

**NEW ISSUE – BOOK-ENTRY ONLY**

**RATINGS (See “Ratings” herein):**

**Moody’s: Aa1**

**Standard & Poor’s: AAA**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants described herein, interest on the Series AW Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series AW Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series AW Bonds. (See “TAX MATTERS” herein.)*



**\$470,000,000\***  
**STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES**  
**CENTRAL VALLEY PROJECT WATER SYSTEM REVENUE BONDS**  
**SERIES AW**

**Dated: Date of Delivery**

**Due: December 1, as shown on Maturity Schedule**

The State of California Department of Water Resources (the “Department”) is issuing its \$470,000,000\* Central Valley Project Water System Revenue Bonds, Series AW (the “Series AW Bonds”), for the purpose of providing funds for the construction of certain Water System Projects, to refund all or a portion of the Department’s outstanding commercial paper notes, refund a portion of the Department’s outstanding Bonds, fund interest on a portion of the Series AW Bonds, fund a deposit to the Debt Service Reserve Account and paying costs of the issuance of such Bonds. (See “PLAN OF REFUNDING.”)

The Series AW Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity, and will be delivered in book-entry form, without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Series AW Bonds will not receive physical certificates representing their interests in the Series AW Bonds. DTC will act as securities depository for the Series AW Bonds. The principal of and interest on the Series AW Bonds are payable directly to DTC by the Treasurer of the State of California. Interest is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2016. Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series AW Bonds. (See APPENDIX G – “DTC AND BOOK-ENTRY.”)

The Series AW Bonds are subject to redemption prior to maturity as described herein. (See “DESCRIPTION OF THE SERIES AW BONDS – Redemption.”)

Payment of the scheduled principal of and interest on the Series AW Bonds is secured by a pledge of Revenues under the Resolution.

**THE SERIES AW BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES. THE SERIES AW BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE STATE OF CALIFORNIA. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES AW BONDS.**

**Maturity Schedule**  
**(See Inside Cover)**

*This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the bond issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

*The Series AW Bonds are offered when, as and if issued and received by the Underwriters subject to approval of validity by The Honorable Kamala D. Harris, Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department, and certain other matters. Certain legal matters are also subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriters. It is expected that the Series AW Bonds in book-entry form will be available for delivery through the facilities of DTC on or about October 20, 2016.*

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**Honorable John Chiang**  
**Treasurer of the State of California**

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**Morgan Stanley**

**Siebert Cisneros Shank & Co., L.L.C.**

**Academy Securities**

**Fidelity Capital Markets**

**Great Pacific Securities**

**Hutchinson, Shockey, Erley & Co.**

**Oppenheimer & Co.**

**Prager & Co., LLC**

**Raymond James**

**Rice Financial Products**

**Citigroup**

**Goldman, Sachs & Co.**

**HilltopSecurities**

**J.P. Morgan**

**Piper Jaffray & Co.**

**Ramirez & Co., Inc.**

**RH Investment Corporation**

**Wedbush Securities Inc.**

This Official Statement is dated October \_\_, 2016.

\* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**MATURITY SCHEDULE**  
relating to

**\$470,000,000\***

**State of California Department of Water Resources  
Central Valley Project Water System Revenue Bonds  
Series AW  
(Base CUSIP† 13067W)**

**\$ \_\_\_\_\_ Serial Bonds**

<b><u>Maturity Date</u></b> <b>(<u>December 1</u>)</b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Price</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP†</u></b> <b><u>Suffix</u></b>
	\$	%	%	%	

\$ \_\_\_\_\_ % Term Bonds due December 1, 20\_\_, priced to yield \_\_\_\_%, CUSIP† Suffix \_\_\_\_

\* Preliminary, subject to change.

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T H E C A L I F O R N I A

STATE  
WATER  
PROJECT



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No dealer, broker, salesperson or other person has been authorized to give or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series AW Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not a contract with the purchasers of the Series AW Bonds. Statements contained in this Official Statement that involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended to be solely as such and are not to be construed as representation of fact. The information set forth herein other than that provided by the Department, although obtained from sources which are believed to be reliable, is not guaranteed as to the accuracy or completeness.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with, and may be obtained from the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access website of the MSRB, currently located at <http://emma.msrb.org>. The information contained on such website is not part of this Official Statement and is not incorporated herein.

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 respective 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.

THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES AW BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES AW BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT YIELDS HIGHER THAN THOSE STATED ON THE INSIDE FRONT COVER, AND THE PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of California, the Contractors or the Department since the date hereof.

This Official Statement is delivered for use in connection with the issuance, sale and delivery of the Series AW Bonds.

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**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions “Summary Statement,” “Introduction,” “Plan of Refunding,” “California State Water Project,” “Power Operations of the State Water Project,” “The Water Supply Contracts,” “The Contractors” and “Litigation” in the forepart of this Official Statement and “Water System Projects” and “Estimated Capital Financing From Water System Revenue Bonds for Existing Water System Projects” in Appendix H to this Official Statement.

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 to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Department 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 or do not occur, except as described under the caption “CONTINUING DISCLOSURE” and in APPENDIX D.

THE SERIES AW BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES AW BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE SERIES AW BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NEITHER REVIEWED NOR CONFIRMED THE ACCURACY OF THIS DOCUMENT.

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## SUMMARY STATEMENT

*This Summary Statement is subject in all respects to the more complete information and definitions contained elsewhere in this Official Statement, including the Appendices attached hereto. Capitalized terms used in this Official Statement without definition have the respective meanings set forth in the Central Valley Project Water System Revenue Bonds, General Bond Resolution, No. DWR-WS-1 of the State of California Department of Water Resources, adopted as of July 1, 1986, and resolutions supplemental thereto (the "Resolution"), including the supplemental resolution authorizing the Series AW Bonds (the "Fifty-Seventh Supplemental Resolution").*

### **The Department**

The State of California Department of Water Resources is a department within the California Natural Resources Agency of the State of California. The Department is responsible for, among other things, the planning, construction and operation of the State Water Project, the operation of programs for the safety of dams, flood management, local assistance and subventions, other water-related matters and the operation of the Power Supply Program. Unless otherwise expressly noted, the term "Department," as used in this Official Statement, means the State of California Department of Water Resources solely in its capacity with respect to the State Water Project, and not in any other capacity mentioned herein.

### **Authorization of the Series AW Bonds**

The Department will issue the Series AW Bonds pursuant to the provisions of Part 3 (commencing with Section 11100) of Division 6 of the Water Code of the State of California (referred to as the "Central Valley Project Act") and the Resolution.

The Series AW Bonds constitute a series of the Department's Central Valley Project Water System Revenue Bonds issued under the Resolution (all bonds issued under the Resolution, collectively, the "Bonds").

### **Purpose of the Series AW Bonds**

The Series AW Bonds are being issued to (1) provide funds for the construction of certain Water System Projects, (2) refund all or a portion of the Department's outstanding Water Revenue Commercial Paper Notes, Series 1 (the "Notes"), (3) refund certain of the Department's outstanding Water System Revenue Bonds, (4) fund interest on a portion of the Series AW Bonds through December 1, 2018, (5) fund a deposit to the Debt Service Reserve Account and (6) pay costs of issuance of the Series AW Bonds. (See "PLAN OF REFUNDING" and "ESTIMATED APPLICATION OF SERIES AW BOND PROCEEDS.")

### **Description of the Series AW Bonds**

*Interest.* The Series AW Bonds will bear interest payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2016, at the respective rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the Maturity Schedule immediately following the cover page of this Official Statement.

*Redemption.* The Series AW Bonds are subject to redemption prior to maturity as described herein. (See "DESCRIPTION OF THE SERIES AW BONDS – Redemption.")

## **Security for the Bonds; Limited Obligations**

The payment of the scheduled principal of and interest on all Bonds, including the Series AW Bonds, is secured by a pledge of the Revenues under the Resolution, which are the portion of the receipts of the Department under the Water Supply Contracts resulting from the construction, acquisition or operation of Water System Projects (but only in the amounts required to meet the rate covenant of the Resolution), income from the investment of moneys held in the Revenue Fund pursuant to the Resolution and certain other moneys received by the Department under the Water Supply Contracts, which the Department in its discretion determines to be Revenues. The Department estimates (accounting for projected capital expenditures on Water System Projects after the issuance of the Series AW Bonds) that payments from The Metropolitan Water District of Southern California (“Metropolitan”) will account for approximately 36 percent of the Revenues to be derived from Water Supply Contract payments through the final maturity of the Bonds. However, that percentage may change over time. The balance of such Revenues will be receivable from the other Contractors. (See “SECURITY FOR THE BONDS” and “THE WATER SUPPLY CONTRACTS.”)

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## **Rate Covenant**

The Department has covenanted in the Resolution to charge and collect amounts under the Water Supply Contracts sufficient to return the costs of all Water System Projects without regard to whether or not the Department is able to construct, acquire or operate any such Water System Project and that Revenues receivable under all Water Supply Contracts in any year shall be the sum of 1.25 times the aggregate debt service payable from Revenues on all Bonds outstanding in such year, plus the amount estimated by the Department to be sufficient to provide for the costs of operation and maintenance of all Water System Projects, plus the amount, if any, required by a supplemental resolution authorizing a series of Bonds in order to deposit moneys in the Debt Service Reserve Account to meet the requirements of the Resolution for the issuance of additional Bonds. (See “SECURITY FOR THE BONDS – Rate Covenant.”)

## **Debt Service Reserve Account**

The Resolution provides that on the issuance of each series of Bonds, provision must be made for placing moneys in the Debt Service Reserve Account, so that on the first interest payment date when interest on the Bonds of that series is to be paid from Revenues, there will be on deposit in the Debt Service Reserve Account an amount equal to, for any date of calculation, for all series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation.

Upon the issuance of the Series AW Bonds and the application of the proceeds thereof as described in this Official Statement the amount on deposit in the Debt Service Reserve Account will be equal to or exceed the Reserve Account Requirement for the outstanding Bonds as of such issuance. (See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Debt Service Reserve Account.”)

## **The State Water Project**

The State Water Project is a complex of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities, which have been constructed by the Department for the purposes of developing a water supply and conveying water to areas in need within the State of California (the “State”) and providing flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. All 647 miles of the initially planned aqueduct system have been completed. With the addition of the Grizzly Valley pipeline, the Thermalito Powerplant power canal and tail channel, and the extension of the East Branch aqueduct, the entire aqueduct system totals 705 miles. The 443-mile main stem California Aqueduct runs from a point near Stockton southward to a terminus in Riverside County. The annual water supply available for delivery by the State Water Project in any year will vary depending on various factors, including hydrologic conditions and regulatory mandates. (See “STATE WATER PROJECT WATER SUPPLY.”)

The maximum, contracted amount of State Water Project water each Contractor may request for delivery each year is set forth in “Table A” of the related Water Supply Contract. Under the Water Supply Contracts presently in effect, the Contractors may request Table A water from the State Water Project in a maximum amount of 4,172,786 acre-feet. Payments by the 29 participating local public agencies under the Water Supply Contracts provide for the operation, maintenance, planning and capital costs, including interest, of the State Water Project. (See “CALIFORNIA STATE WATER PROJECT,” “THE WATER SUPPLY CONTRACTS” and “THE CONTRACTORS.”)

## **Financing of the State Water Project**

A large portion of the State Water Project has been financed from the issuance of \$1,582,400,000 in aggregate principal amount of State general obligation bonds, of which \$121,795,000 in aggregate principal amount are outstanding as of September 1, 2016. The Department has also issued \$1,526,155,000 in aggregate principal amount of revenue bonds for certain power facilities of the State Water Project, of which \$45,475,000 in aggregate principal amount are outstanding as of September 1, 2016. Such revenue bonds are secured by revenues of the Department other than those that are pledged to secure the Bonds and were and are issued under and secured by resolutions separate and apart from the Resolution authorizing and securing the Bonds. (See “FINANCIAL OPERATIONS – Financing of the State Water Project.”)

The Department has previously issued forty-eight series of Bonds totaling \$8,997,895,000 in aggregate principal amount, of which \$2,438,050,000 in aggregate principal amount are outstanding under the Resolution. The Series AW Bonds offered hereby will be the forty-ninth series of Bonds to be issued pursuant to the Resolution and secured by the Revenues pledged under, and the funds and accounts established by, the Resolution. The Department may from time to time issue additional Bonds secured by a lien on Revenues under the Resolution equally and ratably with the payment of scheduled principal of and interest on the Series AW Bonds and the currently outstanding Bonds. (See “INTRODUCTION,” “PLAN OF REFUNDING,” “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds,” “FINANCIAL OPERATIONS – Outstanding Revenue Obligations of the Department for the State Water Project.”)

The Department has authorized the issuance of its Notes in a principal amount outstanding at any one time not to exceed the lesser of \$150,000,000 or the principal amount of Notes supported by the credit agreement then in effect (currently \$139,668,367). Proceeds from the sale of Notes are used to finance Water System Projects prior to permanent financing from the sale of Bonds. The Department’s obligation to make debt service payments on the Notes is subordinate to its payment obligations with respect to the Bonds. The Department has approximately \$96 million in aggregate principal amount of

Notes outstanding all of which are expected to be paid with proceeds of the Series AW Bonds. (see “PLAN OF REFUNDING.”)

### **Additional Bonds**

The Department may issue, under certain conditions, additional Bonds to provide funds for the cost of any Water System Project or for refunding purposes. Such additional Bonds will be on a parity with outstanding Bonds and secured by an equal lien on the Revenues under the Resolution. (See “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds” and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Issuance of Bonds.”)

### **The Contractors**

The 29 Contractors are principally located in the San Francisco Bay Area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 25 percent of the State’s land area and approximately 69 percent of its population. Each Contractor has entered into a Water Supply Contract with the Department, acting on behalf of the State. Certain of the Contractors receive a major portion of their income from *ad valorem* taxes. The ability of Contractors to tax for general purposes and to appropriate tax revenue for general purposes is limited under California law. (See “THE WATER SUPPLY CONTRACTS” and “CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES.”)

### **The Water Supply Contracts**

The Water Supply Contracts are to remain in effect for the longest of 75 years, December 31, 2035 or until all bonds issued to finance construction costs of State Water Project facilities have been repaid, whichever period is longest, subject to an election on the part of each Contractor to receive continued service after such longest period on certain specified continued terms and conditions and other reasonable and equitable terms mutually agreed upon by the Department and the Contractor. (See “THE WATER SUPPLY CONTRACTS – Contract Extension Negotiations.”) As of the date of issuance of the Series AW Bonds, the final maturity of the Bonds to be outstanding upon the issuance of the Series AW Bonds will occur in 2035. Under its Water Supply Contract, each Contractor may request Table A water deliveries from the State Water Project up to a maximum specified annual amount, and agrees to pay its allocated share of the Department’s costs of gathering, storing, conveying and delivering water. Generally, the Department’s costs, including interest, of providing the facilities of the State Water Project, including the Water System Projects, are payable by the Contractors whether or not water is delivered. If a Contractor defaults under its Water Supply Contract, the Department may, upon six months’ notice, suspend water deliveries to that Contractor. During such period, the Contractor remains obligated to make all payments required by the Water Supply Contract. If a Contractor fails or is unable to raise sufficient funds by other means to make Water Supply Contract payments, the Contractor is required by the Water Supply Contract to levy a tax or assessment sufficient for such purpose.

The Department and the various subsets of Contractors (“affected Contractors”) have entered into an Off-Aqueduct Power Facilities Amendment, an East Branch Enlargement Amendment, a Water System Revenue Bond Amendment, a Coastal Branch Extension Amendment, an East Branch Extension Amendment and a South Bay Aqueduct Enlargement Amendment to the Water Supply Contracts for the purpose of financing certain of the Water System Projects. These amendments establish procedures to provide for the payment of construction costs financed with Bonds by establishing separate subcategories of charges to produce the revenues required to pay all of the annual financing costs, including coverage, of the Bonds allocable to such Water System Projects. If any affected Contractor defaults on payment under certain of such amendments other than the Coastal Branch Extension Amendment, the East Branch

Extension Amendment and the South Bay Aqueduct Enlargement Amendment, the shortfall may be collected from non-defaulting affected Contractors, subject to certain limitations. (See “SECURITY FOR THE BONDS” and “THE WATER SUPPLY CONTRACTS.”)

In December 1994, representatives of the Department and certain Contractors adopted a set of principles pursuant to which additional amendments to the Water Supply Contracts have since been negotiated (the “Monterey Amendment”). The Department has covenanted in the Resolution not to amend the Water Supply Contracts in any manner that would materially adversely affect the security for the Bonds, and the Department believes that the Monterey Amendment complies with that covenant. (See “WATER SUPPLY CONTRACT RELATED LITIGATION – Monterey Amendment Litigation” for a description of certain litigation and the implementation of the settlement thereof that could affect the Monterey Amendment. See also “WATER SUPPLY CONTRACT RELATED LITIGATION – Claims Relating to the Use of Bond Proceeds to Pay Costs Allocable to Recreation and Fish and Wildlife Enhancement.”)

### **Continuing Disclosure**

The Department will covenant for the benefit of the holders and beneficial owners of the Series AW Bonds to provide certain financial information and operating data relating to the Department not later than 270 days following the end of each Department fiscal year (the “Annual Report”), commencing with the report containing 2015-2016 Fiscal Year financial information and to provide notices of the occurrence of certain enumerated events (“Event Notices”). The specific nature of the information expected to be contained in the Annual Report or the Event Notices and certain other terms of this continuing disclosure obligation are set forth in APPENDIX D – “SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE.”

### **No Relationship to Power Supply Revenue Bonds**

The Department’s Central Valley Project Water System Revenue Bonds are not secured by the same sources of repayment as, and otherwise bear no material relationship to, bonds issued by the Department to finance and refinance the State of California’s Power Supply Program (the “Power Supply Revenue Bonds”). **The State Water Project and the Power Supply Program are separate and distinct enterprises, and have separate and distinct sources and uses of funds. Revenues pledged to secure payment of the Bonds may not be used to pay the Power Supply Revenue Bonds or any other expenses of the Power Supply Program, and resources pledged to secure the payment of the Power Supply Revenue Bonds may not be used to pay the Bonds or any other expenses of the State Water Project.**

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**STATE OF CALIFORNIA  
DEPARTMENT OF WATER RESOURCES  
OFFICIAL STATEMENT**

**Relating to its**

**\$470,000,000\***

**Central Valley Project  
Water System Revenue Bonds,  
Series AW**

**INTRODUCTION**

This Official Statement is furnished by the State of California Department of Water Resources, in its capacity as operator of the State Water Project (the "Department"), for the purpose of setting forth information concerning its Central Valley Project Water System Revenue Bonds (the "Bonds" or the "Water System Revenue Bonds"), particularly the \$470,000,000\* Central Valley Project Water System Revenue Bonds, Series AW (the "Series AW Bonds").

The Department will issue the Series AW Bonds pursuant to the provisions of Part 3 (commencing with Section 11100) of Division 6 of the Water Code of the State of California (referred to as the Central Valley Project Act and herein referred to as the "CVP Act") and the Central Valley Project Water System Revenue Bonds, General Bond Resolution, No. DWR-WS-1 of the Department, adopted as of July 1, 1986, and resolutions supplemental thereto, including the supplemental resolution authorizing the Series AW Bonds (such resolutions being herein, except as the context otherwise indicates, collectively called the "Resolution"). All capitalized terms used in this Official Statement and not defined herein have the same meanings as in the Resolution. (See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.")

This Official Statement also contains certain information with respect to the California State Water Project, the projects financed with the Bonds (the "Water System Projects") and the contracts for a supply of water from the State Water Project (the "Water Supply Contracts") between the Department on behalf of the State of California and 29 California public agencies (the "Contractors"). Contractor payments for water pursuant to the Water Supply Contracts are the principal component of the Revenues, as hereinafter defined, pledged for the payment of the interest on and the principal of the Series AW Bonds.

**Purpose of the Series AW Bonds**

The Series AW Bonds are being issued to (1) provide funds for the construction of certain Water System Projects, (2) refund all or a portion of the Notes, (3) refund certain of the Department's outstanding Water System Revenue Bonds, (4) fund interest on a portion of the Series AW Bonds through December 1, 2018, (5) fund a deposit to the Debt Service Reserve Account and (6) pay costs of issuance of the Series AW Bonds. (See "PLAN OF REFUNDING" and "ESTIMATED APPLICATION OF SERIES AW BOND PROCEEDS.")

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\* Preliminary; subject to change.

## PLAN OF REFUNDING\*

On the date of delivery of the Series AW Bonds, the Department will apply a portion of the proceeds of the Series AW Bonds to provide for the defeasance of all or a portion of the outstanding Bonds of Series AG, Series AH, Series AJ, Series AK, Series AN, Series AP, Series AQ and Series AR (the “Series AW Refunded Bonds”) as set forth below. The following table sets forth certain pertinent information with respect to the Series AW Refunded Bonds:

### Bonds to be Refunded by the Series AW Bonds\*

Water System Revenue Bond Series	Year of Issuance	Outstanding Principal Amount	Principal Amount to be Refunded	Interest Rate	Maturity Date	Redemption Date	Redemption Price
AG	2009	\$ 1,575,000	\$1,425,000	4.125%	12/1/2026	12/1/2019	100%
AG	2009	140,000	125,000	4.250	12/1/2028	12/1/2019	100
AG	2009	3,120,000	2,495,000	4.375	12/1/2029	12/1/2019	100
AG	2009	660,000	660,000	4.500	12/1/2030	12/1/2019	100
AG	2009	690,000	690,000	4.500	12/1/2031	12/1/2019	100
AG	2009	720,000	720,000	4.625	12/1/2032	12/1/2019	100
AH	2010	1,800,000	1,800,000	5.000	12/1/2030	12/1/2020	100
AH	2010	21,085,000	21,085,000	5.250	12/1/2035**	12/1/2020	100
AJ	2011	3,400,000	3,370,000	5.000	12/1/2028	12/1/2021	100
AJ	2011	3,580,000	3,550,000	5.000	12/1/2029	12/1/2021	100
AJ	2011	3,720,000	3,720,000	5.000	12/1/2030	12/1/2021	100
AJ	2011	3,910,000	3,910,000	5.000	12/1/2031	12/1/2021	100
AJ	2011	17,680,000	17,680,000	5.000	12/1/2035**	12/1/2021	100
AK	2012	1,610,000	1,225,000	4.000	12/1/2025	6/1/2022	100
AK	2012	2,340,000	1,330,000	5.000	12/1/2027	6/1/2022	100
AK	2012	100,000	100,000	4.000	12/1/2028	6/1/2022	100
AK	2012	1,355,000	1,310,000	5.000	12/1/2028	6/1/2022	100
AK	2012	530,000	485,000	5.000	12/1/2029	6/1/2022	100
AK	2012	1,535,000	1,535,000	5.000	12/1/2030	6/1/2022	100
AK	2012	1,395,000	1,395,000	5.000	12/1/2031	6/1/2022	100
AK	2012	1,700,000	1,700,000	5.000	12/1/2032	6/1/2022	100
AK	2012	5,615,000	5,615,000	5.000	12/1/2035**	6/1/2022	100
AN	2012	2,700,000	1,720,000	5.000	12/1/2026	12/1/2022	100
AN	2012	2,865,000	1,805,000	5.000	12/1/2027	12/1/2022	100
AN	2012	2,345,000	1,885,000	5.000	12/1/2028	12/1/2022	100
AN	2012	2,080,000	1,985,000	5.000	12/1/2029	12/1/2022	100
AN	2012	2,090,000	2,090,000	5.000	12/1/2030	12/1/2022	100
AN	2012	2,180,000	2,180,000	5.000	12/1/2031	12/1/2022	100
AN	2012	2,290,000	2,290,000	5.000	12/1/2032	12/1/2022	100
AN	2012	7,600,000	7,600,000	5.000	12/1/2035**	12/1/2022	100
AP	2013	1,815,000	1,815,000	4.000	12/1/2023	6/1/2023	100
AP	2013	1,890,000	1,890,000	5.000	12/1/2024	6/1/2023	100
AP	2013	1,985,000	1,985,000	5.000	12/1/2025	6/1/2023	100
AP	2013	2,070,000	2,070,000	5.000	12/1/2026	6/1/2023	100
AP	2013	2,180,000	2,180,000	5.000	12/1/2027	6/1/2023	100
AP	2013	2,295,000	2,295,000	4.000	12/1/2028	6/1/2023	100
AP	2013	2,400,000	2,400,000	4.000	12/1/2029	6/1/2023	100
AQ	2013	2,345,000	2,345,000	5.000	12/1/2023	6/1/2023	100
AQ	2013	2,540,000	2,540,000	4.000	12/1/2024	6/1/2023	100
AQ	2013	2,890,000	2,890,000	4.000	12/1/2025	6/1/2023	100

\* Preliminary, subject to change.

\*\* Term Bond.



Water System Revenue Bond Series	Year of Issuance	Outstanding Principal Amount	Principal Amount to be Refunded	Interest Rate	Maturity Date	Redemption Date	Redemption Price
AR	2014	7,855,000	7,855,000	5.000	12/1/2024	6/1/2024	100
AR	2014	8,235,000	8,235,000	5.000	12/1/2025	6/1/2024	100
AR	2014	5,780,000	5,780,000	5.000	12/1/2026	6/1/2024	100
AR	2014	6,050,000	6,050,000	5.000	12/1/2027	6/1/2024	100
AR	2014	6,355,000	6,355,000	4.000	12/1/2028	6/1/2024	100
Total:		\$159,095,000	\$154,165,000				

On the date of delivery of the Series AW Bonds, the Department will cause a portion of the proceeds of the Series AW Bonds, together with other available moneys, to be applied to the purchase of obligations of the United States of America or certain of its agencies or certain other securities permitted under the Resolution (the "Government Obligations"), which will be deposited, together with certain uninvested cash, if any, in an irrevocable trust (the "Series AW Escrow Account") to be held by the Treasurer as security solely for the Series AW Refunded Bonds. The Government Obligations in the Series AW Escrow Account will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts that, together with the uninvested cash on deposit in the Series AW Escrow Account, if any, sufficient moneys will be available to pay, when due or called for redemption, all principal of and interest on the Series AW Refunded Bonds. (See "VERIFICATION.") Concurrently with the issuance of the Series AW Bonds, irrevocable instructions will be given to the Treasurer, as Trustee for the Series AW Refunded Bonds, to mail a timely notice of redemption with respect to the Series AW Refunded Bonds in accordance with the Escrow Agreement. Accordingly, upon issuance of the Series AW Bonds, adequate and complete provision will be made for the full and timely payment of the principal or redemption price of and interest on the Series AW Refunded Bonds when due, and the Series AW Refunded Bonds will be payable solely from the Government Obligations and uninvested cash, if any, on deposit in the Series AW Escrow Account. Once the deposit to the Series AW Escrow Accounts is made as described above, the Series AW Refunded Bonds will not be payable from Revenues as hereinafter defined nor from any other source of revenues.

### ESTIMATED APPLICATION OF SERIES AW BOND PROCEEDS

The following table sets forth the estimated application of the proceeds of the Series AW Bonds:

Costs of Water System Projects	\$
Retirement of Notes	
Deposit to Series AW Escrow Account <sup>(1)</sup>	
Deposit to Debt Service Reserve Account	
Capitalized Interest <sup>(2)</sup>	
Cost of Issuance of Series AW Bonds <sup>(3)</sup> .....	_____
Total Proceeds of the Series AW Bonds	\$
[Plus/Less] [Net] Original Issue [Discount/Premium] .....	_____
Principal Amount of Series AW Bonds .....	\$ _____

(1) Simultaneously with the delivery of the Series AW Bonds, \$ \_\_\_\_\_ will be released from the Debt Service Reserve Account and \$ \_\_\_\_\_ will be released from the Revenue Fund, representing amounts therein associated with the Series AW Refunded Bonds. These amounts will be deposited in the Series AW Escrow Account providing for the payment of the Series AW Refunded Bonds to and including their respective call dates.

(2) Amount necessary to pay interest on a portion of the Series AW Bonds through December 1, 2018.

(3) Includes underwriters' discount, legal fees, municipal advisory fees, printing expenses and other costs.

**DESCRIPTION OF THE SERIES AW BONDS**

**General**

The Series AW Bonds will be dated the date of delivery thereof, expected to be on or about October 20, 2016, will be issued in fully registered form without coupons, will be in denominations of \$5,000 principal amount or any integral multiple thereof within a maturity, and will bear interest payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2016 (each, an “interest payment date”). The Series AW Bonds will mature (subject to the right of prior redemption discussed below) on December 1 in each of the years and in the respective principal amounts, and will bear interest at the respective rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the Maturity Schedule immediately following the cover page of this Official Statement.

Interest on the Series AW Bonds is payable to the person whose name appears on the Bond registration books of the Treasurer of the State of California (the “State Treasurer”) as the owner as of the close of business on the fifteenth day of the month immediately preceding an interest payment date, whether or not the day is a business day.

**THE SERIES AW BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES. THE SERIES AW BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE STATE OF CALIFORNIA. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES AW BONDS.**

**Book-Entry Only**

The Series AW Bonds will be issued as fully registered bonds and 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 Series AW Bonds. Purchasers will not receive certificates representing Series AW Bonds purchased by them. The State Treasurer will pay principal of and interest on the Series AW Bonds directly to DTC. Upon receipt of payment of principal and interest DTC is obligated to remit such payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Series AW Bonds. (See APPENDIX G – “DTC AND BOOK-ENTRY.”)

**Redemption**

*Sinking Fund Redemption.* The Series AW Bonds maturing on December 1, 20\_\_, will be subject to redemption prior to their stated maturity, in part, by lot, from Sinking Fund Installments in the principal amounts and on the dates shown below, in each case with interest accrued to the date fixed for redemption, without premium:

<b>Series AW Term Bonds Maturing December 1, 20__</b>	
<b>Due Date (December 1)</b>	<b>Sinking Fund Installment</b>
†	\$
† Maturity	

Moneys in the Series AW Sinking Fund Installment Subaccount are to be applied by the State Treasurer to the retirement of Series AW Term Bonds by purchase at a price not exceeding the principal amount thereof or by call by lot at the principal amount thereof on the indicated December 1. Moneys in the Series AW Sinking Fund Installment Account may be used to purchase Bonds of Series AW at public or private sale as and when and at such prices, including brokerage and other expenses (but exclusive of accrued interest payable from the Interest Account) as the State Treasurer may in the State Treasurer's discretion determine, but not to exceed the principal amount thereof. Any moneys remaining in the Series AW Sinking Fund Installment Subaccount shall be applied to the redemption on the next succeeding December 1 of as many Series AW Term Bonds as such moneys shall suffice to redeem.

*Optional Redemption.* The Series AW Bonds maturing on or after December 1, 20\_\_ will be subject to redemption prior to their respective stated maturities, at the option of the Department from any source of available funds as a whole, or in part, by such maturities as the Department may designate (and by lot within any maturity), on any date on or after December 1, 20\_\_, upon payment of a redemption price equal to the principal amount of the Series AW Bonds to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

*Selection of Bonds for Redemption.* Whenever less than all the outstanding Bonds of any maturity of Series AW Bonds are to be redeemed on any one date, the State Treasurer shall select the Series AW Bonds of such maturity to be redeemed by lot in any manner the State Treasurer deems fair.

*Notice of Redemption.* So long as DTC is acting as securities depository for the Series AW Bonds, notice of redemption with respect to the Series AW Bonds will be given by delivering copies of such notice to DTC, not to the beneficial owners (as defined in APPENDIX G – "DTC AND BOOK-ENTRY" herein) of any Series AW Bonds designated for redemption, at least 20 days but not more than 60 days prior to the date fixed for redemption. The Resolution provides that if notice of redemption has been duly given and moneys for the payment of the redemption price of the Series AW Bonds called for redemption are held by the State Treasurer, then on the redemption date designated in such notice the Series AW Bonds so called for redemption will become due and payable, and from and after the redemption date, interest on the Series AW Bonds so called for redemption will cease to accrue and the holders of such Series AW Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

The receipt of such a notice shall not be a condition precedent to such redemption and the failure to so receive any such notice shall not affect the validity of the proceedings for the redemption of Series AW Bonds for which notice of redemption was given.

*Right to Cancel Notice of Redemption.* Upon the written request of the Department, any notice of redemption may be cancelled by giving notice of such cancellation, in the same manner as for giving notices of redemption, at any time prior to the date fixed for redemption designated in such notice of redemption.

*Effect of Redemption.* If, on the date fixed for redemption, moneys equal to the redemption price of Series AW Bonds or portions thereof designated for redemption, together with interest accrued thereon to the date fixed for redemption, shall be held by the State Treasurer for such Series AW Bonds so as to be available for payment of such redemption price and interest on such date, and if notice of redemption shall have been delivered as provided in the Resolution, then such Series AW Bonds or portions thereof, whether or not presented for redemption, shall cease to be entitled to any benefit under the Resolution other than the right to receive payment of the redemption price together with accrued interest to the date fixed for redemption, no interest shall accrue on such Series AW Bonds or portions thereof after the date fixed for redemption, and, except as to the portion not designated for redemption of any such Series AW Bond designated for redemption only in part, the redemption price of and accrued interest on such Series AW Bonds shall be payable only from the moneys held by the State Treasurer for such Series AW Bonds for that purpose.

## **Defeasance**

The obligations of the Department and the pledge, lien, covenants and agreements of the Department made or provided for in the Resolution will be fully discharged and satisfied as to any Series AW Bond and such Bond shall no longer be deemed to be outstanding thereunder if certain conditions set forth in the Resolution are satisfied. (See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Discharge of Obligations Under the Resolution.”)

## **SECURITY FOR THE BONDS**

### **Sources of Revenues**

Under the Water Supply Contracts, the Contractors are required to pay to the Department amounts calculated by the Department to be sufficient to return to the Department its annual costs of the State Water Project allocated to water and power supply. The revenues pledged to the payment of the scheduled principal of and interest on all Bonds (the “Revenues”) are the portion of the receipts of the Department under the Water Supply Contracts resulting from the construction, acquisition or operation of Water System Projects (but only in the amounts required to meet the rate covenant of the Resolution), income from the investment of moneys held in the Revenue Fund pursuant to the Resolution and certain other moneys received by the Department under the Water Supply Contracts, which the Department in its discretion determines to be Revenues. Revenues do not include any other income or receipts resulting from the construction, acquisition or operation of a Water System Project other than the income and receipts specified in the immediately preceding sentence. Revenues from facilities constructed or acquired with the proceeds of CVP Act revenue bonds, including the Bonds, are not subject to the provisions of the Burns-Porter Act pledging other Water Supply Contract revenues to the payment of State general obligation bonds issued under the Burns-Porter Act. (See “FINANCIAL OPERATIONS – Allocation of State Water Project Revenues.”)

Under the Resolution, the Department is required to charge the Contractors amounts under the Water Supply Contracts sufficient to repay the costs of all Water System Projects, whether or not the Department is able to construct or operate the Water System Projects or to produce, make available or deliver water from the Water System Projects. The terms of the Water Supply Contracts provide for such charges. The Resolution requires that the Revenues receivable in each year, after deduction of the costs of operation and maintenance (excluding depreciation but including appropriate amounts for operating and replacement reserves) of the Water System Projects for such year (the “Water System Operating Expenses”) shall be at least equal to the sum of 1.25 times the debt service payable from Revenues on all Bonds outstanding in such year and the amount, if any, required by a supplemental resolution authorizing a series of Bonds in order to deposit moneys in the debt service reserve account established under the Resolution (the “Debt Service Reserve Account”) to meet the requirements of the Resolution for the issuance of additional Bonds. (See “SECURITY FOR THE BONDS – Rate Covenant” and “– Debt Service Reserve Account.”) Amounts received in excess of operation, maintenance and debt service needs are held by the Department and refunded to Contractors approximately one year following receipt. Under the CVP Act, the payment of debt service has priority over the payment of operating expenses. Under current law, the charges of the Department under the Water Supply Contracts are not subject to regulation by any state or federal regulatory authority. (See “THE WATER SUPPLY CONTRACTS – Amendments Providing Certain Revenues to Pay Water System Revenue Bonds.”)

The Department estimates that upon issuance of the Series AW Bonds, payments from Metropolitan will account for approximately 36 percent of the Revenues to be derived from Water Supply Contract payments. (See “THE CONTRACTORS – Selected Contractor Financial Information.”) However, that percentage may change over time.

**Pledge of Revenues**

The principal of, and premium, if any, and interest on the Bonds are payable from and secured by a lien upon and pledge of the Revenues. The Bonds are also payable from Bond proceeds and other available funds (except amounts, if any, in any Rebate Account) to the extent provided in the Resolution.

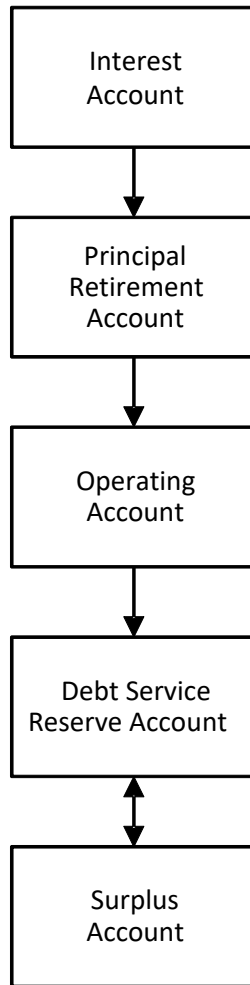
THE SERIES AW BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE DEPARTMENT. THE SERIES AW BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE STATE OF CALIFORNIA. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES AW BONDS.

**Flow of Funds**

The portion of each Contractor's payments under its Water Supply Contract attributable to Water System Projects will be deposited in the Revenue Fund.

The diagram below illustrates the priority of allocations to various accounts within the Revenue Fund. (See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Disposition of Revenues.")

### Priority of Allocation of Revenues



Moneys in the Operating Account may be used only for the purpose of paying Water System Operating Expenses.

Moneys in the Debt Service Reserve Account may be used only to make up any deficiency in the Interest Account or Principal Retirement Account, in that priority.

Moneys in the Surplus Account are available for any lawful purpose, including transfer to funds not subject to the pledge of the Resolution.

In the event that moneys held in the Operating Account or the Surplus Account are required for debt service, the Department, the State Controller, and the State Treasurer shall take all actions necessary to disburse such moneys, in the amount required, for the payment of debt service.

### Rate Covenant

The Department has covenanted in the Resolution to charge and collect amounts under the Water Supply Contracts sufficient to return the costs of all Water System Projects without regard to whether or not the Department is able to construct, acquire or operate any such Water System Project and that Revenues receivable under all Water Supply Contracts in any year shall be the sum of 1.25 times the aggregate debt service payable

from Revenues on all Bonds outstanding in such year, plus the amount estimated by the Department to be sufficient to provide for the costs of operation and maintenance of all Water System Projects, plus the amount, if any, required by a supplemental resolution authorizing a series of Bonds in order to deposit moneys in the Debt Service Reserve Account to meet requirements of the Resolution for the issuance of additional Bonds. Amounts received in excess of operation, maintenance and debt service needs are held by the Department and refunded to Contractors approximately one year following receipt. The manner in which charges under the Water Supply Contracts are established and collected is described under “THE WATER SUPPLY CONTRACTS – Basic Contract – Water Charges” and “– Payment of Water Charges.”

### **Debt Service Reserve Account**

The Resolution provides that on the issuance of each series of Bonds, provision must be made for placing moneys in the Debt Service Reserve Account, so that on the first interest payment date when interest on the Bonds of that Series is to be paid from Revenues, there will be on deposit in the Debt Service Reserve Account an amount equal to, for any date of calculation, for all Series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation. For purposes of calculating the Reserve Account Requirement for any fiscal year, Bonds bearing interest at a variable rate shall be assumed to bear interest during such fiscal year at a rate equal to the rate most recently reported by The Bond Buyer as the Bond Buyer Index for long-term revenue bonds; provided that if on the date of calculation the interest rate on such Bonds shall then be fixed for a specified period during such fiscal year, the interest rate assumed for such Bonds for such fiscal year shall be the actual interest rate.

Upon the issuance of the Series AW Bonds the amount on deposit in the Debt Service Reserve Account will be equal to or exceed the Reserve Account Requirement for the outstanding Bonds as of such issuance date. (See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Debt Service Reserve Account.”)

On the date of issuance of the Series AW Bonds, the amount of the Reserve Account Requirement for the outstanding Bonds will be approximately \$\_\_\_\_\_. The Department anticipates that approximately 63 percent of the amount held in the Debt Service Reserve Account on the date of issuance of the Series AW Bonds will be invested in the State Treasurer’s Pooled Money Investment Account, with the balance invested directly in U.S. Government securities. (See “THE DEPARTMENT – Investments of Department Moneys.”) This percentage may change. (See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Debt Service Reserve Account.”)

### **Outstanding Bonds; Additional Bonds**

Bonds in an aggregate principal amount of \$2,438,050,000 are currently Outstanding and all Outstanding Bonds (including any additional Bonds) are secured equally and ratably with the Series AW Bonds. (See “PLAN OF REFUNDING,” and “FINANCIAL OPERATIONS – Outstanding Revenue Obligations of the Department for the State Water Project” and “– Estimated Annual Debt Service.”)

The Department may issue additional Bonds on a parity basis with outstanding Bonds to finance the costs allocated to any Water System Project, including the cost of planning, construction or acquisition, or to refund bonds if, among other things, the Department certifies that (a) after the issuance of such Bonds, estimated Revenues in each year will not be less than the sum of (i) 1.25 times debt service to be paid from Revenues, plus (ii) estimated Water System Operating Expenses, (b) the Debt Service Reserve Account established pursuant to the Resolution is projected to contain on the first interest payment date on which interest for such additional Bonds is payable from Revenues, an amount equal to the Reserve Account Requirement, and (c) the State Treasurer must have received evidence that the issuance of the additional Bonds will not result in the lowering

of any rating then assigned to any then outstanding Bonds by any nationally recognized rating agency. (See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Issuance of Bonds.”)

Pursuant to Section 11731 and 11751 of the CVP Act, the Department may issue revenue bonds bearing interest at a rate not exceeding 12 percent per annum and may sell revenue bonds at a price of not less than 94 percent. If the Department determines that interest on revenue bonds will be subject to federal income taxation and to the extent permitted by applicable law, such bonds may bear interest at such rate or rates, and may be sold at such price or prices, as the Department may determine.

## THE DEPARTMENT

### Introduction

The Department is a department within the California Natural Resources Agency of the State and is responsible for the planning, construction and operation of the State Water Project. The Department is also responsible for, among other things, the operation of programs for the safety of dams, flood management, local assistance and subventions and other water-related matters, and the operation of the Power Supply Program. The Department was established in 1956 by an act of the State Legislature that combined the functions of the Water Project Authority and certain responsibilities of the Department of Public Works’ former Division of Water Resources. At present, the Department employs approximately 3,294 full-time staff throughout the State.

### Management

The Director of Water Resources oversees the Department’s activities, with the assistance of a Chief Deputy Director and five Deputy Directors. The Director and Chief Deputy Director are appointed by the Governor and report to the Governor through the Secretary of the California Natural Resources Agency. Biographical information for the management officials of the Department currently responsible for the State Water Project is as follows.

*Mark W. Cowin* has served as Director of the Department since February 2010. He has worked for the Department for over 30 years. Prior to his appointment as Director, Mr. Cowin served as Deputy Director of Integrated Water Management for the Department. In previous assignments with the Department, Mr. Cowin served for five years as Chief of the Department’s Division of Planning and Local Assistance and as an Assistant Director for the CALFED Bay-Delta Program.

*Carl A. Torgersen* was appointed Chief Deputy Director of the Department in November 2015. Mr. Torgersen is responsible for many of the Department’s water management and administrative policy issues. Prior to his appointment as Chief Deputy Director, he served as the Deputy Director for the State Water Project since 2012. Prior to that assignment, he was Chief of the Division of Operations and Maintenance since 2006. He has worked for the Department for more than 30 years. He is a licensed Professional Mechanical Engineer.

*Mark E. Andersen* has been serving as Acting Deputy Director for the State Water Project since January 2016, after serving as Assistant Deputy Director for the State Water Project since 2012. Mr. Andersen is responsible for directing the activities of the Division of Engineering, Division of Operations and Maintenance, the State Water Project Analysis Office, the State Water Project Power and Risk Office, the Hydropower License Planning and Compliance Office, the Division of Environmental Services and the Bay-Delta Office. Prior to these assignments, he served as Chief of Utilities Contract Management in the Division of Operations and Maintenance and Chief of Project Water Management in the State Water Project Analysis Office. He has worked for the Department for more than 25 years. He is a licensed Professional Civil Engineer.



*Spencer Kenner* has served as Chief Counsel of the Department since February 2016. He oversees a staff of 41 attorneys working on the Department's varied and complex legal issues. Mr. Kenner joined the Department in 2008 and prior to serving as Chief Counsel he served as the Assistant Chief Counsel responsible for the State Water Project, environmental compliance, and grant and loan programs since 2012.

The most recent Chief of the Division of Fiscal Services, the Chief Financial Officer of DWR, retired in July of 2016. Until this position is filled, the Chief, Enterprise Accounting Branch, Chief, Budget Office and Chief, General Accounting Branch are each serving as the Acting Chief of the Division of Fiscal Services from time to time based on a rotating schedule. DWR has started the process of making a permanent appointment to this position and expects to make such appointment in due course.

## **Fund Accounting**

The Department's operations with respect to the State Water Project are accounted for and conducted under special funds established by the California Water Code, principally the State Water Resources Development Bond Fund, the Central Valley Project Construction Fund (the "Construction Fund") and the Central Valley Project Revenue Fund (the "Revenue Fund"). The Department's operations with respect to the State Water Project are separate and apart from the Department's operations that are primarily funded by State General Fund appropriations and from the Department's Power Supply Program. (See "FINANCIAL OPERATIONS – Allocation of State Water Project Revenues.")

## **Employee Relations**

The Ralph C. Dills Act, enacted in 1977, provides that State employees have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. However, once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent the bargaining unit employees. The Department has approximately 3,294 full-time employees of whom approximately 2,384 are represented in 9 of the 21 statewide bargaining units adopted by the Public Employment Relations Board ("PERB") for collective bargaining purposes. The remainder of the Department's employees are not covered by collective bargaining agreements because of their managerial, supervisory or confidential status.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization, and, if agreements are reached, to prepare a memoranda of understanding and present them to the Legislature for approval. In cases where the parties are unable to reach agreement, either party may request the PERB to appoint a mediator to assist them in reconciling a dispute.

Nine bargaining units represent employees of the Department. The nine memoranda of understanding (each an "MOU"), one with respect to each bargaining unit, are currently in effect, however, seven are currently expired. If an MOU expires without a successor MOU in place, as provided by State law the MOU remains in effect until the successor MOU or an extension of the current MOU is negotiated and approved by the respective bargaining unit and the Legislature. The seven bargaining units with expired MOUs are currently meeting with the California Department of Human Resources, on behalf of the Governor's Administration, to negotiate successor MOUs.

## **Pension Obligations**

State departments and agencies, including the Department, participate in the California Public Employees' Retirement System ("PERS"), an agent multiple-employer pension system that provides a contributory defined-benefit pension for substantially all State employees. PERS has unfunded liabilities in the

tens of billions of dollars. For the years ended June 30, 2015 and June 30, 2014, the allocable share of annual pension contributions paid by the Department with respect to the State Water Project were approximately \$44.0 million and \$35.0 million, respectively. The level of future required annual pension contributions by the Department depends on a variety of factors, including changes in policy by the PERS Board of Administration, future investment portfolio performance, actuarial assumptions, GASB Statement No. 68 adherence and implementation, and additional potential changes in retirement benefits. There can be no assurances that the Department's required annual contribution to PERS will not significantly increase.

Additional information concerning State Water Project pension obligations, including a description of the actuarial assumptions and methods used to determine required contributions, is set forth in Note 8 of the financial statements of the State Water Resources Development System appearing in APPENDIX B. Such information is reported in part on the basis of State Miscellaneous Category Tier I and Tier II employees, of which State Water Project employees represent only a portion. For the years ended June 30, 2015 and June 30, 2014, Department contributions with respect to the State Water Project represented approximately 1.8 percent and 1.6 percent, respectively, of contributions for all of State Miscellaneous Category Tier I and Tier II.

### **Post-employment Benefits Other Than Pensions**

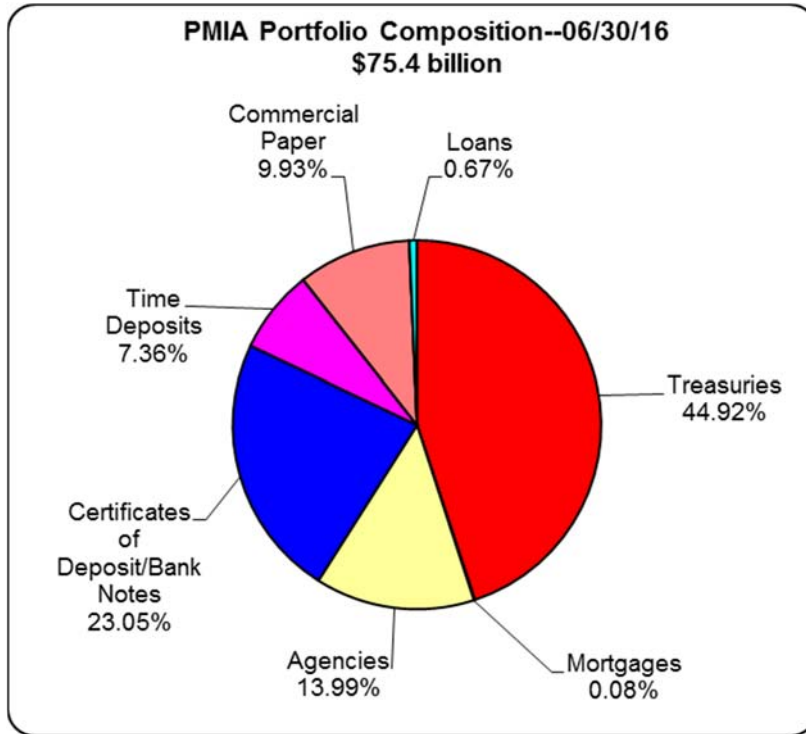
In addition to the pension benefits provided by the State, the State also provides post-retirement health care benefits, in accordance with California Government Code section 22760(g), to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State General Fund on a pay-as-you-go basis. The State Water Project allocated required contributions made for post-retirement health care benefits were \$16.0 million for the year ended June 30, 2015. The accrued unfunded obligation amount was \$26.5 million, totaling \$42.5 million in recognized expenses for retiree's health care benefits for the year ended June 30, 2015 as compared to \$56.2 million for the year ended June 30, 2014. Additional information concerning State Water Project post-employment benefits other than pension obligations is set forth in Note 9 of the financial statements of the State Water Resources Development System appearing in APPENDIX B.

### **Investments of Department Moneys**

The Department uses the State's Centralized Treasury System. Moneys on deposit in the State's Centralized Treasury System are invested by the State Treasurer in the Pooled Money Investment Account (the "PMIA"). As of June 30, 2016, the PMIA held approximately \$52.7 billion of State moneys, and approximately \$22.7 billion invested for about 2,464 local governmental entities through the Local Agency Investment Fund (the "LAIF"). The assets of the PMIA as of June 30, 2016, are shown in the following chart:

**Analysis of the Pooled Money Investment Account Portfolio**

(as of June 30, 2016)



Source: State of California, Office of the State Treasurer.

