

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, 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 A Notes 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 A Notes is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Notes, including whether interest on the Series A Notes is included in adjusted current earnings when calculating corporate alternative minimum taxable income. See "TAX MATTERS" herein.

\$127,630,000
CONTRA COSTA WATER DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
WATER REVENUE NOTES, SERIES A

Dated: Date of Delivery

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

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

The Contra Costa Water District Water Revenue Notes, Series A (the "Series A Notes") are being issued by the Contra Costa Water District ("the District") to provide funds, together with other available moneys, (1) to refinance all of the District's currently outstanding tax-exempt commercial paper notes (the "Commercial Paper"), (2) to finance a portion of the costs relating to the District's Middle River Intake Project and Los Vaqueros Reservoir Expansion Project and other future capital costs of the District, as more fully described herein, (3) to fund a portion of interest payable on the Series A Notes, and (4) to pay the costs of issuance of the Series A Notes, as more fully described herein. See "PLAN OF FINANCE" herein.

Interest on the Series A Notes is payable on October 1, 2010, and semiannually thereafter on April 1 and October 1 of each year. Principal is payable on the dates set forth on the inside cover of this Official Statement. The Series A Notes are being issued in fully registered form and, when issued, will be 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 of the Series A Notes. Individual purchases of interests in the Series A Notes will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the Series A Notes. Principal of and interest on the Series A Notes are payable directly by U.S. Bank National Association, as trustee (the "Trustee"), to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series A Notes, as described herein. See APPENDIX G – "DTC DESCRIPTION."

The Series A Notes are not subject to redemption prior to maturity.

The Series A Notes are special obligations of the District, payable solely from Available Mezzanine Revenues of the System (as those terms are defined in the Note Trust Agreement, dated as of June 1, 2010 (the "Trust Agreement"), between the District and U.S. Bank National Association, as trustee (the "Trustee")) and are secured by a pledge of Revenues; provided, however, that out of Revenues first there shall be applied all sums required for the payment of Maintenance and Operation Costs (as these terms are herein defined) and second payment of debt service and certain other payments on the Senior Debt (as defined herein). **Payments on the Series A Notes are subordinate to payments on the Senior Debt.** See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Pledge of Revenues" for further details about the payments relating to Senior Debt and see also " – Outstanding Debt of the District - Senior Debt" for a discussion of the outstanding Senior Debt of the District.

The faith and credit of the District is NOT pledged to the payment of the principal of or interest on the Series A Notes.

The Series A Notes are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bold, Polisner, Maddow, Nelson & Judson, A Professional Corporation, Walnut Creek, California will pass on certain legal matters for the District and Stradling Yocca Carlson & Rauth, A Professional Corporation, Sacramento, California, will pass on certain legal matters for the Underwriters. It is anticipated that the Series A Notes, in book-entry form, will be available for delivery to the Trustee on behalf of DTC by Fast Automated Securities Transfer on or about June 30, 2010.

CONTRA COSTA WATER DISTRICT

SERIES A NOTES

MATURITY SCHEDULE

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>Number</u> [†]
2011	\$30,000,000	2.00%	0.70%	212218PE5
2012	27,830,000	1.00	1.00	212218PF2
2013	1,125,000	1.75	1.35	212218PG0
2013	2,500,000	2.50	1.35	212218PL9
2013	3,000,000	3.00	1.35	212218PM7
2013	9,000,000	3.50	1.35	212218PN5
2013	15,000,000	4.00	1.35	212218PK1
2014	2,455,000	2.00	1.73	212218PH8
2014	3,200,000	3.00	1.73	212218PP0
2015	1,820,000	2.50	2.08	212218PJ4
2015	20,000,000	3.00	2.08	212218PQ8
2015	11,700,000	4.00	2.08	212218PR6

[†] Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. and is set forth herein for convenience of reference only. Neither the District nor the purchaser(s) assumes any responsibility for the accuracy of such numbers

This Official Statement is intended only to furnish information in connection with the purchase of the Series A Notes. The Official Statement DOES NOT constitute a recommendation, expressed or implied, to purchase or not to purchase the Series A Notes or any other previous obligations or notes of the District.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. The information and expressions of opinion stated herein are subject to change without notice and neither the 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 District, DTC or others since the date hereof.

