer meters, wholesale sales and wheeled water. See “– Water Loss/Unaccounted for Water” below.

Table 9
Water Sales and Distribution

	Fiscal Year Ended June 30,				
	2014	2015	2016	2017	2018
Retail Water Sales ⁽¹⁾⁽²⁾	21,458	19,324	16,384	17,764	19,478
Average Daily Production ⁽²⁾⁽³⁾	63.6	57.9	49.3	61.0	67.0
Maximum Day Distribution ⁽¹⁾	89.5	73.9	74.7	81.2	82.8
Average Daily Sales per Meter ⁽⁴⁾	907	816	690	744	813

- (1) Retail water sales to Water System's customers only. Excludes wholesale sales and wheeled water.
- (2) In millions of gallons. Decrease in fiscal year ended June 30, 2016 from prior year primarily due to decreased demand resulting from conservation in connection with the State's ongoing drought. See "– Water Supply – Drought Conditions."
- (3) Average Daily Production includes retail and wholesale water.
- (4) In gallons.

Water Loss/Unaccounted for Water. Water loss (the difference between potable urban water production and the sum of water sold through customer meters, wholesale sales, and wheeled water) is impacted by timing differences, as production meters are for a specific time interval while consumption related to retail water sales is based upon meter reading and billing cycles. As shown in the table provided above entitled "Water Sold by Customer Class," water loss increased from 8.2% and 8.0% in the fiscal years ended June 30, 2014 and 2015, respectively, to 11.1% in the fiscal year ended June 30, 2016, before falling back in the last two fiscal years. The temporary increase in water loss through the transmission and distribution system is partially a result of decreased demand during the relevant time period, while the system conditions (operating pressure, etc.) remained similar to 2014. In the last two years and with the re-emergence of increasing demand, the City's water loss is stabilizing back to previous years rates.

The City remains committed to its customer meter replacement program, main replacement program, and investments in new well meters and telemetry. The City continues to make an effort to replace customer meters greater than 20 years old. In addition, authorized unmetered uses, such as firefighting (training and suppression), system flushing and other utility uses would further reduce unaccounted for water by approximately 0.25%, and are not included in the tables above. The City is committed to further reduce unaccounted for water. As the new water conservation measures under Senate Bill 606 and Assembly Bill 1668 are implemented as an outcome of Executive Order B-37-16 "Making Water Conservation a California Way of Life", the City will follow the instructions set by the water loss audit in accordance with American Water Works Association and follow the instituted performance measures rather than the traditional percentage goal.

Customer Concentration

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

Table 10
Top Ten Water Customers
Fiscal Year Ended June 30, 2018

<u>Water Customer Identified by Category</u>	<u>Water Revenues</u>	<u>Percent of Total Retail Water Revenues</u>
Local Government	\$ 1,605,879	2.75%
Local School District	791,927	1.36
Local School District	662,925	1.14
Local Government	438,120	0.75
Corporation	313,521	0.54
Local University	236,559	0.41
Local Hospital	206,508	0.35
Local University	173,680	0.30
Corporation	165,714	0.28
Local Hospital	161,342	0.27
Total	<u>\$ 4,756,175</u>	<u>8.15%</u>

The Water System has a diverse customer base with little exposure to customer concentration. The Water System's top ten customers were responsible for a combined 8.15% of total retail revenues in fiscal year 2017-18. The Water System's five largest customers were responsible for approximately 6.54% of revenues in fiscal year 2017-18.

Conveyance Agreements

WMWD Agreement. On May 16, 2017, the City and WMWD executed a "2017 Cooperative Agreement For Long-Term Wheeling and Surplus Water Sales Agreement" (the "**WMWD Agreement**"), which amended and restated the terms of a "Cooperative Agreement for Water Production and Conveyance" between the City and WMWD dated April 21, 2009. Under the terms of the WMWD Agreement, the City provides to WMWD potable production and conveyance for BHB water rights controlled by WMWD to the extent that the City has capacity available. The WMWD Agreement also allows for production and conveyance of non-potable water from the Riverside South Basin through the Riverside Canal for delivery to WMWD at its Jefferson Street pump station located at the terminus of the Riverside Canal. Production and conveyance for the potable and non-potable water is coordinated on a month-ahead basis, and is interruptible by the City without notice.

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

estimates revenues from wheeled water over the 20-year term of up to \$83 million, and from surplus water sales over the 10-year term of up to \$17 million.

The City received \$5.5 million from WMWD for fiscal year 2017-18 and expects to generate revenue of approximately \$5.3 million in fiscal year 2018-19 from the WMWD Agreement.

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

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

Projected Demand

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

Table 11
Historical and Projected Water Demand
(In Acre Feet)

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

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

its currently low level. Since the rescission of the Emergency Drought Declaration in April of 2017, a rebound in water usage has been observed; apart from any future restrictions limiting water use, this trend is expected to continue for the next several years.

Industry Recognition

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

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

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

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

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

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

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

Water Rates and Charges

General. The City is obligated by the Law (including the Resolution) to establish rates and collect charges in an amount sufficient to meet all Water System Operating and Maintenance Expenses and debt service on the Water System's indebtedness, with specified requirements as

to priority and coverage. The City funds Water System operations and maintenance entirely from water service charges. Water rates are established by the Board and are subject to approval by the City Council. Such rates are examined each year and adjusted as needed to meet budgetary requirements. Water rates are not subject to regulation by the CPUC or any other State agency. See “CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY – Articles XIIC and XIID of the State Constitution” in this Official Statement for additional information.