The State's treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy that sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the Pooled Money Investment Board (consisting of the State Treasurer, the State Controller and the Director of Finance). The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA is not now invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA Portfolio performance and the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA does not currently invest in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the total amount in the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of June 30, 2016, was 167 days.

As of June 30, 2016, the Department had approximately \$626,660,000 invested in the PMIA. The moneys consist of Contractor payments to the Department, which are invested on a short-term basis until they are expended for their designated purpose, replacement reserves, construction funds and debt service reserves.

## CALIFORNIA STATE WATER PROJECT

### Introduction

The State Water Project is one of the largest water supply projects undertaken in the history of water development and encompasses a complex of dams, reservoirs, pumping plants, power plants, aqueducts and pipelines owned and operated by the State. The Department is responsible for the planning, construction and operation of the State Water Project. After a construction program that commenced in 1957, the project is now providing water to all 29 Contractors. The maximum, contracted amount of State Water Project water each Contractor may request for delivery each year is set forth in "Table A" of the related Water Supply Contract. Under the Water Supply Contracts presently in effect, the Contractors may request Table A water from the State Water Project in a maximum amount of 4,172,786 acre-feet. (See "THE WATER SUPPLY CONTRACTS.") An acre-foot is the amount of water that will cover one acre of land to a depth of one foot, and is equivalent to 325,900 gallons. However, the amount of water that may be made available for delivery by the State Water Project in any year will depend on various factors, and the Water Supply Contracts provide for reductions in Table A water deliveries if the total amount available for delivery is insufficient to satisfy all Contractor requests. (See "STATE WATER PROJECT WATER SUPPLY.")

More than two-thirds of California's natural water supply originates in the northern third of the State, but more than three-quarters of the demand for water is in the southern two-thirds, which includes the San Francisco Bay area, the San Joaquin Valley, the central California coast and Southern California. The State Water Project was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits.

The State Water Project includes aqueducts, dams and reservoirs, pumping plants, hydroelectric generating facilities and other power plants. The State Water Project does not include any water treatment facilities or any desalination or other facilities for the production of water.

Portions of the State Water Project system consist of facilities developed and used jointly with the federal Central Valley Project operated by the U.S. Bureau of Reclamation (the "Bureau"). In addition, both projects have primary sources of water north of the delta formed by the confluence of the Sacramento and San Joaquin Rivers (the "Delta"), transport water across the Delta, and draw water from the southern edge of the Delta. The federal Central Valley Project, like the State Water Project, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Costs for the jointly developed facilities are shared, with approximately 55 percent being paid by the State and 45 percent being paid by the federal government. In 1986, the Department and the Bureau entered into a Coordinated Operation Agreement (the "COA") under which the State Water Project and the federal Central Valley Project coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The COA permits increased operational efficiency for both projects, ensures that each project receives an equitable share of available surplus water, and provides for sharing responsibilities in meeting certain Delta water quality standards.

### Aqueduct System; Pumping Facilities

All 647 miles of the initially planned aqueduct system have been completed. With the addition of the Grizzly Valley pipeline, the Thermalito Powerplant power canal and tail channel, and the extension of the East Branch aqueduct, the entire aqueduct system totals 705 miles. The main stem of the aqueduct system, the California Aqueduct, is 443 miles in length and transports water from the Delta through the Central Valley of California, over the Tehachapi Mountains and then into Southern California. Major branch aqueducts include the 28-mile North Bay Aqueduct north of the San Francisco Bay, the 45-mile South Bay Aqueduct in the southern San Francisco Bay area, the 116-mile Coastal Branch aqueduct from the southern San Joaquin Valley

over the coastal mountains to the central California coast north of Los Angeles, the 32-mile West Branch aqueduct in Southern California and the 33-mile extension of the East Branch aqueduct in Southern California. Aqueducts consist primarily of open concrete lined canals, siphons and underground pipelines. The main stem of the California Aqueduct has 381 miles of canals and siphons, 49 miles of pipelines or tunnels and 13 miles of channels and reservoirs. The branch aqueducts are mostly pipelines and tunnels rather than canals.

State Water Project facilities also include 20 pumping plants and stations, four pumping-generating plants, and five hydroelectric power plants.

See the fold-out entitled “State Water Project Facilities” at the end of this Official Statement.

### **Storage Facilities**

State Water Project facilities include 34 storage facilities, of which 21 are primary reservoirs and lakes. Reservoirs are used to provide long term water storage, manage water flows, provide recreation, and generate power.

See the fold-out entitled “State Water Project Facilities” at the end of this Official Statement.

The Department’s Division of Safety of Dams routinely inspects operating dams and may impose operating restrictions on dams and reservoirs that could adversely affect the operation of the State Water Project. One State Water Project dam, Perris Dam, is subject to a Division of Safety of Dams order. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *Perris Dam Remediation Program*.”)

### **Power Resources**

State Water Project facilities include a number of power generation and transmission resources. (See “POWER OPERATIONS OF THE STATE WATER PROJECT.”)

### **Operational Control**

The Department schedules and controls the operation of the State Water Project from a central operations center. This central operations center uses the communication and Supervisory Control and Data Acquisition (“SCADA”) systems to monitor and control the water and power movements in the aqueducts, pipelines and tunnels of the State Water Project in addition to the 29 pumping and generating plants of the State Water Project. Both the SCADA and communication systems are currently being upgraded and such upgrading is expected to be completed in 2018. When the upgrades are complete the central operations center will continue to monitor and remotely control all State Water Project facilities. Effective remote operations include start-up and shut down of pumping and generating units and opening or closing of gates and valves which control the flow of water throughout the State Water Project in a coordinated manner. Under emergency or back-up operation mode, the operations of each field division are handled at the local field division level.

### **Seismic Considerations**

State Water Project facilities were designed to withstand earthquakes without incurring major damage, in accordance with the Department’s Division of Safety of Dams criteria in effect at the time of their construction. Dams, for example, were designed to accommodate movement under and within their foundations and to resist earthquake forces on their embankments. Earthquake loads were taken into consideration in the design of project facilities such as pumping plants and power plants. Should further scientific and/or engineering research indicate that as-built seismic loads may be exceeded in future earthquakes, these criteria will need to be re-evaluated, and affected State Water Project facilities may need to be strengthened accordingly.

Major portions of the California Aqueduct are located parallel to and near the San Andreas Fault and other active faults. Faults known to be seismically active are crossed either by canal at ground level or by pipeline at very shallow depths, to ease repair in case of damage from movement along a fault. The location of check structures on the canal allows for hydraulic isolation of any needed fault-crossing repairs.

Since the Loma Prieta earthquake of October 1989, 13 earthquakes of magnitude 6.5 or greater have occurred either in, or within 100 miles of, California. Of those earthquakes, only the January 1994 Northridge earthquake occurred close enough to the State Water Project to cause damage (slight damage) to State Water Project facilities. The recent Napa earthquake of August 2014 had a 6.0 magnitude and did not cause damage to State Water Project facilities. Large earthquakes will continue to occur in and near California for the foreseeable future. Their magnitude, location and time of occurrence cannot currently be predicted. Under the Water Supply Contracts, the Contractors are required to continue making all payments to the Department when due despite any interruption in water supply due to an earthquake.

A major seismic event causing damage to State Water Project facilities could disrupt the operation of the State Water Project or require significant unexpected capital expenditures. Central Valley and Delta levees could also be impacted by such an event. (See “STATE WATER PROJECT WATER SUPPLY – Central Valley and Delta Levees.”)

### **Self-Insurance; Financing of Emergency Repairs**

The State does not maintain commercial insurance for the State Water Project, nor does it maintain a funded insurance reserve. However, the Department maintains a replacement reserve, currently in the approximate amount of \$29.44 million, which it uses to replace certain equipment periodically. The Department is authorized to cause the issuance of notes, payable from available revenues or federal reimbursements under the National Disaster Act, for the purpose of providing funds for emergency repairs to power projects or the State Water Project necessitated by natural disasters, provided that certain conditions can be met.

### **Security Efforts; Emergency Preparedness**

Department operations staff and security personnel undertake security efforts to safeguard the infrastructure, key facilities, information technology systems, public, personnel and the water supply of the State Water Project. Security measures include restrictions on public access to recreational and other State Water Project facilities, monitoring of State Water Project facilities, and a State Water Project-wide security plan.

The Department coordinates its emergency management and security efforts with the California Governor’s Office of Emergency Services, other State departments, and various local, State and federal law enforcement agencies as a matter of routine security procedure, and coordinates with other water, health, environmental and public safety agencies as needed. In addition, the Department is a participant on various California Emergency Management Agency committees.

Although the Department has undertaken many emergency preparedness and security improvements, a terrorist attack or significant natural disaster could materially impair system operations and water deliveries.

### **Environmental Considerations**

Projects undertaken by the Department are generally subject to the California Environmental Quality Act (“CEQA”) and certain projects involving the participation of the Bureau or other federal agencies are also subject to the National Environmental Policy Act of 1969, as amended (42 U.S.C. Section 4321) (“NEPA”).

Under CEQA, a project that may have a significant effect on the environment and is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, including the preparation of an Environmental Impact Report (“EIR”). The EIR reflects not only an independent technical analysis of the project’s potential impacts, but also the comments of other agencies with some form of jurisdiction over the project and the comments of interested members of the public. Contents of the EIR include a detailed statement of the project’s significant environmental effects; any such effects that cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; the relationship between local and short-term uses and long-term productivity; any significant irreversible environmental changes that would result from the project; the project’s growth-inducing impacts; and a brief statement setting forth the agency’s reasons for determining that certain effects are not significant and hence do not require discussion in the EIR. Before approving a project the agency must make findings on whether or how it can mitigate the significant environmental effects of the project. If the agency requires mitigation, the agency must adopt a mitigation monitoring plan to determine whether the mitigation is carried out during project implementation. If the agency determines that the project itself will not have a significant effect on the environment, it may adopt a written statement (called a negative declaration) to that effect and need not prepare an EIR. After deciding to approve or carry out a project, either following the EIR process or after adopting a negative declaration, the agency must file notice of such determination. Any action or proceeding challenging the agency’s determination must be brought within 30 days following the filing of such notice. Actions have been, and in the future may be, filed against the Department challenging the Department’s compliance with CEQA, including the adequacy of the EIR or other environmental documents, for a particular project. If the action is successful, the particular project could be delayed, revised, suspended or canceled. CEQA also contains a number of exemptions, which the Department uses for its projects when appropriate.

As part of its regular planning and budgetary process, the Department gives careful attention to environmental considerations. All projects are evaluated under the Department’s environmental impact review procedures, developed in compliance with federal and State laws and regulations.

## **STATE WATER PROJECT WATER SUPPLY**

### **General**

Under the Water Supply Contracts, the charges payable by the Contractors are generally computed to enable the Department to recover its costs, including debt service on the Bonds when due. Such charges will vary with the amount of water delivered only to the extent that the amount of water delivered has an effect on the variable operation and maintenance costs of the State Water Project. The Contractors’ obligations to make payments in amounts sufficient to pay debt service on the Bonds is not conditioned on the amount of water delivered. (See “SECURITY FOR THE BONDS – Sources of Revenues” and “THE WATER SUPPLY CONTRACTS.”) However, the Department is obligated under its Water Supply Contracts, subject to the availability of funds, to make all reasonable efforts, consistent with sound fiscal policies, reasonable construction schedules and proper operating procedures, to complete the project facilities necessary to make water deliveries at the time and in the amounts specified in the Water Supply Contracts. This section describes the historical water supply available for delivery by the State Water Project and certain factors that have had or may in the future have an effect on the availability of such water supply. The Department can give no assurances that future legislation or regulation in any of the areas discussed in this section will not affect State Water Project operations including, but not limited to, reductions in the water supply available to the State Water Project.

### **Annual Water Deliveries**

The annual water supply available for delivery by the State Water Project will vary from year to year depending on many factors including hydrologic conditions. The Department’s annual determination of the State Water Project’s delivery capability is based on extensive and ongoing analyses of operational capability

taking into account (i) storage levels at the beginning of the year, (ii) target storage levels at the end of the year, (iii) the actual amount of snow and rainfall that has occurred to date in the year and a conservative estimate of the amount of snow and rainfall that may occur over the remainder of the year, (iv) the operational capacity of State Water Project facilities, and (v) operational mandates for in-stream water requirements and environmental protection of the Delta as imposed by federal and state regulatory agencies. For each of the last ten years, each Contractor has requested 100 percent of their Annual Table A Amount for that year. (See “THE WATER SUPPLY CONTRACTS – Basic Contract – Annual Table A Amount.”) If delivery capability was less than 100 percent of such requests, using the procedure described above the Department allocated Table A water to the Contractors as a percentage of Contractor requests. The following table provides the percentage of allocated Table A water, the Table A water delivered, and the total water delivered to the Contractors for the last ten years.

**Annual Water Deliveries of the State Water Project  
(Percentage of Contractor Requests)**

<b>Year</b>	<b>Allocated Table A Water<sup>(1)</sup></b>	<b>Table A Water Delivered to Contractors in Acre-Feet<sup>(2)</sup></b>	<b>Total Water Delivered to Contractors in Acre-Feet<sup>(3)</sup></b>
2006	100%	2,973	3,694
2007	60	2,181	3,284
2008	35	1,248	2,152
2009	40	1,485	2,222
2010	50	2,011	2,831
2011	80	2,848	3,662
2012	65	2,594	2,886
2013	35	1,620	2,213
2014	5	474	1,239
2015	20	852	1,499

- <sup>(1)</sup> The allocation of annual Table A water for each calendar year is determined in the Spring of that year and based on hydrological conditions at the time of determination and other factors as described in the preceding paragraph. The Spring determination of annual water for a given calendar year is evaluated throughout the winter and may be revised in response to hydrologic conditions and regulatory mandates.
- <sup>(2)</sup> Historical deliveries reflect changes resulting from the reclassification of water to or from these water types; flexible withdrawal, Non-State Water Project local water rights, or Non-State Water Project water. Contractors also may choose to receive allocated Table A water in a later year subject to operational constraints (carryover).
- <sup>(3)</sup> All water delivered to Contractors, including but not limited to, Table A water for that year; Table A water allocated to a previous year (carryover); water surplus to operational needs, water quality, and Delta requirements); transfer; purchased; and Non-State Water Project water.

The delivery of less than 100 percent of Contractor requests for Table A water in nine of the ten years listed in the preceding table reflects the impact of one or more of the factors listed in the preceding paragraph affecting the Department’s annual determination of the State Water Project’s delivery capability in each such year.

According to the Final Appendices to the State Water Project Delivery Capability Report 2015, dated July 2015, the Department estimates that if annual precipitation conditions vary in the same manner as they have over the eighty-two year period of analysis (water years 1922-2003, a water year consists of twelve consecutive calendar months beginning with the month of October and is identified by the calendar year in which it ends),



the State Water Project would be capable of delivering at least 1,910,000 acre-feet of water in approximately 75 percent of the water years, at least 2,650,000 acre-feet of water in approximately 50 percent of the water years, and at least 3,100,000 acre-feet of water in approximately 25 percent of the water years. Under the Water Supply Contracts presently in effect, the Contractors may request Table A water from the State Water Project in a maximum amount of 4,172,786 acre-feet. The maximum, contracted amount of Table A water each Contractor may request for delivery each year were established when the Water Supply Contracts were executed and delivered, prior to the final determination of the scope of the State Water Project

## **2016 Drought Conditions**

Water years 2012, 2013, 2014 and 2015 were dry statewide. Above average precipitation across much of Northern California, as well as a healthy snow pack, has led to substantial in flow into most of the Northern California reservoirs especially the largest, Shasta and Oroville. Nevertheless, water year 2016 is shaping up to be a fifth dry year for much of California's Central Coast, Tulare Basin, and Southern California. On April 21, 2016, the Department announced a 60 percent allocation of estimated State Water Project Table A water, as a percentage of total Contractor requests for the delivery of Table A water in 2016, to the Contractors. In addition, approximately 185 thousand acre-feet of water remaining from prior year allocations to Contractors is available through the State Water Project.

On January 17, 2014, the Governor issued a Proclamation of a State of Emergency due to the drought. The Governor issued a second Proclamation of a State of Emergency due to the drought on April 25, 2014. The Governor subsequently issued several executive orders, which provided adjustments to State policy, law and government directives to address drought conditions. The Governor's proclamations and executive orders addressed a wide variety of needs, which focused primarily upon the following core aspects of the drought.

- State prioritization to move water to areas of need, in large part through voluntary transfers.
- Water right holder voluntary conservation of water and anticipation of mandatory curtailment of water use if circumstances dictate.
- Limiting the effects of the drought upon endangered and threatened species. Protection of water supplies and guarding against salt water intrusion into the Sacramento-San Joaquin Delta estuary.
- Prevention of waste and unreasonable use of water.

As the multi-year drought progressed into 2015 and the weather failed to produce any significant precipitation, the SWRCB began implementing a series of water shortage notices. These notices informed the recipients that the right to divert water from the Sacramento-San Joaquin Delta watershed could not be exercised due to a lack of water. These notices were issued to all post 1903 appropriative water rights holders on the San Joaquin River, Sacramento River and Delta. Five lawsuits were brought in State court by various irrigation districts and water agencies challenging the SWRCB's notices. In the Fall of 2015, the SWRCB lifted the water shortage notices, although the lawsuits challenging the notices are still pending. About the same time the lawsuits challenging the water shortage notices were filed, the SWRCB brought enforcement actions against two of the irrigation districts for alleged unauthorized diversions of water. After a hearing in March 2016, the SWRCB issued an order dismissing the enforcement actions, but confirming the scope of its authority over riparian and pre-1914 water rights holders. Three of the parties thereafter filed complaints in Sacramento Superior Court challenging the SWRCB's order regarding its authority over riparian and pre-1914 water rights holders and those lawsuits are also pending.

The respective obligations of the Contractors to make payments in amounts sufficient to pay debt service on the Bonds are not conditioned on the amount of water delivered. However, the Department is obligated under its Water Supply Contracts, subject to the availability of funds, to make all reasonable efforts, consistent with sound fiscal policies, reasonable construction schedules and proper operating procedures, to complete the project facilities necessary to make water deliveries at the time and in the amounts specified in the Water Supply Contracts. (See “SECURITY FOR THE BONDS” and “THE WATER SUPPLY CONTRACTS.”)

### **State and Federal Regulations Affecting the State Water Project**

The following subsections describe certain state and federal regulation of the State Water Project and related litigation that could impact the ability of the Department to deliver water to the Contractors. The respective obligations of the Contractors to make payments in amounts sufficient to pay debt service on the Bonds are not conditioned on the amount of water delivered. (See “SECURITY FOR THE BONDS – Sources of Revenues” and “THE WATER SUPPLY CONTRACTS” and “STATE WATER PROJECT WATER SUPPLY – General.”)

*Bay-Delta Water Rights and Water Quality Regulation.* The State Water Project diverts unregulated flow, and rediverts water it has stored upstream and later released into the Feather River, from the Delta. The Delta is also the source of water for local agricultural, municipal and industrial needs, and, in addition, supports significant resident and anadromous fish and wildlife resources and important recreational uses of water. Both the State Water Project’s upstream reservoir operations and its Delta diversions can at times affect these other uses of Delta water directly, or indirectly, through impacts on Delta water quality.

The SWRCB is responsible for regulating the State Water Project (along with the federal Central Valley Project operated by the Bureau) under the SWRCB’s water quality and water rights authorities to protect the reasonable needs of all beneficial uses of Delta waters. In this regard, in 1978, the SWRCB adopted a Water Quality Control Plan for the Bay-Delta estuary which has been amended periodically in 1995 and most recently in 2006. The Water Quality Control Plan for the Bay-Delta estuary as amended through 2006 is referred to herein as the “2006 Plan”. The SWRCB is currently in the process of updating the Water Quality Control Plan. In March 2000, the SWRCB implemented the Water Quality Control Plan, as amended through 1995, through a water rights decision known as “D 1641.” D 1641 is still in effect and requires the State Water Project and the federal Central Valley Project to meet the Water Quality Control Plan’s objectives for maintaining water quality. In addition, D 1641 recognizes a settlement (known as the “Sacramento Valley Water Management Program”) among the Department, Bureau, export contractors and upstream Sacramento Valley water users under which the parties have agreed to develop additional supplies of water for local use, for Delta protection, and for State Water Project and federal Central Valley Project use. The Department and the Bureau are responsible for funding the preparation of a draft Environmental Impact Report and an Environmental Impact Statement, respectively, that is required before approving actions to implement the settlement. However, work on the environmental document is on hold pending discussions among the various parties regarding how to proceed.

In February 2006, the SWRCB ordered the Department and the Bureau to take corrective actions to address threatened violations of their respective water rights permits implementing the southern Delta summer water quality objective for agricultural uses. Under this action, the Department and Bureau were to provide a schedule to the SWRCB of the proposed construction and operation of permanent operable gates in the southern Delta to help improve water quality. Other requirements of the enforcement action addressed the extent of the obligations of the State Water Project and federal Central Valley Project to protect water quality in the southern Delta. In response to a lawsuit filed against the SWRCB by the Bureau, certain Contractors and certain federal water contractors, the SWRCB clarified the enforcement order and the parties to the lawsuit entered into a stipulation for dismissal without prejudice and a tolling agreement, which extends to April 30, 2018. In addition, a June 2009 federal biological opinion for salmon, steelhead trout and green sturgeon states that the

Department shall not implement the permanent operable gates because that project would adversely modify critical habitat. As a result, in January, 2010, the SWRCB issued an order that modified its February 2006 enforcement order by, among other things, allowing the Department and the Bureau to defer the construction of the permanent operable gates and requiring the Department and the Bureau to conduct studies and consider other measures to address water quality in the southern Delta until the SWRCB issues a new water quality control plan and related water rights decision for the Delta.

In December 2007, the SWRCB adopted a resolution setting out a process for the review of beneficial uses in the Delta in response to scientific studies showing a decline in native species and in support of the current efforts of the Bay Delta Conservation Plan Steering Committee and Delta Vision Task Force to develop plans to improve the Delta ecosystem. (See “STATE WATER PROJECT WATER SUPPLY – Long Term Planning Efforts for the Delta,” “– *The Delta Vision*” and “– *Bay Delta Conservation Plan*.”) In accordance with the resolution, in July 2008 the SWRCB adopted the Strategic Workplan for Activities in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (the “Strategic Workplan”) that describes a number of activities the SWRCB and Regional Water Quality Control Boards intend to pursue to address the water supply and environmental situation in the Bay-Delta. The Strategic Workplan activities are responsive to priorities identified by the Delta Vision Task Force, build on existing processes, such as the Bay Delta Conservation Plan, and identify a wide range of flow-related and water quality actions to better protect the Bay-Delta. The Strategic Workplan includes plans to review and update the 2006 Plan and to review the Bay Delta Conservation Plan, water rights, and other requirements to protect fish and wildlife beneficial uses. In February 2009, in furtherance of the Strategic Workplan, the SWRCB began the process to review and update the southern Delta salinity and San Joaquin River flow objectives, and their program of implementation. As part of this process, the SWRCB prepared an environmental document to evaluate the effects of potential modifications to the southern Delta salinity and San Joaquin River flow objectives and is considering adopting related amendments to the 2006 Plan. The initial environmental document received substantial public comment and is being revised by the SWRCB. In January 2012, also in furtherance of the Strategic Workplan, the SWRCB began the process to review and update the other aspects of the 2006 Plan, which will include an environmental review of the effects of any proposed changes to the 2006 Plan.

In September 2010, three environmental groups filed a lawsuit against the SWRCB and the Department in State court, challenging the Department’s operations in the Delta on a variety of theories, including alleged violations of the public trust doctrine, D 1641 and the State Constitutional provision regarding reasonable use of water. The complaint claims that these violations have led to the recent decline of certain Delta fish species. The plaintiffs are asking the Court to declare that the SWRCB and the Department have violated the provisions and doctrine cited in the complaint and to enjoin the Department from diverting water from the Delta while these alleged violations persist. This lawsuit is in the pre-trial stage.

In June 2015, four environmental organizations filed a lawsuit in federal court against the Bureau claiming its operations in the Delta violate, among other things, D 1641 and the federal Clean Water Act. The SWRCB and the Department have been named in this lawsuit as real parties in interest. In July 2015, one of the four environmental organizations filed a complaint with the SWRCB against the Department and Bureau alleging violations of, among other things, D 1641 and water quality control plan standards, and requesting the SWRCB to take action to address the alleged violations. In addition, in August 2015 three of the same four environmental groups filed a petition for writ of mandate in State court seeking to have the SWRCB’s April 6, 2015, order relaxing salinity and other Delta water quality standards set aside on grounds that it violated, among other laws, the Clean Water Act, the Public Trust Doctrine and both the State and federal Endangered Species Acts. The Department and the Bureau are named as real parties in interest in the suit. In August 2015, a different environmental organization filed a complaint challenging the SWRCB’s issuance of the orders under similar theories to the lawsuit described above. The lawsuits challenging the SWRCB’s order are pending. And, in April 2016, three environmental groups filed a lawsuit against the U.S. Environmental Protection Agency in federal court alleging that the EPA failed to comply with its duty under the federal Clean

Water Act to review and take appropriate action regarding the SWRCB's revisions to the Water Quality Control Plan. The complaint alleges that the revisions to the Water Quality Control Plan made during the drought are injurious to fish.

In July 2011, an organization representing 27 Contractors filed a lawsuit against the SWRCB and the Central Valley Regional Water Quality Control Board challenging an amendment to the Sacramento-San Joaquin Delta Basin Plan, a regional water quality plan, regarding the control in the Delta of methylmercury, a chemical which can be harmful to fish. The amendment, among other things, assigns certain responsibilities jointly to the Department (with regard to both the State Water Project and the Department's flood management programs), the Central Valley Flood Protection Board, the State Lands Commission, the Bureau and the U.S. Army Corps of Engineers to control methylmercury in the open waters of the Delta in two phases. Phase I, which lasts for up to nine years, emphasizes studies and pilot projects to control methylmercury and Phase II requires implementation of measures to achieve required methylmercury levels by 2030. The Department was named as a real party in interest in the lawsuit. The Contractors contend that since the State Water Project activities do not add or introduce methylmercury into the open waters of the Delta, there is no basis in law for assigning such responsibility to the Department in its capacity as operator of the State Water Project. In March 2013, the lawsuit was dismissed with the agreement of the parties that the plaintiffs may re-file the lawsuit in the future.

*Federal Endangered Species Act: General.* The Department joins the Bureau in consultations with the U.S. Fish and Wildlife Service ("USFWS") and National Marine Fisheries Services ("NMFS"), also known as the National Oceanic and Atmospheric Administration-Fisheries, regarding the impacts to endangered fish species from the operations of the State Water Project and federal Central Valley Project. This process results in the issuance of biological opinions pursuant to the Endangered Species Act ("ESA"). These biological opinions update, extend, and consolidate prior opinions and authorize the incidental taking of the listed species of fish by the two projects. Biological opinions are generally valid until changed conditions or new listings of species would require re-initiation of consultation.

*Federal Endangered Species Act: Delta Smelt.* In December 2008, the USFWS issued a biological opinion for Delta smelt and related water projects operations ("2008 Biological Opinion"), which superseded a previously issued Delta smelt biological opinion. The issuance of the 2008 Biological Opinion is now the operation-criteria for the State Water Project and federal Central Valley Project. The 2008 Biological Opinion requires operational measures to protect Delta smelt and, in addition, includes a measure specifying outflow requirements in the Delta during the fall season in wet years. This fall measure requires the two water projects to control salinity incursion in the Delta through increased water releases from water storage and fewer water diversions during wet years.

In 2009, certain Contractors and federal water contractors filed lawsuits in federal court challenging the 2008 Biological Opinion as being too restrictive regarding water diversions from the Delta. In 2014, the Ninth Circuit Court of Appeals denied the challenge and upheld the 2008 Biological Opinion in its entirety. The Ninth Circuit Court of Appeal also upheld the District Court's ruling that the 2008 Biological Opinion requires compliance with NEPA and that the Bureau is the appropriate federal agency to prepare the environmental documentation. The Bureau has complied with the District Court's order to complete NEPA review and issued a final EIS in December 2015 and the Record of Decision in January 2016. The EIS, which analyzed the environmental impacts to both the Delta smelt and salmon species (discussed immediately below), has been challenged in a lawsuit filed by an authority consisting of federal water contractors in July 2016. Notwithstanding this most recent lawsuit, as a result of the prior court proceedings and completion of the NEPA review process, the State Water Project and federal Central Valley Project are continuing to operate pursuant to the terms of the 2008 Biological Opinion.

*Federal Endangered Species Act: Salmon, Steelhead Trout and Green Sturgeon.* In June 2009, following consultation with the Department and Bureau, NMFS issued a new salmon, steelhead trout and green sturgeon biological opinion (“2009 Biological Opinion”), which superseded a previously issued biological opinion for these fish species. The 2009 Biological Opinion imposes restrictions on the Department’s water diversion operations in the Delta based upon the level of flows from the San Joaquin River and the presence of salmon and steelhead trout in the vicinity of the Delta pumping plant.

In 2009, certain Contractors, federal water contractors and others filed lawsuits in federal court challenging the 2009 Biological Opinion as being too restrictive. In December 2014, the Ninth Circuit Court of Appeals denied the challenge and upheld the 2009 Biological Opinion in its entirety. The Ninth Circuit Court of Appeals also upheld the District Court’s ruling that the 2009 Biological Opinion requires compliance with NEPA and that the Bureau is the appropriate federal agency to prepare the environmental documentation. The Bureau complied with the District Court’s order by completing the environmental review of the impacts on salmon in the same EIS that addressed environmental impacts on the Delta smelt. However, in July 2016 an authority consisting of federal water contractors filed a lawsuit in federal court challenging the EIS. Notwithstanding this new lawsuit, the State Water Project and federal Central Valley Project are continuing to operate pursuant to the terms of the 2009 Biological Opinion.

*Federal Endangered Species Act: Longfin Smelt.* In April 2012, the USFWS found that the longfin smelt warrants consideration for protection under the ESA, but that it is currently precluded from listing the species because of the need to address other higher priority species. As a result, the USFWS has added the longfin smelt to the list of candidates for ESA protection, where the status will be reviewed annually. In the meantime there will be no specific restrictions regarding the longfin smelt imposed under the ESA. The longfin smelt is listed as threatened under the California Endangered Species Act (“CESA”) and the Department is already taking actions to protect the longfin smelt consistent with the take permit the Department received from the California Department of Fish and Wildlife (the “DFW”). (See “STATE WATER PROJECT WATER SUPPLY – State and Federal Regulations Affecting the State Water Project – State Endangered Species Act.”)

*State Endangered Species Act.* To obtain the authority under the CESA to “take” Delta smelt and salmon, the Department requested a “consistency determination” from DFW for the 2008 Biological Opinion and for the 2009 Biological Opinion. In July 2009, DFW issued its determination that the 2008 Biological Opinion was consistent with CESA and in September 2009, that the 2009 Biological Opinion was consistent with CESA. (See “STATE WATER PROJECT WATER SUPPLY – State and Federal Regulations Affecting the State Water Project – *Federal Endangered Species Act: Delta Smelt*” and “– *Federal Endangered Species Act: Salmon, Steelhead Trout and Green Sturgeon.*”)

In March 2009, the California Fish and Game Commission also formally listed the longfin smelt, which resides in the Delta, as a threatened species under CESA. The DFW has granted the Department an incidental “take” permit for longfin smelt under CESA, which will continue in effect through December 2018. The permit incorporates the 2008 Biological Opinion for Delta smelt as an element of the take permit for longfin smelt. As a result, under most conditions, when certain flow restrictions for the protection of Delta smelt are being implemented, the permit imposes no additional requirements for the protection of adult longfin smelt. However, under the permit, the presence of adult or larval longfin smelt at certain locations during certain times of the year could cause a reduction in water deliveries.

Both the consistency determinations for Delta smelt and salmon and the incidental take permit for longfin smelt incorporate conditions from the federal Biological Opinions for Delta smelt and salmon. The Department monitors activities in the federal cases and works with DFW to assure that the Department retains CESA compliance for its State Water Project operations. (See “STATE WATER PROJECT WATER SUPPLY – State and Federal Regulations Affecting the State Water Project – *Federal Endangered Species Act: Delta Smelt*” and “– *Federal Endangered Species Act: Salmon, Steelhead Trout and Green Sturgeon.*”)

## Long-Term Planning Efforts for the Delta

The activities and programs described in this section “Long-Term Planning Efforts for the Delta” build on prior activities and programs, including the CALFED Bay-Delta Program begun in 1995 with the participation of various State and federal agencies, as well as California’s environmental, urban and agricultural communities, to develop long-term, collectively-negotiated solutions to the environmental and water management issues concerning the Delta.

*The Delta Vision.* In 2006 Governor Arnold Schwarzenegger established a task force to develop a long-term sustainable vision for the Delta. The task force issued a Delta Vision strategic plan in November 2008 and an implementation report for the strategic plan in January 2009, which included specific recommendations to the Governor. Fundamental actions in the plan include developing a new system of dual water conveyance through and around the Delta, additional water storage projects, an emergency preparedness strategy and water conservation goals, restoring the ecosystem and establishing a Delta governance structure. The task force also created a non-profit organization, the Delta Vision Foundation, following the conclusion of their recommendations to the Governor. The new organization provides updates to the public on its view of the progress of the Delta Vision’s implementation.

*Delta Stewardship Council and Related Legislation.* The Delta Stewardship Council was created pursuant to the Delta Reform Act of 2009, part of a legislative package enacted in November 2009. The legislative package addressed California’s statewide water situation, with particular emphasis on the Delta. The package included an \$11.1 billion general obligation bond measure, which measure was subsequently amended, including a reduction in the amount of bonds authorized to \$7.1 billion. This \$7.1 billion bond measure was approved by the voters in November 2014. (See “STATE WATER PROJECT WATER SUPPLY – Statewide Water Considerations – Sources of Funding for Water Related Improvements” below.) The Delta Stewardship Council is charged with developing and implementing a Delta Plan. The Delta Protection Commission, which is a State commission with certain land use responsibilities in the Delta, was directed in the same legislation to prepare an economic sustainability plan for the Delta and to provide information and recommendations to the Delta Stewardship Council. In 2012, the Delta Protection Commission completed the economic sustainability plan and provided its recommendations to the Delta Stewardship Council. The Delta Stewardship Council adopted the Delta Plan, along with regulations to implement the policies of the plan, in May 2013. The Council also certified the final program EIR for the Delta Plan on that date. Starting in May 2013, a number of legal actions were filed by certain federal water contractors, Contractors, local water agencies and environmental groups challenging the Delta Plan, associated regulations and the program EIR. The cases were coordinated in a single proceeding in Sacramento Superior Court. The Department has filed an amicus curiae brief in support of the Delta Stewardship Council in the litigation. In June 2016, the trial court ruled that the Delta Plan was invalid, until such time as the Delta Stewardship Council is able to remedy three specifically identified Delta Plan deficiencies. The Delta Stewardship Council and other parties are expected to appeal once judgment is entered.

The Sacramento-San Joaquin Delta Conservancy, which was also established through the legislative package, will be implementing ecosystem restoration activities in the Delta based on a strategic plan that it has adopted. In addition, the package included separate bills that address groundwater, water conservation and unauthorized Delta water diversions.

*Bay Delta Conservation Plan/California WaterFix.* Since 2007, an approach, known as the Bay Delta Conservation Plan (“BDCP”), and updated in 2015 with an alternative known as the California WaterFix, is being developed by the Department, the Bureau, DFW, federal fish and wildlife agencies and the state agencies that purchase water from the Department and the Bureau. The BDCP project alternatives as described in the 2013 public draft EIR/EIS are aimed at promoting the recovery of endangered, threatened and sensitive fish and wildlife species and their habitats in the Delta in a way that will also protect and restore water supplies and

address water conveyance through the Delta. A formal public review draft BDCP and related draft EIR/EIS were released in December 2013. The plan and environmental review included analysis of strategies and measures to promote and improve the overall ecological health of the Delta and the species that inhabit the Delta and the analysis of water conveyance options, including conveyance through Delta channels or alternative conveyance, including a canal or tunnel. The public comment period for these draft documents closed in July 2014 and the submitted comments were reviewed. In August 2014, the Department announced that a recirculated draft BDCP and draft EIR/EIS would be published in early 2015. In April 2015, the Department and State and federal agencies announced a change in their approach to accomplishing the dual goals of improving the ecological health of the Delta and securing reliable water supplies. Under the new approach, implementation of new water conveyance facilities would be permitted under the provisions of the ESA and CESA, but not as part of a Habitat Conservation Plan or Natural Community Conservation Plan under federal and State law and large scale environmental restoration of the Delta would be implemented through a separate program designated California EcoRestore (discussed below).

In July 2015, a recirculated draft EIR/EIS was released for public review, with a comment period extending through October 2015. The recirculated draft document contained analysis of several new modifications to the alternatives analyzed in the December 2013 draft EIR/EIS. The Department has identified one of the modified alternatives as the preferred alternative. The preferred alternative, designated as California WaterFix, consists of an underground conveyance facility, three northern Delta intakes, and mitigation measures and environmental commitments to meet the requirements of CEQA, NEPA, ESA, CESA and other environmental requirements. This modified alternative does not carry forward the habitat restoration measures of the BDCP except to the extent it mitigates potential impacts of the water conveyance facilities for California WaterFix. Following completion of the public review and comment period, the Department and Bureau will prepare a final EIR/EIS. Timing of release of the final document will depend upon several factors, including the volume and nature of comments received on the draft recirculated EIR/EIS.

In August 2015 the Department and Bureau filed a joint petition with the SWRCB to add three new points of diversion under existing water right permits required for the construction of new intakes for the proposed California WaterFix. The hearing is being set to be conducted in two parts, the first addressing potential effects of the change on agricultural, municipal and industrial uses of water and the second focusing on fish and wildlife, recreational uses and the consideration of appropriate Delta flow criteria. The hearing on part one began in July 2016. Numerous entities/parties opposing the proposed project filed protests with the SWRCB and are participating in the hearing. The Department and the Bureau are discussing settlements with such entities/parties, which will reduce the number of issues in, and time expected for, the hearing.

Separate from the California WaterFix and BDCP, the State intends to pursue more than 30,000 acres of Delta habitat restoration over the next 5 years. This new approach to improving the ecological health of the Delta has been designated California EcoRestore. Among other things, EcoRestore will implement restoration projects required by the 2008 and 2009 Biological Opinions. EcoRestore is estimated to cost \$300 million in the first four years, and includes amounts to be paid by the Contractors and federal water contractors for the costs of habitat restoration required to mitigate State and federal water project impacts pursuant to the biological opinions.

The costs of any conveyance system, if ultimately approved and constructed through the BDCP process, could be substantial. Capital costs to construct a conveyance system as envisioned by California WaterFix are estimated to be \$14.9 billion (in discounted 2014 dollars). These costs include mitigation and environmental commitments and would be paid by the Contractors and the federal water contractors benefiting from the project. Information about the BDCP, California WaterFix and EcoRestore can be found on the website of the California Natural Resources Agency. The information contained on such website is not part of this Official Statement and is not incorporated herein.

Whether and/or the extent to which the California WaterFix or other alternative will be implemented, the final form of any implementation, the process and cost of any implementation, the scope and specifics of any conveyance system, the specific allocation of costs and the method of any financing are all still to be determined.

As part of the information gathering process for the BDCP, the Department sought permission to access Delta properties for the purposes of environmental surveys and geotechnical exploration. Beginning in 2008, the Department filed petitions in court to gain access to the property of owners who had not granted permission. In early 2011, the trial court allowed access for Department environmental surveys, but denied access for the geotechnical exploration, which includes drilling activities. The property owners appealed the order allowing environmental surveys on their property and the Department appealed the order denying access for geological exploration. In March 2014, the Court of Appeal affirmed the trial court's order denying the Department entry to conduct the geological activities and reversed the order granting the Department entry to conduct the environmental surveys. The California Supreme Court accepted the Department's petition for review of the Court of Appeal decision, and in July 2016 issued its decision reversing the Court of Appeal in all respects. The California Supreme Court held that the trial court may issue right of entry permits to the Department to conduct environmental surveys and geotechnical exploration and that such permits, with appropriate conditions to protect the interests of the property owners, comply with the State's eminent domain laws and the California Constitution.

In October 2010, the Department entered into a Fish Restoration Program Agreement with DFW to coordinate efforts regarding the Department's expenditure of funds for fish benefits. Currently the agreement is allocating \$230 million over four years (2015 through 2019) for certain habitat restoration activities. These activities are intended to be credited towards State and federal ESA habitat restoration requirements, as well as to provide credit towards the restoration component for the BDCP or the California WaterFix.

### **Central Valley and Delta Levees**

Water delivered to Southern California through the State Water Project must traverse the Delta through channels protected by levees that are susceptible to major failures due to decay, inadequate maintenance, flooding, overtopping and seismic events. If a major levee failure were to occur in the Delta or on the Sacramento River flood control system, it could adversely affect the ability of the Department to deliver water through the Delta. In the event of such a failure, the quality of the Delta's water could be compromised from an increase in salinity and other adverse water quality conditions caused by an influx of water from the San Francisco Bay and could result in curtailing pumping of water from the Delta southward to the Central Valley and Southern California.

After Governor Arnold Schwarzenegger declared an emergency in 2006 for California's Central Valley levee system, including the Delta and Sacramento River flood control systems, and subsequent to the passage of Proposition 1E (the Disaster Preparedness and Flood Prevention Bond Act of 2006) and Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), the Department, the United States Army Corps of Engineers and local flood control agencies have been working together to fund, design and construct levee improvements and repairs. The Department, through its Delta Levees Program, has funded significant repairs and improvements to the Delta levee system. In 2012, the Department, as required by statute with regard to its flood management responsibilities, completed, and the Central Valley Flood Protection Board adopted, a Central Valley Flood Protection Plan that analyzes flood risks and potential measures to address those risks in the Delta and in certain other areas of the California Central Valley. The Department is currently working to update that plan in 2017.



## Statewide Water Considerations

*Sources of Funding for Water Related Improvements.* In 1992, Congress enacted the Central Valley Project Improvement Act (the “CVPIA”), which required, among other things, many environmental restoration studies and projects, the cost of which is to be shared by the federal government and the State. In 1994, the Department entered into a cost sharing agreement with DFW, the Bureau and the USFWS (the “Cost Sharing Agreement”) for those projects. The State’s cost share is approximately \$175 million and is funded by general fund appropriations, general obligation bond financing and other sources. The Department does not expect State Water Project funds to be used for such purpose.

In addition to the CVPIA, California voter-approved measures such as Proposition 13 (the Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Act, approved in 2000), Proposition 50 (the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002), Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006) and Proposition 1E (the Disaster Preparedness and Flood Prevention Bond Act of 2006) have or will require the State to undertake a variety of projects for environmental restoration, water use efficiency and conservation, water supply enhancement and reliability, ecosystem restoration, watershed protection, water conveyance, delta levee restoration and water storage planning and studies. These measures authorize the issuance of State general obligation bonds to fund such projects. Most recently, in November 2014, the voters approved Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, which authorizes \$7.1 billion in general obligation bonds to fund various water projects and programs. These include projects and programs designed to address water quality, safety and reliability, ecosystem and watershed protection and restoration, respond to climate change, water security and drought preparedness, water recycling, groundwater sustainability, flood management and statewide water system operational improvements. Funds provided by this measure are not to be expended to pay the costs of the design, construction, operation, mitigation, or maintenance of Delta conveyance facilities.

*Programmatic Considerations.* To achieve additional capability of supplying water to the Contractors on a dependable basis at levels of acceptable water quality, the Department is considering additional water facilities and additional programs for reservoir and ground water storage, and conservation. Alternatives under consideration include (1) new reservoir storage north and south of the Sacramento-San Joaquin Delta, (2) Delta conveyance (i.e. the California WaterFix), (3) conjunctive operation with ground water storage in State Water Project service areas, (4) purchase of water from federal or local developments, and (5) construction of local water supply developments within State Water Project service areas.

*Future Mandates Relating to the Delta.* Water rights issues and environmental regulation with respect to the Delta have been an active area in recent decades. See “– State and Federal Regulations Affecting the State Water Project” and “– Long Term Planning Efforts for the Delta.”

*Invasive Species.* Zebra and quagga mussels are established in many regions of the United States. In 2007, quagga mussels were discovered in the lower Colorado River and rapidly spread through the Colorado River Aqueduct into water distribution systems and reservoirs in Southern California. An isolated population of zebra mussels is established in San Justo Reservoir in Central California. Quagga and zebra mussel populations are located within 16 miles of the State Water Project. The mussels can clog water intakes, trash racks and other protective screens. Once established, the mussels cannot be easily eradicated using current technologies. Mussel management will result in a significant increase in the cost of operation and maintenance of water delivery systems. In addition, there can also be adverse ecological impacts. To prevent the spread of the mussels into the State Water Project, the Delta and other bodies of water and water systems, the Department has joined with DFW, as the lead agency, and other state and federal agencies on a number of activities. These include boat inspections, monitoring of water bodies and water systems and education of the public, especially boat owners and operators. In addition, the Department has developed a Rapid Response Plan, Vector

Management Plan, and Long-term Mussel Management and Control Plan as mandated by the California Fish and Game Code.

*Climate Change.* Climate change caused by human activities is having, and is likely to continue to have, an effect on California water resources, as evidenced by a reduction in mountain snowpack, a rise in sea level, and a change in the amount and seasonal timing of river flows. In the foreseeable future, more of the precipitation in California is likely to fall as rain instead of snow. This potential change in weather patterns will exacerbate flood risks and add additional challenges for water supply reliability.

Currently, the Sierra snowpack provides as much as a third of California's water supply by accumulating snow during winter and releasing it slowly during spring and summer. Warming temperatures will cause the snowpack to melt faster and earlier, making it more difficult to store and use water released by the melting snowpack. Climate change is also expected to result in more variable weather patterns throughout California. More variability can lead to longer and more severe droughts. In addition, the sea level is expected to continue to rise, potentially threatening the existing channels within the Delta.

The Department considers the potential effects of climate change in both its project-level and long-term planning. The Department's ability to recover costs necessary to support debt service has not been impacted by the effects of climate change, and it is not expected to impact cost recovery. Although it is clear that climate change has affected and will continue to affect the State Water Project, the precise extent of those affects and the associated costs to deal with them are difficult to predict.

## **POWER OPERATIONS OF THE STATE WATER PROJECT**

The State Water Project is one of the largest consumers and suppliers of electric power in the western United States. This section describes the State Water Project's power-related activities. Revenues from the State Water Project's power related activities are not pledged to the payment of the Bonds.

### **Historic Involvement of State Water Project in Power Markets**

Since the commencement of the major facilities of the State Water Project in the 1960's, the Department has been an active participant in the power markets of California and the western United States. The Department currently owns and operates seven power facilities with a total generating capacity of approximately 1,600 megawatts ("MW") and with total annual energy generation in recent years ranging between approximately 3,000 and 6,000 gigawatt-hours ("GWh"). (See "POWER OPERATIONS OF THE STATE WATER PROJECT – Power Generation.") The Department also owns and operates 20 pumping plants and 3 pumping-generating plants with a total load, if all were operational simultaneously, of approximately 2,000 MW and total annual energy consumption in recent years ranging between 5,300 and 10,000 GWh. By way of comparison, the average load for all electricity users in California is approximately 30,000 MW and total 2014 consumption in California, according to the California Energy Commission, is approximately 282,000 GWh.

The pumping plants, which are the State Water Project's major power-consuming components, can be operated principally during the off-peak portion of the daily electricity consumption cycle due to their large pumping capacity. Similarly, the designed capacity of most of the Department's hydroelectric generation facilities permits those facilities to be operated at 100 percent of generation capacity during on-peak hours and generally held idle during off-peak hours. This flexibility in the scheduling of the Department's generation and load enables the Department to sell relatively high value power during on-peak hours and buy less expensive power during off-peak hours, or to do the functional equivalent by entering into contracts to deliver power on demand during on-peak hours in exchange for substantially larger amounts of power delivered to the Department during off-peak hours.

In addition to the seven power facilities it owns, the Department also has long-term contracts for the purchase of power from Pine Flat Powerplant, which is owned and operated by Kings River Conservation District, Lodi Energy Center, which is owned and operated by the Northern California Power Agency, five small hydroelectric power plants, which are owned and operated by Metropolitan, the 45 MW Camelot solar facility, which is owned and operated by Dominion Solar Holdings, Inc., and two newly executed long-term power purchase agreements, which will begin delivery in early 2017: the 9.5 MW Pearblossom Solar facility, which is owned and operated by SunPower Corporation, Systems, and the 85 MW Solverde 1 Solar facility, which is owned and operated by S-Power (Sustainable Power Group).

## Power Generation

The Department has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The table below summarizes current megawatt hour (“MWh”) generation, construction costs and completion date for the Department’s power projects.

	<b>Capacity (MW)</b>	<b>Expected Annual Generation (MWh)</b>	<b>Construction Cost in Millions</b>	<b>Completion Date</b>
Alamo Project Powerplant .....	17	114,000	\$ 49.4	1986
Castaic Powerplant.....	214	719,000 <sup>(a)</sup>	82.0	1978
Devil Canyon Powerplant .....	280	1,770,000	198.4	1993
Mojave Siphon Powerplant.....	29	96,000	65.6	1996
Hyatt-Thermalito Complex (Oroville) .....	762	2,202,000	282.0	1987
William E. Warne Powerplant (Pyramid) .....	74	472,000	80.0	1983
Gianelli (San Luis) Pumping-Generating Plant.....	222	188,000 <sup>(a)</sup>	47.2	1967

<sup>(a)</sup> State Water Project share.

See the fold out entitled “State Water Project Facilities” at the end of this Official Statement.

## Power Sales and Purchases

Periodically, the Department enters into long-term and mid-term energy sales agreements and energy exchange agreements with municipal utilities, private utilities, and other entities that buy or sell energy in California and neighboring states. The Department also transacts with the California Independent System Operator (“CAISO”) in its markets for day-ahead and real-time energy purchases and sales. In addition, the Department sells ancillary services from its generating facilities to the CAISO and buys ancillary services from the CAISO to meet the requirements for its State Water Project pumping plants. These agreements and arrangements with utilities, entities that buy or sell energy, and the CAISO allow the State Water Project to manage its power operations. The table below provides the Department’s historical revenues from power sales and costs of power purchases on an annual basis over the past five calendar years.

<b>Year</b>	<b>Costs of Power Purchases (in millions)</b>	<b>Revenues from Power Sales (in millions)</b>
2011	\$271	\$110
2012	218	81
2013	231	108
2014	171	88
2015	197	78

Because the Department procures significant amounts of electric power for State Water Project operations in the short-term markets for power, it has exposure to volatility in the electric power market. This exposure is mitigated by the fact that the bulk of the State Water Project's power needs can be met through Department-owned generation, long term and mid-term power purchase contracts and energy exchange arrangements. (See "POWER OPERATIONS OF THE STATE WATER PROJECT – Historical Sources of Power for State Water Project Operations.") It is further mitigated by the fact that the majority of the State Water Project's power needs are during off-peak periods on the daily energy consumption cycle, when the demand for and the cost of energy are generally lower. (See "POWER OPERATIONS OF THE STATE WATER PROJECT – Historic Involvement of State Water Project in Power Markets.")