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

In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Series A Notes at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. This Official Statement is not to be construed as a contract with the purchasers of the Series A Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been furnished by the District and other sources as noted that the District believes reliable. The information and expressions of opinion herein are subject to change without notice, and neither the 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 District or the System since the date hereof. This Official Statement is submitted in connection with the sale of the Series A Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SERIES A NOTES, NOR SHALL THERE BE ANY SALE OF ANY OF THE SERIES A NOTES, BY ANY PERSON IN ANY JURISDICTION IN WHICH, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. In making an investment decision, potential investors must rely on their own examination of the District and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

The summaries and references to the Trust Agreement, the Continuing Disclosure Agreement and statutes and other documents do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such document and statute. This Official Statement including any amendment or supplement hereto is intended to be deposited with the municipal securities rulemaking board. The Series A Notes have not been registered under the Securities Act of 1933, as amended, and the Trust Agreement has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions from the registration requirements contained in such Acts. The Series A Notes have not been registered or qualified under the securities laws of any state.

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 “10-Year Capital Improvement Program and Financial Plan” and “Rate Adjustments” in the forepart of this Official Statement. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different than expected or anticipated include new legislation, increases in suppliers’ prices, particularly prices for purchased water and prices for power in connection with the operation of the Water System, changes in environmental compliance requirements, acquisitions, changes in customer water use

patterns, natural disasters such as earthquakes, and the impact of weather on operating results. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations of events, conditions or circumstances on which such statements are based occur.

CONTRA COSTA WATER DISTRICT

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\$127,630,000
CONTRA COSTA WATER DISTRICT
(CONTRA COSTA COUNTY, CALIFORNIA)
WATER REVENUE NOTES, SERIES A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the pages preceding this page and the appendices, is to set forth certain information concerning the Contra Costa Water District (the “District”), the water supply, treatment, storage, transmission and distribution system of the District (the “Water System” or the “System”) and System finances, in connection with the sale by the District of \$127,630,000 aggregate principal amount of its Water Revenue Notes, Series A (the “Series A Notes”). The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Trust Agreement (defined below).

The Series A Notes are special obligations of the District, payable solely from Available Mezzanine Revenues of the System, as defined in the Note Trust Agreement, dated as of June 1, 2010, between the District and U.S. Bank National Association, as trustee (the “Trustee”) as amended and supplemented (the “Trust Agreement”), including as amended and supplemented by a First Supplemental Note Trust Agreement, dated as of June 1, 2010, between the District and the Trustee (the “First Supplemental Trust Agreement”). The Series A Notes are secured by a pledge of Revenues; provided, however, that out of such Revenues there shall be applied **first** all sums required for the payment of Maintenance and Operation Costs (as those terms are herein defined) and **second** payment of debt service and certain other payments on the Senior Debt (as defined herein). **Payments on the Series A Notes are subordinate to payments on the Senior Debt.** See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Pledge of Revenues” for further details about the payments relating to Senior Debt and see also “ – Outstanding Debt of the District – Senior Debt” for a discussion of the outstanding Senior Debt of the District. Neither the credit nor the taxing power of the District is pledged to the payment of the Series A Notes or the interest thereon. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES -- Pledge of Revenues” herein.

PLAN OF FINANCE

The Series A Notes

The Series A Notes are being issued by the District to provide funds, together with other available moneys, (1) to refinance of all of the District’s currently outstanding tax-exempt commercial paper notes (the “Commercial Paper”), (2) to finance a portion of the costs relating to the District’s Middle River Intake Project and Los Vaqueros Reservoir Expansion Project and other future capital costs of the District, as more fully described herein, (3) to fund a portion of interest payable on the Series A Notes, and (4) to pay the costs of issuance of the Series A Notes.

The principal amount of the Series A Notes maturing on October 1, 2011 is anticipated by the District to be paid with grant funds expected to be received from the State of California Department of Water Resources. Upon maturity of the remaining Series A Notes (and the Series A Notes maturing on October 1, 2011, if the expected grant moneys are not received on a timely basis from the State of California Department of Water Resources), the District intends to issue additional Notes to refinance the Series A Notes. Thereafter, the District expects to continuously refund maturing Notes until fiscal year 2020, at which time the District expects to issue Senior Debt to refinance the then-outstanding refunding Notes. See the table entitled “Total District Debt Service – Including Debt Financing for MRIP/LVE” under the caption “WATER SYSTEM FINANCES – 10-Year Capital Improvement Program and Financing Plan” in this Official Statement for a description of the District’s debt incurrence plans.