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

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

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

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

Monthly Service Charge. The monthly service charge for residential and commercial customers is calculated on the basis of meter size, as well as whether the customer is located inside or outside of City limits. Such charges for service within the City range from \$15.80 for meters of five-eighths of an inch to \$75.80 for two-inch meters.

Quantity Charge. The quantity rate for commercial and industrial customers is \$1.84 per 100 cubic feet of water in the summer and \$1.58 per 100 cubic feet of water in the winter.

The quantity rate for residential customers is summarized in the following table.

Table 12
Quantity Water Rates For Residential Customers⁽¹⁾

<u>Quantity⁽²⁾</u>	<u>Summer Rate⁽³⁾</u>	<u>Winter Rate⁽³⁾</u>
First 9 ccf	\$1.16	\$1.16
10 - 35 ccf	1.45	1.45
Over 35 ccf	3.26	2.67

(1) Effective as of July 1, 2018.

(2) ccf = 100 cubic feet per month.

(3) Per 100 cubic feet. Summer months are June through October; all other months are deemed winter months for rate purposes.

There is a surcharge for customers outside the City limits. At the present time, the surcharge rates are in effect for 3,944 customers outside the City. Revenues received from the surcharge were approximately \$1,474,000 for fiscal year 2017-18.

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

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

Table 13
Average Billing Price (Dollars) Per Hundred Cubic Feet⁽¹⁾
(Retail Sales)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	\$ 2.33	\$ 2.35	\$ 2.44	\$ 2.46	\$ 2.39
Commercial	1.88	1.90	2.00	1.99	1.94
Industrial	2.08	2.11	2.15	2.14	2.12
Other	2.00	2.12	2.20	2.07	2.09

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

Comparable Rates

Due to the City's valuable water rights in local groundwater, its rates have historically been lower than surrounding communities. Based on current rates in effect as of July 1, 2018, the City's average residential customer's rates would be from 112% to 66% higher if served by the other local major water suppliers in the region.

Connection and Capacity Fees

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

The current connection and capacity fees are summarized below:

Table 14
Connection and Capacity Fees

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

Set forth in the following table is history of connection fee revenue received by the City since Fiscal Year 2013-14.

Table 15
Connection and Capacity Fee Revenue
(Dollars In Thousands)

<u>Fiscal Year</u>	<u>Connection and Capacity Fee Revenue⁽¹⁾</u>	<u>Number of New Connections</u>
2013-14	\$3,264	299
2014-15	3,800	241
2015-16	2,950	145
2016-17	2,934	90
2017-18	3,017	279

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

Billings and Collections

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

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

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

Uncollectible Accounts

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

Table 16
History of Billings and Collections
As of June 30,
(Dollars in Thousands)

Fiscal Year	Billings	Payments	Write-Off as % of Billing ⁽¹⁾	Write-Off	Ending Accounts Receivable Balance ⁽²⁾
2018	\$58,905	\$58,988	0.083%	\$49	\$6,858
2017	55,023	54,395	0.099	54	6,990
2016	50,525 ⁽³⁾	50,181	0.148	75	6,416
2015	57,485	59,180	0.134	77	6,147
2014	63,361	63,418	0.125	79	7,919

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

(2) The ending accounts receivable balance of any fiscal year is equal to the beginning balance of that fiscal year plus billings, minus the sum of payments and write-offs for that fiscal year. The ending accounts receivable balance at June 30, 2013, was \$8,055.

(3) Decrease from previous year primarily due to decreased demand resulting from conservation in connection with the State's drought. See "– Water Supply – Drought Conditions."

Capital Improvement Program

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

	Five-Year CIP (\$000) Fiscal Years 2019-2023
Distribution Pipelines	\$ 43,473
Transmission Pipelines	29,681
System Automation Projects	17,674
Well Projects	14,947
Distribution Facilities	11,395
Water Supply Projects	10,791
Reservoir Projects	1,151
Total*	<u>\$129,113</u>

* Total may not foot due to rounding.

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

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

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

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

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

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

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

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

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

Insurance

The Water System's insurance needs are handled by the Risk Management Section of the City's Finance Department. Liability and Workers' Compensation Internal Service Insurance fund balances are based on a reserve policy that requires the City to maintain 40% of the total combined current claims liability outstanding based on annual actuarial studies, which is completed by an outside firm.

The City, including the Water System, is insured for Worker's Compensation coverage with a \$25 million maximum per occurrence limit, subject to a \$3 million per occurrence self-insured retention. The City is insured for general liability with a \$10 million per occurrence limit, subject to a \$3 million self-insured retention. The City also secures an additional \$10 million in excess liability coverage. The City maintains property insurance, providing all risk and equipment breakdown coverage on most City real and personal property holdings with a limit of \$1 billion, subject to an all risk deductible of \$100,000 and a \$250,000 all risk deductible for electric generating facilities. At the time of loss, valuation will be on a repair or replacement cost basis,

with actual loss sustained for time element coverage, and actual cash value for all City-owned contractor's equipment.

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

Water System Litigation

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

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

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

HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM

Transfers to the City's General Fund

Contributions to the City's General Fund of surplus funds of the Water System (after payment of Operating and Maintenance Expenses and debt service on the Bonds and Parity Debt) are limited by the City Charter, the amendment of which requires voter approval. Such transfers were approved by the voters and adopted by the City Council on November 15, 1977. On June 4, 2013, the voters approved a further amendment to the City Charter approving the transfer as a general tax pursuant to Article XIII C of the California Constitution. The transfers are limited to twelve equal monthly installments during each fiscal year, comprising a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfer to the City's General Fund for the fiscal year ended June 30, 2018, was \$6,173,100. The budgeted transfer for the fiscal year ending June 30, 2019, is \$6,584,300. See "CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY – Articles XIII C and XIII D of the California Constitution – Water Utility Revenue Transfer Under the City Charter" for additional details on the General Fund transfer.