The cost of power for State Water Project operations is paid out of the California Water Resources Development Bond Fund. (See "FINANCIAL OPERATIONS – Allocation of State Water Project Revenues.") Power costs for State Water Project operations allocable to water supply to the Contractors are passed on to Contractors under the Water Supply Contracts through the variable operation cost component of the Transportation Charge. (See "THE WATER SUPPLY CONTRACTS – Basic Contract – *Water Charges*.") The Department's exposure to any volatility in short-term power costs is aggravated by the fact that the variable operation cost component of the Transportation Charge is paid on an estimated basis subject to "true up" approximately two years later. If the Department underestimates power costs in assessing the variable operation cost component, it will typically not recover the difference between actual and estimated costs for approximately two years. (See "THE WATER SUPPLY CONTRACTS – Basic Contract – *Payment of Water Charges*.") Under the Water Supply Contracts, however, the Department has the option under certain circumstances to revise its billings, and it has exercised that option in the past.

The Department regularly solicits energy purchase, sale and exchange proposals from electric utilities and energy supply companies to address the need for a reliable supply of its Water System Project energy requirements. In addition, the Department has entered into a Power Sales Agreement with Northern California Power Agency and other project participants, reflecting the Department's participation in the Lodi Energy Center to assist it in meeting its power needs. The Department completed an integrated resource plan in 2009 that identified additional strategies to meet its future power needs. (See "POWER OPERATIONS OF THE STATE WATER PROJECT – Lodi Energy Center.")

On balance, the Department does not expect the cost of power to have a material adverse effect on its ability to continue to operate and maintain the State Water Project or on the security for, or the Department's ability to repay, the Bonds. However, no assurance can be given that the Department will not experience disruptions in State Water Project operations due to future deterioration in the California energy markets.

## Historical Sources of Power for State Water Project Operations

The historical sources of power for operating the State Water Project on a calendar year basis for the calendar years 2011 through 2015 are set forth in the table below. The Department has satisfied its power load through its own resources, long-term purchase and exchange contracts and short-term and spot market purchases, as needed.

	Electrical Energy (millions of kilowatt hours)				
	2011	2012	2013	2014	2015
State Water Project Hydroelectric Plants					
Gianelli (San Luis) .....	74	143	86	49	158
Castaic .....	412	609	571	293	424
Devil Canyon .....	1,291	941	577	216	267
William E. Warne (Pyramid).....	240	355	346	175	264
Hyatt-Thermalito Complex (Oroville)	2,198	1,622	1,488	644	569
Alamo .....	105	30	25	19	24
Thermalito Diversion Dam.....	12	21	12	19	20
Mojave Siphon .....	82	58	34	10	15
Subtotal SWP Sources .....	4,414	3,778	3,139	1,426	1,153
State Water Project Thermal Plant (Reid Gardner Project) <sup>(a)</sup> .....	843	1,029	491	0	0
Power Purchases .....	3,604	2,320	2,825	1,842	2,589
Energy via Exchanges .....	0	0	0	0	0
Total Sources.....	8,867	7,127	6,455	3,268	4,331
Less Power Sales (Excess Sources)	1,192	533	967	473	567
Plus Net Transactions through CAISO	867	808	229	11	281
SWP Load .....	8,583	7,402	5,717	2,784	3,483

<sup>(a)</sup> The Reid Gardner Power Plant is operated by NV Energy. The Participation Agreement between the Department and NV Energy for coal-fired energy from a portion of the Reid Gardner Power Plant terminated in 2013. The Department replaced a portion of the energy lost by termination of this agreement with energy purchased by the Department from the Lodi Energy Center. (See "POWER OPERATIONS OF THE STATE WATER PROJECT – Lodi Energy Center.")

## Power Transmission

State Water Project power transmission needs are presently served through transmission service contracts and transmission ownership.

*Transmission Service Contracts.* The Department obtains 100 percent of the High Voltage transmission service used by the State Water Project from the CAISO under a Scheduling Coordinator Agreement with the CAISO. Included in this transmission service is access to CAISO trading hubs. The Department also has several transmission agreements with Southern California Edison and Pacific Gas and Electric Company (PG&E) that provide for the connection of State Water Project facilities in each company's service area to the transmission grid.

*Transmission Ownership.* The Department also either solely or partially owns several transmission lines that interconnect State Water Project facilities with PG&E's transmission system. The following is a summary of the transmission lines owned by the Department:

The 10 mile Oroville Complex-Table Mountain 230 kilovolt line is solely owned by the Department. The triple-circuit line connects the Hyatt and Thermalito power plants to PG&E's Table Mountain substation.

The Castle Rock-Lakeville 38-mile 230 kilovolt double-circuit line is co-owned with PG&E and others. The Department owns a 165 MW entitlement in this line, but has leased 55 MW to other public utilities. The remaining 110 MW entitlement has been retained by the Department.

The one mile Pine Flat 230 kilovolt transmission line is solely owned by the Department. This transmission line emanates from the Pine Flat Powerplant and interconnects with PG&E's system.

The Department owns 75 percent of the 230 kilovolt double-circuit transmission line between Midway substation and Wheeler Ridge substation; the other 25 percent is owned by PG&E. The transmission line connects the Buena Vista, Wheeler Ridge and Wind Gap pumping plants to the PG&E Midway substation. Each pumping plant's tie line is solely owned by the Department.

### **Federal Energy Regulatory Commission Proceedings**

A number of proceedings are pending before the Federal Energy Regulatory Commission ("FERC") relating to the Department as operator of the State Water Project. Some of these proceedings address requests from the CAISO, investor-owned utilities and others to increase or adjust rates or allocate responsibility for costs for transmission and other services provided to the Department and other entities in California. The Department is participating in these proceedings because the outcome of these proceedings has the potential to increase the Department's annual power costs. However, the Department does not believe that any increased charges arising from these proceedings will materially impact the Department's operations or ability to pay debt service on the Bonds. Any increased charges will be passed through to the Contractors under the Water Supply Contracts in the form of higher operating charges.

### **Reid Gardner Termination, Groundwater Contamination Cleanup and Environmental Lawsuit**

The Reid Gardner Project consisted of the Department's interest in a 260 MW coal-fired steam electric generating unit ("Unit 4") in Nevada constructed by NV Energy ("NVE"). The Department's ownership interest in the Reid Gardner Project terminated in 2013. (See APPENDIX H – "WATER SYSTEM PROJECTS – Project Descriptions – *Reid Gardner Project*.")

In February 2008, NVE entered into an Administrative Order on Consent with the Nevada Division of Environmental Protection, pursuant to which NVE agreed to undertake investigatory activities and remediate the soil and groundwater contamination attributable to the Reid Gardner Generating Station. NVE operates the Reid Gardner Generating Station, which housed four coal-fired generating units. Prior to termination of the Department's ownership interest in the Reid Gardner Project in 2013, the Department owned 67.8 percent and NVE owned 32.2 percent of Unit 4 as tenants in common. The Department also had a 29.2 percent share of the common facilities at the site. As a former co-owner of Unit 4, the Department has agreed to share the cost of NVE's investigatory and soil and groundwater remediation activities that are related to Unit 4's construction and operations from July 1979 through July 2013. These activities are projected to continue through at least 2023. However, the Department believes that its participation in these remediation activities will not have a material adverse impact on State Water Project finances or operations.

### **Oroville Facilities Relicensing Program**

In January 2005, the Department filed its application with FERC for a new license for its Hyatt-Thermalito hydroelectric generation facilities, which are referred to by FERC as the Oroville Facilities (Project No. 2100) ("Oroville Facilities"). The existing FERC license, granted in 1957, expired on January 31, 2007. The Department's application requested a new 50-year license and was filed with a comprehensive settlement agreement for the relicensing of the Oroville Facilities (the "Settlement Agreement") with 51 stakeholders including federal, state and local agencies, and individuals. FERC issued an annual license effective

February 1, 2007, with provisions for automatic annual renewals until a new long term license is issued. The Department has used a collaborative approach to relicensing (referred to as “Alternative Licensing Procedures”) that involves working cooperatively with federal and State resource agencies, Indian tribes, local public agencies, non-governmental organizations and other interested parties to achieve consensus on the FERC license application and environmental documentation.

In March 2006, the Department and 51 settling parties signed the Settlement Agreement. The Settlement Agreement covers the protection, mitigation, and enhancement measures that will be implemented over the term of a new license to balance the Oroville Facilities operations with the environment and other project resources such as recreation, cultural, land use, and aesthetics. The Settlement Agreement has been submitted to FERC with the settling parties requesting FERC to adopt only the agreed-upon provisions as the terms and conditions of the new FERC license, so as not to jeopardize settlement. Other parties, that were not parties to the Settlement Agreement, have also intervened in the relicensing proceeding with various requests for additional conditions to be included in the new license. These parties include Butte and Plumas Counties, several Indian tribes, and other interest groups and individuals. The Department has responded in opposition to the inclusion of the proposed additional conditions.

FERC published its Final Environmental Impact Statement (“FEIS”) in May 2007, which completed the federal environmental documentation process. The FEIS included the majority of the Settlement Agreement terms that come under FERC jurisdiction. The Department issued the final EIR in July 2008. Butte and Plumas Counties filed lawsuits challenging the adequacy of the final EIR. After holding a hearing on the merits, the court issued its decision in favor of the Department in 2012. The county plaintiffs have appealed the court’s decision but a hearing date has not yet been set. Notwithstanding the lawsuits, in January 2010 the SWRCB, using the Final EIR, issued the required Clean Water Act Section 401 Water Quality Certification for the Oroville Facilities. FERC and the Department are awaiting the issuance of a final biological opinion for the project from the NMFS. The Department expects that the new FERC license would be for a term of 30 to 50 years. In the meantime, FERC is expected to continue issuing annual licenses for the Oroville Facilities.

### **Lodi Energy Center**

The Department and other participants entered into a Power Sales Agreement with the Northern California Power Agency (“NCPA”) in May 2010 to purchase a portion of the output of the Lodi Energy Center (“LEC”), which is a 280 MW natural gas-fired combined cycle power plant located in Lodi, California and which is owned, operated, and maintained by NCPA. The LEC began operation in November 2012. Under the Power Sales Agreement, the Department receives 33.5 percent of the output of the LEC and pays NCPA for a proportionate share of the construction, operation, and maintenance costs of the LEC. The Department uses its share of the LEC to meet State Water Project energy requirements, including replacing a portion of the energy previously provided by the Reid Gardner Project. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *Reid Gardner Project.*”)

### **Renewable Energy**

The Department has a long-term contract for renewable energy from the RE Camelot Solar Photovoltaic Project, which is owned and operated by Dominion Solar Holdings, Inc. and is located near Mojave, CA in southeastern Kern County. RE Camelot went into full commercial operation and began delivering power to the CAISO grid to meet State Water Project pump loads in December 2014. Under a 20-year contract through 2034, the 45 MW plant is expected to deliver 125,000 MWh of annual generation.

On October 5, 2015, the Department executed a long term Power Purchase Agreement for a 20 year delivery term with an option for an additional 10 year extension with Solar Star California XLIV, LLC. The plant will have a capacity of 9.5 MW (ac) of solar photovoltaic energy generation and is located adjacent to the Department's Pearblossom Pumping Plant facility. Under the agreement, the plant will start operation on December 16, 2016 with an estimated delivery output of 28,080 MWh.

On November 5, 2015, the Department executed a long term Power Purchase Agreement for procurement of renewable solar energy with Solverde 1, LLC. The 85 MW (ac) fixed single axis tracker solar photovoltaic facility is located at Lancaster Energy Center, 10 miles west of Lancaster, California and adjacent to portions of the East Branch of the California Aqueduct. Under the agreement, the solar facility will start operation on December 31, 2016 and will deliver approximately 230,000 MWh of solar energy annually to the Department.

On October 8, 2012, the Department executed an agreement for the purchase of 33.67 MW of renewable geothermal and landfill energy bundled with Renewable Energy Credits with Alameda Municipal Power. Delivery is from October 15, 2012 through December 31, 2016 with an estimated annual delivery output of 185,000 MWh.

On December 16, 2015, the Department executed an agreement for the purchase of 51.4 MW of renewable hydroelectric energy bundled with Renewable Energy Credits with Metropolitan. Delivery is from January 1, 2016 through December 31, 2020 with an estimated annual delivery output of 54,000 MWh.

### **Thermalito Powerplant Fire**

On November 22, 2012, a major fire occurred at the Thermalito Powerplant, which is part of the Hyatt-Thermalito hydroelectric generation facilities located on the Feather River near Oroville. The fire caused substantial damage to the plant rendering the plant inoperable. Until the plant is repaired and placed back in service, the electrical generation from the Hyatt-Thermalito facilities will be reduced. The cleaning, decontamination and structural repairs of the Thermalito Powerplant facility have been completed. The mechanical refurbishment and reassembly of the generating units continues and the Department expects the Thermalito Powerplant to return to full service by the end of 2018. This event has not had, and will not have, a material adverse impact on the Department's ability to operate and maintain the State Water Project. The costs for rebuilding the Thermalito Powerplant will be financed with Bonds. (See APPENDIX H — "WATER SYSTEM PROJECTS — Project Descriptions — Thermalito Powerplant Cleanup and Reconstruction").

### **No Relationship to Power Supply Revenue Bonds**

In response to the California energy crisis of 2000-01, the Department created the separate CERS Division to perform its function as supplier of energy to retail customers under its Power Supply Program, and to distinguish and keep that program separate and distinct from its power activities in connection with the State Water Project. The Department has issued Power Supply Revenue Bonds to finance and refinance a portion of the costs of the Power Supply Program. \$4.6 billion of Power Supply Revenue Bonds are currently outstanding.

**The State Water Project and the Power Supply Program are separate and distinct enterprises, and have separate and distinct sources and uses of funds. None of the power generated by the State Water Project is being or will be sold to the Power Supply Program. Revenues pledged to secure payment of the Bonds may not be used to pay the Power Supply Revenue Bonds or any other expenses of the Power Supply Program, and resources pledged to secure the payment of the Power Supply Revenue Bonds may not be used to pay the Bonds or any other expenses of the State Water Project.**



## FINANCIAL OPERATIONS

### Financing of the State Water Project

In addition to the revenue bond obligations described under “FINANCIAL OPERATIONS- Outstanding Revenue Obligations of the Department for the State Water Project” below, a large portion of the State Water Project has been financed by the sale of general obligation bonds of the State pursuant to the provisions of the Burns-Porter Act, which authorized the issuance of \$1,750,000,000 in aggregate principal amount of such bonds for the construction of the State Water Project. The Burns-Porter Act was adopted by the voters at the State’s general election of November 8, 1960. Of that authorization, \$1,582,400,000 in aggregate principal amount (including the entire amount available for construction of the initial components of the State Water Project) has been issued, of which \$121,795,000 in aggregate principal amount are outstanding as of September 1, 2016. The unissued \$167,600,000 of the authorization is available only to provide funds for the construction of certain additional water conservation facilities. (See “FINANCIAL OPERATIONS – Allocation of State Water Project Revenues.”)

Certain other moneys have been made available to the Department to pay the cost of construction of the State Water Project, including the proceeds of the sale of revenue bonds pursuant to the CVP Act (see “FINANCIAL OPERATIONS – Outstanding Revenue Obligations of the Department for the State Water Project”), a portion of the moneys from State offshore oil royalties, other State appropriations, and federal reimbursements for project costs allocated to flood control.

After the issuance of the Series AW Bonds, the Department anticipates issuing approximately \$1.383 billion of additional Bonds to finance completion of existing Water System Projects. (See APPENDIX H – “WATER SYSTEM PROJECT – Capital Expenditures for Water System Projects.”) In addition, the Department could issue additional Bonds to finance all or a portion of the settlement agreement costs of FERC relicensing of its power, water storage and associated facilities at Oroville. The FERC relicensing costs including the costs related to the settlement agreement could total \$90 million or more. The Department may also undertake additional capital projects in the future, which could result in the issuance of additional Bonds or other obligations in substantial amounts. (See “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds” for a description of certain limitations on the issuance of additional Bonds and “STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Bay Delta Conservation Plan.*”)

### Fish and Wildlife Enhancement and Recreation Costs

The Department is required under the Davis-Dolwig Act, enacted by the Legislature in 1961, to incorporate recreation and fish and wildlife enhancement features in the planning and construction of the State Water Project. The Davis-Dolwig Act provides, in California Water Code section 11913, that it is the intent of the Legislature that there shall be included in the budget for the Department for each fiscal year, and in the State’s budget act for each fiscal year, an appropriation from the General Fund of the funds necessary for enhancement of fish and wildlife and for recreation in connection with state water projects (including the State Water Project). Between 1998 and 2011, no appropriation from the General Fund was made to the Department for these purposes. However, effective with the 2012-2013 fiscal year, legislation was enacted that provides for a continuous annual appropriation of \$10 million from the General Fund portion of the Harbors and Watercraft Revolving Fund to the Department for Davis-Dolwig Act purposes. Seven and one half million dollars of this amount is continuously appropriated each fiscal year for current fish and wildlife enhancement and recreation costs and the other \$2.5 million of this amount is continuously appropriated each fiscal year to reimburse the Department for fish and wildlife enhancement and recreation costs incurred prior to 2012. If additional funding is required for these purposes, the Department will be required to seek additional appropriations.

In 2006, California voters approved Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), which, among other things, authorized the sale of \$54 million in State general obligation bonds for State Water Project recreation and fish and wildlife enhancement purposes. To the extent that sufficient moneys for the enhancement of fish and wildlife and for recreation in connection with state water projects are not made available to the Department through appropriations or the sale of general obligation bonds, costs allocated by the Department to the development of public recreation or fish and wildlife enhancement are expected to be paid by the Department on an on-going basis with State Water Resources Development System revenues available after the payment of operation and maintenance costs and Bond debt service. (See “THE WATER SUPPLY CONTRACTS – Monterey Amendment” and “WATER SUPPLY CONTRACT RELATED LITIGATION – Claims Relating to the Use of Bond Proceeds to Pay Capital Costs Allocable to Recreation and Fish and Wildlife Enhancement.”)

### **Allocation of State Water Project Revenues**

Under the California Water Code, State Water Project revenues are allocated between two funds, depending on the source of the revenues.

State Water Project revenues from Water System Projects financed by Bonds are, to the extent allocated to the Bonds, deposited in the Central Valley Project Revenue Fund and pledged to the repayment of Bonds. State Water Project revenues from the Devil Canyon Castaic Facility are deposited in the Central Valley Project Revenue Fund and pledged to the payment of the Devil Canyon Castaic Bonds. State Water Project revenues from the Water System Projects financed by Notes are, to the extent allocated to the Notes, deposited in the Central Valley Project Revenue Fund and pledged to the payment of the Notes.

All other State Water Project revenues are deposited in the California Water Resources Development Bond Fund and used first to pay the reasonable operating and maintenance costs of the State Water Resources Development System (which includes the State Water Project); second, to reimburse the General Fund of the State for the payment of the general obligation bonds issued to finance a portion of the capital costs of the State Water Project; and thereafter to the payment of the costs of the acquisition and construction of the State Water Resources Development System.

### **Outstanding Revenue Obligations of the Department for the State Water Project**

The Department has previously issued forty-eight series of Bonds totaling \$8,997,895,000 in aggregate principal amount, of which \$2,438,050,000 in aggregate principal amount are outstanding under the Resolution. A portion of the Bonds in the aggregate principal amount of \$258,520,000 are variable rate bonds with the remaining being fixed rate bonds, all of the Bonds are secured equally and ratably with the Series AW Bonds. (See “PLAN OF REFUNDING”)

The Department has also issued \$1,526,155,000 in aggregate principal amount of revenue bonds secured by three separate bond resolutions to finance certain power facilities of which \$45,475,000 in aggregate principal amount are outstanding as of September 1, 2016. All bonds issued under two of these resolutions have been fully retired. The outstanding revenue bonds issued under the third resolution are referred to as Devil Canyon-Castaic Bonds. Funds to be available to pay interest on and principal of the Devil Canyon-Castaic Bonds will not constitute Revenues under the Resolution and will not be available to pay interest on or principal of the Bonds. At no time will Revenues be available to pay interest on or principal of the Devil Canyon-Castaic Bonds.

The table below summarizes certain information for the Department’s outstanding long-term revenue bond programs.

	<b>When Issued</b>	<b>Final Maturity</b>	<b>No. of Series</b>	<b>Original Principal Amount in Millions</b>	<b>Outstanding Principal Amount in Millions<sup>(1)</sup></b>
Devil Canyon-Castaic Bonds <sup>(2)</sup> .....	1972	2022	1	\$ 139	\$ 45
Water System Revenue Bonds <sup>(3)</sup> .....	1986-2016	2035	48	8,998	2,438
Total <sup>(4)</sup> .....				<u>\$9,137</u>	<u>\$2,483</u>

<sup>(1)</sup> Previously refunded bonds and the Series AW Bonds are not included in these totals.

<sup>(2)</sup> Not secured by the Revenues securing the Bonds.

<sup>(3)</sup> Does not reflect the issuance of the Series AW Bonds described herein. The Series AW Bonds will be issued in the aggregate principal amount of \$ \_\_\_\_\_ and will refund \$ \_\_\_\_\_ in aggregate principal amount of outstanding Bonds. (See “PLAN OF REFUNDING.”)

<sup>(4)</sup> Totals may not sum due to rounding.

The Department has authorized the issuance of its Notes in a principal amount outstanding at any one time not to exceed the lesser of \$150,000,000 or the principal amount of Notes supported by the credit agreement then in effect (currently \$139,668,367). The Note program is designed to be an ongoing source of interim financing for Water System Projects prior to permanent financing from the sale of Bonds. The Department currently has approximately \$96 million in aggregate principal amount of Notes outstanding, all of which are expected to be paid with proceeds of the Series AW Bonds. It is anticipated that any remaining principal amount of Notes outstanding and any Notes issued in the future will be refunded periodically by other long-term Bonds. Pursuant to a Revolving Credit Agreement that extends through October 24, 2017, Bank of Montreal, acting through its Chicago Branch has agreed to make advances to the Department, if necessary and subject to certain conditions, to provide moneys for the payment of the Notes when due. The Department may replace the existing revolving credit agreement under the conditions provided by the Note resolution and the agreement. The Notes are payable from the Central Valley Project Revenue Fund and from payments under the Water Supply Contracts. In the event that amounts received by the Department under the Water Supply Contracts are insufficient to pay all amounts due under the Notes, the Bonds and the State’s general obligation bonds issued for the State Water Project, such moneys are to be allocated first to the payment of amounts due under the Bonds and such general obligation bonds.

The Department currently has no interest rate swaps, caps or hedges or other contingent payment obligations payable from Revenues.

### **Estimated Annual Debt Service**

The following table sets forth the estimated annual debt service for all Bonds that will remain outstanding after giving effect to the issuance of the Series AW Bonds as described in this Official Statement. (See “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds.”)

Year Ending (December 1)	Outstanding Bonds Total Debt Service <sup>(1) (2)</sup>	Series AW Bonds			Grand Total <sup>(4)</sup>
		Principal	Interest <sup>(3)</sup>	Debt Service	
2016	\$ 231,277,571	\$	\$	\$	\$
2017	231,360,753				
2018	217,569,634				
2019	222,500,827				
2020	217,121,070				
2021	212,488,614				
2022	211,806,337				
2023	199,673,642				
2024	196,798,837				
2025	191,350,687				
2026	168,328,485				
2027	180,230,043				
2028	162,914,298				
2029	168,361,121				
2030 <sup>(5)</sup>	106,863,302				
2031 <sup>(5)</sup>	106,937,220				
2032 <sup>(5)</sup>	106,949,264				
2033 <sup>(5)</sup>	104,512,595				
2034 <sup>(5)</sup>	104,530,322				
2035 <sup>(5)</sup>	104,506,824				
<b>Total <sup>(4)</sup></b>	<b>\$3,446,081,446</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

- (1) Excludes debt service on previously refunded Bonds and the Series AW Bonds but includes debt service on the Series AW Refunded Bonds. Interest on the variable rate Bonds of Series AT and Series AU has been assumed at 3.0 percent per annum and 2.07 percent per annum, respectively.
- (2) Includes capitalized interest on the Bonds of Series AT, Series AU and Series AV in the aggregate amount of \$11,239,544. Includes interest payment made on June 1, 2016, in the amount of \$50,786,669.
- (3) Includes capitalized interest on the Series AW Bonds in the amount of \$\_\_\_\_\_.
- (4) Totals may not sum due to rounding. After the issuance of the Series AW Bonds and the refunding of the Series AW Refunded Bonds the Department will have \$\_\_\_\_\_ in aggregate principal amount of Bonds outstanding. (See “PLAN OF REFUNDING.”)
- (5) Includes Sinking Fund Installments for Bonds of Series AT and Series AU.

**Article XIII B of the Constitution**

Article XIII B of the California Constitution (“Article XIII B”) establishes limits on certain annual appropriations of state and local entities. See “CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES – Article XIII B of the Constitution.” The Department’s experience is that Article XIII B has not significantly impaired the State’s ability to appropriate funds for the State Water Project.

Article XIII B was adopted pursuant to California’s constitutional initiative process. From time to time other initiatives could be adopted by California voters, placing additional limitations upon the State or the Department.

**Initiative Measure**

An initiative Constitutional amendment related to the issuance and sale of state revenue bonds has received sufficient signatures to be placed on the November 2016 ballot. If approved by a majority of voters in November 2016, this measure would require statewide voter approval before any revenue bonds could be issued or sold by the state, a state agency (which would include the Department) or a joint agency created by or including the state for any “single project” having a cost of \$2 billion adjusted for inflation. Many of the

specific aspects of this initiative measure are not yet clear, including, for instance, what constitutes a “single project,” and how the \$2 billion threshold for a statewide vote is calculated. Due to this lack of clarity, the Department cannot, for example, determine whether the State Water Project would constitute a “single project” under the initiative or whether currently outstanding Bonds would be included in the calculation of the \$2 billion threshold. Until the application of the provisions of the initiative are clarified, likely requiring interpretation by the courts, it is impossible to predict what the long-term effect of this measure, if approved, would be on the Department’s ability to issue bonds to finance costs of future projects. The Contractors’ obligations to make payments in amounts sufficient to pay debt service on the Bonds are not conditioned on the amount of water delivered. (See “SECURITY FOR THE BONDS – Sources of Revenues” and “THE WATER SUPPLY CONTRACTS.”) From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Department to finance projects.

## **THE WATER SUPPLY CONTRACTS**

The Water Supply Contracts between the State, acting by and through the Department (references to the Department in this Section are to the Department acting in such capacity), and the 29 Contractors are substantially uniform with respect to basic terms except with respect to certain payments by Contractors for agricultural water as noted below. Copies of the Water Supply Contracts between the State and the 29 Contractors are on file at the offices of the Department and of the State Treasurer in Sacramento, and reference is made thereto for information with respect to all of the terms and conditions thereof. The following discussion, except as noted, is applicable to each of the 29 Water Supply Contracts, and assumes the effectiveness of the amendments described below under the heading “Monterey Amendment.” All but two of the Contractors (Plumas County Flood Control and Water Conservation District and Empire West Side Irrigation District) have signed the Monterey Amendment.

### **Basic Contract**

*Term.* The Water Supply Contracts are to remain in effect for the longest of 75 years, December 31, 2035 or until all bonds issued to finance construction costs of State Water Project facilities have been repaid, whichever period is longest, subject to an election on the part of each Contractor to receive continued service after such longest period on certain specified continued terms and conditions and other reasonable and equitable terms mutually agreed upon by the Department and the Contractor. (See “THE WATER SUPPLY CONTRACTS – Contract Extension Negotiations.”) The final maturity of the Bonds to be outstanding upon the issuance of the Series AW Bonds will be in 2035. (See “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds.”)

*Annual Table A Amounts.* The year of initial water delivery is estimated in each Water Supply Contract and a table (titled “Table A”) in each of the Water Supply Contracts sets forth the maximum annual amounts of water the Contractor may request to be delivered (“Annual Table A Amount”) commencing in the initial year. These scheduled amounts increased yearly and reached the maximum Annual Table A Amount in a specified year, all Contractors reached their respective maximum Annual Table A Amounts on or before January 1, 2016. The Annual Table A Amounts schedule may be changed upon request by the Contractor and approval by the Department, but no such change may be made if it would impair the financial feasibility of the State Water Project.

The Annual Table A Amounts of all 29 Contractors totals 4,172,786 acre-feet of water. (See “STATE WATER PROJECT WATER SUPPLY.”) Water delivered to a Contractor may not be disposed of by the Contractor for use outside the Contractor’s territory, subject to certain limited exceptions, without the Department’s consent. Restrictions are imposed on changes in the corporate organization of the Contractor.

*Water Supply.* Subject to the availability of funds, the Department is required to make all reasonable efforts consistent with sound fiscal policies, reasonable construction schedules, and proper operating procedures to complete the facilities necessary for water deliveries at the time and in the amounts specified.

The Department must make all reasonable efforts to perfect and protect necessary water rights and must report at least every five years on its ability to meet future water demands.

If the Department cannot complete construction of the aqueducts necessary to deliver water to the Contractor, the Contractor may, under specified circumstances, provide money to the Department necessary to enable the Department to complete construction. In such case, the Department will own and operate the aqueducts, and the amount provided by the Contractor will be credited by the Department against the Contractor's payment obligation under the Water Supply Contracts. Alternatively, the Contractor may connect, at its own expense, to the portion of the aqueduct completed by the Department to receive water to which it is entitled under the Water Supply Contract.

The Department is required to take all reasonable measures to make available water that meets the water quality objectives set forth in the Water Supply Contract.

*Allocation of Water Surpluses and Deficiencies.* If there is a supply of water in excess of (i) the scheduled deliveries under Table A for all Contractors and (ii) the operational requirements of the State Water Project, Contractors may purchase such surplus water on an interruptible basis. The price of this interruptible water is the incremental cost of delivery.

The Water Supply Contracts also contain provisions for the allocation of water in the event of shortages in water supply. For Contractors that have accepted the Monterey Amendment, the available supply is to be allocated in proportion to Annual Table A Amounts, with reductions for agricultural Contractors and urban Contractors being made on the same basis. Contractors that have accepted the Monterey Amendment as of the date of this Official Statement have over 99 percent of the maximum Table A amounts of all Contractors. (See "WATER SUPPLY CONTRACT RELATED LITIGATION – Monterey Amendment Litigation.")

For Contractors that have not accepted the Monterey Amendment, there will be a reduction first in the delivery of water for agricultural purposes by an amount not to exceed 50 percent in any one year or a total of 100 percent of the Annual Table A Amount for agricultural water that may be requested in any seven consecutive years. Any additional reductions required will be apportioned among all Contractors irrespective of use. In the event of a permanent shortage there will be a proportionate reduction of the Contractors' Annual Table A Amount.

Contractors may use aqueduct capacity not used for water delivered under the Water Supply Contracts to transport other water procured by them. The Department is not liable for damage arising from shortages due to causes beyond its control. The total amount of Revenues required to be paid under the provisions of the Water Supply Contracts for the payment of debt service on the Bonds is not dependent on the amount of water available to be delivered.

*Water Charges.* The Water Supply Contracts in their original form provide for two charges to the Contractor: (a) a Delta Water Charge and (b) a Transportation Charge. The Off-Aqueduct Power Facilities Amendment, East Branch Enlargement Amendment, Water System Revenue Bond Amendment, Coastal Branch Extension Amendment, East Branch Extension Amendment and South Bay Aqueduct Amendment described below (collectively, the "Revenue Bond Amendments") modify the manner of calculating the charges with respect to certain facilities, including certain of the Water System Projects. (See "THE WATER SUPPLY CONTRACTS – Amendments Providing Certain Revenues to Pay Water System Revenue Bonds.")

The original Delta Water Charge and Transportation Charge each consist of three components: (a) a capital cost component; (b) a minimum operation cost component (operation costs that do not vary with water deliveries); and (c) a variable operation cost component (operation costs that vary with water deliveries). Project Planning Costs are charged under the component to which the costs of the potential project being studied would be charged if such project were constructed or acquired.

The original Delta Water Charge is a charge for each acre-foot of maximum Annual Table A Amount. It is computed so as to return to the Department generally during the term of the Water Supply Contract all "reimbursable" costs of the "project conservation facilities," together with interest thereon. The "project conservation facilities" are defined as certain categories of facilities that conserve water. Such facilities now include the Oroville facilities, the Delta facilities, the San Luis facilities and a portion of the aqueduct leading to the San Luis facilities from the Delta. "Reimbursable" costs are those costs determined by the Department to be allocable to the purposes of water conservation (or, in the case of the Transportation Charge, to water transportation). The costs and revenues of power plants that are part of the "project conservation facilities" (including the Oroville Facilities) are included in the determination of the Delta Water Charge.

The original Transportation Charge is computed so as to return to the Department during the term of the contract the "reimbursable" costs of the facilities necessary to deliver water to a Contractor, together with interest thereon. Such facilities include aqueducts, pumping plants and on-aqueduct power facilities, but do not include any of the facilities designated by the Resolution as Water System Projects, except for the Alamo Project, Small Hydro Project and Pyramid Hydroelectric Project (which are on-aqueduct power facilities) and except as the Transportation Charge is incorporated by reference in the Water System Revenue Bond Amendment. The costs of the facilities relating to each reach of aqueduct are allocated among all Contractors receiving water through that reach. Each year's capital expenditures are allocated among the Contractors and the allocated amount is required to be paid by each Contractor, together with interest, in not more than 50 equal annual installments within the capital cost component of the Transportation Charge. (In contracts with agricultural water Contractors, these capital costs are repaid by a uniform charge per acre-foot of the Annual Table A Amount of agricultural water that may be requested, which charge is computed so as to return to the Department generally during the Water Supply Contract term such costs with interest).

The capital cost component of the Transportation Charge and all components of the Delta Water Charge are to be repaid with interest at the weighted average of the rates paid on securities issued to finance the State Water Project (except the Department's commercial paper, the Oroville Bonds and Water System Revenue Bonds) and certain other moneys used to finance the State Water Project. The minimum and variable operation, maintenance, power and replacement cost components (the "operation cost components") of the Transportation Charge are paid currently.

The annual net value of power produced by any power plant located on a State Water Project aqueduct is credited to all Contractors receiving water flowing through that power plant in proportion to each Contractor's portion of the total water flowing through the plant during the year. The credit is given in the form of a reduction in the variable operation cost component of each such Contractor's Transportation Charge.

*Payment of Water Charges.* On or before July 1 of each year, the Department furnishes each Contractor with a statement of estimated charges for the capital cost components (including charges under the Revenue Bond Amendments) and the operation cost components of the Delta Water Charge and the Transportation Charge for the following calendar year. The capital cost component payments of the Delta Water Charge and Transportation Charge, the revenue bond charges of the East Branch Enlargement Amendment, Coastal Branch Extension Amendment, East Branch Extension Amendment and South Bay Aqueduct Enlargement Amendment, and the revenue bond surcharge of the Water System Revenue Bond Amendment are due semiannually, on January 1 and July 1 of the year following receipt of the statement of charges. The operation cost component payments of the Delta Water Charge, Transportation Charge, East Branch Enlargement Amendment and East

Branch Extension Amendment and all payment components of the Off-Aqueduct Power Facilities Amendment are due in twelve monthly installments commencing on January 1 of the year following receipt of the statement of charges.

On or about July 1 of each year, the Department determines the rate (per acre-foot) to be charged each Contractor in the following calendar year for the variable operation cost components of the Delta Water Charge and the Transportation Charge. The variable operation cost components in such calendar year are calculated and billed monthly based on metered water deliveries for the preceding month and an updated rate determined at the beginning of such calendar year. Payment of the variable operation cost components is due on the fifteenth day of the month following receipt of the monthly statement of charges and the Department grants a 30-day grace period, which results in an approximately three-month delay between delivery of water and payment of the variable operation cost components.

On July 1 of each year, the Department furnishes each Contractor with a statement showing the difference between the estimated water charges paid and the actual costs incurred in the prior calendar year. The difference is paid by or credited to each Contractor, as applicable, in equal monthly installments commencing on January 1 of the year following the “true-up” calculation. This process results in an approximately two-year delay in the reconciliation of estimated charges paid and actual costs reimbursed to the Department.

Interest from the due date at the interest rate earned by the State’s Pooled Money Investment Account must be paid on any payment received more than 30 days after the due date. A Contractor’s failure or refusal to accept delivery of water does not relieve the Contractor of its payment obligations. A Contractor is obligated to make payments to the Department notwithstanding any individual default by its constituents, assignees or others in the payment to the Contractor of charges levied by the Contractor. In accordance with a statutory requirement, each Water Supply Contract requires that whenever the Contractor fails or is unable to raise sufficient funds by other means the Contractor must levy upon all taxable property in the Contractor’s service area a tax or assessment sufficient (with other available moneys) to provide for all payments under the Water Supply Contract. (See “CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES.”)

If the Contractor defaults in payment, the Department may, and under certain conditions is required to, upon six months’ notice, suspend water deliveries during the period of default. During such period the Contractor remains obligated to make all payments required by the Water Supply Contract and the Department is not deprived of any other remedy under the Water Supply Contract or law.

### **Revenues from Bond Financed Facilities**

Revenues received under the Water Supply Contracts from facilities financed with the Bonds are available to be pledged to the payment of the Bonds. (See “SECURITY FOR THE BONDS.”) Other income and revenues derived from the Water Supply Contracts are pledged to the purposes and priorities set forth in the Burns-Porter Act, including the payment of certain operation, maintenance and replacement costs of the State Water Project, the payment of debt service on the State general obligation bonds issued under the Burns-Porter Act, the repayment of certain State moneys used for construction, and the payment of costs of acquisition and construction of the State Water Resources Development System (which includes the State Water Project).

The components of the State Water Project financed with Bonds are described in APPENDIX H – “WATER SYSTEM PROJECTS.”



## **Amendments Providing Certain Revenues to Pay Water System Revenue Bonds**

The costs of certain Water System Projects, as that term is defined by the Resolution, are recovered under one of the Water Supply Contract amendments described below.

*Off-Aqueduct Power Facilities Amendment.* In 1982, the Department and the 29 Contractors entered into a Water Supply Contract amendment, which (a) established a separate subcategory of Transportation Charge for Off-Aqueduct Power Facilities, such as the Bottle Rock Project, the South Geysers Project and the Reid Gardner Project, and changes the method of allocation and payment of costs of such power facilities; (b) authorizes the Department, subject to certain conditions, to include “local water projects” such as ground water storage projects, surface storage projects, wastewater reclamation projects and conservation programs, as projects of the State Water Project with the costs of such projects to be allocated under the Delta Water Charge; (c) changes the interest rate for the penalty for late payments from 6 percent to the interest rate earned by the State’s Pooled Money Investment Account; and (d) specifies that the Department may, subject to certain conditions, charge the Contractors under the Delta Water Charge for water purchased by the Department for delivery through the State Water Project.

Under the Off-Aqueduct Power Facilities portion of the amendment, the annual costs for such facilities financed by Bonds are allocated among the Contractors based upon power consumed in such year in delivering water under the Water Supply Contracts to each Contractor. Such costs include, but are not limited to, debt service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times debt service on the Bonds), deposits to reserves (including the Debt Service Reserve Account) and operation and maintenance expenses, less any credits, interest earnings or other moneys received by the Department in connection with the facility. If the Department determines that the amount received from the Contractors in any year is less than the amount required for such Off-Aqueduct Power Facilities costs, the Department may allocate the deficiency among the Contractors in the same manner as costs are allocated using the original capital cost component of the Transportation Charge.

In connection with the termination of the Department’s ownership interest in the Reid Gardner Project the Department received a payment from NVE of approximately \$47.6 million. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *Reid Gardner Project*.”) In June 2016, the Department applied a portion of this payment amount to defease all of the Bonds outstanding under the Resolution that are allocable to the financing of Off-Aqueduct Power Facilities and payable pursuant to the terms of the Off-Aqueduct Power Facilities Amendment.

*East Branch Enlargement Amendment.* In 1986, the Department entered into a Water Supply Contract amendment with Metropolitan, Antelope Valley-East Kern Water Agency, Coachella, Desert Water Agency, Mojave Water Agency, Palmdale Water District and San Bernardino Valley Municipal Water District (the “Participating Contractors”), for the purpose, among others, of financing the enlargement of the East Branch of the California Aqueduct. The amendment establishes a separate subcategory of Transportation Charge for the East Branch Enlargement and provides for the payment of costs associated with financing and operating the East Branch Enlargement.

Under the East Branch Enlargement Amendment, the annual financing costs for such facilities financed by Bonds are allocated among the Participating Contractors based upon delivery capacity increase allocable to each Participating Contractor. Such costs include, but are not limited to, debt service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times debt service on the Bonds), deposits to reserves (including the Debt Service Reserve Account) and operation and maintenance expenses, less any credits, interest earnings or other moneys received by the Department in connection with the

facility. If any Participating Contractor defaults on payment of its allocable charges under the East Branch Enlargement amendment, among other remedies available to the Department, the non-defaulting Participating Contractors may assume responsibility for such charges and receive delivery capacity that would otherwise be available to the defaulting Participating Contractor in proportion to the non-defaulting Participating Contractor's participation in the East Branch Enlargement. If Participating Contractors fail to cure the default, Metropolitan shall, in exchange for the delivery capacity that would otherwise be available to the defaulting Participating Contractor, assume responsibility for the capital charges of the defaulting Participating Contractor.

Each Participating Contractor may elect to pay a portion or all of its share of capital costs by advance payment in lieu of participating in revenue bond financing. In an agreement dated June 1, 1987, the San Bernardino Valley Municipal Water District elected to pay a portion of its allocated costs in advance rather than participate in the Bonds issued to finance the East Branch Enlargement-First Stage. No other Participating Contractor has elected to use this advance payment option.

*Water System Revenue Bond Amendment.* As of 1987, the Department and the 29 Contractors entered into a Water Supply Contract amendment for the purpose of financing facilities, including presently all Water System Projects (as that term is defined under the Resolution) other than Off-Aqueduct Power Facilities, the Alamo Project, the Small Hydro Project, the Pyramid Hydroelectric Project, the East Branch Enlargement – First Stage, the Coastal Branch Extension – Phase II, the East Branch Extension – Phase I and the South Bay Aqueduct Enlargement. The amendment establishes a separate subcategory of Delta Water Charge and Transportation Charge for projects financed with Bonds. This subcategory of charge provides the revenues required to pay the annual financing costs of the Bonds, and consists of two elements. The first element is an annual charge to each Contractor for repayment of capital costs of such projects under the original Water Supply Contract provisions for the Delta Water Charge and the Transportation Charge. The second element is a Bond surcharge to pay the difference between the total annual charges under the first element and the annual financing costs, including coverage and reserves, of the Bonds issued for such projects.

If any Contractor defaults on payment of its allocable charges under this Amendment, the Department must allocate a portion of the default to each of the nondefaulting Contractors, subject to certain limitations, including a provision that no nondefaulting Contractor may be charged more than 125 percent of the amount of its annual payment in the absence of any such default. Under certain circumstances the nondefaulting Contractors would be entitled to receive an allocation of the water supply of the defaulting Contractor.

*Coastal Branch Extension Amendment.* In 1994, the Department entered into a Water Supply Contract amendment with Santa Barbara County Flood Control and Water Conservation District ("Santa Barbara County FCWCD"), for the purposes, among others, of financing the construction of an extension of the Coastal Branch Aqueduct from the Santa Maria River to the current terminus at Tank 5 near the town of Casmalia. The amendment establishes a separate subcategory of Transportation Charge for the Coastal Branch Extension and provides for the payment of costs associated with financing the Coastal Branch Extension.

Under the Coastal Branch Extension Amendment, the annual financing costs for such facilities are charged to Santa Barbara County FCWCD. Such costs include, but are not limited to, debt service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times debt service on the Bonds) and deposits to reserves (including the Debt Service Reserve Account), less any credits, interest earnings or other moneys received by the Department in connection with the facility.

Santa Barbara County FCWCD had the option to elect to pay a portion of or all of the capital costs of the Coastal Branch Extension by advance payment in lieu of participating in revenue bond financing. Santa Barbara County FCWCD did not use this advance payment option.

Operation and maintenance expenses incurred in connection with the Coastal Branch Extension are included in the minimum operation cost component of the original Transportation Charge. There is no separate minimum operation cost component of the Coastal Branch Extension Transportation Charge.

The Department entered into a joint powers agreement, dated October 1, 1996, with the Central Coast Water Authority to allow the Central Coast Water Authority (“Authority”) to perform both operations and maintenance work on the Coastal Branch – Phase II, from the Polonio Pass Water Treatment Plant to the pipeline terminus. The Authority represents a consortium of thirteen local agencies in Santa Barbara County participating in the Coastal Branch. In 1991, the Authority entered into an agreement with Santa Barbara County FCWCD, which specifies the Authority’s responsibility for implementing the State Water Project in Santa Barbara County.

*East Branch Extension Amendment.* In March 1997, the Department entered into a Water Supply Contract amendment with San Bernardino Valley Municipal Water District and San Geronio Pass Water Agency, for the purposes, among others, of financing the extension of the East Branch of the California Aqueduct. The amendment establishes a separate subcategory of Transportation Charge for the East Branch Extension and provides for the payment of costs associated with financing the East Branch Extension.

Under the East Branch Extension Amendment, the annual financing costs for such facilities financed by bonds will be allocated between San Bernardino Valley Municipal Water District and San Geronio Pass Water Agency based upon the delivery capacity allocable to each. Such costs include, but are not limited to, debt service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times Bond Debt Service) and deposits to reserves (including the Debt Service Reserve Account), less any credits, interest earnings or other moneys received by the Department in connection with the facility.

Under the East Branch Extension Amendment, each participating Contractor has the option to elect to pay a portion of or all of the capital costs of the East Branch Extension by advance payment in lieu of participating in revenue bond financing. Neither participating Contractor has elected to use this advance payment option.

Operation and maintenance expenses incurred in connection with the East Branch Extension will be included in the operation cost component of the original Transportation Charge. There will be no separate operation cost component of the East Branch Extension Transportation Charge.

In July 2005, the Department and the participating Contractors entered into a Joint Powers Agreement for the coordinated operation and maintenance of the Phase I facilities of the East Branch Extension. That agreement allows the participating Contractors to operate the East Branch Extension and perform some of the required maintenance work.

*South Bay Aqueduct Enlargement Amendment.* On November 7, 2003, the Department and Alameda County Flood Control and Water Conservation District, Zone 7 (“Zone 7”) entered into a South Bay Aqueduct Enlargement Amendment to their Water Supply Contract for the purpose of financing the enlargement of the South Bay Aqueduct. This amendment established a separate subcategory of Transportation Charge for the South Bay Aqueduct Enlargement and provides for the payment of costs associated with financing and operating the South Bay Aqueduct Enlargement facilities. The annual costs for such facilities are borne exclusively by Zone 7 including debt service, deposits to reserves and operation and maintenance expenses, less any credits, interest earnings or other moneys received by the Department in connection with such facilities. Under the South Bay Aqueduct Enlargement Amendment, Zone 7 may elect to pay a portion of its entire share of capital costs by advance payment in lieu of participating in revenue bond financing. Operation and maintenance

expenses incurred in connection with the South Bay Aqueduct Enlargement will be included in the minimum component of the South Bay Aqueduct Enlargement Transportation Charge.

### **Monterey Amendment**

In December 1994, the Department and representatives of certain of the Contractors reached an agreement on comprehensive principles that served as the basis for negotiating amendments to the Water Supply Contracts. These amendments are collectively known as the “Monterey Amendment.” The Monterey Amendment was negotiated subject to the provision of the Resolution that the Department shall not agree to any amendment to the Water Supply Contracts that would materially adversely affect the security of the Bonds.

Water Supply Contract provisions that have been amended or added by the Monterey Amendment include provisions relating to the allocation of water (both in the event of a shortage and in the event of surplus), the transfer of the land and related assets of the Kern Fan Element of the Kern Water Bank to Kern County Water Agency (“KCWA”), the operation of certain State Water Project reservoirs, transfers of State Water Project Annual Table A Amounts (including certain transfers from agricultural Contractors to urban Contractors), other water transfers, the creation of and limitations on a Department reserve for operation, maintenance and replacement costs, and the description of facilities that may be financed with revenue bonds (adding a corporation yard and an operations center).

In addition, the Monterey Amendment provides for the reduction of annual Water Supply Contract charges in a manner such that Water Supply Contract revenues (taking into account other revenues and credits) are at levels calculated to meet (but not exceed) the following “revenue needs”: (1) annual financing requirements (including debt service and coverage) for revenue bonds, including the Bonds, issued for State Water Project facilities, (2) operation and maintenance expenses of the State Water Resources Development System (which includes the State Water Project, the Davis-Grunsky Act Program and the San Joaquin Drainage Program), (3) debt service on general obligation bonds issued under the Burns-Porter Act, (4) \$4.5 million per year for capital costs of the State Water Project and the San Joaquin Drainage Program for which neither general obligation bond nor revenue bond proceeds are available, and (5) after the provision of at least \$40.5 million per year of reductions in charges to the Contractors, the amounts available and needed for certain “additional State Water Resources Development System purposes.”

By August 1999, the Department had executed the Monterey Amendment with 27 of the Contractors. The Contractors that have signed the Monterey Amendment have approximately 99 percent of the maximum Table A amounts and make approximately 99 percent of the annual Water Supply Contract payments. The Department believes that it can administer the State Water Project in a manner such that both the Contractors that have not signed the Monterey Amendment and the Contractors that have signed the Monterey Amendment will receive the benefits and have the obligations provided in their respective Water Supply Contracts, amended or not as the case may be.

Pending litigation relating to the Monterey Amendment is described under “WATER SUPPLY CONTRACT RELATED LITIGATION – Monterey Amendment Litigation.”

### **Contract Extension Negotiations**

In May 2013, the Department and the Contractors began negotiations in a public forum to develop contract amendments to extend the term and change certain financial provisions of the Water Supply Contracts. In June 2014, the negotiators for the Department and the Contractors reached a general agreement on principles for such an amendment (the “Agreement in Principle”). The Department and 25 of the Contractors have signed the Agreement in Principle. The County of Butte, the Plumas County Flood Control and Water Conservation

District, the San Luis Obispo Flood Control and Water Conservation District and the Santa Barbara Flood Control and Water Conservation District have not signed the Agreement in Principle.

Currently, the Water Supply Contracts are to remain in effect for the longest of 75 years, December 31, 2035 or until all bonds issued to finance construction costs of State Water Project facilities have been repaid, whichever period is longest, subject to an election on the part of each Contractor to receive continued service after such longest period on certain specified continued terms and conditions and other reasonable and equitable terms mutually agreed upon by the Department and the Contractor. No Bonds have been sold with a maturity date later than December 1, 2035. The 75 year term provision currently results in the Water Supply Contracts having varying termination dates that range between December 31, 2035 and 2042, subject to the aforementioned election. Under the Agreement in Principle the term of the Water Supply Contract for each Contractor that signs an amendment would be extended until December 31, 2085.

Also under the Agreement in Principle, certain provisions that provide for charges to the Contractors for capital costs and certain other costs to be made on an amortized basis would be amended to provide for charges to the Contractors on an annual “pay as you go” basis to provide the revenues needed by the Department to make payments in each year. The current provisions authorizing the Department to charge the Contractors annually for the full amount of the required annual debt service and coverage on the Bonds will continue in any extended contract. Other provisions addressed in the Agreement in Principle would provide for, among other things, an increase in the Department’s operating reserves, a mechanism for financing capital projects with State Water Project funds and recovering those costs with interest from the Contractors, establishment of an account to pay for certain State Water Resources Development System expenses not chargeable to the Contractors and the establishment of a Finance Committee consisting of Department and Contractor representatives to serve as a forum for discussions and to provide a channel for recommendations to the Director of Water Resources concerning financial policies of the State Water Project.