Pursuant to the Note Trust Agreement, in order to issue additional Notes, including refunding Notes, the Mezzanine Debt Service Coverage Ratio must at least equal 1.25:1.0. The District plans to designate the principal payments on the Series A Notes as Excluded Principal Payments under the Trust Agreement because the District intends to pay the Series A Notes at maturity with moneys which are not Revenues. Accordingly, Assumed Debt Service rather than the actual principal payments on the Series A Notes will be included when calculating Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio. Assumed Debt Service is calculated by amortizing Excluded Principal Payments over a period specified by the District of not more than 30 years on a substantially level debt basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a financial advisor or investment banker. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues.”

There is no assurance that the District will be able to issue additional Notes or Senior Debt to refinance the Series A Notes or other Notes. If the District is unable to issue additional Notes or Senior Debt to refinance the Series A Notes or additional Notes, it is required to pay the Series A Notes or additional Notes from Available Mezzanine Revenues. If Senior Debt is issued to refinance Series A Notes as they mature, such Senior Debt would be senior to any remaining outstanding Series A Notes.

ESTIMATED SOURCES AND USES OF FUNDS

Sources:	Principal amount of the Series A Notes	\$127,630,000.00
	Plus Net Original Issue Premium	4,875,118.15
		\$132,505,118.15
	TOTAL SOURCES	\$132,505,118.15
Uses:	Retirement of Commercial Paper	\$79,000,000.00
	Deposit to Project Fund	50,819,278.92
	Capitalized Interest ⁽¹⁾	2,127,021.42
	Underwriters’ Discount	218,332.47
	Costs of Issuance ⁽²⁾	340,485.34
		\$132,505,118.15
	TOTAL USES	\$132,505,118.15

⁽¹⁾ Assumes capitalized interest on the Series A Notes through April 1, 2011.

⁽²⁾ Includes: District Counsel’s fees, Bond Counsel’s fee, Financial Advisor’s fee, Trustee’s fees, printing costs, rating agency fees, and other costs incurred in connection with the issuance of the Series A Notes.

THE SERIES A NOTES

General Description

The Series A Notes are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository of the Series A Notes. Individual purchases of ownership interests in the Series A Notes will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See “APPENDIX G – DTC DESCRIPTION.”

The Series A Notes are dated as of their date of delivery, and bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. Interest on the Series A Notes is payable on October 1, 2010, and semiannually thereafter on April 1 and October 1 in each year, calculated on the basis of a 360-day year comprised of twelve 30-day months. Principal of and interest on the Series A Notes are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series A Notes.

The Series A Notes are authorized for issuance pursuant to the Trust Agreement and in accordance with the County Water District Law (constituting Division 12 of the California Water Code) and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Law”).

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES

General

The Series A Notes are revenue notes and are payable, as to both principal and interest thereof, exclusively from the Available Mezzanine Revenues of the System. Neither the credit nor the taxing power of the District is pledged to the payment of the Series A Notes. The owners of the Series A Notes cannot compel the exercise of any taxing power of the District or the forfeiture of any of its property. The Series A Notes are not a legal or equitable pledge, charge, lien or encumbrance upon any of the District’s property (including the System) or upon any of its income, receipts or revenues except the Revenues of the System to the extent of the pledge thereof contained in the Trust Agreement. Amounts held from time to time in the Interest Fund, Principal Fund and Redemption Fund are also pledged to secure the payment of the Series A Notes. **Payments on the Series A Notes are subordinate to payments on the Senior Debt.**

Pledge of Revenues

The Revenues, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein and as described below, are pledged to the payment of the Contra Costa Water District Water Revenue Notes authorized by, and at any time outstanding pursuant to, the Trust Agreement, including the Series A Notes (collectively, the “Notes”) and any Parity Mezzanine Debt issued in accordance with the Trust Agreement. The pledge of Revenues constitutes a charge and lien on and security interest in such assets.

The Revenues are pledged to the payment of the Notes and Parity Mezzanine Debt without priority or distinction of one over the other, subject to the condition that out of the Revenues:

First: There shall be applied all sums required for the payment of Maintenance and Operation Costs.

Second: In accordance with the Senior Bond Resolution, there shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Senior Debt, together with any sinking fund or reserve fund payments on the Senior Debt and any deposits required to the Senior Bond Reserve Fund under the Senior Bond Resolution.

Third: There shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Notes and all Parity Mezzanine Debt, together with any reserve fund payments of Notes and Parity Mezzanine Debt.