Significant Accounting Policies

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

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

Investments are stated at fair value. Utility plant assets are valued at historic cost or, if actual historical cost is not available, estimated historical cost. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits; and administrative expenses. Contributed plant assets are valued at their estimated fair market value on the date of contribution. For accounting policies specifically relating to the Water System, see the notes to the financial statements in Appendix B. See also "FINANCIAL STATEMENTS."

Summary of Operations

The following table shows the Net Operating Revenues of the Water System available for debt service as calculated in accordance with the flow of funds in the Resolution. It has been prepared by the City based on audited financial statements for the Water System for fiscal years 2013-14 through 2017-18.

Table 17
Summary of Operations and Debt Service Coverage
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Revenues ^{(1) (2) (9):}					
Water Sales:					
Residential	\$40,687	\$36,266	\$32,061 ⁽⁹⁾	\$34,994	\$37,148
Commercial	20,227	18,932	16,572	17,869	19,317
Other Sales	1,946	1,919	1,690	1,764	1,880
Water Conveyance	2,356	2,286	3,944	4,385	5,082 ⁽³⁾
Other Operating Revenues ⁽¹⁰⁾	<u>2,330</u>	<u>2,094</u>	<u>1,566</u>	<u>2,495</u>	<u>2,386</u>
Total Water Revenues	<u>\$67,546</u>	<u>\$61,497</u>	<u>\$55,833</u>	<u>\$61,507</u>	<u>\$65,813</u>
Interest Income	1,049	749	1,075	17	250
Contributions in Aid ⁽⁴⁾	2,278	2,853	2,245	3,312	3,249
Non-Operating Revenues	<u>445</u>	<u>911</u>	<u>894</u>	<u>854</u>	<u>1,742</u>
Total Revenues	<u>\$71,318</u>	<u>\$66,010</u>	<u>\$60,047</u>	<u>\$65,690</u>	<u>\$71,054</u>
Operating and Maintenance Expenses:					
Field Operations	\$12,809	13,547	13,612	14,692	15,399
Production and Operations	15,981	14,984	14,648	15,439	17,074
Engineering	7,451	6,710	7,348	7,826	8,295
Water Resources ⁽⁸⁾	<u>1,457</u>	<u>1,486</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses ⁽¹⁾⁽⁵⁾⁽⁶⁾	<u>\$37,698</u>	<u>\$36,727</u>	<u>\$35,608</u>	<u>\$37,957</u>	<u>\$40,768</u>
Net Operating Revenues	<u>\$33,620</u>	<u>\$29,283</u>	<u>\$24,439</u>	<u>\$27,733</u>	<u>\$30,286</u>
Debt Service incl. BAB Subsidy ⁽⁷⁾	\$13,110	\$13,600	\$13,597	\$13,610	\$14,147
Debt Service excl. BAB Subsidy	\$14,462	\$14,956	\$14,958	\$14,973	\$15,512
Debt Service Coverage Ratio incl. BAB Subsidy ⁽⁷⁾⁽⁹⁾	2.56x	2.15x	1.80x ⁽⁹⁾	2.04x	2.14x
Debt Service Coverage Ratio excl. BAB Subsidy ⁽⁷⁾⁽⁹⁾	2.42x	2.05x	1.72x ⁽⁹⁾	1.94x	2.04x

- (1) The Water Conservation Programs (described under "THE WATER SYSTEM – Water Rates and Charges – Water Conservation") are limited to specific purposes, and therefore, the related service charge that the City collects is excluded.
- (2) The payments received by the Water Fund from the General Fund in fiscal years 2013-14, 2014-15, and 2015-16, in connection with the City's April 2013 settlement of a lawsuit challenging the General Fund transfer on Proposition 218 grounds (described under "CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY – Articles XIIC and XIID of the California Constitution – Water Utility Revenue Transfer Under the City Charter"), are excluded because General Fund transfer contributions do not constitute Operating and Maintenance Expenses. See footnote 5 below.
- (3) Increase in fiscal year 2017-18 over the prior years was primarily due to the WMWD Agreement (see "THE WATER SYSTEM – Conveyance Agreements").
- (4) The amounts reflected as "Contributions in Aid" reflect cash collections from a combination of connection fees by developers and grant funded projects.
- (5) Excludes contributions to the City's General Fund of \$6,991, \$7,098, \$6,430, \$5,673 and \$6,173 for fiscal years 2013-14 through 2017-18, respectively. These contributions do not constitute Operating and Maintenance Expenses and are subordinated to debt service on the Bonds. See "CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY – Articles XIIC and XIID of the California Constitution – Water Utility Revenue Transfer Under the City Charter" for additional details on the General Fund transfer.
- (6) Excludes Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pension, non-cash adjustment of \$(941), \$(1,806), \$(85) and \$3,119 for fiscal years 2014-15 through 2017-18, respectively. GASB 68 was effective July 1, 2014.
- (7) Build America Bond ("BAB") Subsidy is effective with respect to the 2009B Bonds for the semi-annual interest payment dates beginning on April 1, 2010, and ending on October 1, 2039; however, see footnote 4 to the table entitled "Debt Service Requirements" under the heading entitled "PRIOR DEBT AND DEBT SERVICE - Debt Service Requirements" regarding the effect of the federal government's sequester, which became effective on March 1, 2013.
- (8) Beginning with fiscal year 2015-16, Water Resources was integrated with Engineering.
- (9) Fiscal Year 2015-16 results reflect conservation measures in effect during such time. See "THE WATER SYSTEM – Water Supply – Drought Conditions" for additional information about the impact of the drought on the Water System.
- (10) Includes revenues from water wholesale sales.