Environmental review pursuant to CEQA and a presentation by the Department in an informational hearing to the Legislature will be part of the contract extension amendment process before any contract amendment is adopted. In August 2016, the Department released for public comment a draft EIR for the proposed contract extension amendment. The public comment period on the draft EIR is scheduled to close on October 17, 2016. Any amendment that is ultimately adopted will comply with the Department’s covenant in the Resolution not to agree to any amendment to the Water Supply Contracts which would materially adversely affect the security for the Bonds.

### **Obligation to Levy Taxes or Assessments**

The Water Supply Contracts, in accordance with a statutory requirement, provide that whenever a Contractor fails or is unable to raise sufficient funds by other means, the Contractor must levy on all property in the Contractor’s territory not exempt from taxation a tax or assessment sufficient to provide for all payments under the Water Supply Contract.

Although Article XIII A of the California Constitution, which was added to the California Constitution in 1978, limits the imposition of *ad valorem* property taxes (see “CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES”), the California Court of Appeal concluded that taxes levied by the Contractors to make payments under the Water Supply Contracts come within the Section 1(b) exception [in Article XIII A for] “*ad valorem* taxes or special assessments to pay the interest and redemption charges on . . . any indebtedness approved by the voters prior to July 1, 1978” to the general taxing limitation imposed by Article XIII A. (*Goodman v. County of Riverside*, 140 Cal. App. 3d 900 (1983)). As a result of this finding, the Court determined there was no need to address the issue of whether the application of Article XIII A to limit the levying of taxes to make payments under the Water Supply contracts would constitute an unconstitutional impairment of contract. The Court stated:

“ . . . [W]e conclude, when the state’s voters approved the Act, that they approved an indebtedness in the amount necessary for building, operating, maintaining, and replacing the Project, and that they intended that the costs were to be met by payments from local agencies with water contracts. Further, we conclude that the voters necessarily approved the use of local property taxes whenever the boards of directors of the agencies determined such use to be necessary to fund their water contract obligations, and that the *ad valorem* taxes levied by [Desert Water Agency] fall within the exception of section 1, subdivision (b) [of Article XIII A].

Our conclusion here does away with the necessity to address the issue of impairment of contractual obligations.”

The California Supreme Court denied a petition for hearing on July 14, 1983.

## **WATER SUPPLY CONTRACT RELATED LITIGATION**

The Department is a party to several lawsuits respecting the Water Supply Contracts as described below.

### **Monterey Amendment Litigation**

In May 2003, the trial court approved a settlement agreement among the Department and the other parties in *Planning and Conservation League, et al. vs. Department of Water Resources and Central Coast Water Authority*, a lawsuit that challenged the Monterey Amendment. Under the settlement agreement, the Department agreed, among other things, to act as lead agency in the preparation of a new EIR for the Monterey Amendment. During the preparation and processing of the new EIR, the Department was permitted under the settlement agreement to continue to operate the State Water Project in accordance with the provisions of the Monterey Amendment, including the provisions pertaining to the transfer of land and related assets of the Kern Fan Element of the Kern Water Bank to KCWA. The Department also agreed to pay for certain watershed improvements in Plumas County and to pay the plaintiffs certain amounts for use in implementing the settlement agreement. The plaintiffs agreed to limit the grounds upon which they could challenge the new EIR after it is completed.

The parties to the lawsuit had engaged in settlement discussions after the Court of Appeal, in September 2000, reversed an earlier trial court ruling on the Monterey Amendment EIR. The trial court had found that the designation of the Central Coast Water Authority, rather than the Department, as the lead agency for the Monterey Amendment EIR, violated the California Environmental Quality Act, but that the Monterey Amendment EIR was adequate, and the error as to the lead agency was harmless. As a result of the trial court’s ruling, the Department had proceeded to implement the Monterey Amendment, including transferring the Kern Fan Element property to KCWA. The Court of Appeal, however, found that the Monterey Amendment EIR was inadequate in certain respects and remanded the case to the trial court to oversee the Department’s preparation of a new EIR and to consider whether the Monterey Amendment may continue to be implemented while the new EIR was being prepared. The May 2003 settlement agreement described in the immediately preceding paragraph addressed these issues.

In accordance with the Court of Appeal’s determination, the Department prepared a new EIR and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit in Sacramento County Superior Court challenging the Department’s CEQA compliance and the validity of the Monterey Amendment, including the Department’s transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento County Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and the Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court,

challenging primarily the Department's CEQA compliance with respect to the Kern Fan Element transfer from the Department to KCWA. The two lawsuits filed in Kern County Superior Court were transferred to the Sacramento County Superior Court. In December 2012, the Department prevailed on its challenge to the plaintiffs' validation causes of action (including the validity of Kern Fan Element transfer) on the grounds that they were not timely filed. This left only the plaintiffs' CEQA compliance challenges. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR was adequate under CEQA, but that the EIR's discussion of the impacts on continued use and operation of the Kern Water Bank was deficient. In October 2014, the trial court ordered the Department, as the remedy for the deficiency, to provide additional environmental analysis on the impacts of the continued use and operation of the Kern Water Bank and upon completion of the EIR process, to determine whether to continue the use and operation of the Kern Water Bank by the Kern Water Bank Authority. The court limited its decision to the Kern Water Bank by ruling that only those portions of the revised Monterey Plus EIR that are new or changed shall be subject to challenge under CEQA by petitioners or other interested parties and that no other challenges that were raised or could have been raised with respect to the Monterey Plus EIR may be raised in any challenge to the revised Monterey Plus EIR. The trial court's decision, therefore, leaves all matters related to the State Water Project and the Monterey Amendment untouched. The Department released the draft revised EIR on the Kern Water Bank for public comment in April 2016 and is currently in the process of preparing the Final Revised EIR.

In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. These plaintiffs are appealing the trial court's final CEQA and validation decisions. In October 2015 the same set of plaintiffs filed an additional notice of appeal challenging the trial court's denial of attorney's fees to those plaintiffs. The Department, however, does not expect that there would be any material adverse impact on the ability of the Department to meet its payment obligations, including those with respect to the Bonds, even if the appeal or any future challenge to the Department's revised EIR is successful.

### **Contractor Claims**

The State Water Project has multiple purposes, including water conservation, water transportation, power generation, flood control, public recreation, and fish and wildlife enhancement. California Water Code section 11912 provides that costs incurred for the enhancement of fish and wildlife or for the development of public recreation may not be included in the Department's prices, rates and charges for water and power. Under the terms of the Water Supply Contracts, the Department may only charge amounts that recover costs allocable to water conservation and water transportation (including the costs of mitigation of the fish and wildlife impacts arising from water conservation and transportation activities).

In December 2005, Metropolitan filed a "Notice of Contest" with the Department, challenging various charges in the Department's billings. Based on its Notice of Contest, Metropolitan also filed a claim with the Victim Compensation and Government Claims Board, which claim was denied by the Board in March 2006. The Department and Metropolitan entered into a tolling agreement extending Metropolitan's time to file a lawsuit on the denied claim until March 31, 2007. The tolling of Metropolitan's time to file a lawsuit has been extended to December 31, 2017 in connection with the broader Tolling and Waiver Agreement described below.

One of the claims made by Metropolitan was that (1) Bond proceeds had been spent on the capital costs of certain recreation and fish and wildlife enhancement facilities that are a part of or are related to certain water system projects, (2) the Contractors had been charged under the Water Supply Contracts for costs relating to such recreation and fish and wildlife enhancement facilities (the "Recreation Costs"), and (3) such charges are not authorized by State law.

In the course of its investigation of Metropolitan's claims, the Department determined that it had spent approximately \$26.3 million of Bond proceeds and \$2.7 million of commercial paper proceeds on capital costs allocated by the Department to the purposes of recreation and fish and wildlife enhancement, had charged the

Contractors approximately \$9.5 million for Bond debt service allocated to recreation and fish and wildlife enhancement and had paid approximately \$15.1 million of such financing costs with other revenues. The Department has issued restated bills to the Contractors for the years 1988 through 2007. This restatement has, among other things, credited back the \$9.5 million, plus interest, and restated the amount of “reductions in charges” made and to be made available to the Contractors under the Monterey Amendment to reflect the use of other revenues that are permitted to be used to pay financing costs of the Bonds allocable to recreation and fish and wildlife enhancement. (See “THE WATER SUPPLY CONTRACTS – Monterey Amendment.”) One of the effects of such credits and restatements was to reallocate aggregate Water Supply Contract charges for the years 1997 through 2006 in the amount of approximately \$5 million among the Contractors, with some Contractors’ aggregate Water Supply Contract charges being increased and other Contractors’ aggregate Water Supply Contract charges being decreased. The Department also filed with the State Treasurer, as trustee under the Resolution, a supplemental resolution (and an amendment to such supplemental resolution) determining and designating that the other Department revenues used to pay Bond debt service were Revenues under the Resolution.

In 2007 and 2008, the Department entered into a Tolling and Waiver Agreement with 28 of the 29 Contractors. The Contractors that have signed the Tolling and Waiver Agreement have more than 99 percent of the maximum Table A amounts and make more than 99 percent of the annual Water Supply Contract payments (including payments that constitute Revenues under the Resolution). The Tolling and Waiver Agreement, as amended, expires on December 31, 2017. Under the Tolling and Waiver Agreement (as amended), each signing Contractor agreed, without establishing any precedent for interpretation of the Water Supply Contracts or the Davis-Dolwig Act, (California Water Code sections 11900-11925), to waive and release certain claims, including any claim that the Department was not in compliance with its Resolution covenants or that the Contractor had any right to recover anything of value from Bondholders arising out of certain specified issues relating to the past use of Bond proceeds for the development of public recreation and the enhancement of fish and wildlife.

The Department no longer allocates proceeds of Notes or Bonds to the development of public recreation or fish and wildlife enhancement and, accordingly, neither the Bonds remaining outstanding nor any additional Bonds will be treated by the Department as Notes or Bonds, the proceeds of which were used to pay, directly or indirectly, costs allocable to the development of public recreation or fish and wildlife enhancement.

In addition to the waiver and release provisions in the Tolling and Waiver Agreement, as amended, also tolls (i.e., suspends) until December 31, 2017, the running of the time period and statute of limitations for filing by the Contractors of (1) protests regarding the Department’s bills to the Contractors for 2007 through 2018, (2) claims arising from the Department’s revisions to prior year invoices that were made to adjust for improper charges to the Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims.

No assurance can be given that Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to such restatements of the amount of reductions in charges under the Monterey Amendment. If successful, such claims may reduce the amount of Revenues available under the Resolution. However, the Department believes that even if successful, any such contests or claims would not materially affect the total amount of Revenues received under the Resolution.

## **THE CONTRACTORS**

The 29 Contractors are principally located in the San Francisco Bay area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 39,200 square miles, approximately 25 percent of the State’s land area, with a population of approximately 26 million, or about 69 percent of the State’s population.



With three exceptions, the Contractors are established as districts under various State statutes providing for the formation of districts for water-related purposes. One Contractor is a city and two are counties. Of the 29 Contractors, 24 provide water primarily for municipal and industrial purposes and five provide water primarily for agricultural purposes.

The State Water Project was designed to be a supplemental source of water for Contractors, not an exclusive source, and Contractors have various other sources of water supply.

Certain of the Contractors also provide other services, including flood control, ground water replenishment, sewage collection and disposal, solid waste and trash collection and disposal, hydroelectric power generation and first aid, ambulance and paramedical services.

### **Governing Bodies**

Eight of the Contractors are governed by county boards of supervisors, 19 by elected boards of directors, and one by its city council. Metropolitan's board of directors consists of representatives appointed by the governing bodies of its constituent public agencies. Boards of supervisors generally include five members who are elected by popular vote. Specially elected governing boards generally include between five and eleven members and are elected by registered voters except for a few districts in agricultural areas, where the vote is based upon ownership of land in the district.

### **Water Rates and Taxation**

Rates and charges of the Contractors are generally set by each Contractor's governing body and are not presently subject to any state or federal regulatory agency.

Many Contractors receive a major portion of their income from *ad valorem* taxes on property and some make all payments under their Water Supply Contracts from *ad valorem* taxes. (See APPENDIX A – "ESTIMATED DIRECT AND OVERLAPPING DEBT OF CERTAIN CONTRACTORS.") The ability of Contractors to tax for general purposes and to appropriate for general purposes from tax revenue is limited under California law. (See "CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES.")

### **Selected Contractor Data**

The table entitled "Selected Data on the Contractors" sets forth for each Contractor the year in which it was established, its estimated population and principal water-related activities.

**SELECTED DATA ON THE CONTRACTORS**

<b>Contractor</b>	<b>Year Established</b>	<b>Estimated December 31, 2015 Population</b>	<b>Principal Water Related Activities</b>
Alameda County Flood Control and Water Conservation District, Zone 7	1967	238,600	Treats, distributes, and stores State water for municipal and agricultural purposes.
Alameda County Water District	1913	343,499	Treats and distributes State water for municipal purposes. Uses State water to replenish ground water basins for municipal and agricultural purposes as well as for salt water barrier protection for ground water basins.
Antelope Valley-East Kern Water Agency	1959	397,634	Distributes State water for agricultural purposes. Treats and distributes State water for municipal purposes.
Castaic Lake Water Agency	1962	274,000	Treats and distributes State water for municipal purposes.
City of Yuba City	1908	68,379	Treats and distributes State water for municipal purposes.
Coachella Valley Water District	1918	318,000	Exchanges State water for water from Metropolitan for storage in underground basins and for distribution for agricultural purposes.
County of Butte	1850	204,000	Distributes State water for municipal purposes.
County of Kings	1893	149,942	Exchanges State water for water from the Tulare Lake Basin Water Storage District for recreational purposes.
Crestline-Lake Arrowhead Water Agency	1962	29,000	Treats and distributes State water for municipal purposes.
Desert Water Agency	1961	72,000	Exchanges State water for water from Metropolitan for storage in underground basins and distribution for municipal purposes.
Dudley Ridge Water District	1963	36	Distributes State water for agricultural purposes.
Empire West Side Irrigation District	1931	12	Distributes State water for agricultural purposes. Exercises surface water rights.
Kern County Water Agency	1961	874,589	Distributes State water to 16 districts for agricultural and municipal use. Replenishes ground water basins with State water for municipal and agricultural use. Exercises flood control functions.
Littlerock Creek Irrigation District	1892	2,900	Distributes State water for agricultural purposes.
The Metropolitan Water District of Southern California	1928	18,800,000	Transmits and distributes State water and water from the Colorado River to 27 public agencies for municipal, agricultural and ground water replenishment purposes.
Mojave Water Agency	1960	469,000	Distributes State water for municipal purposes and uses State water to replenish ground water basins.
Napa County Flood Control and Water Conservation District	1951	139,099	Distributes water for municipal purposes. Exercises flood control functions.
Oak Flat Water District	1964	10	Distributes State water for agricultural purposes.
Palmdale Water District	1918	114,533	Treats and distributes State water for municipal purposes.
Plumas County Flood Control and Water Conservation District	1967	21,200	Distributes State water. Exercises flood control functions.
San Bernardino Valley Municipal Water District	1954	661,546	Uses State water to replenish ground water basins and for municipal purposes.
San Gabriel Valley Municipal Water District	1959	197,636	Uses State water to replenish ground water basins.
San Geronio Pass Water Agency	1961	78,268	Uses State water to replenish ground water basins and for municipal purposes.
San Luis Obispo County Flood Control and Water Conservation District	1945	279,083	Has contracted for State water. Exercises flood control functions.

<b>Contractor</b>	<b>Year Established</b>	<b>Estimated December 31, 2015 Population</b>	<b>Principal Water Related Activities</b>
Santa Barbara County Flood Control and Water Conservation District	1956	373,719	Has transferred its rights under its Water Supply Contract to the Central Coast Water Authority, which will distribute State water for municipal purposes. Exercises flood control functions.
Santa Clara Valley Water District	1951	1,889,638	Treats and distributes State water for municipal purposes. Distributes State water for agricultural purposes and for replenishment of ground water basins. Exercises flood control functions.
Solano County Water Agency	1958	415,913	Distributes State water for municipal purposes. Exercises flood control functions.
Tulare Lake Basin Water Storage District	1926	23	Distributes State water for agricultural purposes. Exercises surface water rights.
Ventura County Flood Control District	1944	464,600	Purchases State water and sub-contracts the entire amount to Casitas Municipal Water District. While Casitas manages the facility, Ventura County has primary responsibility for payment for State water. Exercises flood control functions.
<b>Total</b>		<b>26,879,859</b>	

Source: Department of Water Resources, State Water Project Analysis Office.

## Water Deliveries and Contractor Payments

The tables on the following pages show, for the last five calendar years, historical water deliveries from the State Water Project to each Contractor and historical payments under the Water Supply Contracts and under the Devil Canyon Castaic Contract by each Contractor.

### Historical Deliveries of Water from the State Water Project to the Contractors <sup>(1)</sup> (in acre-feet)

Contractor	2011	2012	2013	2014	2015	Maximum Table A Amount <sup>(2)</sup>
Alameda County Flood Control and Water Conservation District, Zone 7 .....	52,972	55,239	44,954	34,122	32,444	80,619
Alameda County Water District.....	36,610	20,831	23,640	30,066	27,259	42,000
Antelope Valley-East Kern Water Agency .....	94,046	111,207	51,003	18,532	14,308	141,400
Castaic Lake Water Agency.....	39,241	50,473	44,754	29,448	29,189	95,200
City of Yuba City.....	2,297	2,695	4,850	4,237	3,004	9,600
Coachella Valley Water District .....	79,464	117,587	66,539	12,750	37,596	138,350
County of Butte.....	1,092	1,374	908	1,652	2,763	27,500
County of Kings.....	6,556	7,405	4,645	1,386	1,229	9,305
Crestline-Lake Arrowhead Water Agency .....	192	624	1,368	1,260	1,253	5,800
Desert Water Agency.....	32,021	45,101	20,791	3,005	11,217	55,750
Dudley Ridge Water District.....	60,074	30,450	32,770	36,162	41,733	50,343
Empire West Side Irrigation District.....	1,915	2,242	1,567	516	624	3,000
Kern County Water Agency.....	1,200,563	810,029	744,317	518,021	520,758	982,730
Littlerock Creek Irrigation District .....	-	-	-	-	-	2,300
The Metropolitan Water District of Southern California .....	1,700,473	1,224,907	892,550	387,556	573,526	1,911,500
Mojave Water Agency .....	5,099	11,244	7,498	3,581	8,830	82,800
Napa County Flood Control and Water Conservation District.....	11,275	9,904	12,478	14,237	11,199	29,025
Oak Flat Water District.....	2,715	3,208	2,820	1,520	1,077	5,700
Palmdale Water District.....	17,313	18,897	10,567	8,406	5,836	21,300
Plumas Co. Flood Control and Water Conservation District....	98	79	366	251	730	2,700
San Bernardino Valley Municipal Water District .....	30,060	112,972	32,085	11,182	24,380	102,600
San Gabriel Valley Municipal Water District .....	23,591	22,058	9,252	1,200	5,760	28,800
San Geronio Pass Water Agency .....	10,503	11,010	9,445	5,044	3,481	17,300
San Luis Obispo Co. Flood Control and Water Conserv. Dist.....	4,631	3,944	3,681	3,206	3,473	25,000
Santa Barbara Co. Flood Control and Water Conserv. Dist. <sup>(3)</sup> .....	22,786	19,474	18,018	16,757	11,638	45,486
Santa Clara Valley Water District.....	131,237	63,794	84,623	66,846	82,888	100,000
Solano County Water Agency.....	28,034	29,350	35,929	19,679	23,836	47,756
Tulare Lake Basin Water Storage District.....	63,141	95,717	48,361	8,316	17,336	88,922
Ventura County Flood Control District.....	4,000	4,353	2,890	93	1,000	20,000
<b>TOTAL.....</b>	<b>3,661,999</b>	<b>2,886,168</b>	<b>2,212,669</b>	<b>1,239,031</b>	<b>1,498,367</b>	<b>4,172,786</b>

<sup>(1)</sup> Historical deliveries reflect changes resulting from the reclassification of water to or from these water types; flexible withdrawal, Non-State Water Project local water rights, or Non-State Water Project water. Water delivered to Contractors includes, but is not limited to, Table A water; Table A water allocated to a previous year (carryover); water surplus to operational needs; water quality, and Delta requirements; transfer; purchased; and non-State Water Project water.

<sup>(2)</sup> Reflects permanent transfers of Table A amounts through December 31, 2015. For an explanation of Table A amounts see "THE WATER SUPPLY CONTRACTS— Basic Contract – Annual Table A Amounts."

<sup>(3)</sup> As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. Thereafter, on September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of water under the related Water Supply Contract to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations.

Source: Department of Water Resources, State Water Project Analysis Office.

**Historical Payments to the Department from the Contractors<sup>(1)</sup>**  
(in thousands)

Contractor	2011	2012	2013	2014	2015
Alameda County Flood Control and Water Conservation District, Zone 7.....	\$ 26,969	\$ 32,995	\$ 33,678	\$33,934	\$40,692
Alameda County Water District.....	6,244	8,981	7,476	7,152	9,437
Antelope Valley-East Kern Water Agency.....	27,238	31,090	34,158	34,793	39,627
Castaic Lake Water Agency.....	19,814	25,540	21,678	23,746	27,881
City of Yuba City.....	498	497	518	520	628
Coachella Valley Water District.....	35,892	56,834	55,089	48,417	56,783
County of Butte.....	1,264	1,423	1,484	1,491	1,800
County of Kings.....	797	829	834	782	954
Crestline-Lake Arrowhead Water Agency.....	1,668	1,718	1,975	1,898	2,259
Desert Water Agency.....	10,898	22,608	19,632	18,335	20,989
Dudley Ridge Water District.....	4,295	4,595	4,462	4,344	4,666
Empire West Side Irrigation District <sup>(3)</sup> .....	200	259	241	224	276
Kern County Water Agency.....	97,983	112,068	111,440	101,792	116,916
Littlerock Creek Irrigation District.....	711	563	591	570	647
The Metropolitan Water District of Southern California....	619,293	555,505	564,019	553,620	632,852
Mojave Water Agency.....	32,331	23,528	23,597	25,103	28,524
Napa County Flood Control and Water Conservation District.....	8,896	8,894	8,157	8,127	8,055
Oak Flat Water District.....	409	334	536	396	497
Palmdale Water District.....	5,606	5,425	4,777	5,190	5,274
Plumas County Flood Control and Water Conservation District <sup>(3)</sup> .....	130	141	151	150	192
San Bernardino Valley Municipal Water District.....	47,372	43,642	42,481	39,805	54,952
San Gabriel Valley Municipal Water District.....	7,902	9,332	8,450	9,026	10,280
San Geronio Pass Water Agency.....	14,324	14,676	15,349	16,367	25,110
San Luis Obispo Co. Flood Control and Water Conservation District.....	5,931	6,966	6,936	5,836	7,825
Santa Barbara Co. Flood Control and Water Conservation District <sup>(2)</sup> .....	46,884	37,531	43,503	43,588	47,193
Santa Clara Valley Water District.....	17,718	23,489	20,154	21,568	28,836
Solano County Water Agency.....	9,384	10,328	14,052	9,891	9,073
Tulare Lake Basin Water Storage District.....	7,303	8,480	8,113	7,636	8,977
Ventura County Flood Control District.....	6,052	5,103	4,478	5,007	4,176
<b>TOTAL<sup>(4)</sup>.....</b>	<b>\$1,064,006</b>	<b>\$1,053,374</b>	<b>\$1,058,009</b>	<b>\$1,029,308</b>	<b>\$1,195,371</b>

<sup>(1)</sup> Contractor payments made in each year include the payment of 125 percent of annual debt service for the Bonds in that year; the amount of such payments that is not required to pay debt service on the Bonds in that year is credited back to the Contractors; the historical payments do not reflect such credits or any other subsequent adjustments.

<sup>(2)</sup> As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. Thereafter, on September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of water under the related Water Supply Contract to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations.

<sup>(3)</sup> Have not signed the Monterey Amendment.

<sup>(4)</sup> Totals may not sum due to rounding.

Source: Department of Water Resources, State Water Project Analysis Office.

## Payment History

The Department has not experienced payment delinquencies or defaults by Contractors that have had a materially adverse effect on the operation or maintenance of the State Water Project, or the ability of the Department to pay its obligations when due. Under the Water Supply Contracts, if a Contractor defaults in payment, the Department may, and under certain conditions is required to, upon six months' notice, suspend water deliveries during the period of default. In accordance with a statutory requirement, each Water Supply Contract requires that whenever the Contractor fails or is unable to raise sufficient funds by other means the Contractor must levy upon all taxable property in the Contractor's service area a tax or assessment sufficient (with other available moneys) to provide for all payments under the Water Supply Contract. (See "CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES.")

## Selected Contractor Financial Information

*Relative Contributions of Contractors.* The following table lists the three Contractors that are expected (accounting for projected capital expenditures on Water System Projects after the issuance of the Series AW Bonds) to provide the largest amounts of Revenues for payment of the Bonds based on projected payments to the Department through the final maturity of the Bonds and the expected percentage contribution of each to such Revenues over the term of the Bonds. These percentages may change over time.

<b>Contractor</b>	<b>Projected Percentage Contribution</b>
The Metropolitan Water District of Southern California .....	36%
Santa Barbara County Flood Control and Water Conservation District/Central Coast Water Authority .....	18
Kern County Water Agency .....	9
Twenty-six other Contractors.....	37
<b>Total .....</b>	<b>100%</b>

*Metropolitan.* The audited financial statements of Metropolitan for the year ended June 30, 2015, can be obtained at <http://www.munios.com>, then searching for keyword "Series AW" and choosing the appropriate link.

*Santa Barbara County FCWCD/Central Coast Water Authority.* As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. On September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of water under the related Water Supply Contract to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations. The audited financial statements of Santa Barbara County FCWCD for the year ended June 30, 2016, and the audited financial statements of Central Coast Water Authority for the year ended June 30, 2015, can be obtained at <http://www.munios.com>, then searching for keyword "Series AW" and choosing the appropriate link.

KCWA. The audited financial statements of KCWA for the year ended June 30, 2015, can be obtained at <http://www.munios.com>, then searching for keyword “Series AW” and choosing the appropriate link.

***Certain Limitations.*** The Department has made no independent verification of the data contained in the audited financial statements of any Contractor and makes no representations as to its correctness, completeness, or comparability.

*Contractor Official Statements and Continuing Disclosure Filings.* Various contractors periodically file Official Statements and disclosure reports with the Municipal Securities Rulemaking Board (“MSRB”) in connection with their publicly offered debt. Such Official Statements and disclosure reports are available from the MSRB but are not incorporated by reference herein and the Department does not assume any responsibility for the completeness or accuracy thereof.

## CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES

This section describes certain constitutional or statutory provisions that may limit the ability of some or all of the Contractors to levy and collect fees, charges, taxes or assessments.

### Article XIII A of the Constitution

An initiative measure approved by the California voters on June 6, 1978 (Proposition 13), added Article XIII A to the California Constitution. Section 1(a) of Article XIII A limits the maximum *ad valorem* taxes on real property to one percent of the “full cash value” of the property, subject to certain exceptions, including *ad valorem* taxes to pay debt service indebtedness approved by voters prior to July 1, 1978. (See “THE WATER SUPPLY CONTRACTS – Obligation to Levy Taxes or Assessments.”) “Full cash value” is defined as the valuation of real property as shown on the 1975-76 tax roll, and thereafter the appraised value of property when purchased, newly constructed or a change in ownership has occurred. The value base of the property may also be increased to reflect the inflation rate, but not to exceed 2 percent per year.

On June 3, 1986, the California voters approved an amendment to Section 1(b) of Article XIII A permitting *ad valorem* taxes or special assessments in excess of the one percent limit in Section 1(a) to pay the interest and redemption charges on any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

### Article XIII B of the Constitution

An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the fiscal year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district “which did not as of the 1977-78 fiscal year levy an *ad valorem* tax on property in excess of 12 1/2 cents per \$100 of assessed value,” and (3) “appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved . . .” by vote of the

electors of the issuing entity. In addition, the amendment provides that nothing in it “shall be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness.”

### **Article XIII C and Article XIII D of the Constitution**

A substantial portion of the revenues of the Contractors is derived from the collection of charges for water service. In addition, each Contractor has agreed to levy a tax or assessment sufficient to provide for all payments under its Water Supply Contract if it is unable to raise sufficient funds by other means. The Contractors’ ability to collect such charges, and to levy such taxes or assessments, may be limited by the Right to Vote on Taxes Act (“Proposition 218”), an initiative amendment to the California Constitution approved by the California voters in November 1996.

Proposition 218 added Articles XIII C and XIII D to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (i.e., “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996. Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIII D includes any levy, other than an ad valorem tax, special tax, or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in Richmond v. Shasta Community Services District, 32 Cal. 4th 409 (2004) (“Richmond”), and Bighorn-Desert View Water Agency vs. Verjil (published July 24, 2006) (“Bighorn”) have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIII D to service fees and charges. In Richmond, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIII D because a water connection fee is not a property-related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIII D, rejecting, in Bighorn, the water agency’s argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

Article XIII D also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIII D and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity



“separate the general benefits from the special benefits conferred on a parcel” of land. Article XIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and “imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water” are exempted from some of the provisions of Article XIID applicable to assessments.

Article XIIC extends the people’s initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In Bighorn, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency’s water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate’s initiative power is subject to the public agency’s statutory obligation to set water service charges at a level that will “pay the operating expenses of the agency, ... 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.”

In November 2010, the California voters approved the Supermajority Vote to Pass New Taxes and Fees Act (“Proposition 26”), an initiative amendment to Article XIIC. Proposition 26 amended Article XIIC to add additional restrictions on local agencies’ ability to impose new or increase existing charges. These additional restrictions do not, however, apply to, among other things, “property-related fees imposed in accordance with the provisions of Article XIID,” which includes a fee for ongoing water service.

No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Contractors’ ability to generate revenues.

### **Other Initiative Measures**

Articles XIIA, XIIB, XIIC and XIID were adopted, and in some cases amended, pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Contractors to increase revenues.

### **Special Limitations Applicable to Metropolitan**

In 1983, the California Legislature placed additional restrictions on the taxing power of Metropolitan. The restrictions reflected the ongoing debates among Metropolitan’s member agencies over whether to continue using property taxes as a major source of revenue or whether to shift to reliance on water rates. The legislation permitted Metropolitan to raise its property tax rate above one percent only under limited circumstances. The rate could be higher in 1983-84, but in 1984-85 and 1985-86, the rate would have to return to its 1982-83 level unless 80 percent of Metropolitan’s board found that a fiscal emergency existed. The bill also required Metropolitan to report to the Legislature regarding its efforts to reduce its reliance on property taxes. Metropolitan reached an agreement among its member agencies for gradually shifting to an increased reliance on water rates and filed its report. In response, the Legislature codified the agreement in SB 1445 in 1984 (Chapter 271, Statutes of 1984), which, among other things,

made several amendments to Metropolitan's organizing Act. One provision provides that commencing with fiscal year 1990-91, any *ad valorem* property tax levied by Metropolitan, other than special annexation tax levies, shall not exceed the composite amount required to pay (1) its general obligation bond debt service, and (2) that portion of its Water Supply Contract payment that is reasonably allocable, as determined by Metropolitan, to the portion of the debt service payment for the Burns-Porter Act bonds that were approved by the State's voters in 1960 and which were used to finance construction of facilities for the benefit of Metropolitan. This statutory tax levy restriction would not apply, however, if Metropolitan's board, following a hearing to consider the issue, should find that a tax in excess of the limitation would be essential to Metropolitan's fiscal integrity.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series AW Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series AW Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the Series AW Bonds is less than the amount to be paid at maturity of such Series AW Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series AW Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series AW Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series AW Bonds is the first price at which a substantial amount of such maturity of the Series AW Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series AW Bonds accrues daily over the term to maturity of such Series AW Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series AW Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series AW Bonds. Beneficial Owners of the Series AW Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series AW Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series AW Bonds in the original offering to the public at the first price at which a substantial amount of such Series AW Bonds is sold to the public.

Series AW Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series AW Bonds. The Department has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series AW Bonds will not become includable in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series AW Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series AW Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series AW Bonds may adversely affect the value of, or the tax status of interest on, the Series AW Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series AW Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series AW Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series AW Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series AW Bonds. Prospective purchasers of the Series AW Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series AW Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Department or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Department has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the Department or the beneficial owners regarding the tax-exempt status of the Series AW Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Department and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Department legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series AW Bonds for audit, or the course or result of such audit, or an audit

of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series AW Bonds, and may cause the Department or the beneficial owners to incur significant expense.

### **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Global Rating Services, a Standard & Poor's Financial Services LLC business ("Standard & Poor's"), have assigned ratings of "Aa1" and "AAA," respectively, to the Series AW Bonds. Such ratings are based in part upon information provided by the Department. Each rating reflects only the views of the applicable rating agency, and an explanation of the significance of such rating may be obtained only from such rating agency. Such ratings are not a recommendation to buy, sell or hold the Series AW Bonds. There can be no assurance that either such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the applicable rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the marketability or market price of the Series AW Bonds. The Department undertakes no responsibility to maintain its current credit ratings on the Bonds or to oppose any downward revision, suspension or withdrawal.

### **MUNICIPAL ADVISOR**

Montague DeRose and Associates, LLC is serving as municipal advisor to the Department in connection with the issuance of the Series AW Bonds.

### **APPROVAL OF LEGAL PROCEEDINGS**

The issuance of the Series AW Bonds is subject to the delivery on the issuance date of the approving opinions of The Honorable Kamala D. Harris, the Attorney General of the State, and Orrick, Herrington & Sutcliffe LLP, Bond Counsel. The proposed forms of such opinions are set forth in APPENDIX E and APPENDIX F, respectively to this Official Statement. Certain matters are also subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriters.

### **FINANCIAL STATEMENTS**

The financial statements of the State Water Resources Development System at June 30, 2015, and June 30, 2014, and for the years then ended, appearing in APPENDIX B to this Official Statement have been audited by Gallina LLP, (the "Auditor"), with respect to the fiscal year ended June 30, 2015 and by Macias, Gini & O'Connell LLP, with respect to the fiscal year ended June 30, 2014, independent auditors, as set forth in the report of Gallina LLP appearing in APPENDIX B.

The State Water Resources Development System includes the State Water Project, the Davis-Grunsky Act Program and the San Joaquin Drainage Program.

### **VERIFICATION**

Causey Demgen & Moore P.C. (the "Verification Agent"), a firm of independent public accountants, will deliver to the Department its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the amounts deposited or to be deposited with the Treasurer in the Series AW Escrow Account to pay the redemption price of and interest on the Series AW Refunded Bonds, when due and (b) the mathematical

computations of yield used by Bond Counsel to support its opinion that interest on the Series AW Bonds will be excluded from gross income for federal income tax purposes. (See “PLAN OF REFUNDING.”)

The verification to be performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the Department and its representatives. The Verification Agent has restricted and will restrict, as applicable, its procedures for recalculating the computations provided by the Department and its representatives and will not evaluate or examine the assumptions or information used in the computations.

## **UNDERWRITING**

The Series AW Bonds are being purchased by an underwriting group, represented by Morgan Stanley & Co. LLC and Siebert Cisneros Shank & Co. L.L.C (referred to herein as the “Underwriters”), from the Treasurer, who is authorized pursuant to the Act to sell the Series AW Bonds on behalf of the Department. The Underwriters have agreed to purchase the Series AW Bonds at a price of \$ \_\_\_\_\_, representing the principal amount of the Series AW Bonds, [less/plus] [net] original issue [discount/premium] of \$ \_\_\_\_\_, less an Underwriters’ discount of \$ \_\_\_\_\_. The purchase contract pursuant to which the Series AW Bonds are being sold provides that the Underwriters will purchase all of the Series AW Bonds, if any Series AW Bonds are purchased, the obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters have certified the reoffering prices or yields set forth on the inside cover hereof. The Department takes no responsibility for the accuracy of these prices or yields. The Underwriters may offer and sell the Series AW Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

Several of the Underwriters have provided letters to the State Treasurer relating to their retail distribution practices for inclusion in this Official Statement, which letters are set forth herein as APPENDIX I. The Department does not guarantee the accuracy or completeness of the information contained in such letters and the information therein is not to be construed as a representation of the Department or any Underwriter other than the Underwriter providing such representation.

## **CERTAIN RELATIONSHIPS**

The financing of the Water System Project and related activities, including the sale of Bonds, has been made possible, in part, by hiring underwriters, financial advisors, consultants and lawyers to assist and advise the Department. Many of the firms and individuals involved in this effort have prior or ongoing relationships with other governmental entities (including Contractors), utilities and other businesses that contract or compete with the Department or contract with the State and other State agencies or that may do so in the future. The Department has required disclosure of, and has taken into account, these relationships and has determined it to be in the best interests of the Department to continue to work with these firms and individuals.

In addition, in the ordinary course of sales, trading, brokerage and financing activities, the Underwriters may at any time hold long or short positions, and may trade or otherwise effect transactions, for their own accounts or the accounts of customers, in debt or equity securities or senior loans, as applicable, of the Department, the State, other governmental entities and utilities. In connection with these activities and the provision of other services, certain of the Underwriters may be or become creditors of such entities. In addition, many of the Underwriters, or their affiliates, currently serve as

remarketing agents or providers of credit enhancement or liquidity facilities for variable rate obligations issued by, or as interest rate swap providers to, the Department, the State, other State agencies, other governmental entities and utilities.

## **LITIGATION**

No litigation is pending or threatened concerning the validity or enforceability of the Series AW Bonds. Except as described above under “WATER SUPPLY CONTRACT RELATED LITIGATION – Monterey Amendment Litigation,” no litigation is pending or threatened concerning the validity or enforceability of the Water Supply Contracts.

At any given time, including the present, there are a number of civil actions pending against the Department, which could, if determined adversely to the Department, affect the Department’s expenditures and in some cases, its revenues. However, based in part upon discussions with the Attorney General, the Department does not believe there are any pending actions that are likely to have a material adverse effect on the Department’s ability to pay principal of, and premium, if any, and interest on the Bonds when due.

## **CONTINUING DISCLOSURE**

The Department will covenant for the benefit of the Holders and Beneficial Owners (as defined in the Continuing Disclosure Certificate) of the Series AW Bonds to provide certain financial information and operating data relating to the Department by not later than 270 days following the end of the Department’s fiscal year (which fiscal year as of the date hereof ends June 30) (the “Annual Report”), commencing with the report containing 2015-2016 Fiscal Year financial information, and to provide notices of the occurrence of certain enumerated events (“Event Notices”). These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission. Unless otherwise directed by the MSRB or the Securities and Exchange Commission, the Annual Report and Event Notices will be filed by the Department with the MSRB through its Electronic Municipal Market Access website. The specific nature of the information to be contained in the Annual Report or the Event Notices and certain other terms of this continuing disclosure obligation is summarized in APPENDIX D – “Summary of Continuing Disclosure Certificate.” Pursuant to the Resolution, failure of the Department to comply with its obligations under the Continuing Disclosure Certificate (as supplemented in connection with the issuance of the Series AW Bonds, the “Continuing Disclosure Certificate”) will not be considered an event of default under the Resolution. However, the State Treasurer, any Holder or Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under the Continuing Disclosure Certificate.

In the past five years, the Department has always filed each annual report on a timely basis as required by its continuing disclosure undertakings; however, the annual reports for fiscal years 2011 through 2014, solely with respect to KCWA, omitted the information for such Contractor described in Section 2(f) of APPENDIX D – “SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE – Annual Reports.” The Department has revised its procedures with respect to compiling its Annual Reports to confirm this information is included for all relevant Contractors in future Annual Reports.

## MISCELLANEOUS

The Appendices to this Official Statement are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

All references to the Bonds, the Resolution, any supplemental resolution, the Water Supply Contracts, the Continuing Disclosure Certificate and any provision of law are subject to the terms and provisions of each such document or law and do not purport to be complete statements of the terms and provisions thereof, and reference to the complete texts is made for further information in connection therewith. Copies of the Resolution, the Water Supply Contracts and the Continuing Disclosure Certificate are on file at the offices of the Department and the State Treasurer. Statements herein involving matters of opinion, whether or not specifically so designated, are intended merely as such and not as representations of fact.

The Department maintains a website at <http://www.water.ca.gov>. The information contained in such website is not incorporated herein by reference and is not intended to be relied upon in making an investment decision with respect to the Series AW Bonds.

The agreement of the Department is fully set forth in the Resolution, and this Official Statement is not to be construed as, and is not, a contract with the purchasers of the Series AW Bonds.

The delivery of this Official Statement, including the Appendices and other information herein, has been duly authorized by the Department.

DEPARTMENT OF WATER RESOURCES

By: \_\_\_\_\_  
Director



**APPENDIX A**

**ESTIMATED DIRECT AND OVERLAPPING DEBT OF CERTAIN CONTRACTORS**

The data presented in this Appendix summarize certain information regarding taxes and tax-supported debt outstanding within the service territory of each of the three Contractors that are expected (accounting for projected capital expenditures on Water System Projects after the issuance of the Series AW Bonds) to provide the largest amounts of Revenues for payment of the Bonds based on projected payments to the Department through the final maturity of the Bonds. These three Contractors and the expected percentage contribution of each to such Revenues over the term of the Bonds are as follows (these percentages may change over time).

<b>Contractor</b>	<b>Percentage Contribution</b>
The Metropolitan Water District of Southern California .....	36%
Santa Barbara County Flood Control and Water Conservation District/Central Coast Water Authority* .....	18
Kern County Water Agency .....	9
Twenty-six other Contractors .....	37
Total .....	100%

\* As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. Thereafter, on September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of water under the related Water Supply Contract to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations.

The Department has made no independent verification of the data contained in this Appendix and makes no representations as to its correctness, completeness, or comparability.

# METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

## ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT

(unaudited)

September 14, 2016

2016-17 Assessed Valuation: \$2,583,386,184,090

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable <sup>(1)</sup></u>	<u>Debt 9/1/16</u>
Los Angeles County Flood Control District	94.830%	\$ 11,977,029
Community College Districts	Various	10,046,725,166
Los Angeles Unified School District	99.569	10,045,934,600
San Diego Unified School District	99.955	2,813,651,478
Other Unified School Districts	Various	10,443,329,024
High School and School Districts	Various	4,811,415,319
City of Los Angeles	99.997	703,798,885
Other Cities	Various	274,186,914
Irvine Ranch Water District Improvement Districts	100.	489,700,000
Santa Margarita Water District Improvement Districts	100.	91,825,000
Other Water Districts	Various	41,836,945
Healthcare Districts	Various	706,790,637
Other Special Districts	Various	474,164
Community Facilities Districts	Various	6,917,448,826
1915 Act Bonds and Other Special Assessment District Bonds	Various	<u>1,241,978,586</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$48,641,072,573</b>
 <b>METROPOLITAN WATER DISTRICT TOTAL DIRECT DEBT</b>		 <b>\$ 92,865,000</b>
 TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		 \$48,733,937,573
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County Obligations	92.989%	\$ 1,865,067,850
Orange County Obligations	99.902	437,097,763
Riverside County Obligations	64.967	776,498,671
San Bernardino County Obligations	50.078	430,799,665
San Diego County Obligations	96.687	895,790,551
Other Counties Obligations	Various	281,099,006
City of Anaheim General Fund Obligations	99.849	633,169,933
City of Long Beach General Fund Obligations and Pension Obligation Bonds	100.	206,535,000
City of Los Angeles General Fund and Judgment Obligations	99.997	1,633,337,793
City of Pasadena General Fund and Pension Obligation Bonds	100.	575,701,949
City of San Diego General Fund Obligations	99.948	590,852,597
Other City General Fund Obligations	Various	2,766,849,559
Water District General Fund Obligations	Various	74,172,936
Los Angeles Unified School District Certificates of Participation	99.569	271,250,848
Other School District General Fund Obligations	Various	1,836,340,633
Other Special District General Fund Obligations	Various	<u>181,197,543</u>
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>\$13,455,762,297</b>
Less: Obligations supported from other revenue sources		<u>1,137,642,992</u>
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$12,318,119,305</b>
 OVERLAPPING TAX INCREMENT DEBT		 \$8,281,590,729
 GROSS COMBINED TOTAL DEBT		 \$70,471,290,599 <sup>(1)</sup>
NET COMBINED TOTAL DEBT		\$69,333,647,607

<sup>(1)</sup> Debt instruments included are general obligation bonds, lease revenue bonds and certificates of participation (when supported by the general fund), pension obligation bonds, 1915 Act special assessment bonds and Mello-Roos Act special assessment bonds. Excluded are enterprise revenue bonds, mortgage revenue bonds, tax and revenue anticipation notes and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2016-17 Assessed Valuation:

<b>Direct Debt (\$92,865,000)</b> .....	<b>0.004%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	1.89%
Gross Combined Total Debt.....	2.73%
Net Combined Total Debt .....	2.68%

Ratios to Redevelopment Incremental Valuation (\$320,750,688,172):

Total Overlapping Tax Increment Debt.....	2.58
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# METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

## ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT (unaudited)

September 14, 2016

Fiscal Year	Ended 6/30	Assessed Valuation <sup>(1)</sup>	Tax on Secured Property <sup>(2)</sup>	Tax Rate Per \$100 Assessed Valuation		Agency Total Rate <sup>(3)</sup>	Typical Total Rate <sup>(6)</sup>
				Amount	Percent		
1994		\$ 802,129,610,162	\$59,612,366	\$ 3,412,019	5.72% <sup>(5)</sup>	0.0089	1.037135
1995		807,661,342,152	55,677,215	2,333,451	4.30 <sup>(5)</sup>	0.0089	1.046181
1996		802,593,757,003	56,452,511	3,837,697	6.80 <sup>(5)</sup>	0.0089	1.053047
1997		804,045,644,470	(4)	(4)	(4)	0.0089	1.051802
1998		817,424,957,700	(4)	(4)	(4)	0.0089	1.055796
1999		851,898,186,329	(4)	(4)	(4)	0.0089	1.067214
2000		910,809,885,402	(4)	(4)	(4)	0.0089	1.074728
2001		980,279,077,736	(4)	(4)	(4)	0.0088	1.078822
2002		1,169,293,222,451	(4)	(4)	(4)	0.0077	1.114077
2003		1,258,093,521,782	(4)	(4)	(4)	0.0067	1.102497
2004		1,359,534,425,177	(4)	(4)	(4)	0.0061	1.155130
2005		1,478,635,379,913	(4)	(4)	(4)	0.0058	1.169638
2006		1,643,013,823,543	(4)	(4)	(4)	0.0052	1.155967
2007		1,839,880,963,698	(4)	(4)	(4)	0.0047	1.179045
2008		2,015,721,475,188	(4)	(4)	(4)	0.0045	1.174687
2009		2,120,944,531,740	(4)	(4)	(4)	0.0043	1.189738
2010		2,081,864,775,527	(4)	(4)	(4)	0.0043	1.220441
2011		2,049,887,037,949	(4)	(4)	(4)	0.0037	1.269859
2012		2,068,668,852,729	(4)	(4)	(4)	0.0037	1.245849
2013		2,097,369,921,305 <sup>(7)</sup>	(4)	(4)	(4)	0.0035	1.265550
2014		2,183,386,537,251	47,704,924.11	536,777.41	1.13 <sup>(5)</sup>	0.0035	1.224234
2015		2,314,948,470,714	48,035,283.02	521,310.97	1.09 <sup>(5)</sup>	0.0035	1.218651
2016		2,451,003,605,785	52,507,872.55	582,061.13	1.11 <sup>(5)</sup>	0.0035	1.191994
2017		2,583,386,184,090		not available until end of fiscal year		not available until October	

Direct and Overlapping Bonded Debt at September 1, 2016:

Total Gross Direct Debt	\$92,865,000
Less: Self-supporting Debt	<u>0</u>
Total Net Direct Debt	\$92,865,000
Total Overlapping Tax and Assessment Debt	\$48,641,072,573
Direct and Overlapping Tax and Assessment Debt	\$48,733,937,573
Total Gross Overlapping General Fund Obligation Debt	\$13,455,762,297
Less: Self-supporting Debt	<u>1,137,642,992</u>
Total Net Overlapping General Fund Obligation Debt	\$12,318,119,305
Overlapping Tax Increment Debt	\$8,281,590,729
Gross Direct and Overlapping Bonded Debt	\$70,471,290,599
Net Direct and Overlapping Bonded Debt	\$69,333,647,607

Ratios to Assessed Valuation at September 1, 2016:

Gross Direct Debt .....	0.004%
Net Direct Debt .....	0.004%
Direct and Overlapping Tax and Assessment Debt .....	1.89%
Total Gross Direct and Overlapping Bonded Debt .....	2.73%
Total Net Direct and Overlapping Bonded Debt .....	2.68%

(1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.

(2) Excludes tax levy on inventories and other unsecured property.

(3) Base rate for all member areas. Some areas added after formation of the District pay higher rates.

(4) Information unavailable.

(5) Los Angeles County portion only.

(6) Los Angeles County TRA 67.

(7) Excludes Orange County November 2012 unsecured adjustments.

**SANTA BARBARA COUNTY FLOOD CONTROL AND WATER CONSERVATION  
DISTRICT**

**ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT  
(unaudited)**

September 12, 2016

Fiscal Year Ended 6/30	Assessed Valuation <sup>(1)</sup>	Tax on Secured Property <sup>(2)</sup>	Delinquencies at June 30		Tax Rate Per \$100 Assessed Valuation	
			Amount	Percent	Agency Total Rate	Typical Total Rate
1994	\$23,565,169,448	\$244,026,174	\$10,006,296	4.10%	0.00000	1.00156
1995	23,261,622,373	247,611,391	6,653,174	2.69	0.00000	1.00102
1996	23,727,401,813	254,306,422	5,249,677	2.06	0.00000	1.00761
1997	24,437,672,493	263,655,875	4,229,750	1.60	0.00000	1.01223
1998	25,413,740,531	272,955,441	3,252,689	1.19	0.00000	1.01106
1999	26,929,428,510	292,586,142	2,482,863	0.85	0.00000	1.02221
2000	28,506,012,483	312,186,449	4,545,263	1.46	0.00000	1.01919
2001	30,811,725,758	336,579,195	6,194,044	1.84	0.00000	1.02724
2002	33,470,431,216	325,958,442	4,097,562	1.26	0.00000	1.02799
2003	35,986,575,550	348,404,287	4,327,765	1.24	0.00000	1.02707
2004	38,619,690,313	378,733,525	3,827,763	1.01	0.00000	1.02530
2005	42,010,491,267	412,156,061	4,490,277	1.09	0.00000	1.02086
2006	46,430,715,568	459,630,599	5,978,796	1.30	0.00000	1.02586
2007	51,053,483,690	508,780,407	10,760,629	2.11	0.00000	1.02631
2008	54,591,882,970	547,037,318	13,322,133	2.44	0.00000	1.02633
2009	56,957,844,751	570,319,442	15,942,615	2.80	0.00000	1.03483
2010	57,102,686,939	573,825,003	13,723,941	2.39	0.00000	1.03496
2011	57,601,688,658	575,911,027	9,363,054	1.63	0.00000	1.03496
2012	58,359,033,685	582,738,827	7,131,251	1.22	0.00000	1.03619
2013	58,837,930,366	590,636,407	5,574,662	0.94	0.00000	1.03969
2014	61,284,526,961	617,343,477	4,463,837	0.72	0.00000	1.04840
2015	64,587,513,414	658,541,674	4,942,942	0.75	0.00000	1.04840
2015	67,794,437,086	(3)	(3)	(3)	0.00000	1.04515

Direct and Overlapping Bonded Debt at September 1, 2016:

Total Gross Direct Debt	\$0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$0
Total Gross Overlapping Tax and Assessment Debt	\$666,602,784
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$666,602,784
Total Gross Overlapping General Fund Debt	\$155,097,887
Less: Supported Debt	<u>55,206,325</u>
Total Net Overlapping General Fund Debt	\$ 99,891,562
Total Gross Overlapping Tax Increment Debt	\$55,025,000
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$55,025,000
Total Gross Direct and Overlapping Bonded Debt	\$876,725,671
Less: Self-supporting Debt	<u>55,206,325</u>
Total Net Direct and Overlapping Bonded Debt	\$821,519,346

Ratio to Assessed Valuation at September 1, 2016:

Gross Direct Debt .....	0.00%
Net Direct Debt.....	0.00%
Total Gross Overlapping Tax and Assessment Debt.....	0.98%
Total Net Overlapping Tax and Assessment Debt .....	0.98%
Gross Direct and Overlapping Bonded Debt.....	1.29%
Net Direct and Overlapping Bonded Debt .....	1.29%

- (1) The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.
- (2) Excludes tax levy on inventories and other unsecured property.
- (3) Information to be available in late September..