All remaining Revenues, after making the foregoing allocation, are available to the District for all lawful District purposes. The pledge of Revenues is irrevocable until all of the Notes and all Parity Mezzanine Debt are no longer Outstanding.

“Revenues” is generally defined in the Trust Agreement to mean all charges received for, and all other income and receipts derived by the District from, the operation of the System or arising from the System, together with any receipts derived from the sale of any property pertaining to the System or incidental to the operation of the System, together with all interest, profits and other income derived from the investment of moneys in any fund or account established under the Trust Agreement or under the Senior Bond Resolution (other than any fund established pursuant to a Tax Certificate) or any other fund or account established by the District (including interest income from the investment of moneys in deferred compensation funds) but exclusive of any moneys derived from the levy or collection of taxes or assessments by the District. See APPENDIX B -- SUMMARY OF THE TRUST AGREEMENT.

“Maintenance and Operation Costs” is generally defined in the Trust Agreement to mean (i) the reasonable and necessary costs of maintaining and operating the System, calculated in accordance with generally accepted accounting principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, and (ii) Purchased Water Costs (as defined in APPENDIX B -- SUMMARY OF THE TRUST AGREEMENT -- Definitions hereto), but excluding in all cases (a) depreciation and obsolescence charges or reserves therefore, amortization of intangibles, losses or gains on subsidiaries accounted for on an equity basis, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the District, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the District (other than Purchased Water Costs).

“Senior Bond Resolution” means Resolution No. 87-50, adopted on the 15th day of October, 1987, by the Board of Directors of the District, providing for the issuance of Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds (also referred to herein as “Senior Bonds,”) as it may from time to time be supplemented, modified, or amended by any supplemental resolution of the Board of Directors of the District in accordance with the terms of the Senior Bond Resolution.

“Senior Debt” means Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds issued pursuant to the Senior Bond Resolution and Parity Debt (as defined in the Senior Bond Resolution, referred to herein as “Senior Parity Debt”). As of June 1, 2010, the District has outstanding Senior Debt in the aggregate principal amount of \$483,449,582. See “Outstanding Debt of the District – Senior Debt” below.

Rate Covenant; Debt Coverage

So long as any of the Notes are outstanding, the District will, to the fullest extent permitted by law, fix, charge and collect, or cause to be fixed, charged and collected, such rates, fees and charges for the use of and for the services furnished or to be furnished by the System which, together with all other receipts and revenues of the District, will produce sufficient Net Revenues in each Fiscal Year so that the Annual Mezzanine Debt Service Coverage Ratio (which is the ratio of Net Revenues to Annual Debt Service) at the end of each Fiscal Year is not less than 1.25:1.0. The District may make adjustments from time to time in such rates, fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce such rates, fees and charges below those then in effect unless the Net Revenues from such reduced rates will at all times be sufficient to meet the Annual Mezzanine Debt Service Coverage Ratio requirements. The District covenants in the Trust Agreement that it shall increase such rates, fees and charges to produce Net Revenues sufficient to meet such requirements.

See APPENDIX B – “SUMMARY OF THE TRUST AGREEMENT – DEFINITIONS” for definitions of certain capitalized terms used herein.

Rate Stabilization Fund

The District is required by the Senior Bond Resolution to maintain and hold a separate fund to be known as the “Rate Stabilization Fund.” **The Rate Stabilization Fund is not pledged to secure the payment of the Notes.** From time to time the District may deposit in the Rate Stabilization Fund from Revenues remaining after provision for debt service as described under “Pledge of Revenues” herein, such amounts as the District shall determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred twenty (120) days following the end of such Fiscal Year. The District may withdraw amounts from the Rate Stabilization Fund only for inclusion in Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred and twenty (120) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn there from and accounted for as Revenues. Notwithstanding the foregoing, no deposit of Revenues to the Rate Stabilization Fund may be made to the extent such Revenues were included in an engineer’s or accountant’s certificate submitted in accordance with the Senior Bond Resolution and withdrawal of the Revenues to be deposited in the Rate Stabilization Fund from the Revenues employed in rendering said engineer’s or accountant’s certificate would cause noncompliance with provisions of the Senior Bond Resolution. The Rate Stabilization Fund was established and is being maintained to assist the District to manage rates in connection with the issuance of Senior Debt. As of May 1, 2010, the balance in such fund was \$56,880,000. The moneys in the Rate Stabilization Fund are available to assist in compliance with the rate covenant described herein.