Audited Statement of Net Position and Related Statements

The following table presents a summary of financial data relating to the Water System for fiscal years 2013-14 through 2017-18. It has been prepared by the City based on audited financial statements for the Water System for fiscal years 2013-14 through 2017-18. See "FINANCIAL STATEMENTS" below.

Table 18
Water Fund Statement of Net Position
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2014	2015⁽¹⁾	2016	2017	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Utility plant:					
Source of supply	\$ 49,066	\$54,903	\$62,283	\$63,060	\$65,440
Pumping and treatment	73,444	74,152	75,565	75,986	77,104
Transmission and distribution	438,521	461,894	475,072	482,453	500,508
General and intangible	<u>14,755</u>	<u>14,668</u>	<u>16,631</u>	<u>19,473</u>	<u>19,940</u>
	575,786	605,617	629,551	640,972	662,992
Less accumulated depreciation	<u>(180,094)</u>	<u>(191,613)</u>	<u>(204,382)</u>	<u>(218,297)</u>	<u>(232,177)</u>
	395,692	414,004	425,169	422,675	430,815
Construction in progress	15,828	12,028	6,655	13,973	23,969
Intangible, non-depreciable	10,841	10,841	10,841	10,841	10,841
Land	<u>20,484</u>	<u>20,484</u>	<u>20,484</u>	<u>20,484</u>	<u>20,840</u>
Total utility plant	<u>442,845</u>	<u>457,357</u>	<u>463,149</u>	<u>467,973</u>	<u>486,465</u>
Restricted assets ⁽²⁾	<u>19,049</u>	<u>9,105</u>	<u>8,593</u>	<u>10,764</u>	<u>10,875</u>
Current assets:					
Cash and cash equivalents ⁽³⁾	86,181	83,864	73,541	63,503	47,464
Accounts receivable, net	9,664	8,332	9,088	10,061	8,841
Accrued interest receivable	429	311	182	231	191
Advances to other funds of the City	392	261	179	78	131
Prepaid expenses	17	2	168	164	238
Other receivable	<u>3,333</u>	<u>3,333</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total unrestricted current assets	<u>100,016</u>	<u>96,103</u>	<u>83,158</u>	<u>74,037</u>	<u>56,865</u>
Other non-current assets:					
Net pension asset ⁽¹⁾	4,926	0	0	0	0
Other non-current receivables	3,333	0	0	0	0
Regulatory assets	<u>943</u>	<u>580</u>	<u>705</u>	<u>0</u>	<u>0</u>
Total other non-current assets	<u>9,202</u>	<u>580</u>	<u>705</u>	<u>0</u>	<u>0</u>
Total assets	<u>571,112</u>	<u>563,145</u>	<u>555,605</u>	<u>552,774</u>	<u>554,205</u>
Deferred outflows of resources:					
Deferred outflows related to pension ⁽¹⁾	0	4,186	9,515	13,542	10,881
Deferred outflows related to note payable	0	0	0	0	4,425
Changes in derivative values	2,941	4,008	7,346	3,881	1,869
Loss in derivative values	<u>8,215</u>	<u>7,690</u>	<u>7,162</u>	<u>6,674</u>	<u>6,163</u>
Total deferred outflows of resources	<u>11,156</u>	<u>15,884</u>	<u>24,023</u>	<u>24,097</u>	<u>23,338</u>
Total assets and deferred outflows of resources	<u>\$582,268</u>	<u>\$579,029</u>	<u>\$579,628</u>	<u>\$576,871</u>	<u>\$577,543</u>
NET POSITION, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES					
Net position:					
Restricted for debt service	\$ 5,930	\$ 6,063	\$ 5,949	\$ 6,068	\$ 6,186
Restricted for water conservation programs	2,499	2,484	2,226	2,011	1,981
Unrestricted ⁽¹⁾	78,570	41,524	36,569	26,252	5,349
Net investment in capital assets	<u>245,731</u>	<u>252,615</u>	<u>260,468</u>	<u>271,087</u>	<u>291,562</u>
Tot net position	<u>332,730</u>	<u>302,686</u>	<u>305,212</u>	<u>305,418</u>	<u>305,078</u>
Long-term obligations, less current portion ⁽⁴⁾	202,968	197,210	191,530	189,492	182,814
Other non-current liabilities:					
Advance from other funds of the City-pension obligation ⁽⁴⁾	4,855	4,612	4,338	0	0
Net postemployment benefits payable/liability	2,422	2,787	3,032	3,266	3,410
Net pension liability ⁽¹⁾	0	26,032	28,257	34,465	38,880
Compensated absences	333	309	196	288	344
Derivative instrument	8,083	8,861	12,398	8,193	5,593
Capital lease payable	0	0	0	2,095	1,884
Note payable	<u>9,482</u>	<u>11,470</u>	<u>13,764</u>	<u>12,927</u>	<u>20,322</u>
Total non-current liabilities	<u>25,175</u>	<u>54,071</u>	<u>61,985</u>	<u>61,234</u>	<u>70,433</u>