# KERN COUNTY WATER AGENCY

## ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT (unaudited)

September 12, 2016

Fiscal Year Ended 6/30	Assessed Valuation <sup>(1)</sup>	Tax on Secured Property <sup>(2)</sup>	Delinquencies at June 30		Tax Rate Per \$100 Assessed Valuation		
			Amount	Percent	Agency Rate	City of Bakersfield Typical Total Rate	Elk Hills School District
1994	\$32,986,554,039	\$12,246,716	\$364,041	2.97%	0.066719	1.171248	1.020210
1995	30,100,052,112	9,370,510	287,927	3.07	0.070116	1.135179	1.019195
1996	30,538,512,132	12,656,809	338,224	2.67	0.095807	1.173827	1.020669
1997	31,943,215,222	13,283,378	395,321	2.98	0.091633	1.179749	1.022585
1998	34,411,749,796	12,984,313	480,525	3.70	0.091601	1.172489	1.019745
1999	32,692,348,290	13,035,390	282,929	2.17	0.089041	1.139540	1.016470
2000	36,368,798,648	(3)	(3)	(3)	0.088270	1.162026	1.035082
2001	38,813,931,812	15,981,366	295,032	1.85	0.077322	1.157759	1.017135
2002	41,429,323,346	15,210,702	339,798	2.23	0.061936	1.117621	1.015612
2003	39,976,729,738	15,776,379	476,821	3.02	0.060665	1.160526	1.019332
2004	42,165,212,745	18,525,332	(3)	(3)	0.063662	1.146391	1.021406
2005	45,443,236,748	16,054,006	237,483	1.48	0.063200	1.156496	1.056077
2006	52,596,138,408	13,726,652	258,314	1.88	0.047579	1.133705	1.055929
2007	64,149,863,242	12,223,309	384,215	3.14	0.038184	1.122182	1.047846
2008	71,491,760,384	18,521,313	802,472	4.33	0.053401	1.157296	1.050210
2009	75,766,431,779	17,059,057	572,984	3.36	0.052517	1.151185	1.054710
2010	70,423,049,669	19,500,828	565,663	2.90	0.064063	1.180167	1.064484
2011	74,597,201,953	17,863,779	345,942	1.94	0.058402	1.176436	1.053897
2012	76,240,534,603	25,718,178	379,982	1.48	0.074783	1.191102	1.054265
2013	81,254,773,400	18,041,862	234,670	1.30	0.057330	1.174290	1.043923
2014	81,080,979,985	21,461,367	244,116	1.14	0.062029	1.144662	1.073345
2015	85,601,304,520	21,947,286	235,109	1.07	0.056660	1.117595	1.069056
2016	76,936,246,496	22,535,818	231,106	1.03	0.060768	1.133600	1.079475
2017	72,752,296,314		Not available until end of the fiscal year		0.068450	1.118033	1.142412

Direct and Overlapping Bonded Debt at September 1, 2016:

Total Gross Direct Debt	\$0
Less: Supported Debt	0
Total Net Direct Debt	\$0
Total Gross Overlapping Tax and Assessment Debt	\$1,171,968,247
Less: Supported Debt	0
Total Net Overlapping Tax and Assessment Debt	\$1,171,968,247
Total Gross Overlapping General Fund Debt	\$ 763,917,884
Less: Self-supporting Debt	0
Total Net Overlapping General Fund Debt	\$ 763,917,884
Total Gross Overlapping Tax Increment Debt	\$ 82,380,000
Less: Supported Debt	0
Total Net Overlapping Tax Increment Debt	\$ 82,380,000
Gross Direct and Overlapping Bonded Debt	\$2,018,266,131
Net Direct and Overlapping Bonded Debt	\$2,018,266,131

Ratios to Assessed Valuation at September 1, 2016:

Gross Direct Debt .....	0.00%
Net Direct Debt .....	0.00%
Gross Direct and Overlapping Tax and Assessment Debt .....	1.52%
Net Direct and Overlapping Tax And Assessment Debt .....	1.52%
Gross Direct and Overlapping Bonded Debt .....	2.62%
Net Direct and Overlapping Bonded Debt .....	2.62%

(1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.

(2) Excludes tax levy on inventories and other unsecured property.

(3) Information unavailable.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENT  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**STATE WATER RESOURCES  
DEVELOPMENT SYSTEM**

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# State Water Resources Development System

Financial Statements and Supplementary Information  
Annual Report Years Ended June 30 2015 and 2014





STATE OF CALIFORNIA  
Edmund G. Brown Jr., Governor

NATURAL RESOURCES AGENCY  
John Laird, Secretary for Natural Resources

DEPARTMENT OF WATER RESOURCES  
Mark W. Cowin, Director

**Carl Torgersen**  
Deputy Director

**Laura King Moon**  
Chief Deputy Director

**Kathie Kishaba**  
Deputy Director

**Paul Helliker**  
Deputy Director

**John Pacheco**  
Acting Deputy Director

**Gary Bardini**  
Deputy Director

**William Croyle**  
Deputy Director

**Cathy Crothers**  
Chief Counsel

**Kasey D. Schimke**  
Assistant Director

Division of Fiscal Services  
Perla M. Netto-Brown, Chief

*This document was prepared under the direction of:*

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*Enterprise Accounting Branch*

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**Antonio Perez**.....Accounting Administrator I  
**Jeanet Uy**.....Accounting Administrator I  
**Nalini Shankar**.....Accounting Administrator I  
**Eleanor De Anda**.....Accounting Administrator I  
**Tina Nguyen**.....Accounting Administrator I  
**Thu Nguyen**.....Associate Accounting Analyst  
**Kwan Wong**.....Associate Accounting Analyst  
**Jesus Parrilla**.....Associate Accounting Analyst  
**Theresa Lee**.....Associate Accounting Analyst  
**Carla Elder**.....Associate Accounting Analyst  
**Omid Torabian**.....Associate Accounting Analyst  
**Ted Lambert**.....Associate Accounting Analyst  
**Michelle Leung**.....Associate Accounting Analyst  
**Suzie Wong**.....Associate Accounting Analyst  
**Sharon Chu**.....Associate Accounting Analyst  
**Alex Caputo**.....Accounting Officer  
**Jesse Gonzalez-Perez**.....Accounting Officer  
**Iesha Williams**.....Executive Secretary  
**Kevin Lim**.....Office Technician



# **State Water Resources Development System**

**Financial Statements and Supplementary Information  
For the years ended June 30, 2015 and 2014**



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To the Director of the State of California  
Department of Water Resources

## **Report on the Financial Statements**

We have audited the accompanying financial statements of the State Water Resources Development System (System), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The System's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of June 30, 2015, and the respective changes in its financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Implementation of New Accounting Standards*

As disclosed in the Note 14 to the financial statements, the System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2015.

### *Prior Period Financial Statements Audited by a Predecessor Auditor*

As part of our audit of the fiscal year 2015 financial statements, we also audited the adjustments described in Note 14 that were applied to restate the fiscal year 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the System other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.



Roseville, California  
October 15, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

---

## Management's Discussion and Analysis *(Required Supplementary Information)*

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the State Water Resources Development System (the System), which is administered by the California Department of Water Resources (DWR). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow Management's Discussion and Analysis. This discussion and analysis and the financial statements do not relate to DWR's other governmental and proprietary funds. The System includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.



The SWP encompasses a system of dams, reservoirs, pumping plants, power plants, aqueducts and pipelines owned and operated by the State of California. The SWP was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. DWR is responsible for the planning, construction and operation of the SWP. The construction program commenced in 1957 and approximately 700 miles of the System have been completed. The System has entered into long-term water supply contracts with 29 customers; known as the "Water Contractors", in order to recover substantially all System costs. The Water Contractors may request up to maximum annual amounts totaling 4,172,786 acre-feet of water from the System. This maximum does not assure delivery of that amount of water, but rather provides the basis for proportional allocation of available supplies among the Water Contractors.

Portions of the SWP system consist of facilities developed and used jointly with the Federal Central Valley Water Project (FCVP) operated by the U.S. Bureau of Reclamation (USBR). In addition, both projects have primary sources of water north of the Sacramento-San Joaquin Delta (Delta), transport water across the Delta and draw water from the southern edge of the Delta. The FCVP, like the SWP, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Costs for the jointly developed facilities are shared approximately 55 percent State and 45 percent Federal. In 1986, the System and USBR entered into a Coordinated Operation Agreement (COA) under which the SWP and the FCVP coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The COA permits increased operational efficiency of both projects, ensures that each project receives an equitable share of available surplus water and provides for sharing of responsibilities in meeting certain Delta water quality standards.

## Financial Highlights

- The System recorded an increase in total assets of \$454.9 million and total operating revenues of \$1,019 million. This did not cause an increase in net position as a result of appropriately reflecting the timing differences in the deferral of revenues collected and expenses incurred.
- On October 30, 2014, the System took advantage of low tax-exempt market interest rates and issued \$645.8 million fixed-rate Central Valley Project (CVP) Water System Revenue Bonds (Series AS) with an average yield of 2.73%. The Series AS bonds were issued to refund \$689.8 million of outstanding Series AE, AF, AG, AH, AJ, AK and AN bonds through a negotiated sale. The refunding of these bonds provided the Department with net present value savings of \$56 million, representing 8.1% of the refunded bonds.
- On November 6, 2014, the System issued \$149.2 million of CVP Water System Revenue Bonds (Series AT) to redeem \$139.5 million of Water Revenue Commercial Paper Notes Series 1. Series AT was issued as index floating rate bonds using the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread to calculate monthly debt service payments. The weekly rate paid for Series AT bonds ranged from 0.33% to 0.35% and averaged 0.34% in fiscal year 2015.

## Overview of Financial Statements

### *Reports Included in Financial Statements*

The System is accounted for as an enterprise fund. Enterprise funds account for the acquisition, operation and maintenance of governmental facilities and services that are entirely or predominantly self-supported by user charges. This financial report consists of three financial statements prepared on the accrual basis of accounting and accompanying note disclosures. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The Statements of Net Position include all the assets, liabilities, deferred outflows and inflows of resources and net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses incurred during the fiscal years presented. The Statements of Cash Flows report the cash inflows and outflows classified by operating, investing, noncapital financing and capital and related financing activities during the reporting periods presented. The notes to the financial statements communicate certain information required by Generally Accepted Accounting Principles (GAAP).

**Condensed Statements of Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>%Change</u> <u>2015-2014</u>	<u>%Change</u> <u>2014-2013</u>
	(amount in thousands)				
Total utility plant	\$ 3,615,803	\$ 3,469,661	\$ 3,327,965	4.2%	4.3%
Other assets	2,344,435	2,035,702	2,098,661	15.2%	-3.0%
Total assets	<u>5,960,238</u>	<u>5,505,363</u>	<u>5,426,626</u>	8.3%	1.5%
Total deferred outflows of resources	<u>219,326</u>	<u>116,741</u>	<u>124,591</u>	87.9%	-6.3%
Total assets and deferred outflows of resources	<u>\$ 6,179,564</u>	<u>\$ 5,622,104</u>	<u>\$ 5,551,217</u>	9.9%	1.3%
Capitalization:					
Net position:					
Net investment in capital assets	\$ 1,105,692	\$ 994,561	\$ 832,147	11.2%	19.5%
Restricted	99,736	210,867	373,281	-52.7%	-43.5%
Total net position	<u>1,205,428</u>	<u>1,205,428</u>	<u>1,205,428</u>	0.0%	0.0%
Long-term liabilities	3,693,517	3,173,915	3,144,789	16.4%	0.9%
Total capitalization	<u>4,898,945</u>	<u>4,379,343</u>	<u>4,350,217</u>	11.9%	0.7%
Other liabilities	425,428	419,875	464,344	1.3%	-9.6%
Total capitalization and liabilities	<u>5,324,373</u>	<u>4,799,218</u>	<u>4,814,561</u>	10.9%	-0.3%
Total deferred inflows of resources	<u>855,191</u>	<u>822,886</u>	<u>736,656</u>	3.9%	11.7%
Total capitalization, liabilities, and deferred inflows of resources	<u>\$ 6,179,564</u>	<u>\$ 5,622,104</u>	<u>\$ 5,551,217</u>	9.9%	1.3%

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>%Change</u> <u>2015-2014</u>	<u>%Change</u> <u>2014-2013</u>
	(amount in thousands)				
Operating revenues:					
Water supply	\$ 883,538	\$ 789,370	\$ 931,808	11.9%	-15.3%
Power sales	91,780	131,952	146,277	-30.4%	-9.8%
Federal and State reimbursements	44,060	52,186	52,397	-15.6%	-0.4%
Total operating revenues	<u>1,019,378</u>	<u>973,508</u>	<u>1,130,482</u>	4.7%	-13.9%
Operating expenses:					
Operations and maintenance expense	404,627	557,209	545,413	-27.4%	2.2%
Purchased power expense	202,780	241,444	258,899	-16.0%	-6.7%
Depreciation expense	81,495	68,896	85,236	18.3%	-19.2%
Operating expenses recovered, net	-	-	22,261	0.0%	-100.0%
Total operating expenses	<u>688,902</u>	<u>867,549</u>	<u>911,809</u>	-20.6%	-4.9%
Income from operations	<u>330,476</u>	<u>105,959</u>	<u>218,673</u>	211.9%	-51.5%
Capital revenues recovered (deferred)	(243,945)	(42,934)	(174,356)	468.2%	-75.4%
Interest expense	(96,082)	(115,499)	(53,492)	-16.8%	115.9%
Other (expense) income	9,551	52,474	9,175	-81.8%	471.9%
Change in net position	-	-	-	-	-
Net position, beginning of year	<u>1,205,428</u>	<u>1,205,428</u>	<u>1,205,428</u>	0.0%	0.0%
Net position, end of year	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	0.0%	0.0%

\* Certain amounts have been reclassified from amounts previously reported to conform with the current year presentation.

## Assets

### Utility Plant

Utility Plant represents the accumulated original costs of labor, materials and indirect costs incurred during the construction of the SWP that are in service to provide water deliveries. The SWP utility includes 34 storage facilities, 20 pumping plants, three pumping-generating plants, five hydroelectric power plants, as well as fish protection facilities, aqueducts and internally generated intangible assets.

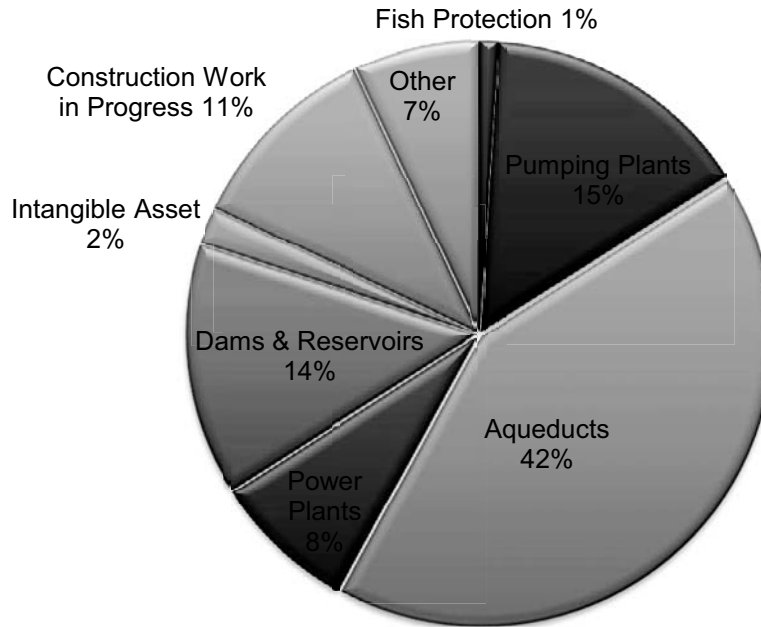


Utility plant in service (UPIS), net of accumulated depreciation decreased by \$42 million during fiscal 2015 to a balance of \$2,989 million. The System experienced overall additions to UPIS assets of \$38 million in fiscal 2015. These additions were for assets placed in service or purchased during fiscal 2015. Acquisition purchases of other UPIS assets were \$4.3 million. Additions due to transfers were made from Construction Work in Progress (CWIP) to UPIS of \$33.7 million including East Branch Enlargement of \$8.3 million, South Bay Aqueduct Improvement Reaches 1 through 9 of \$6.5 million, Delta Facilities of \$6.1 million, Facilities Repair and Improvement of \$5.5 million, Delta Facilities Temporary Barrier of \$5.4 million and South Bay Enlargement of \$1.9 million. Accumulated depreciation of UPIS assets increased from \$1,994.7 million to \$2,074.9 million in 2015.



In fiscal 2014, UPIS, net of accumulated depreciation, increased by \$232.3 million. The System experienced overall reductions to UPIS assets of \$139.4 million. These reductions included \$452.4 million in deletion of UPIS assets of which \$362.7 million were due to the termination of ownership of the Reid Gardner Unit 4 Power Plant and \$89.7 million for the impairment loss of the Hyatt-Thermalito Power Plant (HTPP). These deletions were offset by increases in net transfers of \$305.1 million from CWIP to UPIS and \$7.9 million in the acquisition of other UPIS assets. These decreases to UPIS also included related decreases in accumulated depreciation of \$371.7 million.

**Utility Plant in Service**



**Construction Work in Progress**

Construction Work in Progress (CWIP) increased by \$188.4 million during the fiscal year 2015, representing a 43% increase from fiscal 2014. In fiscal 2014, CWIP decreased by \$90.6 million, or 17.1%, from fiscal 2013. The current year increases are primarily due to additions of \$222.1 million in new and on-going projects offset by transfers of \$33.7 million to UPIS for projects placed in service during fiscal 2015. The increases of new and significant on-going projects included Facilities Repair and Improvement of \$89.1 million, East Branch Extension Phase II projects of \$38.5 million, Perris Dam Remediation of \$15.4 million, Thermalito Plant projects of \$15.1 million and Communication System Replacement of \$10.5 million. Other CWIP increases included Delta Facilities of \$9.1 million, East Branch Improvement projects of \$8.3 million, Predation Release Efficiency projects of \$6.8 million, Protective Relay Replacement of \$6.7 million, South Bay Aqueduct Improvement projects of \$6.5 million, Edmonston Valve Outage projects of \$5.9 million, South Bay Aqueduct Enlargement projects of \$1.9 million, other Water Systems projects of \$2.2 million and \$6.1 million of Intangible Assets. Intangible Assets of \$6.1 million are comprised of \$3.8 million for Federal Energy Regulatory Commission (FERC) relicensing costs and \$2.3 million of internally generated computer software for the Centralized Control System Migration Program.

The \$90.6 million decrease to CWIP in fiscal 2014 from 2013 was primarily due to transfers of \$305.1 million to UPIS for projects placed in service during fiscal 2014. These transfers were offset by increases of \$214.5 million in new and ongoing projects. These included East Branch Extension Phase II projects of \$79 million, HTPP of \$45.4 million, Facilities Repair and Improvement of \$38.1 million, Predation Release Efficiency projects of \$12.4 million, Communication System Replacement of \$11.4 million, Perris Dam Remediation of \$6.8 million,

South Bay Enlargement projects of \$5.4 million, Delta Facilities of \$4.5 million, Protective Relay Replacement of \$2.5 million, South Bay Aqueduct Improvement projects of \$1.5 million, other Water Systems projects of \$2.3 million and \$5.2 million of Intangible Assets. Intangible Assets of \$5.2 million are comprised of internally generated computer software of \$4 million for the Centralized Control System Migration Program and \$1.2 million for Federal Energy Regulatory Commission (FERC) relicensing costs.



At June 30, 2015, construction work in progress totaled \$626.6 million and was comprised of \$380.7 million of other Water Systems projects, \$204.1 million of East Branch Extension Phase II projects and \$41.8 million of Intangible Assets.

#### ***Restricted Cash and Investments***

Restricted cash and investments increased slightly by \$800 thousand during fiscal 2015 to a total of \$155.9 million, compared to a balance of \$155.1 million in fiscal 2014. The most significant factor for this change can be attributed to a \$2.1 million increase in the debt service reserve requirement associated with the issuances of bond series AS and AT in fiscal 2015, which increased the requirement from \$116 million to \$118.1 million. This increase was partially offset by a \$1.6 million decrease in cash for plant replacements. Restricted cash for debt service reserve is designated to meet the minimum reserve requirement for the revenue fund. As of June 30, 2015, the total balance in the cash and investments restricted for debt service is equal to the minimum balance of the debt service reserve requirement.

#### ***Amounts Recoverable through Future Billing***

Amounts recoverable through future billings represent timing differences between expenses incurred by the System and their ultimate recovery from the Water Contractors. Expense recognition is expected to match recovery from the Water Contractors in the future. In fiscal 2015, the amounts recoverable through future billings increased by \$226 million to an ending balance of \$1,440 million compared to \$1,214 million for fiscal 2014. The increase results from uncollected operations and maintenance expenses of \$339.7 million which is mostly comprised of \$316.7 million of unfunded pension amounts and \$23 million in general operating expenses. The increase was offset by the recovery of \$83.3 million in capital expenses, \$30.5 million in the recognition of unamortized project costs and unbilled interest.

#### ***Other Long-term Assets***

Long-term loans receivable from local water agencies decreased by \$1.2 million to a total of \$14.1 million. As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of \$12.1 million remains outstanding at the end of fiscal 2015 compared to an outstanding balance of \$13.2 million at the end of fiscal 2014. Additionally, \$2 million continues to remain outstanding in the Groundwater loans receivable for both fiscal 2015 and 2014. Advances to other State Funds represents the System's advance of \$92 million to DWR's internal service fund that functions as a revolving working capital account for the System. The remaining \$1.5 million is an advance balance to the Department of General



Services to fund the Rio Vista Science Center. This project is a joint venture between DWR and the United States Fish and Wildlife Services.

### ***Cash and Cash Equivalents***

In fiscal 2015, net cash provided by operations totaled \$347.7 million compared to \$260 million in fiscal 2014 for a total net increase to cash and cash equivalents from operations of \$87.7 million. This increase was primarily due to \$178.2 million in decreased payments to suppliers for expenses offset by \$80.9 million in decreased revenues collected from customers and \$9.6 million in increases in payments to employees in fiscal 2015.

### ***Receivables***

The total water supply and power billings receivable was \$79.9 million and \$35.1 million for fiscal 2015 and 2014, respectively. This increase of \$44.9 million is comprised mainly of increases in water supply variable billings and a minor increase in federal and state reimbursements of less than \$1 million. The increase in variable occurred when the System adjusted the variable billing rates, due to increased projections, during the second half of fiscal 2015.

### ***Deferred Outflows of Resources***

Deferred outflows represent expenses incurred by the System which are applicable to future reporting periods and will be recognized as expenses in future years. In fiscal 2015, the deferred outflows increased by \$102.6 million to an ending balance of \$219.3 million compared to \$116.7 million for fiscal 2014. This increase is primarily due to additional escrow interest required for the bonds refunded by Series AS of \$107.7 million in the deferred loss of refunding and an increase of \$44.4 million in employer pension contribution when the System implemented GASB Statement No. 68 which requires the System to defer contributions made after the measurement date of June 30, 2014. These increases are offset in part by the unamortized premium from the same refunded bonds of \$39.5 million and the scheduled annual amortization of \$10 million of loss on refunding.

## **Liabilities**

### ***General Obligation Bonds***

In addition to the revenue bond obligations described below, a large portion of the SWP was financed by the sale of GO Bonds of the State pursuant to the provisions of the Burns-Porter Act, which authorized the issuance of \$1,750 million of such bonds for the construction of the SWP. The Burns-Porter Act was adopted by the voters at the State's general election in November 1960. Of that authorization, \$1,582 million (including the entire amount available for construction of the initial components of the SWP) has been issued, of which \$185 million remains outstanding at the end of fiscal 2015, compared to \$242 million at fiscal 2014, and \$303 million at fiscal 2013. The un-issued \$168 million of the authorization is available only to provide funds for the construction of certain additional water conservation facilities.

### ***Revenue Bonds***

Revenue Bonds consist of Water System Revenue Bonds and Devil Canyon-Castaic Power Facility Revenue Bonds. Water System Revenue Bonds are primarily issued to finance the construction and maintenance of the SWP. At the end of fiscal 2015, the System has issued 46 series of Water System Revenue Bonds totaling \$8,782 million in the aggregate principal, of which \$2,388 million remains outstanding. This compares to outstanding balances of \$2,393 million and \$2,341 million at the end of fiscal year 2014 and 2013, respectively. During the year, the System made principal reduction payments of \$110.1 million and completed the

issuance of the CVP Water System Revenue Bond Series AS and AT totaling \$795 million. The majority of the proceeds from Series AS were used to retire \$690 million of Series AE, AF, AG, AH, AJ, AK, and AN bonds. The proceeds from the issuance of Series AT bonds were used to pay off all outstanding Commercial Paper Notes Series 1, make deposits to the Debt Service Reserve Account, fund interest on a portion of the Series AT Bonds, and pay costs of issuance.

The System has also issued \$139 million of revenue bonds to finance the Devil Canyon-Castaic power facility for the SWP. Principal payments totaling \$5.5 million, during fiscal 2015, reduced the outstanding balance to \$57.4 million compared to \$62.9 million at the end of fiscal 2014 and \$68.1 million at the end of fiscal 2013.

<b>Revenue Bonds</b>	<i>(amounts in thousands)</i>		
	2015	2014	2013
Water System Revenue bonds par amount	\$ 2,387,895	\$ 2,392,740	\$ 2,340,905
Unamortized bond issuance premiums/(discounts)	<u>278,683</u>	<u>192,169</u>	<u>185,484</u>
Total Water System Revenue bonds outstanding	2,666,578	2,584,909	2,526,389
Devil Canyon - Castaic revenue bond par amount	<u>57,430</u>	<u>62,905</u>	<u>68,070</u>
Total revenue bonds outstanding	2,724,008	2,647,814	2,594,459
Less current maturities	<u>(135,900)</u>	<u>(115,580)</u>	<u>(114,775)</u>
Total long-term portion	<u>\$ 2,588,108</u>	<u>\$ 2,532,234</u>	<u>\$ 2,479,684</u>

#### ***Pooled Money Investment Loan***

On March 26, 2008, the System received a loan of \$29.6 million from the Pooled Money Investment Account (PMIA) pursuant to California Government Code section 16313. The proceeds of the loan were used to establish escrow accounts. These accounts were created to facilitate the defeasance of certain Water System Revenue Bonds that financed recreation, and fish and wildlife enhancement related costs of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under California Water Code section 12937(b) (4). The loan agreement requires minimum quarterly payments of \$1 million on the first day of every March, June, September and December, beginning on September 1, 2008. The loan can be repaid at any time without charges and with a written notice of no less than fifteen days. Principal and interest paid during 2015 and 2014 was \$4 million each year. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed.

The Variable Rate means:

- a) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and
- b) for each Renewal Period thereafter, the greater of
  - (i) five percent per annum, or
  - (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences.

The loan balance decreased from \$11.6 million to \$8 million, since fiscal year 2014, as a result of the quarterly payments made during fiscal year 2015. The table below provides the principal payments and the balances at the end of fiscal years 2015 and 2014.

<b>PMIA Loan</b>		<i>(amounts in thousands)</i>	
	Principal	Loan Balance	
<u>Fiscal Year</u>	<u>Payments</u>	<u>June 30</u>	
2015	\$ 3,486	\$ 8,094	
2014	\$ 3,317	\$ 11,580	

### ***Postemployment Benefits Other than Pensions***

The Postemployment Benefits Other than Pensions (OPEB) increased by \$26.5 million to a net obligation ending balance of \$203.2 million in fiscal 2015 due to the difference between the annual OPEB cost of \$42.5 million and the actual contributions charged by the California Department of Finance through pro rata (allocated indirect cost incurred by the State's Central Service Agencies) of \$16 million. The \$26.5 million increase for fiscal 2015 and \$36.3 million increase for fiscal 2014 reflect the System's under-funding of the annual required contribution (ARC).

### ***Other Long-Term Liabilities***

Other long-term liabilities include unearned revenues received in advance from State and Federal governments and advances for plant replacements. In fiscal 2015, these other long-term liabilities increased by \$12.7 million to an ending balance of \$184.9 million compared to \$172.2 million for fiscal 2014. These increases are primarily due to increases in revenue collected in advance from the Federal government for capitalized projects, which will be depreciated over time. These increases are offset by a decrease in replacement expenses for San Joaquin Field Division.

### ***Net Pension Liability***

The net pension liability represents the System's share of the DWR's portion of the unfunded liability of the California Public Employees' Retirement System's (CalPERS) defined benefit plan. Implementation of GASB Statement No. 68 recorded a restated beginning pension liability at July 1, 2014 of \$512.2 million. During fiscal 2015, net pension liability decreased by \$85.3 million to an ending balance of \$426.9 million. The \$85.3 million decrease is primarily due to CalPERS realizing gains on a strong portfolio performance after applying a board approved discount rate to expected long-term rate of returns on pension investment.

### ***Accounts Payable and Other Current Liabilities***

Accounts payable and other current liabilities totaled \$338.5 million at June 30, 2015, compared to \$334.1 million in fiscal 2014, and \$365.6 million in fiscal 2013. The increase of \$4.4 million in the current year is due to an increase of \$13.4 million for the current portion of long-term bond principal which mainly resulted from issuances of new revenue bonds, an increase of \$2.7 million for the current portion of accrued vacation, an increase of \$1.7 million for the current portion of System's pollution remediation obligation and an increase of \$1.1 million for other current liabilities and loan payable. These increases are offset by a decrease of \$10.6 million in accounts payable vendor liabilities generally comprised of reductions in capital construction outlay, water supply costs for the multi-year Turnback Water Pool Program, and reduced post termination cost of the Reid Gardner power plant, a decrease of \$2.6 million due to timing

differences in transfer of cash settlements with DWR's Internal Service Fund and a decrease of \$1.3 million in accrued bond interest.

In fiscal 2014, the decrease of \$31.5 million was due to a decrease of \$28.3 million in accounts payable vendor liabilities generally comprised of reductions in capital construction outlay, consulting contracts and decreased power purchases, a decrease of \$3.4 million for the current portion of long-term bond principal, a decrease of \$1.5 million due to timing differences in the transfer of cash settlements within DWR's Internal Service Fund, and a decrease of \$553 thousand in accrued bond interest. These decreases were offset by an increase of \$2.1 million for the current liability portion of accrued vacation and loans payable and an increase of \$200 thousand for the current portion of the System's pollution remediation obligation.

#### ***Proceeds Due to Water Contractors***

Proceeds Due to Water Contractors are comprised primarily of the additional 25% billing for revenue bond debt service in excess of debt service requirements (known as "cover"), plus certain investment income and off-aqueduct power sales, all defined as refundable to the Water Contractors under terms of the long-term water supply contracts.

Proceeds Due to Water Contractors increased by \$1.2 million during fiscal 2015 to an ending balance of \$86.9 million. This increase can be primarily attributed to the \$2.7 million increase in interest earnings from the debt service reserve balances and a \$2.3 million increase in deferred operating revenue collected in advance for cover not yet returned to the Water Contractors. These increases were offset by a \$3.2 million decrease as delivery structure revenue was recognized for the Gianelli Motor Rewinds project and the North Bay Aqueduct Alternate Intake project and a \$584 thousand decrease in interest earnings refunded back to the Water Contractors.

Proceeds Due to Water Contractors decreased by \$13 million during fiscal 2014 to an ending balance of \$85.7 million. This decrease was primarily attributed to the \$9 million decrease in interest earnings that was refunded back to the Water Contractors from the debt service reserve fund, a \$7 million decrease in deferred operating revenue collected in advance for cover refunded back to the Water Contractors and \$2.8 million decrease as delivery structure revenue was recognized for the North Bay Aqueduct Alternate Intake project and the Gianelli Motor Rewinds project. These decreases were offset by a \$5.8 million increase in interest earned on debt service reserve balances.

#### ***Deferred Inflows of Resources***

Deferred inflows represent revenues received by the System which are applicable to future reporting periods and will be recognized as revenue in future years. In fiscal 2015, the deferred inflows increased by \$32.3 million to an ending balance of \$855.2 million compared to \$822.9 million for fiscal 2014. This increase is primarily due to an increase in deferred depreciation of \$126.6 million that resulted when revenues collected for principal payments of debt which funded previous costs incurred to construct UPIS assets exceeded annual depreciation and amortization expenses. An increase of \$79.6 million is due to the implementation of GASB Statement No. 68, when the System recognized the unamortized net difference of pension liability in the current fiscal year. These increases to deferred inflows were offset by \$159.1 million of operations and maintenance recovery under GASB Statement No. 68, \$12.1 million of capital recovery and a \$2.7 million decrease in power sales credits due to Water Contractors.

**Operating Revenues**



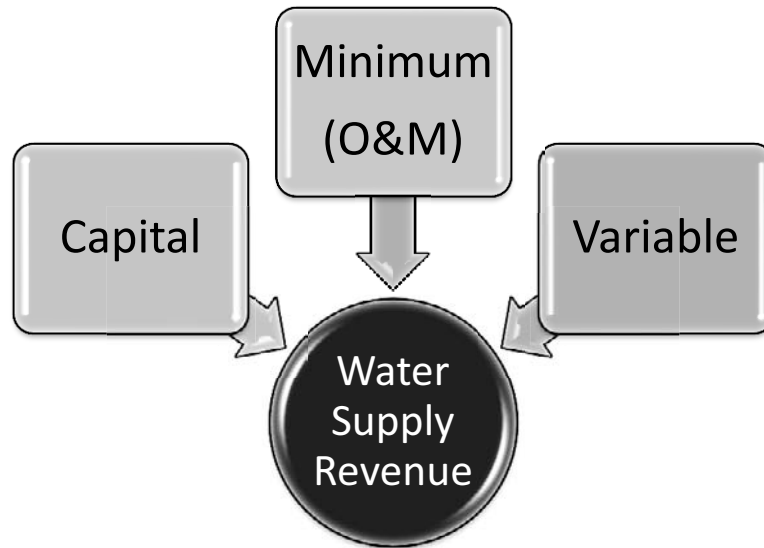
Operating revenues for fiscal 2015 were \$1,019.4 million compared to \$973.5 million in fiscal 2014 and \$1,130.5 million in fiscal 2013. The increase of \$45.9 million in fiscal 2015 was primarily due to an increase in water supply revenue of \$94.2 million mainly due to increased revenue billings which were based on higher projected costs, an increase in deferred revenues to be recovered through future billings under long-term water supply contracts and an increase in the average mill rate. This increase was offset by a decrease in power sales revenue of \$40.2 million and a decrease of \$8.1 million in federal reimbursements. The decrease of \$157 million in fiscal 2014 was primarily due to a decrease in water supply revenue of \$142.4 million, a decrease of \$14.3 million in power sales revenue and a minor decrease in federal reimbursements.

**Water Supply Revenue**

Under the terms of the long-term water supply contracts, the System is required to collect from the Water Contractors all costs of the SWP allocated to water supply in proportion to each Water Contractor's contractual allocation of water. Generally, the System's costs, including the costs of gathering, storing, conveying and delivering water, and interest are billable to Water Contractors whether or not water is delivered.



Water Supply Revenue consists of three main categories:

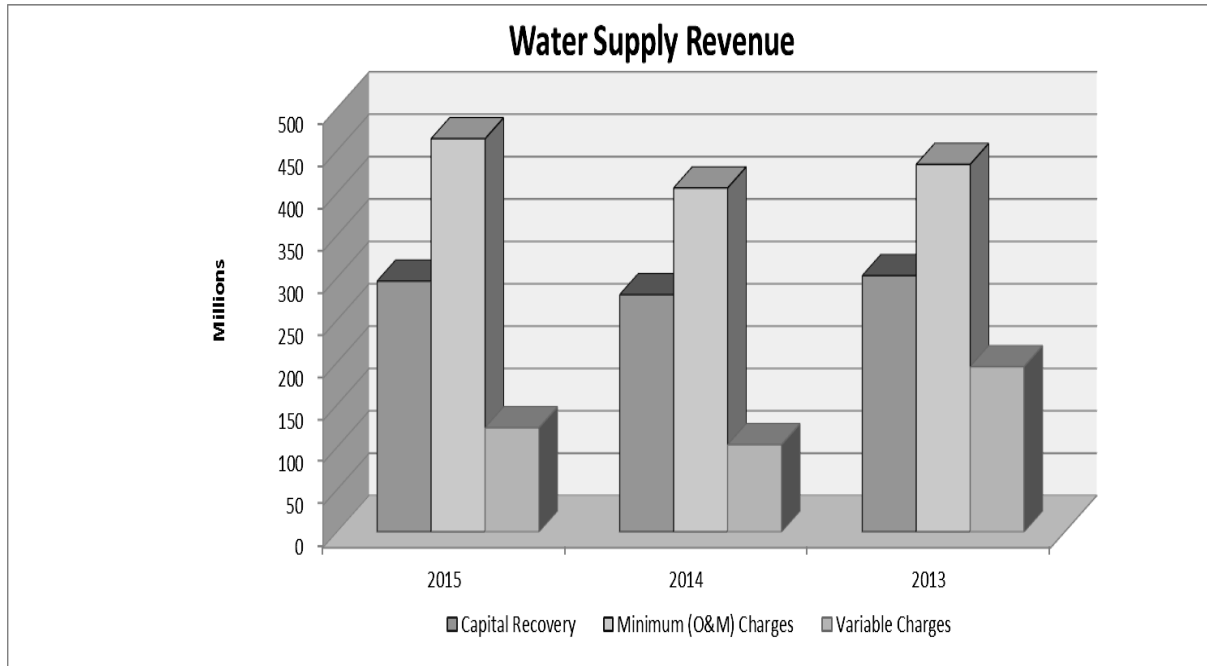


▶ Capital	<ul style="list-style-type: none"> <li>• Enables the System to recover all the costs plus interest related to the construction of facilities, including its dams, aqueducts, pumping stations and power plants</li> <li>• Once a project is completed, its cost plus interest are amortized and recovered over the remaining term of the long-term water supply contracts (through 2035)</li> </ul>
▶ Minimum (O&M)	<ul style="list-style-type: none"> <li>• Enables the System to recover the operating and maintenance costs associated with operating the System</li> <li>• Minimum costs are generally recovered as incurred</li> </ul>
▶ Variable	<ul style="list-style-type: none"> <li>• Enables the System to recover the net cost of energy used to deliver water to the Water Contractors</li> <li>• Variable costs, net of power sales, are generally recovered as incurred</li> </ul>

On or before July 1 of each year, the System furnishes each Water Contractor with a statement of estimated charges for the Capital, Minimum, and Variable components for the following calendar year. The Capital components are due on January 1 and July 1 of the year following receipt of the Statement of Charges. The Minimum and Variable component payments are due in twelve monthly installments commencing on January 1 of the year following receipt of the Statement of Charges. On or about July 1 of each year, the System determines the estimated rate (per acre-foot) to be charged to each Water Contractor in the following calendar year for the Variable component. The Variable component, in such calendar year, is calculated and billed monthly based on metered water deliveries for the preceding month and the actual rate determined at the beginning of each calendar year. However, this rate can be modified over the course of the ensuing year. On July 1 of each year, the System furnishes each Water Contractor with a statement showing the difference between the estimated water charges paid and the actual costs incurred for the prior calendar year. The difference is paid by or credited to each Water Contractor, as applicable, in equal monthly installments commencing on January 1

of the year following the “true-up” calculation. This process results in an approximately two-year delay in the reconciliation of estimated charges paid and actual costs reimbursed to the System.

In 2015, the System generated \$883.5 million in water supply revenue, compared to \$789.4 million in fiscal 2014, and \$931.8 million in fiscal 2013. The following table shows a comparative breakdown of the components of water supply revenue for 2015, 2014 and 2013.



Water Supply revenues increased by \$94.2 million in 2015 to a total of \$883.5 million. This increase is due to an increase of \$58.1 million in minimum operating & maintenance (O&M) billings, an increase of \$20 million in Variable billings and an increase of \$16.1 million in Capital billings.

O&M revenues for fiscal 2015 increased by \$58.1 million. The largest increase of \$52.3 million was in Minimum Transportation due to increases in cost projections for salary and wages for Bargaining Unit 12, pro rata and assessment costs charged by the California Department of Finance, and extraordinary repair and maintenance costs. A \$41.3 million increase when O&M expenses are reclassified and recognized as future billings under long-term water supply contracts, and a \$20.6 million increase in the Delta Water Charge (DWC) Minimum due to increased extraordinary repair and maintenance cost projections for the HTPP as well as emergency drought salinity barrier costs in the Sacramento-San Joaquin Delta. These increases were offset in part by a \$24.1 million combined decrease in Off Aqueduct Power and Reid Gardner Administrative Order of Consent (AOC) billings due to reduced post termination costs of the Reid Gardner power plant, a \$15.1 million decrease in Federal reimbursements related to flood control and recreation expenses resulted when certain O&M costs for plant replacements were reclassified to CWIP as the System switches its focus from repairing to extending the life of the current infrastructure, a \$14 million decrease in the Delta Habitat Conservation and Conveyance Program (DHCCP) resulting from a lack of an existing contract to reimburse the System for DHCCP expenses, and a \$3.3 million decrease in miscellaneous revenue.

The Variable revenues increase of \$20 million is primarily due to an 8.97 mills/kWh increase in the average mill rate. The average mill rate in fiscal 2015 was 63.44 mills/kWh compared to 54.48 mills/kWh in fiscal 2014. Actual water deliveries in fiscal 2015 were 1.41 million acre-feet compared to 1.76 million acre-feet in fiscal 2014. Although the water deliveries decreased by 0.36 million acre-feet, the increase in the average mill rate resulted in \$31.3 million of additional Variable revenues. Additional increases included a \$6.5 million increase in revenues that resulted from a decrease in prior year over-collections adjustment which amounted to \$36.8 million in fiscal 2015 compared to \$43.4 million in fiscal 2014 and an increase of \$6.1 million in wheeling water revenues. These increases are offset by a decrease of \$23.8 million in reduced billings for the multi-year Turnback Water Pool Program.

The Capital revenues increase of \$16 million is primarily due to a \$20.8 million combined increases in DWC Capital, Capital Transportation and Water Transfer Capital resulting from reclassifying O&M costs to capitalized construction costs and increased cost projections, and a \$8 million increase in Debt Service revenues resulting from issuances of the CVP Bond Series AS and AT. These increases were offset by decreases of \$9.6 million in Off Aqueduct Power Debt Service resulting from the post termination of Reid Gardner power plant and reductions in bond payments due to the refunding of CVP Bond Series AS. Additionally a decrease of \$3.1 million in Permanent Table A Transfer Credit Allocation to refund prior year over collections to Water Contractors participating in the downstream program.

In fiscal 2014, Water Supply Revenues decreased by \$142.4 million to a total of \$789.4 million. There were several contributing factors. A decrease of \$92.2 million occurred as a result of Variable, a decrease of \$27.8 million in O&M, and a decrease of \$22.4 million in Capital. The decrease in Variable was primarily due to a decrease of \$101.3 million in variable billings due to decreases in water deliveries by 0.94 million acre feet (AF) to 1.76 million in 2014 compared to 2.7 million AF in 2013 and a decrease of \$14.6 million in revenues resulting from an increase in prior year over collections which amounted to \$43.4 million in 2014 compared to \$28.8 million in 2013. Although the average mill rate increased by 11.36 mills/kWh to 54.48 mills/kWh compared to 43.12 mills/kWh in 2013, the significant decrease in water deliveries, especially to the Southern California area where the cost to deliver water was higher, resulted in reduced revenues. These decreases were offset by an increase of \$23.7 million in billings under the new multi-year Turnback Water Pool Program.

### ***Overview of the System's Power Activities***

The SWP is one of the largest consumers and suppliers of electric power in the western United States. Since the commencement of the major facilities of the SWP in the 1960s, the System has been an active participant in the power markets of California and the western United States. The System has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The System currently owns three pumping-generating plants and five hydroelectric power plants with a total nameplate capacity of approximately 1,800 Megawatts (MW) and with total annual energy generation in recent years ranging between approximately 3,100 and





5,100 Gigawatt hours (Gwh). The System also owns and operates 20 pumping plants with a total load, when operational, of approximately 2,000 MW and total annual energy consumption in recent years ranging between 5,300 and 10,000 Gwh. Typically, the majority of generation is during the on-peak hours; however, ancillary services are provided during all hours of the day.

The SWP must enter the power market to facilitate the operation of the California aqueduct. Operations continue 24 hours a day, seven days a week, with constant coordination with other utilities, Water Contractors, the California Independent System Operator (CAISO) and SWP pumping and generating plants. The power market, being controlled by CAISO, can have a material impact on the power sales revenues and power purchase expenses of the SWP.

Economics and climate changes have required the System to explore and include more renewable energy sources. In 2005, Executive Order S-3-05 was signed into law and in 2006 Assembly Bill (AB-32) was passed, requiring California to reduce its Green House Gas (GHG) emissions to 1990 levels by 2020. By 2050, GHG emission levels must be below 80% of 1990 levels.

As a result of these new laws, California will require a higher percentage of our pumping load to be served by renewable energy sources. By 2050, approximately 50% of the System pump load will need to be supplied by renewable energy. During fiscal year 2015, the System entered into an energy purchase contract with Dominion Solar-Camelot, a 45 MW solar plant. Future solar contracts, with S-Power and Pearblossom, are scheduled to come on line in the end of 2016 and will add an additional 95 MW of renewable power.

Every year, the SWP is confronted with factors that affect how the operation of the System is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuation in natural gas prices, transmission line outages and wild fires. In fiscal 2015, the SWP was still affected by the loss of the HTPP causing ongoing unavailability of units at DWR's Oroville complex. Other major impacts to the SWP operation were the continued severe drought conditions and lack of snow pack in the Northern Sierras. Water Contractor's allocation remained constant at a lowered level of 5% for the first half of fiscal 2015. Several winter precipitations occurred in the period from December through February. These two factors resulted in a slight increase in the reservoir storage, allowing management to raise the water allocations to 10% in December 2014, 15% in January 2015, and 20% in March 2015. The allocations remained at 20% through fiscal year end at June 30, 2015.

The increased water allocations resulted in increased water deliveries and pumping through the SWP. However, the severe drought conditions the System experienced in fiscal 2015 and over the past several fiscal years did not allow adequate recovery for System reservoirs to maintain consistent pre-drought allocations of approximately 60% to the Water Contractors. DWR's primary concern is still water availability, not water demand, and water conservation remains a high priority for DWR's daily operation.

### ***Power Sales***

Energy sales, from SWP hydroelectric generating plants, allow some recovery of cost of the System's hydroelectric pumping plants. Operating the pumping plants as much as possible, when energy prices are generally lower, and generating energy during on-peak hours, when prices are generally higher, is a proven strategy of the SWP. Reservoir storage levels greatly impact the SWP's ability to recover costs as generating energy requires more than adequate reservoir storages. The Oroville complex is the largest SWP resource and is required by FERC to help mitigate negative environmental impacts. Mitigation could include controlling river

temperatures, to assisting with after-bay and fore-bay elevation control, to helping with nesting Grebe or Garter snake habitat. Required mitigation can occur despite having minimal storage available at Oroville Lake.

In fiscal 2015, power sales decreased by \$40.2 million to a total of \$91.8 million. Although the System had a minor increase in transmission sales of \$465 thousand, the System experienced a \$40.6 million net decrease in power sales. Despite a substantial increase in the MWh rate during fiscal 2015, the System experienced a significant decrease in the quantity of energy sold. In fiscal 2014, 940,679 MWh were sold compared to 274,469 MWh in fiscal 2015, a 70.82% decrease from the prior year. The MWh rate increased by 128.87%, from \$130.04 in fiscal 2014 to \$297.62 in fiscal 2015.

With the State of California in its fourth year of a severe drought, energy sales are less of a priority due to lack of available water. The priority throughout the State of California is to conserve the limited water that is available. Additionally, water deliveries decreased from 1.76 million acre-feet in fiscal 2014 to 1.41 million acre-feet in 2015, a decrease of 0.35 million acre-feet or 19.89%.

In fiscal 2014, power sales decreased by \$14.3 million to a total of \$132 million. The decrease in power sales was attributable to a decrease in transmission sold as well as a decrease in the MWh rate and an increase in the quantity of energy sold. In fiscal 2013, 790,103 MWh were sold compared to 940,679 MWh in fiscal 2014, a 19.06% increase from the prior year. The overall rate decreased by 14.18%, from \$151.53 in fiscal 2013 to \$130.04 in fiscal 2014.

The following tables show the relationship between volume and rate for fiscal 2015 compared to fiscal 2014, and fiscal 2014 compared to fiscal 2013:

<b>Power Sales</b>					
	<b>Total Sold</b>	<b>Transmission Sold</b>	<b>Power Sold</b>	<b>MWh Sold</b>	<b>Rate/MWh</b>
2014	\$ 131,951,338	\$ (9,626,929)	\$ 122,324,409	940,679	\$ 130.04
2015	91,779,398	(10,091,627)	81,687,771	274,469	297.62
<b>Net Change</b>	\$ (40,171,940)	\$ (464,698)	\$ (40,636,638)	\$ (666,210)	\$ 167.58
Change in MWh sold				(666,210)	
Multiplied by 2014 rate/MWh				\$ 130.04	
Difference attributed to increase in sales (rounded)				\$ (86,634,000)	
Change in MWh rate				\$ 167.58	
Multiplied by 2015 MWh sold				274,469	
Difference attributed to rate change (rounded)				\$ 45,996,000	
Total decrease in power sales (rounded)				\$ (40,638,000)	
	<b>Total Sold</b>	<b>Transmission Sold</b>	<b>Power Sold</b>	<b>MWh Sold</b>	<b>Rate/MWh</b>
2013	\$ 146,277,485	\$ (26,554,940)	\$ 119,722,545	790,103	\$ 151.53
2014	131,951,338	(9,626,929)	122,324,409	940,679	130.04
<b>Net Change</b>	\$ (14,326,147)	\$ 16,928,011	\$ 2,601,864	\$ 150,576	\$ (21.49)
Change in total MWh sold				150,576	
Multiplied by 2013 rate/MWh				\$ 151.53	
Difference attributed to increase in sales (rounded)				\$ 22,817,000	
Change in MWh rate				\$ (21.49)	
Multiplied by 2014 MWh sold				940,679	
Difference attributed to rate change (rounded)				\$ (20,215,000)	
Total increase in power sales (rounded)				\$ 2,602,000	

### ***Federal and State Reimbursements Revenue***

Federal and State reimbursements revenue for fiscal 2015 was \$44.1 million, compared to \$52.2 million for fiscal 2014. The current year decrease of \$8.1 million is primarily due to a decrease of \$10.5 million in USBR's share of Delta Habitat Conservation and Conveyance Program (DHCCP) expenses resulting from the lack of an existing contract to reimburse the System for DHCCP. The previous contract expired in fiscal 2014. The System reached an agreement in July 30, 2015 that resumed reimbursement requirements. An additional decrease of \$2.2 million is due to a decrease in O&M reimbursable expenses. These decreases were offset by an increase of \$4.6 million in capital recreation cost recovery from Proposition 84 funds and Greenhouse Gas Reduction funds.