No Debt Service Reserve Fund

A debt service reserve fund has not been established or funded for the Series A Notes.

Allocation of Available Mezzanine Revenues under the Trust Agreement

So long as any Notes are outstanding, the District shall transfer Available Mezzanine Revenues to the Trustee for deposit in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the owners of the Notes) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Available Mezzanine Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

- First: The District shall deposit with the Trustee in the Interest Fund, at least one Business Day before each interest payment date, an amount sufficient, together with any balance on hand in the Interest Fund, to pay interest becoming due and payable on the Notes on such interest payment date; and
- Second: The District shall deposit with the Trustee in the Principal Fund, (i) at least one Business Day before each principal payment date, an amount sufficient, together with any balance on hand in the Principal Fund, to pay principal becoming due and payable on the Notes on such principal payment date.

All moneys in the Interest Fund, the Principal Fund and Redemption Fund are pledged to the punctual payment of the principal of and interest on the Notes.

Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues

The District will not, so long as any of the Notes are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Available Mezzanine Revenues except the following:

- (a) Notes payable from Available Mezzanine Revenues and secured by the pledge of Revenues made under the Trust Agreement equally and ratably with Notes previously issued, provided that the following conditions are satisfied:
- (i) No Event of Default shall have occurred and will be continuing after the issuance of such additional Series of Notes.
 - (ii) The aggregate principal amount of Notes issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Trust Agreement.
 - (iii) Either
 - (A) the Mezzanine Debt Service Coverage Ratio (which is the ratio of Net Revenues to Maximum Annual Debt Service) for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Series of Notes and including the Senior Debt, Notes and Parity Mezzanine Debt then Outstanding and such additional Series of Notes, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

- (1) if rates and charges in effect on the date upon which such Series of Notes will become Outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by the estimated increase in Available Mezzanine Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and
- (2) Net Revenues may be augmented by 75% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source) or to be constructed with the proceeds of the Series of Notes then being issued;

or (B)

- (1) The District has complied with the Annual Mezzanine Debt Service Coverage Ratio requirement described in “Rate Covenant; Debt Coverage” for the most recent Fiscal Year for which audited financial statements are available; and
 - (2) the Mezzanine Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional Series of Notes (or, if later, the first full Fiscal Year in which less than ten percent (10%) of the interest coming due on such additional Series of Notes is to be paid from the proceeds of such Notes) is projected to be at least equal to 1.25:1.0.
- (b) Refunding Notes in an aggregate principal amount sufficient (together with other available funds) to pay the principal or redemption price of all outstanding Notes or Parity Mezzanine Debt to be refunded, all expenses incident to the calling, retiring or paying of such Outstanding Notes or Parity Mezzanine Debt and the costs of issuance of such refunding Notes, interest on all Outstanding Notes or Parity Mezzanine Debt to be refunded to the date such Notes or Parity Mezzanine Debt will be called for redemption or paid at maturity and interest on the refunding Notes from the date thereof to the date of payment or redemption of the Notes or Parity Mezzanine Debt to be refunded.

The requirements for the issuance of Refunding Notes include among others that the District must deliver a certificate certifying the following:

- (i) Either
 - (A) the Mezzanine Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Series of Notes and including the Senior Debt, Notes and Parity Mezzanine Debt then Outstanding and such additional Series of Notes, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

- (1) if rates and charges in effect on the date upon which such Series of Notes will become Outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by the estimated increase in Available Mezzanine Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and
- (2) Net Revenues may be augmented by 75% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source);

Or (B):

- (1) the District has complied with the Annual Mezzanine Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available; and
- (2) the Mezzanine Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional series of Notes is projected to be at least equal to 1.25:1.0;

(c) Parity Mezzanine Debt payable on a parity with the outstanding Notes and which will have, when issued, an equal lien and charge upon the Revenues, provided that the following conditions to the issuance of such Parity Mezzanine Debt are satisfied:

- (i) Such Parity Mezzanine Debt has been duly and legally authorized for any lawful purpose.
- (ii) No Event of Default shall have occurred and will be continuing after the issuance of such obligations or securities, as evidenced in a Certificate of the District filed with the Trustee.