Current liabilities payable from restricted assets:					
Accounts payable and other accruals	1,290	0	0	0	0
Accrued interest payable	1,801	1,751	1,687	1,619	1,542
Water conservation programs payable	66	530	87	50	78
Current portion of long-term debt ⁽⁴⁾	<u>5,015</u>	<u>5,260</u>	<u>5,180</u>	<u>6,098</u>	<u>6,363</u>
Total current liabilities payable from restricted assets	<u>8,172</u>	<u>7,541</u>	<u>6,954</u>	<u>7,767</u>	<u>7,983</u>
Current liabilities:					
Accounts payable and other accruals	5,471	5,249	3,677	4,415	5,536
Note payable	0	843	802	837	1,202
Other liabilities	<u>1,085</u>	<u>595</u>	<u>689</u>	<u>1,087</u>	<u>1,027</u>
Total current liabilities	<u>6,556</u>	<u>6,687</u>	<u>5,168</u>	<u>6,339</u>	<u>7,765</u>
Deferred inflows of resources:					
Deferred inflows related to pension ⁽¹⁾	0	7,501	8,779	6,510	2,585
Deferred inflows related to other postemployment benefits ⁽⁵⁾	0	0	0	0	112
Changes in derivative values	0	0	0	0	0
Regulatory charges	<u>6,667</u>	<u>3,333</u>	<u>0</u>	<u>111</u>	<u>773</u>
Total deferred inflows of resources	<u>6,667</u>	<u>10,834</u>	<u>8,779</u>	<u>6,621</u>	<u>3,470</u>
Total net position, liabilities, and deferred inflows of resources	<u>\$582,268</u>	<u>\$579,029</u>	<u>\$579,628</u>	<u>\$576,871</u>	<u>\$577,543</u>

- (1) In fiscal year 2014-15, the City implemented new financial accounting standards that resulted in the recognition of the net pension liability, related deferred outflows and inflows of resources and the elimination of the net pension asset as of July 1, 2014. Fiscal year 2014-15 financial statements have been changed to reflect the new reporting requirements including the restatement of net position as of July 1, 2014. A restatement of fiscal year 2013-14 financial statements was not made because the information necessary for the restatement was not readily available.
- (2) Includes current and non-current restricted assets for historical comparison purposes.
- (3) Cash and cash equivalents reflects a decrease from prior fiscal years' end due to the use of reserves to fund ongoing capital projects.
- (4) In fiscal year 2017-18, Advances from other funds of the City-pension obligation were reclassified as long term obligations with a portion reflected as current portion of long-term obligations. Fiscal year 2016-17 financials were reclassified for comparative purposes.
- (5) In Fiscal Year 2017-18, the City implemented GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions which establishes new accounting and financial reporting requirements for OPEB plans. Fiscal Year 2017-18 financial statements reflects a restatement of net position as of July 1, 2017, the elimination of net OPEB payable, the establishment of net OPEB liability and the establishment of deferred inflows related to OPEB. There are no restatements for prior years' financial statements because the actuarial information necessary for the restatements was not readily available.

Unrestricted Cash Reserves

On March 22, 2016, the City Council adopted the Riverside Public Utilities Cash Reserve Policy, which provided a defined level of unrestricted, undesignated and designated cash reserves in the Water System for strategic purposes. On July 24, 2018, the Cash Reserve Policy was updated and approved by City Council reflecting the establishment of an additional designated reserve, the use of the line of credit as available reserves and other minor revisions to bring it current. This policy sets target minimum and maximum levels for the undesignated reserve to mitigate risk in the following categories: operations and maintenance, rate stabilization, capital expenditures, and debt service. The undesignated reserve can be used for any lawful purpose and has not been designated for specific capital and operating purposes. As of June 30, 2018, the balance was at \$36,679,000 for the unrestricted undesignated reserve. [The Water System is in the process of entering into the Revolving Credit Facility, which will provide additional flexibility and operating liquidity. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2019A BONDS – Subordinate Obligations – Revolving Credit Facility" for additional information on the Revolving Credit Facility.] [update, once facility is closed]

Designated reserves are considered unrestricted assets and represent the portion of unrestricted reserves set aside for specific purposes determined by the Board and City Council. Designated reserves may be held for capital or operating purposes. Unrestricted designated cash reserve balances as of June 30, 2018, are as follows:

Customers Deposits	\$ 621,000
Capital Repair and Replacement Reserve	2,249,000
Property Reserve	5,000,000
Recycled Water Reserve	2,915,000
Total	<u>\$10,785,000⁽¹⁾</u>

⁽¹⁾ Included as a component of unrestricted cash and cash equivalents in the Statements of Net Position in the Water System's audited financial statements for the fiscal year ended June 30, 2018.

Outstanding Obligations of the Water System

The outstanding obligations of the City with respect to the Water System are described in "PLAN OF FINANCE – Outstanding Parity Bonds."

WATER SYSTEM STRATEGIC PLAN

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

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

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

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

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

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

The Thriving Financially Roadmap reviewed the areas of rates, reserves, debt and other related policies to ensure the financial balance of Riverside Public Utilities. Rates, cash reserves, debt and other revenue sources were evaluated together with the development of a 10-year pro-forma (financial plan). Several dependent projects were completed during the development of the 10-year pro-forma and rate plan. These projects include the update and approval of the

reserve policy, development and approval of an overall fiscal policy, and development and approval of electric and water cost of service studies.

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

CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY

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.”