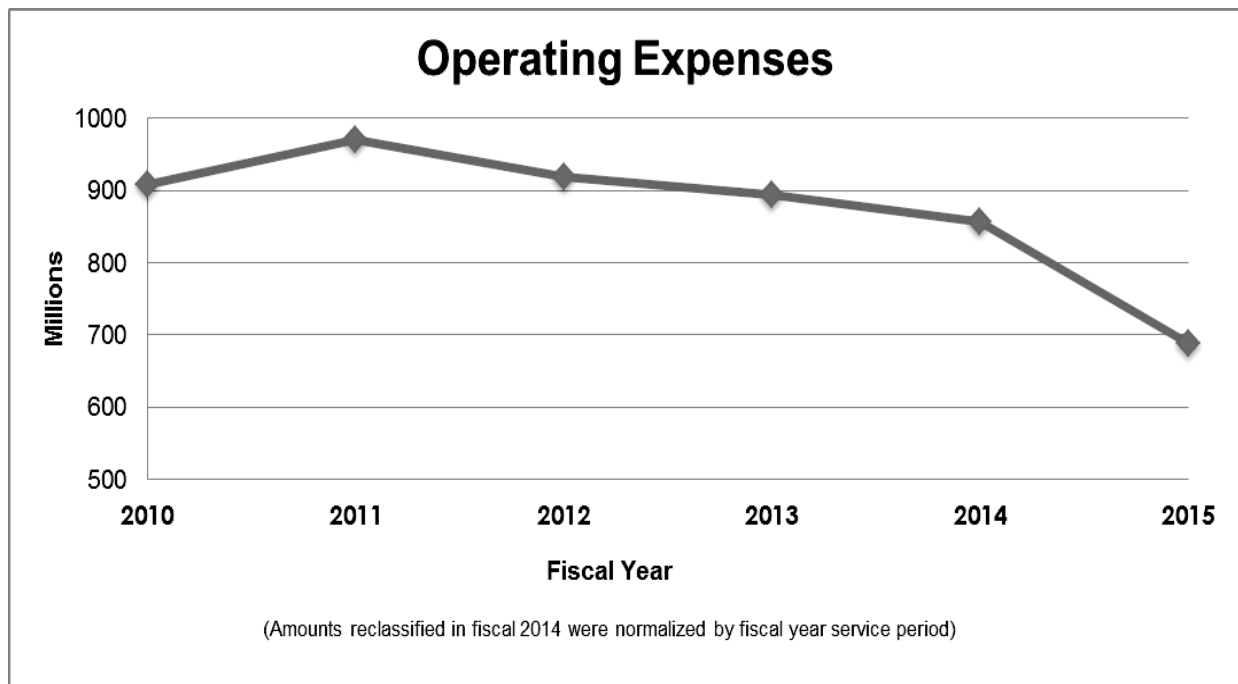
Federal and State reimbursements revenue for fiscal 2014 was \$52.2 million, compared to \$52.4 million for fiscal 2013. The current year decrease of \$211 thousand is due to a decrease of \$8 million in the USBR's DHCCP share and a decrease of \$3.3 million in USBR's Suisun Marsh capital share. These decreases were offset by an increase of \$5.4 million in USBR's San

Luis O&M share, an increase of \$3.8 million in USBR's San Luis capital share, due to increased construction costs for the Gianelli pumping-generating plant, and an increase of \$2.3 million in capital recreation cost recovery from Proposition 84 funds.

**Operating Expenses**

Total operating expenses decreased by \$178.6 million for fiscal 2015 to a total of \$688.9 million. The decrease is due to a reduction in operations and maintenance expenses of \$152.6 million and a decrease in power purchases of \$38.6 million. These decreases are offset by an increase of \$12.6 million in depreciation expense.

Total operating expenses for 2014 decreased by \$44.3 million to a total of \$867.5 million. The decrease was due to a reduction in operating expenses recovered of \$22.3 million, a decrease in power purchases of \$17.5 million, and a decrease in depreciation expense of \$16.3 million. The decreases were offset by an increase of \$11.8 million in operations and maintenance expenses.



**Operations and Maintenance Expenses**

Total operations and maintenance expenses are \$404.6 million for fiscal 2015, compared to \$557.2 million for fiscal 2014 and \$545.4 million for fiscal 2013. The decrease of \$152.6 million in fiscal 2015 can be attributed to the following factors: decreases of \$69.9 million in capital construction related expenses for the Hyatt-Thermalito Plant fire recovery and other extraordinary repairs and maintenance projects, as they were reclassified to CWIP; decreases of \$24 million in general, supplies, and miscellaneous expenses, as the system deferred extraordinary repair projects and began cost reduction efforts to general operations and maintenance expenses; a decrease of \$25.8 million in pollution remediation; a decrease of \$22.8 million in purchased water supply, due to the absence of activities under the new multi-year Turnback Water Pool Program; continuing decreases of \$12.3 million in RG operations and maintenance expenses, as the system depletes final inventories and pays AOC obligations; a

decrease of \$9.8 million in Postemployment Benefits other than Pensions (OPEB); and a \$2.8 million decrease in communications and security expenses. These decreases were offset by the following factors: increases of \$4.8 million in waste removal and other clean-up efforts, increases of \$4.2 million in Federal co-op contracts; increases of \$2.9 million in bond issuance costs; and increases of \$2.9 million in consultants and other professional services. Despite the implementation of GASB 68, the system did not have a material change to operations and maintenance expenses related to salaries and wages.

Total operations and maintenance expenses were \$557.2 million for fiscal 2014, compared to \$545.4 million for fiscal 2013. The increase of \$11.8 million in fiscal 2014 was attributed to the following factors: increases of \$37.7 million in salary and wages; increases of \$19.6 million in purchased water supply resold under the new multi-year Turnback Water Pool Program; increases of \$13.7 million in OPEB; increases of \$11.1 million in hazardous services and waste removal costs at SWP facilities; increases of \$6.3 million in pollution remediation; increases of \$4.3 million in communications costs; increases of \$3.3 million in pro rata (allocated indirect cost incurred by the State's Central Service Agencies); and increases in the amount of \$3.4 million comprised of miscellaneous expenses. These increases were offset by the following factors: decreases in expenses for Reid Gardner coal of \$23.7 million; decreases in natural gas, coal, and diesel consumption of \$20 million; decreases in consultant and professional services of \$12.4 million; decreases in Federal co-op contracts of \$7.7 million; decreases in bond issuance costs of \$7 million; decreases in operations and maintenance of the Reid Gardner power plant of \$6.5 million; decreases in vacation expenses of \$3.2 million; and other decreases amounting to \$7.1 million comprised of general expenses, legal expenses, taxes and assessments, maintenance and repair services and other general expenses.

### ***Power Purchases***

The System uses a significant amount of power to operate its pumping stations in order to deliver water to the Water Contractors. The System's sources include self-generated power by the three pumping-generating plants and five hydroelectric power plants owned by the System, along with purchases from third party suppliers. As with power sales, in any given year, a combination of factors, including hydrological production, energy market rates, and energy market supply and demand, impact the System's energy requirements.

In fiscal 2015, power purchases decreased \$38.7 million to a total of \$202.8 million. The decrease in power purchases is attributable to a decrease in transmission purchases of \$7.6 million, a decrease in the quantity of energy purchased and a decrease in the MWh rate. In fiscal 2014, 1,868,363 MWh were purchased compared to 1,696,381 MWh in fiscal 2015, a 9.20% decline from the prior year. The MWh rate also declined by 7.12% from \$106.23 in fiscal 2014 to \$98.67 in fiscal 2015.

Power purchases are generally made for off-peak pumping and are a reflection of water demand. Primary factors that contributed to decreased purchases were continued drought conditions, low reservoir storages and near zero percent snow pack throughout the Sierras. In fiscal 2015, the primary concern was still water availability, not water demand. The focus continued shifting to water conservation and reduced pumping.

In fiscal 2014, purchased power decreased \$17.5 million from fiscal 2013 to a total of \$241.4 million. Of that amount, \$47 million was attributed to decreased units purchased and \$10.8 million was attributed to a decrease in transmission purchases, while changes in the average rate per MWh purchased increased by \$40.3 million.

The following tables show the relationship between volume and rate for fiscal 2015 compared to fiscal 2014, and fiscal 2014 compared to fiscal 2013:

<b>Power Purchased</b>					
	<u>Total Purchased</u>	<u>Transmission Purchased</u>	<u>Power Purchased</u>	<u>MWh Purchased</u>	<u>Rate/MWh</u>
2014	\$ 241,443,593	\$ (42,976,293)	\$ 198,467,300	1,868,363	\$ 106.23
2015	202,780,559	(35,396,524)	167,384,075	1,696,381	98.67
<b>Net Change</b>	\$ (38,663,034)	\$ 7,579,769	\$ (31,083,225)	\$ (171,982)	\$ (7.56)
Change in MWh purchased					(171,982)
Multiplied by 2015 rate					\$ 98.67
Difference attributed to decreased purchases (rounded)					\$ (16,969,000)
Change in MWh rate					\$ (7.56)
Multiplied by 2014 purchased					1,868,363
Difference attributed to rate change (rounded)					\$ (14,125,000)
Total decrease in power purchases (rounded)					\$ (31,094,000)
	<u>Total Purchased</u>	<u>Transmission Purchased</u>	<u>Power Purchased</u>	<u>MWh Purchased</u>	<u>Rate/MWh</u>
2013	\$ 258,899,223	\$ (53,779,440)	\$ 205,119,783	2,310,252	\$ 88.79
2014	241,443,593	(42,976,293)	198,467,300	1,868,363	106.23
<b>Net Change</b>	\$ (17,455,630)	\$ 10,803,147	\$ (6,652,483)	\$ (441,889)	\$ 17.44
Change in MWh purchased					(441,889)
Multiplied by 2014 rate					\$ 106.23
Difference attributed to decreased purchases (rounded)					\$ (46,942,000)
Change in MWh rate					\$ 17.44
Multiplied by 2013 purchased					2,310,252
Difference attributed to rate change (rounded)					\$ 40,291,000
Total decrease in power purchases (rounded)					\$ (6,651,000)

### ***Operating and Maintenance Expense Recovered***

As in fiscal 2014, the System did not recognize any recovery of operations and maintenance expenses in fiscal 2015.

### ***Capital Revenues Deferred***

Capital revenues deferred represents the timing difference between net capital revenue recovered and certain operating costs incurred. Capital revenues recovered increased by \$201 million to a total of \$243.9 million in fiscal 2015. The increase was primarily due to the System having recognized current year capital revenues of \$202.2 million in excess of annual amounts in depreciation. This occurred due to a large \$188.4 million net transfer to CWIP which is

undepreciated. The increase was offset by recovery in unamortized project costs, Power Sales Credit, and unbilled interest of \$1.2 million for fiscal 2015.

Capital revenues recovered decreased by \$131.4 million to a total of \$42.9 million in fiscal 2014. The decrease was primarily due to UPIS asset related recovery of \$145.7 million offset by \$14.3 million as the System recognized annual amounts in depreciation, unamortized project costs, Power Sales Credit, and unbilled interest.

### ***Interest Expense***

Interest expense, which generally includes interest on all debt and amortization of premiums and discounts and deferred gains and losses, decreased \$19.4 million from \$115.5 million in fiscal 2014 to \$ 96.1 million in fiscal 2015.

Most of this decrease can be attributed to lower interest rates paid on the CVP Revenue Bonds resulting from bond refundings which lowered the coupon rates on the new bonds. As a result, interest paid on the CVP Revenue bonds decreased by \$17.5 million. In addition, the gradual decline in the principal outstanding balances of the General Obligation (GO) Bonds and Devil Canyon and Castaic Bonds continued to lower the interest paid on these bonds, resulting in a \$2.6 million decrease. The increase in the amortization of premiums, resulting from bond refundings, also contributed to the decrease in the interest expense of the CVP Revenue Bonds.

Interest expense for fiscal 2014 increased \$62 million from \$53.5 million in fiscal 2013, to \$115.5 million in fiscal 2014. A total of \$53.6 million of this increase was attributable to the write-off of premiums that occurred during fiscal 2013 resulting from multiple bond refundings. Premium credits associated with these write-offs resulted in a substantial reduction in interest expense for fiscal 2013. In contrast, there were no premium write-offs during fiscal 2014. The additional \$8.4 million increase to interest expense was generally attributable to the issuance of bond Series AR during fiscal 2014.

### ***Other Revenues***

Other revenues, net of expenses, are \$9.6 million in revenues for fiscal 2015, compared to \$52.5 million in revenues for fiscal 2014 and \$9.2 million in revenues for fiscal 2013. Both the decrease of \$42.9 million in fiscal 2015 and the increase of \$43.3 million in fiscal 2014 are primarily due to the settlement payment of \$47.5 million received from Nevada Energy upon DWR's interest in Unit 4 of the Reid Gardner Power Plant termination in fiscal 2014.

**FINANCIAL STATEMENTS**





**Statements of Net Position**

(amounts in thousands)

	2015	2014
<b>Assets</b>		
Utility plant:		
Utility plant in service	\$ 5,064,102	\$ 5,026,112
Less accumulated depreciation	(2,074,899)	(1,994,695)
Net utility plant in service	2,989,203	3,031,417
Construction work in progress	626,600	438,244
Total utility plant	3,615,803	3,469,661
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	28,348	29,950
Cash and investments restricted for debt service	118,075	115,960
Cash and cash equivalents on deposit with revenue bond trustee	9,435	9,206
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	441,755	102,090
Capital credit due from water contractors	231,033	314,335
Unamortized project costs	347,858	361,712
Unbilled interest incurred on capital costs	419,663	436,313
Loans receivable from local water agencies	14,061	15,232
Advances to other state funds	93,047	91,517
Total long-term assets	1,703,275	1,476,315
Current assets:		
Cash and cash equivalents	517,663	478,558
Receivables:		
Interest on investments	996	1,129
Water supply and power billings (net)	79,527	35,045
Due from federal and state governments	37,406	39,429
Due from others	408	23
Inventories	5,160	5,203
Total current assets	641,160	559,387
<b>Total assets</b>	5,960,238	5,505,363
Deferred outflows of resources:		
Deferral of loss on refunding	174,933	116,741
Deferral of employer pension contribution	44,393	-
Total deferred outflows of resources	219,326	116,741
Total assets and deferred outflows of resources	\$ 6,179,564	\$ 5,622,104

The accompanying notes are an integral part of these financial statements.

**Statements of Net Position (continued)**

(amounts in thousands)

	2015	2014
<b>Capitalization and Liabilities</b>		
Capitalization:		
Net position:		
Net investment in capital assets	\$ 1,105,692	\$ 994,561
Restricted	99,736	210,867
Total net position	<u>1,205,428</u>	<u>1,205,428</u>
Long-term liabilities		
General obligation bonds	135,045	184,960
Revenue bonds	2,588,108	2,532,234
Commercial paper	87,901	36,136
Other postemployment benefits	203,219	176,769
Net pension liability	426,935	-
Pooled Money Investment Account (PMIA) Loan	4,431	8,094
Accrued vacation	29,392	29,765
Pollution remediation	33,579	33,800
Unearned revenue - State and Federal capital recovery	155,448	141,355
Advances for plant replacements	29,459	30,802
Total long-term liabilities	<u>3,693,517</u>	<u>3,173,915</u>
Total capitalization	<u>4,898,945</u>	<u>4,379,343</u>
Current liabilities:		
Current maturities of bonds	185,815	172,455
Accounts payable	67,575	78,158
Accrued vacation	13,326	10,582
Pollution remediation	10,245	8,600
Accrued interest on long-term debt	11,900	13,188
Pooled Money Investment Account (PMIA) Loan	3,663	3,486
Due to other state funds	45,065	47,681
Proceeds due to water contractors	86,900	85,725
Other current liabilities	939	-
Total current liabilities	<u>425,428</u>	<u>419,875</u>
<b>Total Liabilities</b>	<u>4,118,945</u>	<u>3,593,790</u>
Deferred inflows of resources:		
Operations and maintenance expense	1,989	161,087
Capital costs	623,908	509,394
Power sales credit due to water contractors	149,728	152,405
Unamortized net difference of pension liability	79,566	-
Total deferred inflows of resources	<u>855,191</u>	<u>822,886</u>
 Total net position, liabilities, and deferred inflows of resources	 <u>\$ 6,179,564</u>	 <u>\$ 5,622,104</u>

The accompanying notes are an integral part of these financial statements.

**Statements of Revenues, Expenses, and Changes in Net Position***(amounts in thousands)*

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Water supply	\$ 883,538	\$ 789,370
Power sales	91,780	131,952
Federal reimbursements	44,060	52,186
Total operating revenues	<u>1,019,378</u>	<u>973,508</u>
Operating expenses:		
Operations and maintenance	404,627	557,209
Purchased power	202,780	241,444
Depreciation and amortization expense	81,495	68,896
Total operating expenses	<u>688,902</u>	<u>867,549</u>
Income from operations	330,476	105,959
Nonoperating revenue (expenses):		
Capital revenues deferred	(243,945)	(42,934)
Interest expense	(96,082)	(115,499)
Other revenues (expenses), net	<u>9,551</u>	<u>52,474</u>
Change in net position	-	-
Net position, beginning of year	<u>1,205,428</u>	<u>1,205,428</u>
Net position, end of year	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>

The accompanying notes are an integral part of these financial statements.



## Statements of Cash Flows

(amounts in thousands)

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 949,100	\$ 986,586
Payments to employees for services	(320,684)	(311,144)
Payments to suppliers	(283,286)	(461,499)
Other receipts	2,647	46,098
Net cash provided by operating activities	<u>347,777</u>	<u>260,041</u>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from issuance of revenue obligation bonds including premium	246,873	180,159
Principal payments on long-term debt	(172,455)	(175,860)
Commercial paper notes issued	191,229	108,765
Principal payments on commercial paper notes	(139,465)	(123,134)
Principal payments on PMIA note	(3,486)	(3,317)
Interest payments on long-term debt	(210,661)	(120,230)
Additions to utility plant and CWIP	(227,636)	(210,592)
Net cash used by capital and related financing activities	<u>(315,601)</u>	<u>(344,209)</u>
<b>Cash flows from investing activities:</b>		
Cash received from investment earnings	6,393	7,758
Proceeds of investments matured	100,865	252,174
Purchases of investments	(100,866)	(252,174)
Loan payments from local water agencies	1,170	1,237
Net cash provided by investing activities	<u>7,562</u>	<u>8,995</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	39,738	(75,173)
<b>Cash and cash equivalents, beginning of year</b>	561,286	636,459
<b>Cash and cash equivalents, end of year</b>	<u>\$ 601,024</u>	<u>\$ 561,286</u>
<b>Noncash capital and related financing activities:</b>		
Amortization of bond premium/discount	\$ 15,614	\$ 12,029
Amortization of deferred loss on refunding	10,000	(7,850)
Impairment loss of utility plant	-	11,795
Principal retirements of long-term debt on proceeds received from issuance of Series AS Water System Revenue Bonds	689,780	-
<b>Noncash capital and related financing activities:</b>	<u>\$ 715,394</u>	<u>\$ 15,974</u>

The accompanying notes are an integral part of these financial statements.

**Statements of Cash Flows (continued)**
*(amounts in thousands)*

	<b>2015</b>	<b>2014</b>
<b>Reconciliation to the statement of net position:</b>		
Cash and cash equivalents	\$ 517,663	\$ 478,558
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	28,348	29,950
Cash and cash equivalents restricted for debt service (net of \$72,496 and \$72,388 of U.S. Agency securities for 2015 and 2014, respectively)	45,578	43,572
Cash and cash equivalents on deposit with revenue bond trustee	9,435	9,206
<b>Cash and cash equivalents</b>	<b>\$ 601,024</b>	<b>\$ 561,286</b>
	<b>2015</b>	<b>2014</b>
<b>Reconciliation of income from operations to net cash provided by operating activities:</b>		
Income from operations	\$ 330,476	\$ 105,959
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	81,495	68,895
Other receipts	2,647	46,098
(Increase) in deferred charges and credits, net	(469,142)	(11,996)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(44,866)	57,304
Decrease in inventories	43	2,211
(Increase) decrease in due from federal government	2,023	(19,202)
Increase in accounts payable, accrued vacation, pollution remediation, other postemployment benefits and net pension	446,542	25,290
(Decrease) in due to other state funds	(2,616)	(1,490)
Increase (decrease) in proceeds due to Water Contractors	1,175	(13,028)
Total adjustments	17,301	154,082
<b>Net cash provided by operating activities</b>	<b>\$ 347,777</b>	<b>\$ 260,041</b>

The accompanying notes are an integral part of these financial statements.

# **NOTES TO FINANCIAL STATEMENTS**





## 1. Reporting Entity

The State Water Resources Development System (System), administered by the Department of Water Resources (DWR), includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program, was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s providing various financing mechanisms. The SWP is a system of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities which have been constructed for purposes of developing firm water supply and conveying water to areas of need within the State and providing flood control, recreation, fish and wildlife enhancement and hydroelectric power. The System has entered into long-term water supply contracts with 29 customers (Water Contractors) in order to recover substantially all System costs. The 29 Water Contractors are principally located in the San Francisco Bay Area, the Central Valley and Southern California and their service areas encompass approximately 25% of the State's land area and 68% of its population.

The System is accounted for as an enterprise fund comprised of two segments, the Burns-Porter Act and the Central Valley Project Act, and is financed and operated in a manner similar to that of a private business enterprise. The System uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

## 2. Summary of Significant Accounting Policies

### Utility Plant

Utility plant is recorded at original cost. Cost includes labor, materials and indirect items such as engineering, supervision, transportation and interest on borrowed funds incurred during construction. Repairs, maintenance and minor purchases of equipment are charged to expense as incurred.

### Depreciation

Depreciation is provided on a straight-line basis over the estimated useful lives of the various classes of utility plant, as follows:

Various Classes of Utility Plant	Estimated Useful Lives
Aqueducts	80 - 100 years
Dams and reservoirs	85 years
Environmental preservation and mitigation	50 years
Power plants	30 - 50 years
Pumping plants	30 - 40 years
Fish protection	35 - 36 years
Facilities	20 - 30 years
Machinery, equipment and vehicles	3 - 5 years
General	1 - 20 years

The System's intangible assets, consisting of software, land use and legal rights, costs associated with the Federal Energy Regulatory Commission (FERC) licenses and compliance instruments are included in Utility Plant in Service (UPIS). Software costs are

amortized on a straight-line basis over a five-to-ten year useful life. Easements are land use rights and considered as either permanent or temporary. Permanent easements have an indefinite useful life and are non-depreciable while temporary easements are being depreciated over a five year useful life, unless otherwise specified in the purchase agreement.

A central element of California's Global Warming Solutions Act (AB32) requires the System to obtain and surrender emission credits and allowances. Currently, these compliance instruments consist of Green House Gas (GHG) emission allowances for the System's share of compliance cost for the Lodi Energy Center (LEC). Since the economic benefit isn't diminished until the credits are consumed, they will not be amortized. The credits will be included in UPIS and charged to expense as they are surrendered.

### **Cash and Cash Equivalents**

Cash and cash equivalents, for purposes of the statement of cash flows, includes cash on hand, restricted cash for plant replacements, restricted cash for debt service and restricted cash on deposit with revenue bond trustee. Such amounts include deposits in the State of California Pooled Money Investment Account (PMIA), Surplus Money Investment Fund (SMIF) and instruments with original maturities of three months or less. Cash and cash equivalents do not include U.S. Government and Agency securities with maturities of more than three months.

### **Restricted Cash and Investments**

Cash and cash equivalents on deposit with revenue bond trustee consists of debt service reserve funds held with a major national bank for the Series 1973 Devil Canyon – Castaic Facilities bonds.

Cash and cash equivalents with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the long-term water supply contracts and bond resolutions. Restricted funds consist of investments of the same type as those described below.

### **Investments**

Cash not required for current use, including restricted cash, is invested in SMIF, which is stated at fair value. SMIF is part of the State's PMIA, which as of June 30, 2015 and 2014 had a balance of \$71.6 billion and \$67.3 billion, respectively. The weighted average to maturity of PMIA investments was 239 days as of June 30, 2015 and 232 days as of June 30, 2014. The total amount of deposits in SMIF was \$34.4 billion as of June 30, 2015 and \$32.5 billion as of June 30, 2014. The Pooled Money Investment Board (PMIB) has oversight responsibility for SMIF. The Board consists of three members as designated by state statute which shall consist of the State Controller, State Treasurer and Director of Finance. The value of the pool shares in SMIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the System's portion of the pool. PMIA funds are on deposit with the State's Centralized Treasury System and are not SEC registered, but are managed in compliance with the California Government Code and State policy. The State's Investment Policy for the PMIA, which is managed by the State Treasurer's Office, sets forth the permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase and reverse repurchase

agreements. The PMIA policy limits the use of reverse repurchase agreements subject to limits of no more than 10% of PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA's investment portfolio did not have any deposits in structured notes as of June 30, 2015 and 2014. The investment portfolio also included asset-backed securities totaling \$1,448 million as of June 30, 2015 and \$1,206 million as of June 30, 2014.

The System is authorized by statute to invest in the same types of investment vehicles permitted by the State's Centralized Treasury System. U.S. Treasury and agency debt securities are carried at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, the National Association of Securities Dealers' National Market System, securities custodians and other authoritative sources. Investments made by the System during the year ended June 30, 2015 are of a similar nature as those held at June 30, 2014.

#### **Advances to Other State Funds**

Amounts advanced to other State funds include two items. The System's advance of \$92 million to DWR's internal service fund that functions as a revolving working capital account for the System. The other is a \$1.5 million advance balance to the Department of General Services to fund the Rio Vista Science Center. This project is a joint venture between DWR and the United States Fish and Wildlife Services.

#### **Receivables**

Receivables include amounts due from the Water Contractors, organizations that purchase power from the System and other receivables totaling \$79.9 million and \$35.1 million, net of the allowance for uncollectible amounts, at June 30, 2015 and 2014, respectively. Additionally, the Federal and State governments owed the System \$37.4 million and \$39.4 million at June 30, 2015 and 2014, respectively. These amounts represent reimbursement for certain costs related to flood control, jointly owned facilities, recreation and approved emission reduction projects. The allowance for uncollectible amounts totaled \$37 thousand and \$39 thousand at June 30, 2015 and 2014, respectively. Uncollectible amounts are generally recoverable from the Water Contractors.

#### **Amounts Recoverable through Future Billings**

The System records unbilled costs as assets recoverable through future billings under long-term water supply contracts. These costs include operations and maintenance costs and capital costs.

Unamortized project costs represent abandoned utility plant costs and certain research and development expenses that are recoverable through future billings to the Water Contractors under the terms of the long-term water supply contracts.

Unbilled interest incurred on unrecovered capital costs are classified as other long-term assets until billed under the terms of the long-term water supply contracts. Unbilled interest incurred represents the System's unrecovered interest since inception, recalculated annually at the System's cumulative weighted average cost of borrowing (Project Interest Rate). The System's Project Interest Rate was 4.610% for the years ended June 30, 2015 and 2014.

**Deferred Outflows and Inflows**

The System has the authority to establish the level of rates necessary to recover generally all System costs, including debt service. As a regulated entity, the System's financial statements are prepared in accordance with the standards established by the Governmental Accounting Standards Board (GASB). The System is considered to be a Regulated Operation pursuant to GASB Statement No. 62, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the change in net position, as incurred, are recognized when included in rates and recovered from or refunded to customers and the state and federal governments. The System records various regulatory assets and credits to reflect rate-making actions of management. With the implementation of GASB Statement No. 65, the System recorded costs related to the loss on refunding and in 2015 after implementation of GASB No. 68, certain employer pension contributions, as deferred outflows of resources. Also with the implementation of GASB No. 65, the system records revenues that are in excess of total project costs from inception of the SWP, as deferred inflows of resources. These costs include capital costs, operations and maintenance costs, power sales credit due to Water Contractors and unamortized deferred CalPERS market earnings.

**Deferred Outflows of Resources**

Deferral of loss on refunding represents the difference between the reacquisition price and the net carrying amount of the refunded debt. The unamortized balance of deferred loss on refunding was \$174.9 million as of June 30, 2015 and \$116.7 million as of June 30, 2014. This increase is due to additional escrow interest required for the bonds refunded by Series AS of \$107.7 million, offset in part by the unamortized premium from the same refunded bonds of \$39.5 million and scheduled annual amortization of \$10 million on loss of refunding.

The System implemented GASB Statement No. 68 during fiscal 2015. Amounts reported as deferral of employer pension contributions represents the pension contributions made by the System after the June 30, 2014 measurement date by CalPERS. The System paid \$44.4 million in employer pension contributions during fiscal 2015.

**Deferred Inflows of Resources**

Deferred operations and maintenance expenses represent operations and maintenance revenues collected in excess of operations and maintenance expenses incurred resulting from specific terms of long-term water supply contracts and timing differences. The System had an ending balance of \$2 million and \$161.1 million in deferred inflows of operations and maintenance expenses as of June 30, 2015 and 2014, respectively.

Since the capital component of revenue allows for the recovery of capital costs plus interest related to the construction of the System's facilities, these revenues are presented as deferred inflows of resources. As these facilities are depreciated over time, the deferred capital costs are recovered. Deferred inflows of resources for capital costs increased by \$114.5 million to an ending balance of \$623.9 million in fiscal 2015 compared to \$509.4 million in fiscal 2014. The increase is primarily due to net revenues collected for principal payments of previous costs incurred to construct Utility Plant in Service (UPIS) assets.

The power sales credit due to Water Contractors arises from revenue collected for the power generated by the HTPP. The power sales credit is amortized over time by a credit issued to the Water Contractors through the DWC Charge. The power sales credit

decreased by \$2.7 million to an ending balance of \$149.7 million in fiscal 2015 compared to \$152.4 million in fiscal 2014.

Under GASB Statement No. 68, the System is required to report its share of the deferred unamortized net gains reported by the CalPERS.

#### **Unearned Revenue – State and Federal Capital Recovery**

Unearned Revenue represents payments by the State and Federal governments for their share of the System's recreation and flood control capital costs in excess of the related depreciation expense recognized in the statements of revenues, expenses, and changes in net position.

#### **Advances for Plant Replacements**

Advances for plant replacements represent billings under the terms of long-term water supply contracts for future replacement of certain System assets. Receipts from such billings are restricted. Costs of plant replacements are charged to this reserve, as incurred.

#### **Bond Issuance Discounts and Premiums**

Bond issuance discounts and premiums are reflected as a reduction/increase to the carrying value of the bonds outstanding and are amortized over the lives of the related debt instruments.

#### **Net Position**

The System classifies its net position into two components: net investment in capital assets and restricted net position. Net investment in capital assets includes; utility plant in service, net of accumulated depreciation, construction work in progress, unamortized project costs, cash reserved for debt service, less debt related to capital assets, unearned revenue and other assets and liabilities related to the recovery of utility plant. The remaining net position of the System are classified as restricted due to the requirements of legislation that created the System and authorized the construction of the SWP, to use the System's net position solely in support of the SWP, the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.

#### **Revenues**

The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the long-term water supply contracts, the System granted the Water Contractors rate management reductions of approximately \$40.5 million and \$50.6 million during the years ended June 30, 2015 and 2014, respectively. Rate management reductions are reductions in capital related billings to the Water Contractors.

Revenues under long-term water supply contracts are recognized when billings are due and payable. The billings cover debt service requirements, an additional 25% of revenue bond debt service to satisfy certain bond covenants, current operations and maintenance costs and past unrecovered costs. The long-term water supply contracts provide that the 25% portion of the billings collected for the purpose of satisfying certain bond covenants be refunded in the subsequent year. These billings, which totaled \$54.3 million and \$51.8 million for the years ended June 30, 2015 and 2014, respectively, are recorded as Proceeds Due to Water Contractors in the financial statements. The System refunded \$53.3 million and \$64.2 million for the years ended June 30, 2015 and 2014, respectively, to the Water Contractors for the 25% bond cover requirement.

Revenues from the sale of surplus power are recognized as the power is delivered.

The Federal government reimburses the System for certain operating and capital costs incurred by the System for flood control purposes. In addition, the Federal government reimburses the System for the Federal government's 44.09% share of the operating costs of the San Luis joint use facilities and other water facilities. The State of California also reimburses the System for certain operating and capital recreation costs incurred by the System for facilities located within the SWP. Revenue from the State and Federal government in excess of their share of the related depreciation expense is deferred until the related depreciation expense is recognized.

### **Segments**

The System has two segments, which are defined under governmental accounting standards, as an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding:

1) Activities Allowed Under the Burns-Porter Act – This segment accounts for the costs to build, operate and maintain the facilities financed by GO bonds as authorized by the Burns-Porter Act. Transportation and conservation revenues from the Water Contractors are recorded in this segment as well as power sales and reimbursements from Federal and State governments and interest on investments. Expenses are limited to operations and maintenance of the SWP constructed with GO bond proceeds, power purchases, replacements and debt service on the GO bonds.

2) Activities Allowed Under the Central Valley Project Act – This segment accounts for the costs to build, operate and maintain the facilities financed by the Central Valley Project Water System revenue bonds. Capital and operating revenues from the Water Contractors for projects financed by revenue bond proceeds are recorded in this segment as well as commercial paper sales, reimbursements from Federal and State governments for the San Luis Dam and Reservoir, Suisun Marsh, recreation costs and interest on investments. Expenses are limited to the construction and operation of SWP facilities constructed with revenue bond proceeds and power facilities and debt service payments on the revenue bonds.

### **Reclassifications**

Certain amounts presented in the prior year may have been reclassified in order to conform to the current year's presentation.

### 3. Interests in Jointly Owned Facilities

At June 30, 2015 and 2014, the System owned the following undivided interests in jointly-owned facilities:

Interests in Joint-Use Facilities				System's Portion Based on % Owned			
	Joint Party	% Owned by System		UPIS/CWIP		Accum Depreciation	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
		San Luis Joint-Use Facilities	USBR	55%	55%	\$288,803	\$281,740
SWP Hydropower Facilities License <sup>1</sup>	LADWP	50%	50%	\$ 215	\$ -	\$ -	\$ -

1 - In progress - contained in CWIP

The amounts above include the System's share of direct costs related to constructing the facilities. Each participant provides its own financing for the jointly-owned facility.

DWR is the operator of the San Luis Joint-Use Facilities. All of the operating expenses related to these facilities are included as operating expenses in the statement of revenues, expenses, and changes in net position. The Federal government is billed for its share of the operating expenses and these billings are included as operating revenues in the statement of revenues, expenses, and changes in net position.

In fiscal 2014, DWR disposed of Reid Gardner Power Plant Unit No. 4 from its jointly-owned capital asset facilities as the ownership agreement between DWR and Nevada Energy (NVE), the operator of the Reid Gardner Power Plant Unit No. 4, was terminated on July 25, 2013.



#### 4. Utility Plant

The summarized activity of the System's utility plant during 2015 is presented below:

Utility Plant June 30, 2015				
	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance
<b>Nondepreciable Utility Plant:</b>				
Land	\$ 137,033	\$ 2,814	\$ -	\$ 139,847
Construction work in progress (CWIP)	438,244	222,089	(33,733)	626,600
Land use rights	11,583	47	-	11,630
Other intangible assets	103,740	3,815	(4,110)	103,445
Total nondepreciable utility plant	<u>690,600</u>	<u>228,765</u>	<u>(37,843)</u>	<u>881,522</u>
<b>Depreciable Utility Plant:</b>				
Aqueducts	2,167,237	22,266	-	2,189,503
Dams & reservoirs	781,408	-	-	781,408
Power plants	466,358	-	-	466,358
Pumping plants	836,814	-	-	836,814
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	246,397	10,515	-	256,912
Equipment and other depreciable assets	75,705	3,138	(1,459)	77,384
Computer software	24,529	12	(10)	24,531
Land use rights	272	-	-	272
Other intangible assets	11,995	10	-	12,005
General	61,310	952	-	62,262
	<u>4,773,756</u>	<u>36,893</u>	<u>(1,469)</u>	<u>4,809,180</u>
Less: accumulated depreciation	(1,974,282)	(77,739)	1,291	(2,050,730)
Less: accumulated amortization	(20,413)	(3,756)	-	(24,169)
	<u>(1,994,695)</u>	<u>(81,495)</u>	<u>1,291</u>	<u>(2,074,899)</u>
Total depreciable plant	<u>2,779,061</u>	<u>(44,602)</u>	<u>(178)</u>	<u>2,734,281</u>
Total Utility Plant - net	<u>\$ 3,469,661</u>	<u>\$ 184,163</u>	<u>\$ (38,021)</u>	<u>\$ 3,615,803</u>

The summarized activity of the System's utility plant during 2014 is presented below:

**Utility Plant June 30, 2014**

	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance
<b>Nondepreciable Utility Plant:</b>				
Land	\$ 136,797	\$ 381	\$ (145)	\$ 137,033
Construction work in progress (CWIP)	528,836	214,502	(305,094)	438,244
Land use rights	11,549	34	-	11,583
Other intangible assets	100,064	3,676	-	103,740
Total nondepreciable utility plant	<u>777,246</u>	<u>218,593</u>	<u>(305,239)</u>	<u>690,600</u>
<b>Depreciable Utility Plant:</b>				
Aqueducts	2,071,255	95,982	-	2,167,237
Dams & reservoirs	781,408	-	-	781,408
Power plants	911,703	7,055	(452,400)	466,358
Pumping plants	836,655	159	-	836,814
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	66,230	180,167	-	246,397
Equipment and other depreciable assets	71,819	3,911	(25)	75,705
Computer software	24,501	28	-	24,529
Land use rights	272	-	-	272
Other intangible assets	11,995	-	-	11,995
General	39,579	21,731	-	61,310
	<u>4,917,148</u>	<u>309,033</u>	<u>(452,425)</u>	<u>4,773,756</u>
Less: accumulated depreciation	(2,349,768)	(65,144)	440,630	(1,974,282)
Less: accumulated amortization	(16,661)	(3,752)	-	(20,413)
	<u>(2,366,429)</u>	<u>(68,896)</u>	<u>440,630</u>	<u>(1,994,695)</u>
Total depreciable plant	<u>2,550,719</u>	<u>240,137</u>	<u>(11,795)</u>	<u>2,779,061</u>
Total Utility Plant - net	<u>\$ 3,327,965</u>	<u>\$ 458,730</u>	<u>\$ (317,034)</u>	<u>\$ 3,469,661</u>

## 5. Investments

The following is a summary of the System's investments and credit ratings as of June 30, 2015:

Investments 2015						
	Credit Rating (S&P)	Maturities			1-5 Years	Fair Value
		Under 30 Days	31-180 Days	181-365 Days		
Investments:						
Money Market Mutual Funds	Not Rated	\$ 3	\$ -	\$ -	\$ -	\$ 3
PMIA	Not Rated	-	-	591,586	-	591,586
US Federal Agency Notes						
Federal National Mortgage Association	AA+	-	-	10,211	10,472	20,683
Federal Home Loan Bank	AA+	-	51,814	-	-	51,814
						<u>664,086</u>
Investment with Fiscal Agent						
Money Market Mutual Funds	AAA	9,435				9,435
Total Investments						<u>\$ 673,521</u>

The following is a summary of the System's investments and credit ratings as of June 30, 2014:

Investments 2014						
	Credit Rating (S&P)	Maturities			1-5 Years	Fair Value
		Under 30 Days	31-180 Days	181-365 Days		
Investments:						
Money Market Mutual Funds	Not Rated	\$ 3	\$ -	\$ -	\$ -	\$ 3
PMIA	Not Rated	-	-	552,077	-	552,077
US Federal Agency Notes						
Federal National Mortgage Association	AA+	-	-	-	20,584	20,584
Federal Home Loan Bank	AA+	-	51,804	-	-	51,804
						<u>624,468</u>
Investment with Fiscal Agent						
Money Market Mutual Funds	AAA	9,206				9,206
Total Investments						<u>\$ 633,674</u>

**Interest Rate Risk:** In accordance with its investment policy, the State of California manages its exposure to declines in fair value by spreading investments over the various maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; collateralized time deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

**Custodial Credit Risk:** For deposits, custodial credit risk is that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Credit Risk:** PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy discussed in Note 2. The PMIA is not rated.

**Concentration of Credit Risk:** The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. As of June 30, 2015 and 2014, nearly 11% of the System's investments were in U.S. Agency Securities. There is no limitation on amounts invested in these types of issues. Investments in any one issuer (other than U.S. Treasury Notes, mutual funds and external investment pools) that represented 5% or more of the total investments of the System as of June 30, 2015 and 2014, were as follows:

#### Other Investments

	2015	2014
Federal Home Loan Bank	\$ 51,814	\$ 51,804

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.269% and 0.249% for the years ended June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, interest earned on the deposits with PMIA approximated \$1.6 million in both years, and is included in the other revenues (expenses) line item on the statement of revenues, expenses and changes in net position.

Total interest and investment income is comprised of interest, dividends, realized gains and losses, and unrealized gains and losses due to changes in the fair value of investments held at year-end. The change in fair value of the System's investments (U.S. Federal Agency Securities) is calculated as follows:

### Change in Fair Value

	2015	2014
Fair Value of investments at the beginning of the fiscal year	\$ 72,388	\$ 74,001
Less: Proceeds of investments matured in fiscal year	(100,865)	(252,174)
Add: Purchase of investments in fiscal year	100,866	252,173
Add: Amortization of discounts	1,440	(1,315)
Change in fair value of investments during fiscal year	<u>(1,333)</u>	<u>(297)</u>
Fair value of investments at the end of the fiscal year	<u>\$ 72,496</u>	<u>\$ 72,388</u>

## 6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2015 and 2014:

	Revenue Bonds				Total Revenue Bonds	General Obligation Bonds			Total Long Term Debt
	Par Amount	Discount	Unamortized Premium	Unamortized Revenue Bonds		Par Amount	Commercial Paper	PMIA Loan	
Balance at June 30, 2013	\$ 2,408,975	\$ (11)	\$ 185,495	\$ 2,594,459	\$ 302,920	\$ 50,505	\$ 14,896	\$ 2,962,780	
Additions	161,445	-	18,714	180,159	-	108,765	-	288,924	
Amortization	-	1	(12,030)	(12,029)	-	-	-	(12,029)	
Payments	<u>(114,775)</u>	-	-	<u>(114,775)</u>	<u>(61,085)</u>	<u>(123,134)</u>	<u>(3,317)</u>	<u>(302,311)</u>	
Balance at June 30, 2014	2,455,645	(10)	192,179	2,647,814	241,835	36,136	11,579	2,937,364	
Additions	795,040	-	141,613	936,653	-	191,229	-	1,127,882	
Retirements	(689,780)	-	(39,485)	(729,265)	-	-	-	(729,265)	
Amortization	-	1	(15,615)	(15,614)	-	-	-	(15,614)	
Payments	<u>(115,580)</u>	-	-	<u>(115,580)</u>	<u>(56,875)</u>	<u>(139,465)</u>	<u>(3,485)</u>	<u>(315,405)</u>	
Balance at June 30, 2015	2,445,325	(9)	278,692	2,724,008	184,960	87,900	8,094	3,004,962	
Less current portion	<u>(135,900)</u>	-	-	<u>(135,900)</u>	<u>(49,915)</u>	-	<u>(3,663)</u>	<u>(189,478)</u>	
Total Long-term Debt	<u>\$ 2,309,425</u>	<u>\$ (9)</u>	<u>\$ 278,692</u>	<u>\$ 2,588,108</u>	<u>\$ 135,045</u>	<u>\$ 87,900</u>	<u>\$ 4,431</u>	<u>\$ 2,815,484</u>	

### General Obligation Bonds

The Burns-Porter Act authorized the issuance of State Water Resources Development System (SWRDS) GO Bonds in the amount of \$1,750 million for construction of the System. This amount included \$130 million to be set aside for financial assistance to local water agencies as provided in the Davis-Grunsky Act. The Burns-Porter Act also made a continuing appropriation of the California Water Fund, a fund unrelated to the System, to supplement the bond authorization. To the extent California Water Fund money was used for construction of the State water facilities in lieu of bond proceeds, an equal amount of bond authorization was set aside to be used only for the construction of additional facilities of the System that met certain requirements set forth in the Burns-Porter Act.

Under the Burns-Porter Act, revenues of the System, other than revenues attributable to facilities financed with Central Valley Project Water System (CVP) Revenue Bonds, are deposited in the California Water Resources Development Bond Fund and are to be used annually only for the following purposes and in the following order of priority:

- 1) To pay the maintenance, operation and replacement costs of the System,
- 2) To pay, or reimburse the General Fund of the State for, the principal of and interest on the SWRDS GO Bonds issued for the System as it becomes due,
- 3) To reimburse the California Water Fund for funds utilized from said fund for construction of the System (complete reimbursement has been made), and
- 4) To pay additional costs of the acquisition and construction of the System.

All such revenues are pledged for these uses and purposes for the benefit of the owners of the SWRDS GO Bonds.

As of June 30, 2015, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service is \$206.6 million with payments through 2025. Principal and interest paid for the current year was \$66.9 million and Burns-Porter Act water supply operating revenues were \$657.6 million. As of June 30, 2014, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service was \$273.6 million. Principal and interest paid for 2014 was \$73.6 million and Burns-Porter Act SWRDS water supply operating revenues were \$507.9 million.

SWRDS GO Bonds of \$168 million are authorized but un-issued as of June 30, 2015 and 2014, and may only be used for additional facilities, meeting certain requirements of the Burns-Porter Act.

SWRDS GO Bonds Series C through Series S may be called at any time for early redemption. SWRDS GO Bonds Series X and Y do not have early redemption provisions.

SWRDS GO Bonds consist of the following at June 30, 2015:

General Obligation Bonds				Amounts Outstanding	
Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	2015	2014
1965	C	3.0%	2015	\$ -	\$ 4,000
1965	D	3.0%	2015	-	4,500
1966	E	3.0%	2016	4,500	8,900
1967	F	3.5%	2017	8,900	13,200
1967	G	3.5%	2017	8,900	13,200
1967	H	3.0%	2017	8,900	13,200
1968	J	3.5-4.1%	2018	13,200	17,300
1968	K	4.0%	2018	13,200	17,300
1969	L	4.5-4.8%	2019	17,300	21,300
1969	M	4.0-4.9%	2019	17,300	21,300
1970	N	5.0-5.5%	2020	21,300	25,200
1970	P	5.0-5.8%	2020	21,300	25,200
1971	Q	4.8-5.0%	2021	25,200	28,900
1971	R	4.8-5.0%	2021	12,600	14,450
1972	S	5.3-5.5%	2022	11,560	13,000
1994	X	4.8%	2024	450	500
1995	Y	7.0-7.1%	2025	350	385
Total General Obligation bond debt outstanding at par				184,960	241,835
Less current maturities				(49,915)	(56,875)
Total Long-term General Obligation bond debt outstanding				\$ 135,045	\$ 184,960

### Revenue Bonds

The Central Valley Project (CVP) Water System Revenue Bonds have been issued for the acquisition or construction of projects to provide water and power for the SWP. Under the statute pursuant to which CVP Revenue Bonds are issued, principal and interest on the bonds are secured by and payable solely from revenues attributable to the facilities financed by the bonds. These are primarily payments under the long-term water supply contracts between the System and Water Contractors.

As of June 30, 2015, the amount of the revenues pledged to repay the CVP Revenue Bonds debt service is \$3,429 million with payments through Fiscal 2036. Principal and interest paid for the current year was \$208 million and CVP water supply operating revenues were \$225.9 million. As of June 30, 2014, the amount of the revenues pledged to repay the CVP Revenue Bonds debt service were \$3,489 million with payments through 2036. Principal

and interest paid for the year was \$222 million and CVP water supply operating revenues were \$281.5 million.

On November 6, 2014 the System issued \$149.2 million of CVP Revenue bonds (Series AT) to redeem \$139.5 million of Commercial Paper Notes Series 1. Series AT was issued as index floating rate notes using the weekly SIFMA Index, plus a 0.30% spread to calculate monthly debt service payments, with a rate not to exceed 8.0% per annum. The Series AT bonds have a mandatory tender date of December 1, 2017 and can be called on or after June 1, 2017, at a purchase price of 100% of the principal amount. The Series AT bonds are not subject to optional tender by the holders of the bonds. The interest rates for the Series AT bonds ranged from 0.33% to 0.35% and averaged 0.34% in fiscal year 2015.

The System is subject to certain bond covenants, the most restrictive of which requires that the revenues in each year shall be at least equal to 1.25 times the debt service payable from revenues on all bonds outstanding in such year, plus operating costs, and the required funding of the debt service reserve account. The bonds are limited special obligations of the System; neither the principal nor any interest thereon constitutes a debt of the State. Certain bonds are redeemable prior to maturity at a redemption price of 100%.