(iii) Either:

(A) The District delivers to the Trustee a Certificate of the District evidencing that the Mezzanine Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Parity Mezzanine Debt and including Senior Debt, the Notes and Parity Mezzanine Debt then outstanding and such additional Parity Mezzanine Debt, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

- (1) if rates and charges in effect on the date upon which such Parity Mezzanine Debt will become Outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by the estimated increase

in Net Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and

- (2) Net Revenues may be augmented by 75% of the projected increase in annual Available Mezzanine Revenues to be provided by additional facilities under construction (financed from any source);

-or-

- (B) The District delivers to the Trustee a Certificate of the District to the effect that:
 - (1) the District has complied with the Mezzanine Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available; and
 - (2) the Mezzanine Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional Parity Mezzanine Debt (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such additional Parity Mezzanine Debt is to be paid from the proceeds of such Parity Mezzanine Debt) is projected to be at least equal to 1.25:1.0.
- (iv) The District delivers to the Trustee an Opinion of Bond Counsel to the effect that such Parity Mezzanine Debt has been duly authorized in accordance with the law and all prior proceedings of the District.
- (d) Obligations which are junior and subordinate to the payment of the principal, purchase price, premium and interest for the Notes and all Parity Mezzanine Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Available Mezzanine Revenues after the prior payment of all amounts required to be paid from Available Mezzanine Revenues for principal, purchase price, premium and interest for the Notes and all Parity Mezzanine Debt, as the same become due and payable and at the times and in the manner as required in the Trust Agreement.

Additionally, the District shall not issue any bonds, securities or other obligations payable from Available Mezzanine Revenues or otherwise while it is in default under any provision of the Trust Agreement, except for the sole purpose of refunding sufficient Notes or Parity Mezzanine Debt then Outstanding to cure such default.

See APPENDIX B – “SUMMARY OF THE TRUST AGREEMENT – DEFINITIONS” for definitions of certain capitalized terms used herein.

Limitations on Encumbrances

The Trust Agreement provides that the District will not mortgage or otherwise encumber, pledge, or place any charge upon the System or any part thereof, and the District will not create any pledge, lien or charge upon any of the Revenues except only as permitted by the Trust Agreement in connection with

the issuance of obligations or securities payable from Available Mezzanine Revenues as described under “Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues” above or as permitted by the Senior Bond Resolution.

Issuance of Senior Debt; Amendment of Senior Bond Resolution

The District covenants in the Trust Agreement to not issue or incur additional Senior Debt except in compliance with the Senior Bond Resolution.

Additionally, the District has covenanted in the Trust Agreement not to amend, modify or supplement the Senior Bond Resolution except in compliance with the Senior Bond Resolution. No such amendment, modification or supplement shall permit the creation of any lien on the Revenues prior to or on a parity with the lien created by the Trust Agreement without the consent of the holders of all of the Notes and Parity Mezzanine Debt then outstanding.

Provisions from Senior Bond Resolution Relating to Limitations on Issuance of Obligations Payable from Net Revenues

For a discussion of certain provisions of the Senior Bond Resolution relating to limitations on issuance of Obligations payable from Net Revenues see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES.”

Outstanding Debt of the District

Notes and Parity Mezzanine Debt. As of the date of issuance of the Series A Notes, the District will have no other Notes or other Parity Mezzanine Debt outstanding other than the Series A Notes.

Senior Debt. As described herein, the Notes, including the Series A Notes, and other Parity Mezzanine Debt are subordinate to, and payable from Net Revenues after the payment of the principal of and interest on, Senior Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Pledge of Revenues.” Senior Debt consists of the District’s Water Revenue Bonds and Water Revenue Refunding Bonds issued under the Senior Bond Resolution and Senior Parity Debt (which includes the Authority Bonds and SRF Loans described further below) issued in accordance with the additional indebtedness provisions of the Senior Bond Resolution. See APPENDIX C – “SUMMARY OF PROVISIONS OF THE SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES.” As of June 1, 2010, the District has outstanding Senior Debt in the aggregate principal amount of \$483,449,582 consisting of the following:

	Principal Amount Outstanding as of <u>June 1, 2010</u>
Senior Series E Bonds	\$ 5,550,000
Senior Series K Bonds	83,785,000
Senior Series L Bonds	94,265,000
Senior Series M Bonds	70,580,000
Senior Series N Bonds	114,555,000
Senior Series O Bonds	65,945,000
Authority Series A Bonds	32,370,000
SRF Loan 2002	10,324,612
SRF Loan 2003	1,496,251
SRF Loan 2004	<u>4,578,719</u>
Total Senior Debt	\$483,449,582

As shown in the table above, as of June 1, 2010 the District had outstanding Senior Bonds in the aggregate principal amount of \$434,680,000 issued pursuant to the Senior Bond Resolution.