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

With respect to local government “taxes,” Proposition 26 expressly excludes a variety of levies, charges and exactions from the definition of “tax,” including a “charge imposed for a

specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.” Although the City believes that the Water System rates and charges are not taxes for purposes of Proposition 26, a court could conclude that, to the extent the City transfers surplus funds to the General Fund, the Water System rates and charges constitute “taxes” for purposes of Proposition 26. However, the City has complied with Proposition 26 through the Revenue Transfer Re-Approval (referenced below), and any legal challenge would likely be unsuccessful.

Proposition 26 amended Article XIIC to provide that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

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 subsequent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

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

constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

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

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

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

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

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

No protests were received, and the 2006 adoption of Resolution No. 21148 was validated in accordance with Proposition 218's requirements. For the most recent five-year water rate increase, approved by the City Council on May 22, 2018 through the adoption of Resolution 23307, the City adhered to the notice and protest hearing requirements, and will continue to comply with the provisions of Proposition 218 in connection with future rate increases.

Water Utility Revenue Transfer Under the City Charter. As described in “HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM - Transfers to the City’s General Fund,” Section 1204 of the City Charter requires the Water System to transfer, in monthly installments, an amount not to exceed 11.5% of the gross operating revenues of the Water System (“**Revenue Transfer**”). The general fund transfer requirement has been in the City Charter since 1907, when the City Charter was approved and adopted by the electorate. Prior to 1968, the Water System was obligated to transfer all excess funds after all required expenditures had been made at the end of each fiscal year. In 1968, the electorate approved a change requiring a transfer of 11.5% of gross operating revenues. In 1977, the electorate approved a change requiring the transfer to be an amount “not to exceed” 11.5% of gross operating revenues. On June 4, 2013, the electorate reaffirmed the transfer as a general tax pursuant to Article XIIC by approving Section 1204.1 of the City Charter (the “**Revenue Transfer Re-Approval**”). Per Section 1204 of the City Charter, the Revenue Transfer is payable on a basis that is subordinate to payment of Operating and Maintenance Expenses and debt service on the Bonds and Parity Debt.

The holdings in *Bighorn* and *Fresno* make it clear that the City’s water service charges are property-related fees or charges that must comply with Article XIID. This means that, among other things, the revenues derived from these charges may not exceed the cost to the City of providing the related services.

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

Reduction or Repeal of Taxes, Fees and Charges. Article XIIC 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 XIIC and XIID and the amendments effected to Article XIIC by Proposition 26 were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting the City’s revenues or ability to increase revenues.

RISK FACTORS

The purchase of the 2019A Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters. The order in which such matters are presented does not reflect their relative importance.

2019A Bonds Are Limited Obligations

The General Fund of the City is not liable for the payment of any 2019A 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 2019A Bonds, any premium thereon upon redemption prior to maturity or their interest. No owner of any 2019A 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 2019A 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 2019A Bonds, interest thereon and any premium upon redemption.

Limitations on Remedies; Bankruptcy

The enforceability of the rights and remedies of the owners of the 2019A 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 2019A 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 Water System serves an essential public purpose.

Debt Service Reserve Account Not Funded

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. Although a separate reserve account is being established for the 2019A Bonds, the City is not funding such account and has no obligation to fund the accounts in the future. The owners of the 2019A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Demand and Usage; Drought; Climate Change

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

mandatory water conservation measures have decreased and could further decrease demand for the water provided of the Water System or increase the cost of water treatment (an Operating and Maintenance Expense) if more restrictive regulatory measures are required to be met. See “THE WATER SYSTEM – Water Supply – Drought Conditions” for information about the drought and its impact on the City’s Water System. Although the recent drought in the State has ended, the City cannot predict whether another drought or other climate change event could occur in the future.

Reduction in the level of demand or usage or continued economic downturn that produces less than the 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.

Water System Expenses and Collections

There can be no assurance that the City’s expenses for the Water System will remain at the levels described in this Official Statement. Changes in technology, regulatory requirements, energy costs or other expenses could reduce the Water 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. However, as described under the caption “THE WATER SYSTEM - Comparable Rates” the City believes its water rates are significantly lower than many other regional water suppliers and accordingly the City believes it will have financial flexibility to raise rates if required to do so.

Although the City has covenanted to prescribe, revise and collect rates and charges for the Water System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2019A 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 2019A Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. Proposition 218, which added Articles XIIIIC 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 CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY.”

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 2019A Bonds. Any remedies available to the owners of the Bonds, including the 2019A 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 2019A 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 XIII C and Article XIII D 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 water rates in the future to meet increased expenditure requirements. See “CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY” herein for additional information regarding Articles XIII C and XIII D 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 Water System, at a level at least sufficient to meet its debt service requirements, as set forth under “SECURITY AND SOURCES OF PAYMENT FOR THE 2019A 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 Water rates have been approved by the City Council and have been imposed in compliance with Articles XIII C and XIII D to the California Constitution.

Rate Regulation

The authority of the City to impose and collect rates and charges for water 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.

Drinking Water Regulation

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

Casualty Risk

Any natural disaster or other physical calamity, including earthquake and flood, may have the effect of reducing Net Operating Revenues, including by impairing the ability of the City to deliver water as a result of damage to the Water System or adversely affecting the economy of the surrounding area resulting in reduced demand or increased risk of nonpayment. The Resolution requires the City to maintain insurance or self-insurance as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to

such works or properties, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Water System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. The City does not currently maintain and it has not committed to maintain earthquake or flood insurance on the Water System's facilities.