CVP Revenue Bonds consist of the following at June 30, 2015:

CVP Revenue Bonds					Amounts Outstanding	
Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	2015	2014
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	\$ 57,430	\$ 62,905
CVP Water System:						
1999	V	6.3%	2025	None	20,235	20,235
2001	W	5.5%	2015	2012	-	24,360
2002	X	5.5%	2018	2013	51,465	54,545
2005	AC	3.5-5.0%	2015	2015	-	25,935
2006	AD	3.4-3.5%	2015	2015	-	485
2008	AE	3.3-5.0%	2030	2018	96,080	538,365
2009	AF	3.0-5.0%	2030	2019	103,445	180,795
2010	AG	3.0-5.0%	2033	2020	27,330	168,150
2011	AH	3.3-5.3%	2036	2021	63,985	94,295
2012	AI	5.0%	2030	2022	92,275	92,275
2012	AJ	3.0-5.0%	2036	2022	185,985	209,535
2012	AK	3.0-5.0%	2036	2022	29,695	35,125
2013	AL	5.0%	2030	2023	78,855	83,975
2013	AM	5.0%	2026	2023	157,570	171,640
2013	AN	3.0-5.0%	2036	2023	42,855	48,530
2013	AO	0.7-3.5	2030	None	317,505	317,505
2013	AP	1.0-5.0%	2036	2023	43,925	45,340
2013	AQ	4.0-5.0%	2036	2023	120,205	120,205
2014	AR	4.0-5.0%	2036	2024	161,445	161,445
2015	AS	2.0-5.0%	2033	2025	645,795	-
2015	AT	Variable	2036	2017	149,245	-
Total CVP Water System Revenue Bonds					<u>2,387,895</u>	<u>2,392,740</u>
<b>Total revenue bond debt outstanding at par</b>					<b>2,445,325</b>	<b>2,455,645</b>
Unamortized bond issuance premiums					278,692	192,179
Unamortized bond issuance discounts					(9)	(10)
Current fiscal maturities					(135,900)	(115,580)
<b>Total long-term bond debt outstanding</b>					<b>\$ 2,588,108</b>	<b>\$ 2,532,234</b>

### Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2015:

Future Debt Service Requirements							
Year	Revenue Bonds			General Obligation Bonds			All Bonds
	Principal	Interest*	Total	Principal	Interest	Total	Total
2016	\$ 135,900	\$ 104,603	\$ 240,503	\$ 49,915	\$ 7,742	\$ 57,657	\$ 298,160
2017	140,430	98,983	239,413	46,745	5,661	52,406	291,819
2018	144,980	92,820	237,800	34,235	3,792	38,027	275,827
2019	129,555	87,184	216,739	25,975	2,414	28,389	245,128
2020	139,010	81,621	220,631	17,405	1,386	18,791	239,422
2021-2025	699,510	313,988	1,013,498	10,685	652	11,337	1,024,835
2026-2030	646,940	156,909	803,849	-	-	-	803,849
2031-2035	335,410	47,089	382,499	-	-	-	382,499
2036	73,590	1,415	75,005	-	-	-	75,005
	<u>\$ 2,445,325</u>	<u>\$ 984,612</u>	<u>\$ 3,429,937</u>	<u>\$ 184,960</u>	<u>\$ 21,647</u>	<u>\$ 206,607</u>	<u>\$ 3,636,544</u>

\* Includes variable rate bonds for Series AT which bears interest at a weekly rate. An assumed rate of 3.0% was used to project the variable portion of the interest payment in this table. The interest rate still in effect was determined at issuance date using the Securities Industry and Financial Markets Association (SIFMA) Swap 10 year average Index, plus an applicable basis point spread.

### Pooled Money Investment Loan (PMIA)

On March 26, 2008, the System received a loan of \$29.6 million from the Pooled Money Investment Account (PMIA) pursuant to California Government Code section 16313. The proceeds of the loan were used to establish escrow accounts that facilitated defeasance of certain Water System Revenue Bonds that financed recreation, and fish and wildlife enhancement related costs of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under California Water Code section 12937(b) (4). The loan agreement requires minimum quarterly payments of \$1 million on the first day of every March, June, September and December, beginning on September 1, 2008. The loan can be repaid at any time without charges and with a written notice of no less than fifteen days. Principal and interest paid during 2015 and 2014 was \$4 million each year. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed.

The Variable Rate means:

- c) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and
- d) for each Renewal Period thereafter, the greater of
  - (i) five percent per annum, or
  - (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences.

It is the System's intent to repay the balance of the PMIA loan along with interest in fiscal 2016. Under the minimum required schedule, the last payment is due on September 1, 2017. The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2015:

Future Payment Requirements			
Year	Principal	Interest	Total
2016	\$ 3,663	\$ 337	\$ 4,000
2017	3,850	150	4,000
2018	581	7	588
	<u>\$ 8,094</u>	<u>\$ 494</u>	<u>\$ 8,588</u>

### Commercial Paper Notes

The System has a commercial paper borrowing program of up to \$139.7 million. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. Under the credit agreement dated October 1, 2011 and the first amendment dated May 28, 2014, the bank has agreed to make advances to the System, if necessary, to provide monies for the payment of the Commercial Paper Notes Series 1. The bank is obligated to provide \$150 million, with the principal amount of Commercial Paper Notes Series 1 limited to \$139.7 million and \$10.3 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of \$139.7 million. The Line of Credit was extended on May 11, 2014 and is scheduled to expire on October 24, 2017, but can be extended for up to three years upon the System's written request and approval from the bank. The credit agreement requires quarterly payments the first day of July and October and on the last day of December and March. As of June 30, 2015, there were no borrowings with the bank under the revolving credit agreement; however, at June 30, 2015 and 2014, the amounts of Commercial Paper Notes Series 1 outstanding under this program were \$87.9 million and \$36.1 million, respectively. The weighted average for interest expense approximated 0.07% and 0.10% for the years ended June 30, 2015 and 2014, respectively. The proceeds from the issuance of Commercial Paper Notes Series 1 are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the Commercial Paper Notes Series 1. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of CVP Revenue Bonds. The System's obligation to make debt service payments on the Commercial Paper Notes Series 1 is subordinate to its payment obligations under the resolutions for the CVP Revenue Bonds and SWRDS GO Bonds.

The long-term water supply contracts, in their original form, provide for two charges to the Water Contractors: (a) a Delta Water Charge and (b) a Transportation Charge. These charges are computed so as to return to the State the costs of the facilities necessary to deliver water to the Water Contractors, including capital costs (with interest) and operation and maintenance costs, and expressly including in the case of the facilities to be financed with commercial paper and the related Water System Revenue Bonds, debt service and 1.25 debt service coverage requirements to be satisfied from revenues. DWR expects to

redeem its commercial paper liability with proceeds of the additional commercial paper draws until DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with Commercial Paper Notes Series 1.

## 7. Bond Refundings and Defeasances

During the current fiscal year, the System issued CVP Water System Revenue Bond Series AS to refund previous issues. The net proceeds from these sales were used to purchase State and Local Government Series Securities (SLGS) and U.S. Treasury securities. These securities were deposited in irrevocable escrow trust accounts with the State Treasurer, acting as escrow agent, to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered to be defeased and the related liabilities have been excluded from the System's basic financial statements. At June 30, 2015 and 2014, outstanding CVP Water System Revenue Bonds of \$690.8 and \$315.1 million, respectively, were considered to be defeased.

On October 30, 2014, the System issued tax-exempt CVP Water System Revenue Bonds (Series AS) with an average yield of 2.73% to advance refund various previous issues. The bond proceeds with par of \$645.8 million and premium of \$141.6 million, along with System funds on-hand in the amount of \$12.5 million were used to advance refund \$689.8 million of bonds, fund \$107.7 million of future interest on the defeased bonds, and cover costs of issuance of \$2.4 million. The par amounts of the refunded bonds are as follows:

Bonds Refunded by Series AS	
Bond Series	Amount Refunded
Series AE	\$ 419,925
Series AF	74,880
Series AG	140,480
Series AH	28,115
Series AJ	17,150
Series AK	4,570
Series AN	4,660
Total Refunded	<u>\$ 689,780</u>

The Series AS refunding and related defeasances was accomplished to take advantage of lower interest rates. This transaction resulted in cash flow savings of \$70.1 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of \$56 million. The refunding resulted in a difference between the book value of the old debt and the amount required to retire the debt of \$68.2 million. This difference is considered to be a deferred loss on the refunding and is being amortized over the original remaining life of the old debt or the life of the new debt, whichever is less, using the straight line method.

Amortization of all deferred refunding costs was approximately \$10 million in fiscal year 2015 and \$7.9 million in fiscal year 2014. The System did not have any refunding transactions during fiscal year 2014.

## 8. Retirement Plan

### Plan Description

The State is a member of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer pension system, which provides a contributory defined-benefit pension for substantially all State employees. The System is included in the State Miscellaneous Category (Tier 1 and Tier 2) within CalPERS. CalPERS functions as an investment and administrative agent for participating public agencies within the State of California. Departments and agencies within the State of California, including the System, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies.

CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. Also issued by CalPERS is the GASB 68 Accounting Valuation Report. Copies of these reports may be obtained by logging onto the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require ten years of credited service. Most employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit. New members with service credit beginning on or after January 1, 2013 must be at least age 52. Benefits are payable monthly for the remainder of their lives. Several survivor benefit options that reduce a retiree's unmodified benefit are available. Benefit provisions and all other requirements are established by State statute.

### Funding Policy

Active members who participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 8% to 10% of their annual covered salary after excluding the first \$513 of gross monthly pay. Active members who do not participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 9% to 11% of their annual covered salary, after excluding the first \$317 of gross monthly pay. Active members who participate in Social Security under the State Miscellaneous Tier 2 category are required to contribute 3% to CalPERS.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. DWR is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2015 was 24.28% and 24.24% for State Miscellaneous Tier 1 and Tier 2 respectively. The required employer contribution rate for the fiscal year ended June 30, 2014 was 21.20% and 21.36% for State Miscellaneous Tier 1 and Tier 2 respectively.

### Annual Pension Cost

Annual covered salary, which is generally comprised of only wages and overtime pay and excludes other types of compensation, is not available for the System. However the System's allocated share of the DWR's annual covered salary for the years ended June 30, 2015 and 2014, was approximated at \$189.3 million and \$185.8 million, respectively.

Required contribution amounts based on current required employer rates, paid by DWR, are allocated to the System using percentage of total payroll and budget allocations. For the years ended June 30, 2015 and 2014, the System's allocated portion of DWR's annual contributions made amounted to approximately \$44 million and \$35 million, respectively. These amounts account for approximately 1.8% and 1.6% of the State employer contributions anticipated to be generated.

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

### Actuarial Methods and Assumptions

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68	
Actuarial Assumptions		
	Discount Rate	7.50%
	Inflation	2.75%
	Salary Increases	Varies by Entry Age and Service
	Investment Rate of Return: <sup>1</sup>	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
	Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
	Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

<sup>1</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality Improvements using Society of Actuaries Scale BB. More details on this table, can be found in the CalPERS' 2014 experience study report available at the CalPERS' website under Forms and Publications.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. This Experience Study report can also be obtained at CalPERS' website under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

The table below reflects long-term expected real rate of return by asset class.

#### Long-term Expected Rate of Return

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

The discount rate used to measure the total pension liability was 7.5% for the System's allocated share of the Plan. In preparation of the GASB 68 Accounting Valuation Report, CalPERS stress tested plans and determined that the 7.5% is adequate. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

The following presents the net pension liability of the System's proportionate share of the Plan as of the measurement date, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

#### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

	Discount Rate - 1% 6.5%	Current Discount Rate 7.5%	Discount Rate + 1% 8.5%
Net Pension Liability	\$ 621,476	\$ 426,935	\$ 264,072

Trend information for the last three years regarding the System's required contributions and the percentage contributed, is as follows:

Three-year Trend Information		
Year Ended June 30,	Required Contribution	Percentage of Required Contribution Contributed
2013	\$ 28,178	100%
2014	34,704	100%
2015	44,393	100%

Pension expenses in fiscal 2015 of \$30.8 million are reported in operations and maintenance expenses as the System implements GASB Statement No. 68. GASB Statement No. 68 requires governments that participate in defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits.

#### 9. Postemployment Benefits Other Than Pensions

The State provides health care and dental benefits to annuitants of the retirement systems to which the State contributes as an employer. To be eligible for these benefits, employees must retire after attaining certain age and length of service requirements. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. In accordance with the California Government Code, the State generally pays all or a portion of the health and dental insurance costs for annuitants, depending upon the completed years of credited state service at retirement and the coverage selected by the annuitant. The System participates in the State's plan on a cost sharing basis. The System recognizes the costs of providing health and dental insurance to annuitants based on the required contribution, which is actuarially determined, and is funded on a pay-as-you-go basis. The State's plan, which the System participates in, does not issue separate stand-alone financial statements.

The System's required contributions and resulting net OPEB obligation is as follows:

Net OPEB Obligations		
	2015	2014
Annual required contribution (ARC)	\$ 42,008	\$ 55,239
Interest on net OPEB obligation	6,824	7,993
Adjustment to the ARC	(6,340)	(7,012)
Annual OPEB cost	42,492	56,220
Contributions made	(16,042)	(19,921)
Increase in net OPEB obligation	26,450	36,299
Net OPEB obligation - beginning of year	176,769	140,470
Net OPEB obligation - end of year	<u>\$ 203,219</u>	<u>\$ 176,769</u>



The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the years ended June 30, 2015, 2014 and 2013, were as follows:

<b>Annual Required Contribution</b>			
<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>Percentage of ARC Contributed</b>	<b>Net OPEB Obligation</b>
6/30/13	\$ 34,166	35%	\$ 140,470
6/30/14	55,239	35%	176,769
6/30/15	42,008	38%	203,219

The annual OPEB cost (AOC) recorded by the System is calculated by the State and represents an allocation of the total ARC of the State, adjusted for interest and other adjustments. The allocation of retiree health benefit costs is based on the number of active employees funded by the System in relation to DWR's total retiree health benefits costs.

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller Betty T. Yee, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller's website at [www.SCO.ca.gov](http://www.SCO.ca.gov). The System's ARC, AOC and Net OPEB obligation will be calculated and adjusted for on an annual basis.

## 10. Commitments and Contingencies

### Commitments

#### *Construction*

Since the System is accounted for as an enterprise fund, contract commitments or encumbrances are recognized as payable when expenses are incurred not when they are encumbered. The System has entered into long-term construction contract commitments for the State Water Project facilities. The remaining value of contracts in process as of June 30, 2015 and 2014, approximated \$61.7 million and \$67.1 million, respectively.

#### *Power Transmission and Purchase*

The System enters into contracts to purchase power as well as transmission service contracts to transmit power. Additionally, the System is expanding the power purchase portfolio to include solar energy and potentially other renewable energies.

The System has long-term transmission service contracts with anticipated future payments of approximately \$66.8 million over periods ranging from one to 27 years. Payments made under these contracts approximated \$6.2 million and \$7.7 million for the years ended June 30, 2015 and 2014, respectively.

The System has long-term power purchase contracts with anticipated future payments of approximately \$722.4 million over periods ranging from one to 27 years. The remaining amounts of fixed obligations under the long-term power purchase contracts as of June 30, 2015, are as follows:

Fixed Obligations	
Year	Total
2016	\$ 43,645
2017	37,599
2018	37,599
2019	37,599
2020	32,153
2021-2042	600,610
	<u>\$ 789,205</u>

The System has a contract with the District that provides that the System receive all power generated by the Pine Flat Power Plant Project (Project). Under the contract, the System is obligated to pay fixed amounts each year to cover the debt service on bonds issued by the District to build the Project, operations and maintenance expenses, and a charge for power supplied. Such payments are to be made until all of the bonds issued by the District to finance the Project have been retired in 2019. Payments to the District totaled approximately \$8.8 million and \$10 million during the years ended June 30, 2015 and 2014, respectively.

The amounts of fixed obligations of the System related to future principal and interest payments of the District's bonds as of June 30, 2015 are as follows:

Fixed Obligations	
Year	Total
2016	\$ 4,270
2017	4,253
2018	4,239
2019	4,257
	<u>\$ 17,019</u>

DWR entered into a Power Agreement with the Northern California Power Agency (NCPA) and other project participants in fiscal 2014 to participate in the Lodi Energy Center Project (LEC Project). The terms of the agreement provide that DWR pay for 33.5 percent of the construction costs, 33.5 percent of operating costs and receives 33.5 percent of the power output of the LEC Project on a long-term basis. Participation in the LEC Project assists DWR in meeting State Water Project energy requirements, including the replacement of a portion of the energy previously provided by the Reid Gardner Project. NCPA issued revenue bonds for DWR's share of the costs to construct the power plant in Lodi, California in fiscal 2011. Construction of the LEC Project commenced in early August 2010 with

commercial operation occurring in fiscal 2013. The Lodi Energy Center is one of the most efficient thermal generating units in California and will be economically dispatched before other older gas-fired units resulting in power revenues that are sufficient to cover the operational costs and a portion of DWR's debt service on the bonds.

The amounts of fixed obligations of the System related to future principal and interest payments of the LEC Project's bonds as of June 30, 2015 are as follows:

<b>LEC Bonds Fixed Obligations</b>	
Year	Total
2016	\$ 9,209
2017	9,206
2018	9,208
2019	9,207
2020	9,209
2021-2025	46,046
2026-2030	46,036
2031-2035	46,041
	<u>\$ 184,162</u>

Market value information for certain power purchase and exchange contracts is disclosed at June 30, 2015, using forward market prices discounted at the prevailing risk-free interest rate. There are nine purchase contracts that will expire in fiscal 2016, seventeen purchase contracts will expire in fiscal 2017, twelve purchase contracts will expire in fiscal 2018, and four purchase contracts will expire in fiscal 2019. The long-term energy purchase contracts involving energy delivered from the Pine Flat Power Plants and Dominion Solar Holdings will expire in fiscal 2037 and 2035, respectively; Alameda Municipal Power and Morgan Stanley purchase contracts will expire in fiscal 2017 and 2016, respectively; and a contract with the Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, expires in fiscal 2020. An exchange agreement with the NCPA, operator of the Lodi Energy Center Project which commits DWR to purchase power on a long-term basis subject to the agreement, has no explicit termination date. Fair value of power purchase and sales commitments extending beyond June 30, 2015 are as follows:

#### Energy Commitment's Market Values

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2015
Energy purchases	42	1,100	(16,245)
Long-term energy purchases	6	572	(31,659)
<b>Total</b>			<u>\$ (47,904)</u>

## Contingencies

### Litigation and Claims

#### *Monterey Amendment*

In 1994, the System and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the long-term water supply contracts have since been negotiated (Monterey Amendment). The Monterey Amendment includes provisions related to the transfer of land and related assets, known as the Kern Water Bank, to the Kern County Water Agency (KCWA) (one of the Water Contractors), the operation of certain System reservoirs, transfers of water allocations between Water Contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenues. Certain parties have disputed the Monterey Amendment by challenging the validity of the related Environmental Impact Report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System was required to prepare a new EIR. DWR completed the new Final EIR in February 2010 and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit in Sacramento Superior Court challenging DWR's California Environmental Quality Act (CEQA) compliance and the validity of the Monterey Amendment, including DWR's transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court, primarily challenging DWR's CEQA compliance with respect to the Kern Fan Element transfer from DWR to KCWA. The two lawsuits filed in Kern County Superior Court have been transferred to the Sacramento Superior Court. In December 2012, DWR prevailed on its challenge to the plaintiffs' validation causes of action (including the validity of the Kern Fan Element transfer) on the grounds that they were not filed timely. This left only the plaintiffs' CEQA compliance challenge. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR was adequate under CEQA, but that the EIR's discussion of impacts on continued use and operation of the Kern Water Bank was insufficient. The court therefore issued a decision in favor of the plaintiffs in the two cases finding that the EIR failed to analyze impacts associated with the use and operation of the Kern Water Bank, particularly as to potential groundwater and water quality impacts. In October 2014, the Court ordered DWR, as the remedy for the deficiency, to provide additional environmental analysis on the future impacts of the continued use and operation of the Kern Water Bank and upon completion of the EIR process, to determine whether to continue the use and operation of the Kern Water Bank. In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. The plaintiffs are appealing the lower court's final CEQA and validation decisions. The System; however, does not believe that there will be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

*Other Claims by Water Contractors, Including Claims Concerning Charges for Recreation and Fish and Wildlife Enhancement*

In accordance with the long-term water supply contracts, in December 2005, 27 Water Contractors and entities representing Water Contractors filed "Notices of Contest" with the System challenging the accuracy of various charges in the System's billings. One Water Contractor also filed a claim based on its Notice of Contest with the Victim Compensation and Government Claims Board. The System has been reviewing these Notices of Contest and investigating the items raised.

One item that has been determined to have merit, contested the System's practice of charging the Water Contractors for certain financing costs of the recreation and fish and wildlife enhancement portion of facilities financed with Water System Revenue Bonds. The System rectified the situation by restating past bills to provide appropriate credits back to the Water Contractors for the contested charges and taking other actions to pay for the costs of the recreation and fish and wildlife enhancement portion of System facilities with sources other than direct charges to the Water Contractors. Such actions included obtaining a loan from the State Pooled Money Investment Account (PMIA) in the amount of \$29.6 million, which was used together with certain other available funds to retire or provide for the defeasance of approximately \$28.2 million principal amount of Revenue Bonds and Commercial Paper Notes Series 1, the proceeds of which had been used to pay costs allocated by the System for the development of recreation or fish and wildlife enhancement. The System has agreed to pay a minimum of \$4 million per year to repay the PMIA loan.

With the receipt of the PMIA loan and the waivers in the 2007 and 2008 Tolling and Waiver Agreement obtained from the 27 Water Contractors, who signed the Monterey Amendment, the System sold Revenue Bonds in May 2008. The sale of System Revenue Bonds had been suspended pending the resolution of the recreation and fish and wildlife enhancement issue.

In addition to waivers included in the 2007 and 2008 Tolling and Waiver Agreements, which helped to facilitate the resumption of the sale of System Revenue Bonds, the Tolling and Waiver Agreements, as amended, also tolled (i.e. suspended) until December 31, 2015 the running of the time period and statute of limitations for filing by the Water Contractors of (1) protests regarding the System's bills to the Water Contractors for the years 2007 through 2016, (2) claims arising from the System's revisions to prior year invoices that were made to adjust for improper charges to the Water Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims. The Tolling and Waiver Agreement also tolled the running of the time period for bringing an action on the Victim Compensation and Government Claims Board claim regarding the 2006 invoice that was filed by one of the Water Contractors. DWR expects that the participating Contractors and DWR will extend the Tolling and Waiver Agreement expiration date (and by doing so, the tolling period for the statute of limitations) until December 31, 2017. In the meantime, the System and Water Contractors are continuing their efforts to resolve issues that are covered by the Tolling and Waiver Agreement. However, no assurance can be given that the Water Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to the issues under discussion once the Tolling and Waiver Agreements expire.

### *Lawsuits Regarding 2004 Delta Levee Failure*

Four lawsuits have been filed to recover damages caused when a Delta levee failed and flooded the Upper Jones Tract and Lower Jones Tract in June 2004. Three of the lawsuits name, as defendants, a local Delta reclamation district, the State Reclamation Board and the DWR. A cause of action, in each of these three lawsuits, alleges that the System's operations and activities in the Delta were a cause of the damage. All four lawsuits were consolidated for trial, and after completion of the trial, the trial judge issued a decision in August 2012 in favor of DWR. In October 2012, the plaintiffs, with the exception of two insurance companies, appealed the decision. In October 2014, the Court of Appeal upheld the trial court's ruling in favor of DWR. The California Supreme Court; thereafter, denied the Plaintiff's petition for review. The case is now closed.

### *General*

The System, during the ordinary course of its operations, has been named in a number of additional suits and claims, several of which are still pending.

In the opinions of management and the System's Legal Counsel, such legal actions will not have a material effect on the System's financial position or changes in financial position. If incurred, such costs would be recoverable from project beneficiaries under the long-term water supply contracts.

### **Federal Energy Regulatory Commission Proceedings**

There are a number of proceedings pending before the Federal Energy Regulatory Commission (FERC) that may impact the cost of System operations. Some of these proceedings address requests from the California Independent System Operator (CAISO), investor-owned utilities, and others to increase or adjust rates or allocate responsibility for costs for transmission and other services provided to the System and other entities in California. The System is participating in these proceedings, since the outcome of these proceedings has the potential to increase the System's annual power costs. However, the System does not believe that any increased charges arising from these proceedings will materially impact the System's financial position or changes in financial position. Any increased charges will be passed through to the Water Contractors under the long-term water supply contracts in the form of higher operations charges.

### **California Energy Crisis and Claims for Partial Energy Purchase Refunds**

The California energy crisis of 2000-01 adversely impacted the financial condition of some energy market participants, including DWR as operator of the System. As a supplier of energy, DWR received increased market prices for energy sales in 2000 and in 2001. FERC proceedings were instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including DWR. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as DWR, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victim Compensation and Government Claims Board against the governmental entity sellers, including DWR. The Claims Board denied the claim made against DWR, which would have allowed the claimants to file a lawsuit against DWR. Settlement discussions were thereafter conducted and in August 24, 2014, a settlement agreement was reached between DWR and the claimants, the California Public Utilities

Commission and the California Energy Resources Scheduling Division of DWR. Under the settlement, DWR paid \$7.2 million and assigned approximately \$19.6 million in receivables from the CAISO and the California Power Exchange Corporation to the claimants and other settling parties. In return, in December 2014, the claimants and other settling parties withdrew and released DWR from, all of their claims related to the 2000 and 2001 energy sales.

### **Pollution Remediation**

The System recognized Pollution Remediation Liabilities of \$10.2 million in current portion and \$33.6 million in long-term portions totaling \$43.8 million at June 30, 2015. This liability is comprised of two components. There are two identified locations of required pollution remediation, previously owned, Reid Gardner Unit 4 in Nevada and the Methyl Mercury Control programs in the Delta. In addition, the total liability for pollution remediation includes the GHG emissions credits due to be surrendered in November 2015.

#### *Reid Gardner Power Plant*

The Reid Gardner (RG) Power Plant, located near Moapa, Nevada, is operated by Nevada Energy (NVE) and consists of four coal-powered generators—Units 1 through 4. DWR's ownership interest in Unit 4 of the Reid Gardner coal plant terminated in 2013, but the remediation costs described below are being shared under an Environmental Agreement also executed between NVE and DWR in 2013.

In February 2008, NVE entered into an Administrative Order on Consent (AOC) with the Nevada Division of Environmental Protection (NDEP). Pursuant to the AOC, NVE agreed to undertake investigatory activities into various potential areas of contamination at RG and also to ultimately remediate groundwater, soils and other contamination at the RG facility. Groundwater and soils have been affected by certain chemicals of interest associated with flue gas desulfurization effluent settlement and evaporation ponds. Since some of this contamination can be associated with the Unit No. 4 generation related facilities, such as the evaporation ponds, DWR, as prior co-owner of Unit No. 4, has agreed to share the cost of NVE's investigatory activities, which will ultimately lead to the remediation measures prescribed by NDEP to NVE. These activities are projected to continue through at least 2032.

During calendar year 2014, NVE provided DWR their projected schedule and budget by source area based on ongoing and planned investigations and overall AOC planning activities. Using NVE's projections and applying DWR's agreed upon cost sharing percentages in the Environmental Agreement, DWR's estimated equitable share of the current value of outlays is \$29.1 million. The System expended approximately \$3.9 million in Fiscal 2015 and DWR expects to pay \$3.5 million of the total estimated liability during FY Fiscal 2016. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information is available.

In August 2013, a Native American tribe and an environmental organization filed a lawsuit against NVE and DWR in Federal District Court in Nevada, claiming violations of federal environmental laws, specifically the Resource Conservation and Recovery Act and the Clean Water Act, related to the asserted contamination of the land, groundwater and surface water, and alleged discharge of pollutants into the nearby Muddy River from the RG Station.

The lawsuit, which relates to some of the same contaminants addressed in the AOC, seeks declaratory and injunctive relief requiring NVE and DWR to conduct studies and undertake cleanup at the site. In July 2015, NVE and DWR reached a proposed settlement with the plaintiffs. The proposed settlement must be reviewed and approved by EPA and the Federal Department of Justice before it is submitted to the court for final approval. Final settlement is anticipated to occur before the end of the year.

#### *Delta Basin Plan: Mercury Control Program*

In June 2011, the State Water Resources Control Board adopted an amendment to the Sacramento-San Joaquin Delta Basin Plan regarding the control in the Delta of methyl mercury. The amendment, among other things, assigns certain responsibilities jointly to DWR (with regard to both the System and DWR's flood management programs), the Central Valley Flood Protection Board and the State Lands Commission to reduce methyl mercury in the open waters of the Delta. In addition, DWR and others are assigned certain responsibilities regarding the discharge of methyl mercury from wetland and other aquatic restoration and enhancement projects.

DWR's mercury program was created to address its obligations under the Delta Mercury Control Program. The System's estimated value of remediation outlays for this program is \$6.4 million. The System has expended approximately \$3 million through June 30, 2015. DWR estimates that the System will incur costs of approximately \$1.3 million in fiscal 2016 and estimates remaining long-term costs through 2020 at approximately \$5.1 million.

The State Water Resources Control Board is currently developing a statewide mercury regulation applicable to inland waters, including reservoirs. Draft regulatory language and associated environmental analysis is currently expected to be released in 2016. There is insufficient information available to enable DWR to estimate the timing, magnitude or the System's share of potential compliance costs, if any, at this time.

#### *Green House Gas Emissions Credits Surrendering*

The System is required to report and recognize the liability related to certain vintage years of the Reid Gardner Unit 4 and LEC under AB32. Each year the GHG allowances held in UPIS as an Intangible Asset, are evaluated and reported by the Power and Risk Analysis Office to the California Air Resources Board (CARB) to be charged as pollution remediation expenses and a liability is recognized. The System's market analysis value of total compliance instruments to be surrendered is \$10.4 million. The System surrendered \$2.1 million of compliance instruments during fiscal 2015 under this program. The System expects to surrender \$3.8 million for RG and \$1.6 million for LEC for a total current liability due in November of fiscal 2016 of \$5.4 million. Since the termination of RG, the remaining long-term portion is only for LEC for \$2.9 million.



## 11. Self-Insurance

The System is self-insured for all completed facilities of the SWP. The System is also self-insured for workers' compensation, general liability and other risks. All workers' compensation claims and other losses are on a pay-as-you-go basis. The long-term water supply contracts provide for recovery of such losses from the Water Contractors. Additionally, the CVP act and the related bond resolutions authorize the issuance of additional bonds, payable from available revenues or federal reimbursements under the National Disaster Act, for the purpose of providing funds for emergency repairs to power projects or water system projects necessitated by natural disasters, provided that certain conditions are met.

## 12. Economic Dependency

The System's water supply revenue is derived from 29 Water Contractors, including the Metropolitan Water District of Southern California whose System billings constituted 53% and 51% of total System water supply revenue for the years ended June 30, 2015 and 2014, respectively, and Kern County Water Agency whose System billings constituted 10% and 11% of total System water supply revenue for the years ended June 30, 2015 and 2014, respectively.

The System sold power to 9 and 14 power companies during the fiscal years ended June 30, 2015 and 2014, respectively. The highest percentage of power revenues came from the CAISO. The following table shows power sales to companies which exceeded 5% of the total power sold by the System excluding power sold to the Water Contractors in the amount of \$2.7 million and \$1.5 million, for the years ended June 30, 2015 and 2014, respectively.

<b>Power Sales</b>				
	2015	% Total	2014	% Total
California Independent System Operator	\$ 61,759	69.59%	\$ 81,083	62.30%
Northern California Power Agency	24,502	27.61%	21,721	16.69%
Morgan Stanley Capital Group Inc.	-	-	11,777	9.05%

Similarly, the System purchased power from 17 power suppliers for both fiscal years ended June 30, 2015 and 2014. The highest percentage of power provided to the System came from the CAISO. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

<b>Power Purchases</b>				
	2015	% Total	2014	% Total
California Independent System Operator	\$ 95,827	47.70%	\$ 119,738	50.83%
Northern California Power Agency	42,178	20.99%	36,697	15.58%
Morgan Stanley Capital Group Inc.	34,907	17.38%	38,948	16.53%

### 13. Segment Information

The table below presents the condensed statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows for the System's two segments, as of and for the years ended June 30, 2015 and 2014.

Segment	2015			2014		
	Activities Allowed Under			Activities Allowed Under		
	Burns-Porter Act	Central Valley Project Act	Total	Burns-Porter Act	Central Valley Project Act	Total
<b>Condensed Statements of Net Position:</b>						
<b>Assets</b>						
Capital assets	\$ 849,332	\$ 2,766,471	\$ 3,615,803	\$ 880,833	\$ 2,588,828	\$ 3,469,661
Other assets	1,308,557	394,718	1,703,275	1,131,339	344,976	1,476,315
Current assets	274,012	367,148	641,160	159,824	399,563	559,387
Total assets	2,431,901	3,528,337	5,960,238	2,171,996	3,333,367	5,505,363
Deferred outflows of resources	38,045	181,281	219,326	-	116,741	116,741
Total assets and deferred outflows of resources	\$ 2,469,946	\$ 3,709,618	\$ 6,179,564	\$ 2,171,996	\$ 3,450,108	\$ 5,622,104
<b>Capitalization and Liabilities</b>						
<b>Capitalization:</b>						
<b>Net position:</b>						
Net investment in capital assets	\$ 870,922	\$ 234,770	\$ 1,105,692	\$ 842,008	\$ 152,553	\$ 994,561
Restricted	338,334	(238,598)	99,736	367,248	(156,381)	210,867
Total net position	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Long-term liabilities	847,925	2,845,592	3,693,517	511,260	2,662,655	3,173,915
Total capitalization	2,057,181	2,841,764	4,898,945	1,720,516	2,658,827	4,379,343
Current liabilities	139,690	285,738	425,428	134,110	285,765	419,875
Total capitalization and liabilities	2,196,871	3,127,502	5,324,373	1,854,626	2,944,592	4,799,218
Deferred inflows of resources	273,075	582,116	855,191	317,369	505,517	822,886
Total liabilities, deferred inflows of resources and net position	\$ 2,469,946	\$ 3,709,618	\$ 6,179,564	\$ 2,171,995	\$ 3,450,109	\$ 5,622,104
<b>Condensed Statements of Revenues, Expenses and Changes in Net Position:</b>						
<b>Operating revenues:</b>						
Water supply	\$ 657,639	\$ 225,899	\$ 883,538	\$ 507,909	\$ 281,461	\$ 789,370
Power sales	92,066	(286)	91,780	131,604	348	131,952
Federal reimbursements	16,669	27,391	44,060	43,779	8,407	52,186
	766,374	253,004	1,019,378	683,292	290,216	973,508
Depreciation expense	(21,680)	(59,815)	(81,495)	(22,035)	(46,861)	(68,896)
Other operating expense	(581,987)	(25,420)	(607,407)	(694,764)	(103,889)	(798,653)
Income from operations	162,707	167,769	330,476	(33,507)	139,466	105,959
Capital revenues (deferred) recovered	(164,868)	(79,077)	(243,945)	53,546	(96,480)	(42,934)
Interest expense	(9,945)	(86,137)	(96,082)	(12,176)	(103,323)	(115,499)
Transfers In/(Out)	10,855	(10,855)	-	(8,638)	8,638	-
Other (expense) income	1,251	8,300	9,551	775	51,699	52,474
Increase (decrease) in net position	-	-	-	-	-	-
Net position, beginning of year	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Net position, end of year	\$ 1,209,256	\$ (3,828)	\$ 1,205,428	\$ 1,209,256	\$ (3,828)	\$ 1,205,428
<b>Condensed Statements of Cash Flows:</b>						
<b>Net cash provided by (used in):</b>						
Operating activities	\$ 123,999	\$ 223,778	\$ 347,777	\$ (2,251)	\$ 262,292	\$ 260,041
Capital and related financing activities	(50,216)	(265,385)	(315,601)	(98,656)	(245,552)	(344,208)
Investing activities	1,689	5,873	7,562	1,849	7,145	8,994
Net (decrease) increase in cash and cash equivalents	75,472	(35,734)	39,738	(99,058)	23,885	(75,173)
Cash and equivalents, beginning of year	155,453	405,833	561,286	254,511	381,948	636,459
Cash and equivalents, end of year	\$ 230,925	\$ 370,099	\$ 601,024	\$ 155,453	\$ 405,833	\$ 561,286

## 14. New Governmental Accounting Standards

### GASB Statement No. 66

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of GASB No. 66 were effective for fiscal year 2014 and thereafter. It has been determined that GASB No. 66 did not impact the System.

### GASB Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter. A summary of the July 1, 2014 beginning balance item restated in connection with the implementation of GASB Statement No. 68 and 71 is shown in the following table:

GASB Implementations			
<b>Statements of Net Position</b>	Balance before GASB 68 adjustment at July 1, 2014	GASB 68 and 71 adjustment	July 1, 2014 adjusted beginning balance
<b>Total long-term assets</b>			
Amounts recoverable through future billings under long-term water supply contracts:			
Operations and maintenance expense	\$ 102,090	\$ 475,704	\$ 577,794
<b>Deferred outflows of resources</b>			
Employer contributions - pension	-	36,501	36,501
<b>Total long-term liabilities</b>			
Long-term liability - net pension	-	(512,205)	(512,205)
<b>Net position</b>			
Net investment in capital assets	994,561	-	994,561
Restricted	210,867	-	210,867

GASB Statement No. 69

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of GASB No. 69 are effective for fiscal year 2015 and thereafter. It has been determined that GASB No. 69 did not impact the System.

GASB Statement No. 70

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. The requirements of GASB No. 70 were effective for fiscal year 2014 and thereafter. After careful review of all financial agreements, it has been determined that GASB No. 70 did not impact the System.

GASB Statement No. 71

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pension*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of GASB No. 71 are effective for fiscal year 2015 and thereafter. The financial statements items in connection with GASB No. 71 are presented in this fiscal year financial statements. Amounts associated with contributions made by the System to the CalPERS' defined benefit pension plan after the measurement date of June 30, 2014 are presented as deferred outflows of resources at June 30, 2015.

GASB Statement No. 72

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The requirements of GASB No. 72 are effective for fiscal year 2016 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 73

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of GASB No. 73 are effective for fiscal year 2016 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 74

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of GASB No. 74 are effective for fiscal year 2017 and thereafter.

GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of GASB No. 75 are effective for fiscal year 2018 and thereafter.

GASB Statement No. 76

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The requirements of GASB No. 76 are effective for fiscal year 2016 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

## 15. Significant Events

### *State Water Project Contract Extension*

In June 2014, the Department and the Water Contractors reached a general agreement in principles (the “Agreement in Principle”) to amend the existing long-term water supply contracts. Currently, the long-term water supply contracts have termination dates ranging between 2035 and 2042. Under the Agreement in Principle, the term of the long-term Water Supply Contract for each Contractor that signs an amendment would be extended until December 31, 2085. Provisions under the Agreement in Principle also address, among other things, the calculations of charges to Water Contractors, increases to the Department’s operating reserves, mechanisms for accounting, reporting and financing of capital projects, and the establishment of a finance committee to serve as a forum for discussions and provide a channel for recommendations to the Director of DWR concerning financial policies of the System.

Environmental review pursuant to CEQA and a presentation by the Department in an informational hearing to the Legislature will be part of the contract extension amendment process before any contract amendment is adopted.

*Hyatt-Thermalito Power Plant Fire*

On November 22, 2012, the System experienced a fire of the HTPP at the Oroville Complex. The fire caused substantial damage to the plant rendering the plant inoperable. Until the plant is repaired and placed back in service, the electrical generation from the Hyatt-Thermalito facilities will be reduced. The cleaning, decontamination and structural repairs have been completed. The mechanical refurbishment and reassembly of the generating units continues and the design of the new electrical, protection and communication systems is in process. The Department expects the HTPP to return to full service by the end of calendar year 2018. This event has not had, and will not have a material adverse impact on the Department's ability to operate and maintain the State Water Project.

*California Drought*

California remains in a State of Emergency, as proclaimed by Governor Edmund G. Brown Jr. in January of 2014. As the multi-year drought progressed into 2015 and the weather failed to produce any significant precipitation, water year 2015 was deemed the fourth consecutive dry year. Reduced allocations to the Water Supply Contractors remained in effect.

Since the respective obligations of the Contractors to make payments in amounts sufficient to pay debt service are not conditioned on the amount of water delivered, it is unlikely that the drought conditions will have a material effect on the System's financial condition in the coming fiscal year. However, the Department is obligated under its long-term water supply contracts, subject to the availability of funds, to make all reasonable efforts, consistent with sound fiscal policies, reasonable construction schedules and proper operating procedures, to complete the project facilities necessary to make water deliveries at the time and in the amounts specified in the long-term water supply contracts. It remains uncertain how continued or prolonged drought conditions would impact the financial condition of the obligated 29 Water Contractors and the System.

**16. Subsequent Events**

On September 2, 2015, the System issued CVP Water System Revenue Bonds (Series AU) (Variable rate, Tax-Exempt) with a par amount of \$109.3 million to redeem the outstanding balance of Commercial Paper Notes Series 1, fund capitalized interest, fund deposits to the debt service reserve account and cover costs of issuance.

# **SUPPLEMENTARY INFORMATION**

## Calculation of Adequacy of Debt Service Coverage for the Central Valley Project Revenue Bonds

### Debt Service Coverage

	2015	2014
Water supply revenues, Central Valley Project Act	\$ 225,899	\$ 281,461
Add: Cover Collected as Proceeds Due To Water Contractors	54,316	51,786
Less: Devil Canyon Castaic Revenues	(18,171)	(16,612)
Revenues not available for Debt Service	(8,234)	(56,217)
Net CVP revenues available for debt service	253,810	260,418
Principal and interest for revenue bonds	\$ 192,924	\$ 205,923
Debt service coverage	131.6%	126.5%

Note: Section 805 of the general bond resolution for the Central Valley Project (CVP) Water system Revenue Bonds states, "The total amount of Revenues receivable under all long-term water supply contracts in any Year shall be the sum of (A) 1.25 times the Annual Debt Service for such Year to be paid from the Revenue Fund, plus (B) the amount estimated by the Department, pursuant to Section 605, to be required from the Revenue Fund in such Year to provide for Water System Operating Expenses..."

The Supplementary Information, Calculation of Adequacy of Debt Service Coverage for the Central Valley Project (CVP) Revenue Bonds is based on \$225.9 million in fiscal 2015 and \$281.5 million in 2014, respectively in Water Supply Revenues of the System's (CVP) segment.

In fiscal 2015, the revenues include: an increase of \$54.3 million in refundable proceeds, a decrease of \$18.2 million for principal and interest payments for the Devil Canyon Castaic Facilities Bonds (DCC) since the DCC General Bond resolution does not require cover to be collected for these bonds, and a decrease of \$8.2 million in revenue not available for debt service of which \$5.4 million are amounts to be refunded to the Water Contractors and \$2.8 million related to operations and maintenance.

In fiscal 2014 the revenues include: an increase of \$51.8 million in refundable proceeds, a decrease of \$16.6 million for principal and interest payments for the DCC Facilities Bonds, and a decrease of \$56.2 million, of which \$59.3 million is primarily related to operations and maintenance and \$6.2 million is related to miscellaneous revenues not intended for debt service and a \$9.3 million decrease is related to refunds paid to the Water Contractors.



**Edmund G. Brown Jr.**  
Governor, State of California

**John Laird**  
Secretary of Resources,  
Natural Resources Agency

**Mark Cowin**  
Director, Department of Water Resources



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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

#### General Authority

The Bonds are authorized by the provisions of the CVP Act. The Department's authority to issue bonds under the CVP Act was confirmed by a decision of the Supreme Court of California in *Warne v. Harkness*, 60 Cal.2d 579 (1963). The CVP Act and such decision authorize the Department to pledge revenues for the security of CVP Act bonds, free and clear of the pledge of revenues of the State Water Project to the general obligation bonds of the State issued pursuant to the Burns-Porter Act. Under the CVP Act the payment of bond debt service has priority over the payment of operating expenses.

#### Issuance of Bonds

Additional Bonds may be issued on a parity with outstanding Bonds and secured by an equal lien on the Revenues, to finance or refinance the costs of construction or acquisition of facilities for water conservation or transportation, including facilities to generate or transmit electric power, for the State Water Project ("Water System Projects"), the costs of study or planning of any potential Water System Project ("Project Planning Costs"), and to make deposits to the Debt Service Reserve Account. The issuance of additional Bonds is authorized by the adoption of a supplemental resolution and is subject to certain requirements, including the following:

*General Requirements for Additional Bonds.* In order to issue a series of additional Bonds, the Department must certify that (a) after the issuance of such Series, estimated Revenues in each year will not be less than the sum of 1.25 times debt service to be paid from the Revenue Fund plus estimated Water System Operating Expenses and (b) the Debt Service Reserve Account is projected to contain on the first interest payment date on which interest for such Series is payable from Revenues, an amount equal to, for any date of calculation, for all Series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation. In addition, the Treasurer must have received evidence that the issuance of the additional Bonds will not result in the lowering of any rating then assigned to any then outstanding Bonds by any nationally recognized rating agency.

*Additional Requirements for New Money Bonds.* In order to issue a series of Bonds for new money purposes, the Department must (in addition to the foregoing general requirements) also certify that the Water System Project for which such series is being issued can be beneficially used by the Department to assist in the conservation or transportation of water under Water Supply Contracts, that the Water System Project is technically and economically feasible and that moneys, if any, for Project Planning Costs are then required (including an estimate of the amount of moneys required for Project Planning Costs).

#### Disposition of Revenues

Revenues as defined under the Resolution include:

(a) moneys to be received under the Water Supply Contracts resulting from the construction, acquisition or operation of Water System Projects (but only in the amounts required to meet the rate covenant of the Resolution);

(b) moneys received from any other legally available source that the Department in its discretion determines to be Revenues and so designates in a certificate filed with the Treasurer; and

(c) income from the investment of moneys held in the Revenue Fund pursuant to the Resolution.

Revenues do not include any other income or receipts resulting from the construction, acquisition or operation of a Water System Project other than the income and receipts specified in the immediately preceding clauses (a), (b) and (c).

The Resolution requires the State Controller to establish and maintain the following accounts in the Revenue Fund: the Interest Account, the Principal Retirement Account, the Operating Account, the Debt Service Reserve Account, and the Surplus Account. The State Controller is to allocate to the Operating Account during each Year an amount equal to the amount previously estimated by the Department to be required in such Year for Water System Operating Expenses.

The Resolution requires the State Controller to allocate all Revenues, when received, to these accounts. The allocation is required to be in the following priority: Interest Account, Principal Retirement Account, Operating Account, Debt Service Reserve Account and Surplus Account. The State Controller is to allocate to the Interest Account on or before each interest payment date an amount equal to the interest due on such interest payment date (less amounts then in the Interest Account or the Construction Fund available to pay such interest). The State Controller is to allocate to the Principal Retirement Account on or before each maturity date and sinking fund installment date the sum of (a) the principal amount of any serial Bonds becoming due on such date, plus (b) any sinking fund installments that become due on such date. The State Controller is to maintain separate subaccounts in the Principal Retirement Account for the serial Bonds of each series and for the sinking fund installments of each series of Bonds.

Moneys in the Surplus Account may be applied to any lawful purpose, including transfer to funds not subject to the lien of the Resolution.

### **Debt Service Reserve Account**

A Debt Service Reserve Account is required to be maintained in the State Treasury. On the issuance of each series of Bonds, provision must be made for placing moneys in the Debt Service Reserve Account so that on the first interest payment date when interest on the Bonds of that series is to be paid from Revenues, the Debt Service Reserve Account will contain an amount at least equal to, for any date of calculation, for all Series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation (the "Reserve Account Requirement"). Revenues will be allocated to the Debt Service Reserve Account to the extent necessary, under the priority described under "Disposition of Revenues," so that the amount in the Debt Service Reserve Account will be at least equal to such amount.

The Department, at its option and notwithstanding any contrary provision in the Resolution, may withdraw, in whole or in part, amounts required to be held in the Debt Service Reserve Account upon the deposit of a Reserve Fund Instrument with the Treasurer, as trustee, in a stated amount equal to the amounts so withdrawn. Upon request of the Department or as may be provided in a supplemental resolution, Revenues deposited in the Debt Service Reserve Account shall be used to reimburse draws on any Reserve Fund Instruments therein, but only to the extent that such reimbursement results in a commensurate increase in the amount of available coverage provided under the respective Reserve Fund Instrument. The amount available to be drawn under any Reserve Fund Instrument on deposit in the Debt

Service Reserve Account shall be included in calculating the amount credited to such Account. A Reserve Fund Instrument is a letter of credit, surety bond or other credit facility issued by a provider the unsecured obligations of which, at the time of initial deposit of such facility, are rated not lower than “Aa” by Moody’s and “AA” by S&P, and the deposit of which does result in a withdrawal or downgrading of any rating of the Bonds then in effect.

Moneys in the Debt Service Reserve Account are to be applied, upon the claim of the Treasurer, to make good any deficiency in the Interest Account or the Principal Retirement Account, in that priority.

Any amount in the Debt Service Reserve Account in excess of its requirement may be transferred to any legally permissible fund or account designated by the Department.

### **Security for Payment of Bonds**

Payment of the principal and redemption price of, and interest on, the Bonds is secured by a first and direct charge and lien upon the Revenues and all moneys and securities held and accounts established (except amounts, if any, in any Rebate Account) under the Resolution, by the Department, the State Controller, the Treasurer, or the Paying Agent, subject only to the provisions of the Resolution permitting the payment or the use thereof for the purpose, in the manner, and upon the terms and conditions set forth in the Resolution.

The Department must perform and observe all the obligations and conditions required to be performed and observed by it under the Water Supply Contracts at the times, and in the manner therein prescribed. The Department must diligently enforce its rights under the Water Supply Contracts and must not agree to any amendment to the Water Supply Contracts that would materially adversely affect the security of the Bonds.

The Department must at all times use its best efforts to maintain the Revenues in each year at an amount at least equal to 1.25 times the annual debt service for such year to be paid from the Revenue Fund plus the amount required from the Revenue Fund for Water System Operating Expenses in such year, plus certain amounts required to fund initially the Debt Service Reserve Account.

### **Investment of Moneys Held Under the Resolution**

Moneys held in all accounts other than the Debt Service Reserve Account will be invested under the laws governing the investment of moneys in the State Treasury. Moneys held in the Debt Service Reserve Account shall be invested in obligations of the United States (including trust receipts or certificates evidencing ownership of payments on such obligations), in obligations for which the faith and credit of the United States are pledged for the payment of principal and interest, in certain federal agency securities, in certain state or local government obligations secured by obligations of or guaranteed by the United States or in the Surplus Money Investment Fund operated by the Treasurer.

### **Certain Covenants**

The covenants of the Department contained in the Resolution include the following:

*Punctual Payment.* The Department will pay or cause to be paid the principal or redemption price of and interest to become due in respect of all Bonds, in strict conformity with the terms of the Bonds and of the Resolution, and it will faithfully observe and perform all of the conditions, covenants, and requirements of the Resolution and all supplemental resolutions and of the Bonds.

*Covenant Against Encumbrances, Sale, or Disposition.* The Department shall not create, or permit to be created, any mortgage, lien, or pledge on the Revenues equal or prior to the charge or lien of the Resolution, nor sell or otherwise dispose of all or any part of a Water System Project essential to the maintenance of the Revenues, nor enter into any lease or agreement that would materially adversely affect the rights or security of the Bondholders under the Resolution.

*Tax Covenants.* The Department may include in any supplemental resolution authorizing the issuance of a series of Bonds covenants designed to preserve the tax-exempt status of such series of Bonds, including covenants concerning the rebate of excess investment earnings on moneys held under the Resolution.

### **Events of Default; Remedies of Bondholders**

The Bondholders and the Treasurer, as trustee, acting for the Bondholders shall be entitled to all of the rights and remedies provided in the CVP Act and to all of the rights and remedies otherwise provided or permitted by law.

In the event the Department shall default in the payment of principal or redemption price of any Bond, or in the payment of interest on any Bond, or in the event the Department shall not comply with any of the covenants or agreements contained in the Resolution or the Bonds and such defaults shall have continued for a period of 60 days after written notice thereof shall have been given to the Department by the Treasurer, or to the Department and the Treasurer by the holders of at least 25 percent in principal amount of the outstanding Bonds; then the Treasurer or the holders of at least a majority in principal amount of the outstanding Bonds shall be entitled to declare the principal of all of the outstanding Bonds, and the interest accrued thereon, to be due and payable immediately.

Under any default or other occurrence creating a right in the Treasurer to represent the holders of Bonds, the Treasurer may take such action as he or she may deem appropriate, and shall take such action as shall be specified in a written request of the holders of at least 25 percent in principal amount of the outstanding Bonds and upon the furnishing to the Treasurer of indemnity satisfactory to him or her.