Additionally, Contra Costa Water Authority Revenue Refunding Bonds, 2002 Series A (the Authority Bonds”), in the aggregate principal amount of \$32,370,000 were outstanding as of June 1, 2010. The principal of and interest on the Authority Bonds are payable from rental payments made by the District to the Contra Costa Water Authority pursuant to a Facility Lease. The District’s obligation to make rental payments constitutes Senior Parity Debt under the Senior Bond Resolution and Senior Debt under the Trust Agreement.

In June 2002, the District also borrowed \$15,137,776 (of which \$10,324,612 is outstanding as of June 1, 2010) from the State’s Safe Drinking Water Act State Revolving Fund (“SRF”) loan program. This low-interest loan covers the fundable portion under the State program of treatment process improvements at the District’s Bollman Water Treatment Plant. This loan bears interest at the rate of 2.5132% and has a 20-year term. In October 2003, the District borrowed \$2,000,000 (of which \$1,496,251 is outstanding as of June 1, 2010) from the SRF loan program. This low-interest loan covers the District’s investment in water quality improvements at its Contra Loma Dam and Reservoir. This loan bears interest at the rate of 2.39% and has a 20-year term. In May 2004, the District borrowed \$5,942,427 (of which \$4,578,719 is outstanding as of June 1, 2010) from the SRF loan program. This low-interest loan covers the District’s investment in improvements to the Sedimentation Basins at it Bollman Water Treatment Plant. This loan bears interest at the rate of 2.39% and has a 20-year term. Each of these SRF loans constitutes Senior Parity Debt under the Senior Bond Resolution and Senior Debt under the Trust Agreement.

As mentioned under the heading “Issuance of Senior Debt; Amendment of Senior Bond Resolution” and in APPENDIX C - “SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES,” the District may issue additional Senior Debt pursuant to the provisions of the Senior Bond Resolution. At this time, the District does not anticipate issuing any Senior Debt in the next five years other than potentially issuing Senior Debt to refinance the Series A Notes or further Notes when the Series A Notes or such future Notes mature.

Other Debt. In January 1997, the District authorized the issuance of \$60,000,000 of subordinate lien tax-exempt commercial paper notes (the “Commercial Paper”) to finance District capital improvements. In July 2008, the Board of Directors approved increasing the District’s Commercial Paper

program from \$60 million to \$100 million. The increase allowed the District to finance the construction of the Middle River Intake and other capital projects through the issuance of Commercial Paper. Currently, \$79,000,000 in Commercial Paper is outstanding, which proceeds were used to finance the construction of the Middle River Intake Project. A portion of the proceeds of the Series A Notes will be used to refinance all of the outstanding Commercial Paper. Upon the refinancing of the Commercial Paper from the proceeds of the Series A Notes, the Commercial Paper program will become dormant, yet it can be revived, at the District's option, if outside liquidity support is obtained for the purpose of supporting Commercial Paper issuances in the future. The Commercial Paper is subordinate to the Series A Notes and any further Notes issued under the Trust Agreement.

As described under the heading "Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues" above, the District may issue indebtedness that is junior or subordinate to the Series A Notes under the Trust Agreement.

THE CONTRA COSTA WATER DISTRICT

History and Purpose

The District was formed as a legal entity on May 9, 1936, in response to the growing water demands of Contra Costa County (the "County"). The District purchases and distributes water provided primarily by the United States Bureau of Reclamation (the "Bureau") from the Federal Government's Central Valley Project (the "CVP"). The backbone of the District's distribution system is the 48-mile Contra Costa Canal, which transports water from screened intakes in the Sacramento-San Joaquin Delta to the District's treatment plants and municipalities, industry, and local water companies. The District stores untreated water in four reservoirs. The largest reservoir, Los Vaqueros, has a capacity of 100,000 acre-feet. The District operates three water treatment plants, Ralph D. Bollman in Concord, Randall-Bold and Contra Costa Water District/City of Brentwood in Oakley. The District delivers safe, high-quality drinking water to 550,000 people in central and eastern Contra Costa County in Northern California. Formed in 1936 to provide water for irrigation and industry, the District is now one of the largest urban water districts in California and a leader in drinking water treatment technology and source water protection.