Earthquake. The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Water System facilities, including the San Andreas. Earthquakes pose potential significant risks to the Water System, and could potentially result in water supply shortages and disruptions to the transmission/distribution systems. Groundwater produced from wells in the San Bernardino area is conveyed using two major transmission lines that cross several earthquake faults. In addition, harmful microorganisms could migrate into the distribution system because of pipe breaks or damage to water disinfection facilities.

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

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

Flood. According to the City's 2015 Urban Water Management Plan dated June 2016, some of the Water System's wells are located within the flood plains of the Santa Ana River and are therefore subject to flooding. The Seven Oaks Dam upstream will reduce the magnitude, frequency and vulnerability of wells to flooding, while increasing available water rights. Floods may lead to physical damage and/or loss of water infrastructure, as well as water contamination. The City has implemented measures to minimize the risk of groundwater contamination as a result of flooding.

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

Security of the Water System

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

Military conflicts and terrorist activities may adversely impact the operations and finances of the Water System. The City continually plans and prepares for emergency situations and immediately responds to ensure water services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the

event that terrorist activities are directed against the Water System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City's ability to pay debt service on the 2019A 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 Water System's electronic system cyber security. This includes audits and recommended improvements to facility hardware and software to keep systems up to date with the latest cyber treat tools.

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) imposed on certain educational entities and state agencies (but see "HISTORICAL FINANCIAL RESULTS OF THE WATER SYSTEM – Transfers to the City's General Fund" regarding the City voters' approval of contributions of Water System surplus funds to the City's General Fund as a general tax under Article XIIC of the California Constitution). The

University of California's Riverside campus is the City's second largest water user. The City entered into a Potable Water Transportation Agreement, dated April 6, 1993, under which the Regents of the University of California has agreed to rates with the City, including capital facilities fees payable to the City. On November 3, 2015, the City renewed this agreement, which is now known as the 2015 Water Production, Conveyance, and Reciprocal Sales Agreement. See "THE WATER SYSTEM – Conveyance Agreements – UCR Conveyance Agreement" above for additional details on this agreement.

Articles XIIC and XIID of the California Constitution

See "CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY – Articles XIIC and XIID of the California Constitution" for a discussion of certain matters relating to the City's historical compliance with Articles XIIC and XIID of the California Constitution.

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 2019A Bonds. See, for example, "CONSTITUTIONAL LIMITATIONS IN CALIFORNIA AFFECTING FEES AND CHARGES IMPOSED BY THE CITY – Articles XIIC and Article XIID of the State Constitution."

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest with respect to the 2019A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the 2019A 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 2019A 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.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2019A Bonds or, if a secondary market exists, that the 2019A 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.

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 (and original issue discount (“**OID**”)) on the 2019A 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 **OID**) on the 2019A Bonds is exempt from State personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and **OID**) on the 2019A Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “**Code**”), that must be satisfied subsequent to the issuance of the 2019A Bonds to assure that interest (and **OID**) on the 2019A 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 **OID**) on the 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A Bonds. The City has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a 2019A Bond (the first price at which a substantial amount of the 2019A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2019A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and will accrue to a beneficial owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a beneficial owner will increase the beneficial owner’s basis in the applicable 2019A Bond. The amount of original issue discount that accrues to the beneficial owner of a 2019A Bond is excluded from the gross income of such beneficial 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.

The amount by which a 2019A Bond Owner’s original basis for determining loss on sale or exchange in the applicable 2019A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2019A Bond Owner’s basis in the applicable 2019A Bond (and the amount of tax-exempt interest received with respect to the 2019A Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2019A Bond Owner realizing a taxable gain when a 2019A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019A Bond to the Owner. Purchasers of the 2019A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the “**IRS**”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2019A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A 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 2019A Bonds to the extent that it

adversely affects the exclusion from gross income of interest (and OID) on the 2019A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2019A 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 2019A 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 2019A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2019A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2019A 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 2019A 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 2019A 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 2019A Bonds terminates upon their delivery and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Resolution and the Tax Certificate relating to the 2019A 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 2019A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and OID) on the 2019A 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 2019A Bonds and the accrual or receipt of interest (and OID) on the 2019A 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 2019A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019A Bonds.

Should interest (and OID) on the Bonds become includable in gross income for federal income tax purposes, the 2019A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Resolution.

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

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2019A 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 2019A 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, Norton Rose Fulbright US 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 2019A Bonds.

LITIGATION

No Litigation Relating to 2019A Bonds. At the time of delivery and payment for the 2019A 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 2019A Bonds or the power and authority of the City to issue the 2019A Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2019A Bonds.

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

FINANCIAL STATEMENTS

The financial statements of the City’s Water System as of and for the year ended June 30, 2018 included in APPENDIX B to this Official Statement have been audited by Macias Gini & O’Connell LLP, independent accountants (the “**Auditor**”), as stated in its report appearing in APPENDIX B. The City has not requested the consent of the Auditor, nor has the Auditor consented, to the inclusion of the financial statements of the City’s Water System or the independent auditor’s 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 financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

RATINGS

S&P Global Ratings has assigned a municipal bond rating of “____” to the 2019A Bonds, and Fitch Ratings, Inc. has assigned a municipal bond rating of “____” to the 2019A Bonds.

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

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain

additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2019A Bonds may have an adverse effect on the market price or marketability of the 2019A Bonds.