### **Amendment of the Resolution**

The Resolution and the rights and obligations of the Department and the Bondholders may be changed at any time by a supplemental resolution when approved by the holders of 60 percent of the principal amount of the Bonds then outstanding and affected by such change at a meeting of the Bondholders or by the written consent of the Bondholders. Any such consent shall be binding upon the Bondholder giving such consent and on any subsequent Bondholder (whether or not such subsequent Bondholder has notice thereof) unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Bondholder by filing such revocation with the Treasurer prior to the date the Department mails notice that the consents of the holders of the requisite percentage of Bonds have been obtained.

No change shall be made, without the consent of all Bondholders, (a) in the principal amount or the redemption price of any Bond, the rate of interest thereon, the maturity of the principal thereof or of any installment of interest thereon or (b) in the percentage of the principal amount of Bonds the vote or consent of the holders of which is required to effect any change.

A change may also be made at any time by supplemental resolution, without the consent of any Bondholders, for any one or more of the following:

(a) To add to the covenants of the Department, other covenants, or to surrender any right reserved to the Department;

(b) To cure any ambiguity, defect or inconsistent provision in the Resolution or to make provisions in regard to questions arising under the Resolution as the Department deems necessary and not inconsistent with the Resolution, and which shall not materially adversely affect the interests of the Bondholders;

(c) To provide for the issuance of an additional series of Bonds;

(d) To provide for the issuance of Bonds in coupon form rather than or in addition to registered form. No such change may be materially adverse to the interests of the holders of outstanding Bonds; or

(e) To add such provisions as may be necessary to accommodate such banking, insurance, remarketing and other financial arrangements as may be necessary or desirable to provide additional security for the payment of principal and interest on any one or more series of Bonds or to provide the holders of any one or more series of Bonds the right to tender such Bonds to the Department or to another party for purchase at the times, on the notice and on such other terms as the Department may determine. These arrangements may provide for the reimbursement by the Department, with interest, of moneys advanced by the provider of additional security, the provider of a tender right, the provider of moneys to fund a tender right or anyone performing a related function from the sources available for the payment of Bonds. No such change may be materially adverse to the interests of the holders of outstanding Bonds.

#### **Discharge of Obligations Under the Resolution**

The obligations of the Department and the pledge, lien, covenants and agreements of the Department made or provided for in the Resolution will be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder, when payments of the principal of and the applicable redemption price, if any, on such Bond, plus interest thereon to the due date thereof, (i) has been made or caused to be made in accordance with the terms thereof or (ii) has been provided for by depositing with the Treasurer in trust for such payment (a) moneys sufficient to make such payments or (b) specified governmental obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and, except for the purposes of such payment, such Bond will no longer be secured by or entitled to the benefits of the Resolution; provided that, with respect to Bonds that are to be redeemed or otherwise prepaid prior to the stated maturities thereof, no such deposit will constitute such discharge and satisfaction unless such Bonds have been called or designated for redemption or prepayment in accordance with the provisions thereof and notice of such redemption or prepayment has been given or irrevocable provision has been made for the giving of such notice.

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## APPENDIX D

### SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE

The Department has executed a Continuing Disclosure Certificate, dated September 27, 2012, and will execute a Supplemental Continuing Disclosure Certificate with respect to the Series AW Bonds at the time of delivery of the Series AW Bonds whereby the terms of the Continuing Disclosure Certificate will be made applicable to such Bonds (the Continuing Disclosure Certificate, as supplemented being referred to as the “Disclosure Certificate”). The following is a summary of the provisions of the Disclosure Certificate. Such summary is qualified by reference to the complete Disclosure Certificate, which is available from the Department.

#### Definitions

“Annual Report” shall mean the Annual Report filed by the Department as described below under the heading “Annual Reports.”

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds to which the Disclosure Certificate is applicable (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean any Dissemination Agent designated in writing by the Department.

“Listed Event” shall mean any of the events listed under the heading “Reporting of Significant Events.”

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Obligated Person” shall mean any person, including the Department, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the Bonds to which the Disclosure Certificate is applicable (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

“Official Statement” shall mean the respective Official Statements related to the Bonds to which the Disclosure Certificate is applicable.

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

“SEC” means the Securities Exchange Commission.

“State” shall mean the State of California.

## Annual Reports

The Department shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the Department's fiscal year (which fiscal year as of the date of the Disclosure Certificate ends June 30), provide an Annual Report consistent with the requirements of the Disclosure Certificate to the MSRB in such form as is required by the MSRB; provided that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

If in any year the Department does not provide, or cause the Dissemination Agent to provide, the Annual Report to the MSRB by the date required under the Disclosure Certificate, the Department shall file notice with the MSRB stating that the Annual Report has not been filed, and if known, the date by which the Department expects to file, or cause to be filed, the Annual Report.

The Department's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to the Disclosure Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. An update of the following information contained in the Official Statement:

- a. The amount on deposit in the Debt Service Reserve Account.
- b. The information under the heading "THE DEPARTMENT – Investments of Department Moneys."
- c. The information relating to the prior year's water deliveries under the heading "STATE WATER PROJECT WATER SUPPLY– Annual Water Deliveries."
- d. The information relating to the current year's water requests under the heading "STATE WATER PROJECT WATER SUPPLY– Annual Water Deliveries."
- e. The information relating to sources of power for the prior year in the table under the heading "POWER OPERATIONS OF THE STATE WATER PROJECT – Historical Sources of Power for State Water Project Operations."
- f. The information relating to water deliveries for the prior year in the table under the heading "THE CONTRACTORS – Water Deliveries and Contractor Payments – Historical Deliveries of Water From the State Water Project to the Contractors."
- g. The information relating to payments for the prior year in the table under the heading "THE CONTRACTORS – Water Deliveries and Contractor Payments – Historical Deliveries of Water From the State Water Project to the Contractors."

- h. The information relating to the Contractors in APPENDIX A for any Contractor whose payments are expected to be five percent (5%) or more of Revenues attributable to the bonds outstanding under the Resolution.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Department is an “obligated person” (as defined by the Rule), which have been filed with the MSRB or the SEC. If the document included by reference is a final Official Statement, it must be available from the MSRB. The Department shall clearly identify each such other document so included by reference.

### **Reporting of Significant Events**

(a) Pursuant to the provisions of the Disclosure Certificate, the Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Outstanding Bonds to which the Disclosure Certificate is applicable:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on the debt service reserves reflecting financial difficulties;
4. unscheduled draws on the credit enhancements reflecting financial difficulties;
5. substitution of the credit or liquidity providers or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds to which the Disclosure Certificate is applicable;
7. modifications to rights of Bondholders, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership, or similar event of the Department;
13. the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of an 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, if material; and

14. the appointment of a successor or additional trustee, or the change in the name of a trustee, if material.

(b) Whenever the Department obtains knowledge of the occurrence of a Listed Event, the Department shall as soon as possible, if such Listed Event requires such a determination as set forth in the preceding clause (a), determine if such event would be material under applicable federal securities laws.

(c) The Department shall promptly file a notice electronically to the MSRB in a timely manner, but not in excess of 10 Business Days after the occurrence of a Listed Event, subject to a determination of its materiality, as applicable. Reference is made to the Rule for a discussion of when the Listed Event enumerated in subsection (a)(12) is deemed to have “occurred.”

### **Termination of Reporting Obligation**

The Department’s obligations under the Disclosure Certificate shall terminate upon the legal defeasance (or in the event a portion of the Bonds is legally defeased, with respect to such defeased Bonds), prior redemption or payment in full of all of the Bonds. If the Department’s obligations under the Resolution are assumed in full by some other entity, such person shall be responsible for compliance with the Disclosure Certificate in the same manner as if it were the Department and the Department shall have no further responsibility under the Disclosure Certificate. If such termination or substitution occurs prior to the final maturity of the Bonds, the Department shall give notice of such termination or substitution in the same manner as for a Listed Event.

### **Dissemination Agent**

The Department 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.

### **Amendment; Waiver**

The Department may amend or waive any provision of the Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of the Disclosure Certificate dealing with the timing and content of the Annual Report or the giving of notice of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an Obligated Person with respect to the Bonds to which the Disclosure Certificate is applicable, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds to which the Disclosure Certificate is applicable, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Bondholders of the Bonds to which the Disclosure Certificate is applicable in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Bondholders, or (ii) does not, in the opinion of

nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners of the Bonds to which the Disclosure Certificate is applicable.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

### **Additional Information**

Nothing in the Disclosure Certificate prevents the Department from disseminating any other information, using the means of dissemination set forth in the 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 the Disclosure Certificate. If the Department 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 the Disclosure Certificate, the Department shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

### **Beneficiaries**

The Disclosure Certificate shall inure solely to the benefit of the Bondholders and Beneficial Owners from time to time of the Bonds to which the Disclosure Certificate is applicable, and shall create no rights in any other person or entity (except the right of the Treasurer of the State of California, as trustee for the Bonds, or any Bondholder or Beneficial Owner to enforce the provisions of the Disclosure Certificate on behalf of the Bondholders). The Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

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## APPENDIX E

### PROPOSED FORM OF OPINION OF ATTORNEY GENERAL

*The following form of opinion is expected to be delivered with respect to the Series AW Bonds on the date of issue thereof.*

[Issue Date]

\$ \_\_\_\_\_

**State of California Department of Water Resources  
Central Valley Project Water System Revenue Bonds  
Series AW**

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**(Final Opinion)**

We have acted as the Attorney General of the State of California in connection with the issuance by the State of California Department of Water Resources (the “Department”) of its Central Valley Project Water System Revenue Bonds, Series AW (the “Series AW Bonds”), in the aggregate principal amount of \$ \_\_\_\_\_. The Series AW Bonds are issued pursuant to Part 3 of Division 6 of the Water Code of the State of California, and under a general bond resolution of the Department, adopted as of July 1, 1986, and a supplemental resolution of the Department, adopted as of October \_\_, 2016 (the general bond resolution and all resolutions supplemental thereto are herein collectively called the “Resolution”). The Series AW Bonds constitute the forty-ninth series of bonds issued under the Resolution (all bonds at any time outstanding under the Resolution being herein collectively called the “Bonds”) and are issued for one or more of the purposes set forth in the Resolution. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, certifications of the Department, the Treasurer of the State of California and others as to certain factual matters, the opinion of counsel to the Department, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed, without undertaking to verify, the genuineness of all documents, certifications, opinions and signatures presented to us (whether as originals or as copies); the due and legal execution and delivery thereof by, and validity against, any parties other than the Department; the accuracy of the factual matters represented, warranted or certified in such documents, certificates and opinions; and compliance with all covenants and agreements contained in the Resolution.

Certain agreements, requirements and procedures contained or referred to in the Resolution, the Tax Certificate and other relevant documents may be changed and certain actions (including without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

This opinion is issued as of the date hereof. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof and we disclaim any obligation to update this letter. We assume no obligation to update, revise or supplement this opinion to reflect any such action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may arise or occur, or for any other

reason. We call attention to the fact that the rights and obligations under the Series AW Bonds and the Resolution and their enforceability 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 the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum, choice of venue or waiver or severability provisions contained in the foregoing documents. Finally, we express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information that has been or will be supplied to the purchasers of the Series AW Bonds and we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated October \_\_, 2016, or other offering material relating to the Series AW Bonds and express herein no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series AW Bonds constitute valid and binding limited obligations of the Department, payable only out of the Revenues and moneys and securities held, and accounts established, under the Resolution.
2. The Resolution has been duly and lawfully adopted and is a valid resolution of the Department, enforceable against the Department in accordance with the terms of the Resolution.
3. The Series AW Bonds are secured by a first and direct charge and lien upon the Revenues and all moneys and securities held, and accounts established, under the Resolution (except amounts held in any Rebate Account established under the Resolution), subject only to the provisions of the Resolution permitting the payment or use of such Revenues, moneys, securities and accounts for the purposes, in the manner and upon the terms and conditions set forth in the Resolution. The Series AW Bonds are not secured by any other property or moneys of the Department.
4. The Series AW Bonds do not constitute a debt, liability or obligation of the State of California or of any political subdivision thereof, or a general obligation of the Department. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, or premium, if any, or interest on the Series AW Bonds. The Department has no taxing power.

Sincerely,

Deputy Attorney General

For \_\_\_\_\_  
Attorney General of the State of California



## APPENDIX F

### PROPOSED FORM OF OPINION OF BOND COUNSEL

*The following form of opinion is expected to be delivered with respect to the Series AW Bonds on the date of issue thereof.*

[Issue Date]

**State of California Department of Water Resources  
Central Valley Project Water System Revenue Bonds  
Series AW**

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**(Final Opinion)**

We have acted as bond counsel to the Department in connection with the issuance by the State of California Department of Water Resources (the “Department”) of its Central Valley Project Water System Revenue Bonds, Series AW (the “Series AW Bonds”), in the aggregate principal amount of \$\_\_\_\_\_. The Series AW Bonds are issued pursuant to Part 3 of Division 6 of the Water Code of the State of California, and under a general bond resolution of the Department, adopted as of July 1, 1986, and a supplemental resolution of the Department, adopted as of October \_\_, 2016 (the general bond resolution and all resolutions supplemental thereto are herein collectively called the “Resolution”). The Series AW Bonds constitute the forty-ninth series of bonds issued under the Resolution (all bonds at any time outstanding under the Resolution being herein collectively called the “Bonds”) and are issued for one or more of the purposes set forth in the Resolution. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the Department dated October \_\_, 2016, executed in connection with the Series AW Bonds (the “Tax Certificate”), certifications of the Department, the Treasurer of the State of California and others as to certain factual matters and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in this paragraph.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series AW Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series AW Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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 the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, or waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated October \_\_, 2016, or other offering material relating to the Series AW Bonds, and express herein no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series AW Bonds constitute valid and binding limited obligations of the Department, payable only out of the Revenues and moneys and securities held, and accounts established, under the Resolution.

2. The Resolution has been duly and lawfully adopted, is a valid resolution of the Department and is binding upon the Department in accordance with the terms of the Resolution.

3. The Series AW Bonds are secured by a first and direct charge and lien upon the Revenues and all moneys and securities held, and accounts established, under the Resolution (except amounts held in any Rebate Account established under the Resolution), subject only to the provisions of the Resolution permitting the payment or use of such Revenues, moneys, securities and accounts for the purposes, in the manner and upon the terms and conditions set forth in the Resolution. The Series AW Bonds are not secured by any other property or moneys of the Department.

4. Neither the principal of nor the interest on the Series AW Bonds constitutes a debt, liability or obligation of the State of California or, except as expressly provided in the Resolution, of the Department.

5. Interest on the Series AW Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series AW Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series AW Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

## APPENDIX G

### DTC AND BOOK-ENTRY

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series AW Bonds. The Series AW Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series AW Bond certificate will be issued for each maturity of Series AW Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity 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 maturity.

DTC 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, 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 and 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](http://www.dtcc.com).

Purchases of Series AW Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series AW Bonds on DTC’s records. The ownership interest of each actual purchaser of Series AW Bonds (“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 Series AW Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series AW Bonds, except in the event that use of the book-entry system for the Series AW Bonds is discontinued.

To facilitate subsequent transfers, all Series AW Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series AW Bonds 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 Series AW Bonds;

DTC's records reflect only the identity of the Direct Participants to whose accounts such Series AW Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 Series AW Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series AW Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series AW Bond documents. For example, Beneficial Owners of Series AW Bonds may wish to ascertain that the nominee holding the Series AW Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series AW Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series AW Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Series AW Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series AW Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the State Treasurer, 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, its nominee, the Department or the State Treasurer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the State Treasurer, 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.

DTC may discontinue providing its services as depository with respect to the Series AW Bonds at any time by giving reasonable notice to the Department or the State Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Series AW Bond certificates are required to be printed and delivered.

The Department and the State Treasurer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series AW Bond certificates will be printed and delivered to DTC.

The information preceding this paragraph in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Department and the State Treasurer believe to be reliable, but the Department and the State Treasurer take no responsibility for the accuracy thereof.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES AW BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES AW BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The Department and the State Treasurer cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Department nor the State Treasurer is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series AW Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Series AW Bonds, payment of principal of and interest and other payments with respect to the Series AW Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect 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 Direct Participants, the Indirect 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 Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES AW BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE HOLDERS OF SUCH SERIES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES AW BONDS.

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## **APPENDIX H**

### **WATER SYSTEM PROJECTS**

Water System Projects consist of the portion of certain State Water Project facilities financed or expected to be financed with Bonds. The Water System Projects are described below. In each case, sources other than Bond Proceeds may have been used to pay certain costs of the facility, particularly those costs allocable to purposes other than water conservation and water transportation.

#### **Capital Expenditures for Water System Projects**

The following table summarizes the capital costs financed by Bonds for the Water System Projects described below, and sets forth the capital costs expected to be financed for such projects from the issuance of additional Bonds as of September 30, 2016.

**ESTIMATED CAPITAL FINANCING FROM  
WATER SYSTEM REVENUE BONDS FOR EXISTING WATER SYSTEM PROJECTS  
(in Millions)**

Water System Project	Capital Expenditures Series A through AV	Estimated Future Capital Expenditures <sup>(1)</sup>	Total Capital Expenditures <sup>(5)</sup>
Powerplants:			
Small Hydro Project	\$ 46.6	\$ 0.0	\$ 46.6
Pyramid Hydroelectric Project	74.4	0.0	74.4
Alamo Project	30.4	0.0	30.4
Bottle Rock Facilities <sup>(2)</sup>	80.2	0.0	80.2
South Geysers Project <sup>(3)</sup>	40.9	0.0	40.9
Reid Gardner Project <sup>(4)</sup>	176.2	0.0	176.2
East Branch Enlargement – Phase I	453.0	0.0	453.0
Additional East Branch Improvements	124.1	0.0	124.1
East Branch Enlargement – Phase II	7.9	0.2	8.1
Delta Pumping Plant Completion	73.6	0.0	73.6
Suisun Marsh Environmental Facilities	37.2	0.0	37.2
San Bernardino Tunnel Intake Structure	29.3	0.0	29.3
San Luis Rock Quarry	4.5	0.0	4.5
Castle Rock–Lakeville Transmission Line	6.9	0.0	6.9
Midway-Wheeler Ridge Transmission Line	10.1	0.0	10.1
Kern Water Bank	37.0	0.0	37.0
Vista del Lago Visitor Center	9.0	0.0	9.0
North Bay Aqueduct–Phase II	87.1	0.0	87.1
North Bay Aqueduct Improvements – Terminal Tanks	7.4	6.1 <sup>(6)</sup>	13.5
North Bay Aqueduct Alternate Intake	0.0	545.0	545.0
Project Monitor and Control System	71.5	0.0	71.5
SWP Communications System Replacement <sup>(5)</sup>	35.4	1.1	36.5
Arroyo Pasajero Program	5.0	1.6	6.6
Hyatt Pump-Turbine Refurbishment	17.9	4.6 <sup>(6)</sup>	22.5
Edmonston Pump Replacement <sup>(5)</sup>	24.2	18.4 <sup>(6)</sup>	39.1
Delta Facilities Program	270.2	236.9	507.1
Tehachapi East Afterbay <sup>(5)</sup>	69.1	16.2	85.3
Perris Dam Remediation <sup>(5)</sup>	116.2	15.7	131.9
Thermalito Powerplant Cleanup and Reconstruction <sup>(7)</sup>	52.4	160.1	212.5
FERC Relicensing – State Water Project <sup>(7)</sup>	18.0	36.5	54.5
Facilities Reconstruction and Improvement Project	588.9	300.2	889.1
Project Planning Costs	112.8	36.2	149.0
Coastal Branch – Phase II	491.3	0.0	491.3
East Branch Extension – Phase I	126.0	0.0	126.0
East Branch Extension – Phase I Improvements <sup>(5)</sup>	40.5	4.2 <sup>(6)</sup>	44.7
East Branch Extension – Phase II <sup>(5)</sup>	254.4	0.0	254.4
South Bay Aqueduct Enlargement and Improvement <sup>(5)</sup>	267.2	0.0	267.2
<b>Total Water System Projects <sup>(8)</sup></b>	<b>\$3,896.8</b>	<b>\$1,383.0</b>	<b>\$5,276.2</b>

<sup>(1)</sup> The projections contained in this table have been prepared by the Department’s management for management purposes on the basis of certain assumptions, and consistent with certain requirements of the Water Supply Contracts. The projections are the responsibility of the Department. GALLINA LLP has neither examined nor compiled such projections and, accordingly, GALLINA LLP does not express an opinion or provide any other form of assurance with respect thereto. The audit report included in APPENDIX B of this Official Statement relates to the State Water Project’s historical financial information. The report does not extend to the projections set forth above and should not be read to do so. These projections were not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

<sup>(2)</sup> Sold by the Department in 2001. (See “WATER SYSTEM PROJECTS – Project Descriptions – *Bottle Rock Facilities*.”)  
<sup>(3)</sup> Sold by the Department in 2004. (See “WATER SYSTEM PROJECTS – Project Descriptions – *South Geysers Project*.”)

<sup>(4)</sup> The Department’s ownership interest terminated in 2013. (See “WATER SYSTEM PROJECTS – Project Descriptions – *Reid Gardner Project*.”)



- (5) The original Bond Anticipation Bonds (“BABs”) for East Branch Extension – Phase I Improvements and East Branch Extension – Phase II exceeded the projected expenditures. \$44.5 million of the proceeds of the Series AE refunding of the BABs was redistributed from East Branch Extension – Phase I Improvements and East Branch Extension – Phase II to Communications System Replacement, Edmonston Pump Replacement, Tehachapi East Afterbay, Perris Dam Remediation, and South Bay Aqueduct Enlargement.
- (6) Projects are completed. Amounts are treated as “Estimated Future Capital Expenditures” pending reallocation.
- (7) These projects are each a project authorized under the Resolution as part of the Facilities Reconstruction and Improvement Project, the Department has decided to show these projects individually due to the estimated aggregate principal amount.
- (8) Totals may not sum due to rounding

The Department may issue additional Bonds in amounts substantially greater than the amounts described in this subsection of APPENDIX H to finance capital costs allocated to existing Water System Projects or to Water System Projects defined by supplemental resolutions to be adopted in the future. (See “SECURITY FOR THE BONDS – Outstanding Bonds: Additional Bonds” and “STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Bay Delta Conservation Plan*”.)

### **Project Descriptions**

#### ***The following Water System Projects have been completed:***

*Small Hydro Project.* The Small Hydro Project consists of two small hydroelectric power plants, the three 11 megawatt units of Mojave Siphon Powerplant and the 3 megawatt Thermalito Diversion Dam Powerplant. The Mojave Siphon Powerplant is located at the downstream end of the Mojave Siphon of the California Aqueduct, at Silverwood Lake, ten miles north of the City of San Bernardino. The Thermalito Diversion Dam Powerplant is located at the left abutment of the Thermalito Diversion Dam on the Feather River one mile north of the City of Oroville.

*Pyramid Hydroelectric Project.* The Pyramid Hydroelectric Project consists of a portion of the first stage of the William E. Warne Powerplant, formerly known as the Pyramid Powerplant, designated by the Department for electric power generation and transmission, and conveyance facilities between the 75 megawatt William E. Warne Powerplant and Quail Lake, including Lower Quail Canal and the first stage of Peace Valley Pipeline. These facilities are on the West Branch of the California Aqueduct in the vicinity of the town of Gorman in Los Angeles County.

*Alamo Project.* The Alamo Project consists of the portion of the 17 megawatt Unit 1 of the Alamo Powerplant located on the East Branch of the California Aqueduct, approximately one mile below the Tehachapi Afterbay.

*Bottle Rock Facilities.* The Bottle Rock Facilities are located in Lake County, California, about 70 miles north of San Francisco. The Bottle Rock Facilities consist of a geothermal power plant with a 55 megawatt turbine-generator unit, associated electrical, mechanical and control facilities, a heat dissipation system, and a 1.1 mile transmission line. The Department suspended operation of and mothballed the power plant in 1990 because of the lack of an adequate geothermal steam supply and sold the power plant in 2001 for \$1.8 million.

*South Geysers Project.* The South Geysers Project is located in Sonoma County, California, about 70 miles north of San Francisco. The South Geysers Project design included a geothermal generating station with a 55 megawatt turbine-generator unit, associated electrical, mechanical and control facilities, a heat dissipation system, and a 1.8-mile transmission line. The Department suspended construction of the South Geysers Project because of the lack of an adequate geothermal steam supply. In 1990, the Department sold the major equipment components for \$5.5 million and in 2004, the Department sold the plant building and the surrounding property for \$755,000.

*Reid Gardner Project.* The Reid Gardner Power Plant (“RGPP”), located near Moapa, Nevada, is operated by NV Energy (“NVE”) and consists of four coal-powered generators- Units 1 through 4. The Reid Gardner Project consisted of the Department’s ownership interest in Unit 4 of the RGPP. Prior to termination of the Department’s ownership interest in Unit 4 in 2013, capital ownership of Unit 4 was shared between the Department and NVE at 67.8 percent and 32.2 percent, respectively. The Department also had a 29.2 percent share of the RGPP facilities necessary for and common to all four units. The Participation Agreement between the Department and NVE terminated in 2013. In October 2013, NVE paid the Department approximately \$47.6 million for the Department’s share of undepreciated capital improvement costs of Unit 4 as required after termination of the Participation Agreement.

The Department anticipates having a continuing obligation for a yet to be determined share of environmental remediation costs related to past soil and groundwater contamination at the site. (See “POWER OPERATIONS OF THE STATE WATER PROJECT – Reid Gardner Termination, Groundwater Contamination Cleanup and Environmental Lawsuit.”)

*East Branch Enlargement – Phase I.* The East Branch of the California Aqueduct transports water from the aqueduct bifurcation downstream of the A. D. Edmonston Pumping Plant located about 10 miles east of the town of Gorman, across the Antelope Valley and the Mojave Desert, through the San Bernardino Mountains and the cities of San Bernardino and Riverside, to Lake Perris located about 14 miles south of Riverside. The existing facilities along the East Branch include 93 miles of canal, 6.7 miles of inverted siphons, Alamo Powerplant Unit 1, Pearblossom Pumping Plant, Silverwood Lake, San Bernardino Tunnel, Devil Canyon Powerplant Units 1 and 2, Santa Ana Valley Pipeline, and Lake Perris. In 1986, Metropolitan Water District of Southern California and many of the other East Branch contractors agreed to have the Department enlarge the East Branch to an ultimate capacity of 3,149 cubic feet per second at the Alamo Powerplant/Cottonwood Chute Bypass and 2,876 cubic feet per second at Pearblossom Pumping Plant. The Department and the Contractors agreed that the enlargement of the East Branch would be done in two phases, each providing approximately half (750 cubic feet per second) of the planned capacity increase based on a 1,500 cubic feet per second enlargement. This work included an increase to the height of the canal lining, additional siphon conduits, additional pumps at the Pearblossom Pumping Plant, portions of Units 2 and 3 at the Mojave Siphon Powerplant, Units 3 and 4 at the Devil Canyon Powerplant. Construction of Phase I was completed in 1996.

*Additional East Branch Improvements.* Several additional improvements to the East Branch were constructed concurrently with Phase I of the enlargement. The improvements were needed to bring the existing East Branch up to its originally intended design capacity and to improve the reliability of the system. The major improvements include a portion of a four-foot increase in the height of the canal lining between the Alamo Powerplant and the Pearblossom Pumping Plant, and the addition of a spare pump and modification of the forebay at the Pearblossom Pumping Plant. Construction of these additional improvements was completed in 1993.

*Delta Pumping Plant Completion.* This project includes the Harvey O. Banks Delta Pumping Plant and the John E. Skinner Delta Fish Protective Facility. Originally the pumping plant was designed for 11 units, but only seven were installed initially. In 1986, the Department signed an agreement with DFW to mitigate or offset direct fishery losses caused by State Water Project pumping under which the Department provides funds for projects inside and outside of the Delta. With this agreement in place, the Department has completed the Delta pumping plant by installing an additional four pumps. The fish protective facility was also enlarged to accommodate the increased capacity. Installation of the four units and the enlargement of the fish protective facility was completed in 1992.

*Suisun Marsh Environmental Facilities.* The Suisun Marsh Environmental Facilities are designed to protect the quality of water in the Suisun Marsh on the west side of the Delta. These facilities are designed to mitigate the effects of the CVP, the State Water Project, and a portion of other upstream diversion projects. The work to construct these facilities was completed in 1988.

*San Bernardino Tunnel Intake Structure.* A new intake tower was constructed near the southeastern shore of Silverwood Lake to replace the existing tower, which did not meet current seismic standards. Construction was completed in 1997.

*San Luis Rock Quarry.* The Department and the Bureau have acquired 689 acres of property adjacent to San Luis Dam. The property includes a rock quarry as a source of material for repair and maintenance purposes.

*Castle Rock-Lakeville Transmission Line.* Jointly owned with the Pacific Gas and Electric Company (“PG&E”) and two other utilities, the 38-mile Castle-Rock-Lakeville 230 kv transmission line provides transmission from the Geysers geothermal area where the Bottle Rock and South Geysers Projects are located. The Department has sold the South Geysers Project and the Bottle Rock Project. Currently, neither project is operational. (See “WATER SYSTEM PROJECTS – Project Descriptions – *South Geysers Project*” and “– *Bottle Rock Facilities.*”)

*Midway-Wheeler Ridge Transmission Line.* Jointly owned with PG&E, this 608 megawatt, 230 kilovolt transmission line extends 47 miles from Midway Substation to the Wheeler Ridge Substation and serves the Buena Vista, Wind Gap and Wheeler Ridge pumping plants.

*Kern Water Bank.* The Kern Water Bank was the land acquisition phase of the development of a ground water recharge and extraction facility in Kern County on the alluvial fan of the Kern River. The Department acquired approximately 20,500 acres of land for the Kern Water Bank. Under the Monterey Amendment, the land and related assets of the Kern Fan Element of the Kern Water Bank have been transferred by the Department to Kern County Water Agency, which in turn transferred such land and related assets to a joint powers authority formed by Kern County Water Agency and other local water suppliers. (See “WATER SUPPLY CONTRACT RELATED LITIGATION – Monterey Amendment Litigation” for a description of certain litigation regarding the validity of the Monterey Amendment and the agreement to transfer the land and related assets of the Kern Fan Element of the Kern Water Bank). The Department will continue to charge Contractors under the Water System Revenue Bond amendment the amounts related to the Water System Revenue Bonds issued to finance the Kern Water Bank.

*Vista del Lago Visitor Center.* The Vista del Lago Visitor Center is located on an overlook above Pyramid Lake along Interstate 5 approximately 60 miles north of Los Angeles. The center includes educational exhibits on the importance of water supply and the development, distribution, conservation and treatment of water.

*North Bay Aqueduct – Phase II.* The North Bay Aqueduct – Phase II project completed the construction of the 27 mile North Bay Aqueduct from the Delta to Napa and Solano Counties at the northern edge of the San Francisco Bay. The project consists of 23 miles of pipeline and two pumping plants between Barker Slough on the Delta and the existing Phase I facilities at Cordelia. The project became operational in 1988.

*North Bay Aqueduct Improvements – Terminal Tanks.* The 7.2 million gallon Napa Turnout Reservoir was constructed by the Department in 1968 to deliver raw water to the Jamieson Canyon Water Treatment Plant and also served the American Canyon Water Treatment Plant. The Department replaced the then existing tank with two new five million gallon tanks in 2010.

*Project Monitor and Control System.* In July 1990, the Department installed a fiber optics communication system. This system replaced the Department's obsolete copper wire system. This system reduced costs and increased the reliability, efficiency and capacity of the communication system. A major element of the fiber optics system was the installation of a fiber optics cable adjacent to the California Aqueduct for both commercial and State Water Project use. In 1994, the Department upgraded the backup computer for the Project Operations Control Center. The Department relocated the Control Center in 1995. In 1997, the Department installed additional electronic control, instrumentation and communication equipment.

*Hyatt Pump-Turbine Refurbishment.* The Hyatt Powerplant is located on the Feather River near the town of Oroville, in Butte County, California. The power plant is located within Oroville Dam. It is an underground facility with three reversible pump-turbine units and three turbine units. This refurbishment work improved unit availability and reliability, and increased efficiencies to the highest extent possible while reducing potential environmental concerns. The major refurbishment work was completed in September 2007 and consisted of replacing the runners, wicket gates, bushings, shaft sleeves, guide bearings, and refurbishing water passages.

*Edmonston Pump Replacement.* The A.D. Edmonston Pumping Plant has 14 pump units used to pump California Aqueduct water over the Tehachapi Mountains into Southern California. The plant was designed with the capacity to convey 2.5 million acre-feet of Annual Table A Amounts (defined below) to Southern California. In recent years, the plant has been pumping near its maximum capacity; therefore, the units' reliability and availability have become extremely critical to the objectives of the State Water Project. The main objectives of the replacement project are to increase pump reliability, availability, and efficiency while reducing maintenance needs. In August 2001, the design was started to replace the four defective pumps. The first pump was completed in June 2007. The installation and testing of the remaining three pumps was completed in 2012.

*Coastal Branch – Phase II.* The Coastal Branch – Phase II consists of approximately 100 miles of pipeline between the existing Phase I terminus in Kern County near Devil's Den and a terminus located approximately 3.2 miles south of the town of Casmalia, California, on Vandenberg Air Force Base, and includes three pumping plants and related facilities and three water storage tanks. Construction was completed in 1997. This Water System Project is currently operated and maintained for the Department by the Central Coast Water Authority.

*East Branch Extension – Phase I.* The East Branch Extension facilities are being constructed in two phases. Phase I consists of new pipelines, three pump stations, a reservoir, and other appurtenant facilities between the existing Foothill Feeder downstream of Devil Canyon Powerplant and the terminus at the Noble Creek Spreading Grounds near the City of Beaumont in Riverside County. The new facilities join existing conveyance facilities constructed by the San Bernardino Valley Municipal Water District and allow the San Geronio Pass Water Agency to receive deliveries of water. Construction of Phase I facilities was completed in 2003.

Reserve pump units were also added to Greenspot, Crafton Hills and Cherry Valley pump stations to provide increased pumping reliability. The preliminary work for installation of these units began in 2005 and the installation was completed in June 2008.

*East Branch Extension – Phase I Improvements.* The East Branch Extension – Phase I Improvements project includes the enlargement of the Crafton Hills Reservoir and construction of the Yucaipa Connector Pipeline. The existing reservoir will be enlarged from 85 acre-feet to approximately 220 acre-feet to provide operational flexibility, system reliability, and a reduction in energy impacts and costs. Enlargement of the reservoir will allow the Department to fill the reservoir during off-peak periods of the day. Construction of the connector pipeline will allow continued deliveries of water in the East

Branch Extension while the reservoir is being enlarged and during future outages of the reservoir. Construction of the pipeline and reservoir began in 2010 and was completed in 2014.

*South Bay Aqueduct Rehabilitation.* The South Bay Aqueduct was constructed in the early 1960's. After nearly 30 years of operation, it was in need of numerous repairs and rehabilitation work. It was also necessary to make improvements to the original system to accommodate environmental and operational requirements. The repairs consisted of work items such as replacement of old, deteriorating valves, repairs to pipe linings at numerous locations, complete replacement of the lining of the two steel discharge lines at South Bay Pumping Plant, and repairs to access structures that had been flooded numerous times due to their proximity to existing drainages. The improvements included adding a guard valve at all blow off structures (to allow for future valve repairs/replacements without dewatering the pipeline), adding a second air valve at all high points in the pipelines, constructing access structures at numerous locations where access manholes were buried (prior to environmental considerations related to access), and raising the tops of access structures to prevent future overtopping during high flows in drainages. The project was completed in 2004.

*South Bay Aqueduct Enlargement and Improvement.* The South Bay Aqueduct Enlargement will provide the additional capacity required to meet projected increases in water demand in the service area of Alameda County Flood Control and Water Conservation District, Zone 7. The South Bay Aqueduct Improvement will increase the existing capacity to provide the original design capacity of the South Bay Aqueduct. The South Bay Aqueduct Enlargement and Improvement work is being incorporated into a combined project to minimize overall costs and impacts. Major features include enlargement of the South Bay Pumping Plant; construction of a third discharge line and surge tank; construction of the 500 acre-foot Dyer Reservoir; seismic improvements to surge tanks 1 and 2, and modifications to the canal. Construction on the pumping plant and the discharge line began August 2006 and in 2007, respectively. Construction of Dyer Reservoir, the canal modifications and a 69 kv transmission line from Banks Pumping Plant to South Bay Pumping Plant began in 2010. Overall project work was completed in 2016.

***The following Water System Projects have not yet been completed:***

*East Branch Enlargement – Phase II.* The Phase II enlargement, which will increase the capacity of Pearblossom Pumping Plant from 2010 cfs to 2876 cfs, has been indefinitely suspended at the request of the related Water Contractors. The Phase II enlargement consists of canal embankment and concrete lining; constructing additional siphon barrels; adding bays to check structures; adding two pump/motor units and a discharge line at Pearblossom Pumping Plant; raising overcrossing structures such as bridges, pipelines, and overchutes and extending underdrains.

*North Bay Aqueduct Alternate Intake Project.* The North Bay Aqueduct Alternate Intake Project will include the construction of a new point of diversion along the Sacramento River or its tributaries, a new pumping plant, an inline storage tank, and up to 30 miles of underground pipeline that will connect to the existing North Bay Aqueduct. The estimated capacity of the new facilities is 240 cfs. The purpose for this project is to enhance the quality, reliability and quantity of water deliveries to State Water Project Contractors while reducing impacts to endangered aquatic species. Solano County Water Agency and Napa County Flood Control and Water Conservation District receive water from the North Bay Aqueduct.

Phase I of this project included work by the Department and environmental consultants to develop required State and federal environmental documentation, acquire temporary entry permits and conduct environmental surveys leading to a Notice of Determination (“NOD”) and Record of Decision (“ROD”), to acquire project environmental permits. Work on Phase I is scheduled to be completed in 2016. Phase II of this project is expected to begin once the NOD and ROD are filed and includes acquisition of the necessary land and right of way, required permits, and the design and construction of this project. Phase II is expected to be completed by December 2021.

*SWP Communications System Replacement.* In 2004, the Department began replacing the existing communications system for the State Water Project. The new communications system equipment will be installed at the various area control centers, plants, and check structures along the aqueduct and at other various operation, administration and headquarters facilities. Leased back-up facilities will also be upgraded. This project is anticipated to be completed in 2018.

*Arroyo Pasajero Program.* The Arroyo Pasajero Program consists of facilities and measures designed to protect the California Aqueduct from flood waters, sedimentation, and asbestos contamination carried by ephemeral streams such as the Arroyo Pasajero Creek. The projects in the program, which are located near the town of Coalinga in Fresno County, California, are expected to be completed in 2017.

*Delta Facilities Program.* The Delta Facilities Program consists of projects and measures in the Sacramento-San Joaquin Delta area, and in the vicinity of rivers and tributaries to rivers that flow into the Sacramento-San Joaquin Delta, that are designed to (1) increase water supply by increasing the efficiency of water transfer through the Delta, (2) improve water quality, and (3) reduce or mitigate for fish losses caused by pumping. The projects and measures include dredging, channel improvements, flow control structures, seismic studies and environmental mitigation measures.

*Tehachapi East Afterbay.* The Tehachapi East Afterbay Project (“TEA”) provides additional afterbay storage for the Valley String Pumping Plants (Buena Vista, Teerink, Chrisman, Edmonston). The previous Tehachapi Afterbay (Pool 42) consisted of the canal section from Porter Tunnel, which bifurcates to the West Branch to Oso Pumping Plant and to the East Branch to Alamo Powerplant and Cottonwood Chutes. The TEA located adjacent to the existing Tehachapi Afterbay, provides storage accessible to both the East Branch and to a lesser extent, the West Branch. The additional storage provided by the TEA reduces power costs by shifting on-peak power consumption to off-peak, increasing ancillary services capability, and providing other benefits of increased operational flexibility. Operation of the TEA began in 2006 and construction was completed in 2007. The original Antelope Valley – East Kern Water Agency turnout was removed during construction and the replacement turnout was completed in 2014. The construction of the TEA required a Habitat Conservation Plan to be completed as part of the integration. Completion of the mitigation components is anticipated in 2017.

*Perris Dam Remediation Program.* Perris Dam Remediation Program contains three main project components: dam foundation remediation, outlet tower retrofit/replacement, and an emergency release conveyance facility. Each project component requires examining numerous operational and remedial alternatives, cost analyses, scheduling, cost estimating, selecting the preferred alternative, required environmental permitting and CEQA documentation, preliminary to the final design, construction, and program closeout. This program is required due to a 2005 Department study that concluded that roughly 2,300-feet of the left reach of Perris Dam’s foundation was potentially liquefiable when subjected to a maximum credible earthquake. In late 2005, the Department implemented a reservoir restriction lowering the water level in the reservoir by about 25 feet which reduced the amount of water stored in the reservoir to about 75,000 acre-feet. This restriction will remain in place as the Department evaluates alternatives for repair of the dam. An initial 2006 Department study concluded that the latest seismic loading would also potentially subject the outlet tower to shear failure. Subsequent non-linear analyses performed by a DWR consultant, and supported by an independent Division of Safety of Dams’ study, concluded that the tower will indeed sustain damage, but will maintain a level of operational reliability following the current maximum credible earthquake loading; therefore, the scope of the outlet tower retrofit/replacement project is reduced to a tower and outlet works retrofit. Lastly, the construction of thousands of new homes immediately downstream of the Perris Dam requires facility improvements to channel an emergency reservoir release to the Perris Valley Drain in the event of a potential catastrophic dam failure. In December 2006, the Department completed a study identifying various repair options, began additional geologic exploration along the base of Perris Dam and started preliminary design. The dam foundation remediation is scheduled to be completed in 2017. The completion of this project

component will return the dam's operational capacity to its historical level. The final design for the tower retrofit project is expected to begin near the end of 2016, with construction expected to be completed by the end of 2018. The draft EIR for the emergency release conveyance facility is expected to be released in the fall of 2016, with construction expected to be completed in 2021. Water stored in Lake Perris is used primarily by Metropolitan. Accordingly, Metropolitan is the majority contributor toward the cost of these project components under its State Water Contract.

*Facilities Reconstruction and Improvement Project.* The Facilities Reconstruction and Improvement Project consists of reconstructions, additions and betterments to water conservation or transportation facilities existing as of January 1, 1987, and to all other facilities described in the Water System Revenue Bond Amendment of the Water Supply Contracts. (See "THE WATER SUPPLY CONTRACTS – Amendments Providing Certain Revenues to Pay Water System Revenue Bonds.")

*Thermalito Powerplant Clean-up and Reconstruction.* The project includes stabilizing the plant structure, providing interim power back into the plant, returning essential plant systems back into service, clean-up of the plant, and decontamination of the plant. The project also includes completing an assessment of plant systems to determine equipment disposition, developing a strategic recovery plan with associated costs, and completing a value engineering study to evaluate alternatives associated with the partial or total rebuild of the Thermalito Powerplant. The mechanical refurbishment and reassembly of the generating units continues with the refurbishment and reassembly of Unit 4 completed, and the refurbishment and reassembly of Unit 2, Unit 3 and Unit 1 at approximately 65 percent, 35 percent, and 20 percent, respectively. The design of the new fire protection and life safety improvements are at approximately 95 percent; and the design for the new electrical, protection, controls, and communication systems is at approximately 90 percent, with plans to bid these two projects prior to the end of 2016. The Department expects the Thermalito Powerplant to return to full service by the end of 2018. This event has not had, and will not have, a material adverse impact on the Department's ability to operate and maintain the State Water Project. The costs for rebuilding the Thermalito Powerplant will be financed with Bonds. The second phase of this project is to restore and modernize the facility and has an anticipated completion date of 2019. (See "POWER OPERATIONS OF THE STATE WATER PROJECT – Thermalito Powerplant Fire.")

#### *FERC Relicensing - State Water Project*

##### (a) Oroville Facilities

The Oroville Facilities are operated by the Department under a license issued by FERC. The project's original license was for 50 years and it expired on January 31, 2007. Since the license expired, the Department has been operating the facilities under an annual license while it works to secure a long term license. The Department anticipates it will receive a new license having a term of 30 to 50 years. (See "POWER OPERATIONS OF THE STATE WATER PROJECT –Oroville Facilities Relicensing Program.")

##### (b) South State Water Project Hydropower

Hydroelectric facilities along the East Branch and West Branch of the State Water Project are operated under a separate FERC license (Project No. 2426). The term of the original license was 50 years and the license will expire on January 31, 2022. The expenses related to the initial license were considered part of the original facilities development costs.

The Department has initiated efforts to relicense the facilities and will be seeking new licenses having 30 to 50 year terms. Castaic Powerplant, located at the south end of the West Branch, is owned and operated by the Los Angeles Department of Water and Power ("LADWP") under a cooperative

development agreement with the Department. As such, the Department and LADWP are joint-licensees for this facility under the existing license. Energy generated by this facility, and certain operations and maintenance costs, are shared by the Department and LADWP in accordance with the terms of the cooperative agreement.

The Department and LADWP have executed a relicensing agreement that defines how the cost of relicensing will be divided. The new license will also include new conditions and mitigation measures that the Department and LADWP will be required to comply with, in order to maintain the license in good standing. The magnitude of these mitigation costs will not be known until after the application is filed with FERC in 2020.

*Project Planning Costs.* The Department will be reimbursed for the costs of study or planning of potential Water System Projects. Among the facilities that have been or may be studied are the Coastal Branch of the California Aqueduct; the Arroyo Pasajero Program; the Delta Facilities Program; and additional conservation facilities. When the Department determines the actual facility to be acquired and constructed in any given case and that such facility will be financed with Bonds, such facility is designated as a Water System Project.

*East Branch Extension – Phase II.* Current East Branch Extension Phase I pumping capacity is limited to less than one-half of its total pumping capacity due to the size of the San Bernardino Valley Municipal Water District pipeline. East Branch Extension Phase II will allow 100 percent pumping capacity and will consist of approximately six miles of a new Mentone pipeline, a new Citrus pump station, a new Citrus Reservoir, an enlargement of the Crafton Hills Pump Station, and an additional pump unit for the Cherry Valley Pump Station. East Branch Extension Phase II reconnaissance level planning began in 2002. Work on the EIR and preliminary design started in 2006, final design began in 2008 and construction began in 2012. Completion of the Phase II facilities is anticipated in 2019.



**APPENDIX I**

**LETTERS FROM CERTAIN UNDERWRITERS**

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September 30, 2016

Mr. Blake Fowler, Director  
Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 261  
Sacramento, CA 95814  
Email: [bfowler@treasurer.ca.gov](mailto:bfowler@treasurer.ca.gov)

CC: Ms. Lisa Toms  
Department of Water Resources  
1416 Ninth Street  
Sacramento, CA 95814  
Email: [lisa.toms@water.ca.gov](mailto:lisa.toms@water.ca.gov)

**Re:** Department of Water Resources Central Valley Project Water System Bonds

Dear Sir:

Academy Securities, Inc., Co-Managing Underwriter on the upcoming State of California Department of Water Resources Central Valley Project Water System Revenue Bonds, Series AW transaction, intends to enter into distribution agreements (the "Distribution Agreements") with The Vanguard Group, Higgins Capital Management Inc., TD Ameritrade Inc., BNY Mellon Capital Markets LLC, R. Seelaus & Co, World First Financial Services Inc., Securevest Financial Group, Crews & Associates Inc., Ross Sinclair & Associates LLC, SWBC Investment Services, Inc., W.H. Mell Associates, Inc., Intercoastal Capital Markets, Inc., UnionBanc Investment Services LLC, Janney Montgomery Scott LLC, and Aegis Capital Corp. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

**ACADEMY SECURITIES, INC.**



October 3, 2016

**Citigroup Global Markets Inc.**  
Municipal Securities Division  
444 S. Flower St., 27<sup>th</sup> Floor  
Los Angeles, CA 90071

Blake Fowler  
Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

Re: California Department of Water Resources  
Central Valley Project Water System Revenue Bonds, Series AW

Dear Mr. Fowler:

Citigroup Global Markets Inc., one of the Underwriters of the bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the bonds.

Sincerely,

CITIGROUP GLOBAL MARKETS INC.



October 3, 2016

Mr. Blake Fowler  
Director, Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

**RE: Department of Water Resources Central Valley Project Water System Bonds**

Dear Mr. Fowler:

Hutchinson, Shockey, Erley & Co. (“HSE”), a co-managing underwriter for the above-referenced transaction, has entered into a distribution agreement with Neighborly Securities, Inc. (NSI). In certain securities offerings in which HSE serves as an underwriter, this distribution agreement provides for NSI to distribute securities to retail investors at original issue prices. As part of this agreement, HSE will share with NSI a portion of its underwriting compensation attributable to those securities successfully distributed by NSI.

Very truly yours,

Hutchinson, Shockey, Erley & Co.

# J.P.Morgan

September 26, 2016

Mr. Blake Fowler  
Director, Public Finance Division  
State Treasurer's Office  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

RE: California Department of Water Resources Central Valley Project Water System Revenue Bonds, Series AW (the "Bonds")

Dear Mr. Fowler:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

**J.P. MORGAN SECURITIES LLC**

cc: Lisa Toms, Department of Water Resources

# Morgan Stanley

September 30, 2016

Mr. Blake Fowler  
Director, Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

RE: State of California Department of Water Resources  
Central Valley Project Water System Revenue Bonds, Series AW

Dear Mr. Fowler:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement.

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

Morgan Stanley & Co. LLC

CC: Lisa Toms, California Department of Water Resources

September 27, 2016



Mr. Blake Fowler  
Director of Public Finance  
Office of the Treasurer of the State of California  
Public Finance Division  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

**RE: STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES  
CENTRAL VALLEY PROJECT WATER SYSTEM REVENUE BONDS, SERIES AW**

Dear Mr. Fowler,

Piper Jaffray & Co. is providing the following language for inclusion in the Official Statement.

Piper Jaffray & Co. and UnionBanc Investment Securities LLC (“UnionBanc”) entered into an agreement (the “Agreement”) which enables UnionBanc to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the State of California Department of Water Resources Central Valley Project Water System Revenue Bonds, Series AW (the “Bonds”). Under the Agreement, Piper Jaffray & Co. will share with UnionBanc a portion of the fee or commission paid to Piper Jaffray.

The contact information for UnionBanc is as follows:

<b>Name</b>	<b>Address</b>	<b>Email</b>	<b>Telephone</b>
Craig Burrell	445 S. Figueroa Street, 11th Floor Los Angeles, CA 90071	craig.burrell@unionbank.com	(213) 236-7484
Shane Triplett	445 S. Figueroa Street, 11th Floor Los Angeles, CA 90071	shane.triplett@unionbank.com	(213) 236-6128

Sincerely,

Piper Jaffray & Co.

cc: Lisa Toms, State of California Department of Water Resources





September 28, 2016

Mr. Blake Fowler  
Director, Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 110  
Sacramento, CA 95814

Re: State of California Department of Water Resources  
Central Valley Project Water System Revenue Bonds, Series AW (the "Bonds")

Dear Mr. Fowler:

Siebert Cisneros Shank & Co., L.L.C. (formerly known as Siebert Brandford Shank & Co., L.L.C.) ("SCS") has entered into an agreement with Muriel Siebert & Co. for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Muriel Siebert & Co. will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Muriel Siebert & Co. sells. SCS will share a portion of its underwriting compensation with Muriel Siebert & Co., if applicable.

Sincerely,

Siebert Cisneros Shank & Co., L.L.C.

CC: Alicia Ramirez, California Department of Water Resources

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