UNDERWRITING

Citigroup Global Markets Inc. and J.P. Morgan Securities LLC (together, the “**Underwriters**”), have agreed, subject to certain conditions, to purchase the 2019A 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 2019A Bonds at not in excess of the initial public offering prices. The Underwriters will be obligated to purchase all of the 2019A Bonds if any 2019A Bonds are purchased. The Underwriters may offer and sell the 2019A Bonds to certain dealers and others at prices lower than the respective initial public offering prices listed in this Official Statement, and the public offering prices may be changed from time to time by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the 2019A 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.

[Note if any underwriters are receiving a portion of the Swap Termination Payment, if any]

MUNICIPAL ADVISOR

The City has retained PFM Financial Advisors LLC, Los Angeles, California, as Municipal Advisor (the “**Municipal Advisor**”) in connection with offering of the 2019A 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 sale of the 2019A Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the 2019A Bonds to provide certain financial information and operating data relating to the Water System (the “**Annual Report**”) by not later than 270 days following the end of the City’s fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 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 because on certain occasions in the last five years, the City did not timely file (1) notice of rating changes to bond insurers and other credit and/or liquidity providers for City debt obligations, and (2) certain financial information or operating data for Fiscal Years 2012-13 and 2014-15 required to be filed with respect to debt obligations of the City or its related government entities.]

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

The Verification Agent will deliver to the City, on or before the settlement date of the 2019A 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 or redemption price of and interest on the 2008B Bonds[, 2011A Bonds to be refunded,] 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.

The Verification Agent 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, the Verification Agent has relied on any information provided to it by the City's retained advisors, consultants or legal counsel. The Verification Agent 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

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

CITY OF RIVERSIDE, CALIFORNIA

By: _____
Chief Financial Officer/Treasurer

By: _____
Public Utilities General Manager

APPENDIX A

CITY AND COUNTY OF RIVERSIDE – ECONOMIC AND DEMOGRAPHIC INFORMATION

The 2019A Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Water System. The information set forth below is included in 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 2018, the County had a population estimated at 2,415,955 and San Bernardino County had a population estimated at 2,174,938. With a population of over 4.4 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas (“**MSAs**”) in the United States. The County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties’ population.

Municipal Government

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

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

Services and Facilities

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

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

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

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

Population

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

POPULATION

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

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

Effective Buying Income

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

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

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

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

Source: The Nielsen Company (US), Inc.

Education

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

Employment

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

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

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

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

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

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

Source: State of California Employment Development Department.

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

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

<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	2,504	1.7
California Baptist University	2,285	1.6
Riverside Community Hospital	2,200	1.5
Alvord Unified School District	1,800	1.2
UTC Aerospace Systems	1,200	0.8
Parkview Community Hospital	<u>897</u>	<u>0.6</u>
Total	38,921	26.7%

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

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

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

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

Construction Activity

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

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

<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 WATER UTILITY FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

APPENDIX C

**SUMMARY OF CERTAIN PROVISIONS
OF THE RESOLUTION**

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the “**Disclosure Certificate**”) dated _____, 2019 is executed and delivered by the City of Riverside (the “**Issuer**”) in connection with the issuance and delivery of \$_____ City of Riverside Water Revenue/Refunding Bonds, Issue of 2019A (the “**Bonds**”). The Bonds are being issued pursuant to Resolution No. 17664 of the Issuer, adopted by the City Council on January 8, 1991, as amended and supplemented, including as supplemented by Resolution No. _____, adopted by the City Council on _____, 2019 (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 Underwriters 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 _____, 2019.

“Participating Underwriter” shall mean each of Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, as the original underwriters of the Bonds.

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

SECTION 3. Provision of Annual Reports.

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

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

(b) If the Dissemination Agent is a person or entity other than the Issuer then, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a). If the Issuer does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report due date, the Issuer shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

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

(d) The Dissemination Agent shall:

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

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

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

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

(a) The audited financial statements of the Issuer's Water 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 Water 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 Water 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 Water System, the Annual Report shall also include the following:

(1) Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.

(2) Updated information comparable to the information in Table 3, entitled "Water System General Statistics" as it appears in the Official Statement.

(3) Updated information comparable to the information in Table 7, entitled "Number of Metered Customers Billed" as it appears in the Official Statement.

(4) Updated information comparable to the information in Table 9, entitled "Water Sales and Distribution" as it appears in the Official Statement.

(5) Updated information comparable to the information in Table 17, entitled "Summary of Operations and Debt Service Coverage" 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;
- (9) bankruptcy, insolvency, receivership or similar proceedings; and

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.

[(10) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.]

(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;
- (7) release, substitution or sale of property securing repayment of the Bonds; and
- [(8) incurrence of a financial obligation of the Issuer, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders.]

(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.

[(h) As used in this Section 5, the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of

payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with 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 counsel or 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 Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

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

CITY OF RIVERSIDE

By: _____
Chief Financial Officer/Treasurer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Riverside

Name of Issue: Water Revenue/Refunding Bonds, Issue of 2019A

Date of Issuance: _____, 2018

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated _____, 2018. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the 2019A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

February __, 2019

City of Riverside
Riverside, California

Re: \$_____ City of Riverside Water Revenue/Refunding Bonds, Issue of 2019A

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 Water Revenue/Refunding Bonds, Issue of 2019 (the "Bonds"). The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the "Ordinance"), and Resolution No. 17664 adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. _____ adopted by the City Council on January 22, 2019 (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. Other Parity Debt of the City has been and may from time to time hereafter be issued under the Resolution which is payable from Net Operating Revenues on a parity basis with the Bonds.
5. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in the Resolution, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.
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 has 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 following description of the Depository Trust Company, New York, New York ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the bonds described in this Official Statement (the "Bonds"), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. DTC will act as securities depository for the 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 Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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