The District serves treated water directly to approximately 265,000 people in the cities of Clayton, Clyde, Concord, Pacheco, Port Costa and parts of Martinez, Pleasant Hill, and Walnut Creek. Treated water is also served to the cities of Antioch and Brentwood, the Golden State Water Company in Bay Point, and the Diablo Water District in Oakley for distribution to their respective customers.

The District also delivers untreated water to the cities of Antioch, Martinez, and Pittsburg. These cities treat the water and directly distribute it to 285,000 people within their respective service areas. Untreated water is provided to major industrial customers including Tesoro and Shell Oil Company oil refineries, General Chemical and USS-POSCO Industries, a sheet metal/sheet fabrication company.

The Contra Costa Water Authority (the "Authority") was formed in 1990 between the District and the Diablo Water District. The Authority is empowered to finance, construct, maintain, operate and make improvements to the Randall-Bold Water Treatment Plant. The Authority has been included in the District's financial statements because the District is responsible for the Authority's outstanding debt.

Service Area

The District distributes water in Central and Northeastern Contra Costa County, California. Cities and unincorporated communities served include Antioch, Bay Point, Brentwood, Clayton, Clyde,

Concord, Martinez, Oakley, Pacheco, Pittsburg and Port Costa, and portions of Pleasant Hill and Walnut Creek. The total area of the District is 137,127 acres (compared to 48,000 acres in 1936 when the District was formed).

The Projects

The District is financing two key construction projects with proceeds of the Series A Notes. The first is the Middle River Intake Project (“MRIP”). The MRIP consists of a new pumping station in the Central Delta and a two-mile extension of the pipeline system that delivers water to the Los Vaqueros Reservoir and the Contra Costa Canal. Once built, the MRIP will be capable of pumping 250 cubic feet per second from five fish-screened pumps on Victoria Island near Middle River. Construction on the project started in the summer of 2008 and will be completed in August 2010. The District has issued \$79 million of Commercial Paper in support of MRIP construction, with an additional \$4 million of financing required to complete the project. The Series A Notes will refinance the outstanding \$79 million Commercial Paper balance and provide the additional \$4 million in financing for project completion.

The second construction project is to expand the District’s Los Vaqueros Reservoir. The Los Vaqueros Expansion Project (“LVE”) will expand the existing reservoir from 100,000 acre-feet to 160,000 acre-feet, and will provide improved water supply reliability, drought supplies, and water quality benefits to the District. Total project costs are estimated at \$122 million. Project design is underway and construction is anticipated to begin in late 2010 to early 2011. The Series A Notes will provide initial funding of \$53 million toward LVE project construction. The remaining funding to complete the construction of the LVE project is expected to be provided through issuance of additional Notes.

Organization

A five-member Board of Directors elected for staggered four-year terms governs the District. The District’s five divisions contain approximately equal populations, and each elects one Director, who must be a resident of that division. The District has a staff of 330 full-time equivalent employees headed by a General Manager.

The following persons currently form the District’s Board of Directors (the “Board”):

Joseph L. Campbell, *Division 3 Director & President*

Joe Campbell was elected to the District’s Board in 1991, representing eastern Concord, Clayton, and part of Walnut Creek. He is the current Board President and has served in that capacity for more than 13 years. Mr. Campbell operated a professional engineering construction firm for 23 years until it was sold in 1989. He is currently an independent businessman. In 1988, he served as co-chairman and a key fundraiser for the successful campaign to approve bonds for the District’s \$450 million Los Vaqueros Reservoir Project, and he belonged to the steering committee for the statewide campaign against the Peripheral Canal in 1982. Until his election to the District Board, Mr. Campbell served as chair of the County Airport Land Use Commission, which regulates development that could affect air traffic safety at the county airports in Concord and Byron. He is a former vice president of the Concord Chamber of Commerce, and served as a member of the Concord General Plan Committee and the Founder Advisory Board of Concord Commercial Bank. He is on the Board of Directors of the Contra Costa Council and a member of the Concord Rotary. He is a former member of the Walnut Creek Child Care Task Force, former parade chairman for the Walnut Festival Association, former board member of the Northgate High School Sports Boosters, and a former board member for the American Red Cross. Mr. Campbell is past president and a founder of the Concord Economic Development Corporation, a partnership of the Concord Chamber of Commerce and the City of Concord.

Karl L. Wandry, *Division 5 Director & Vice President*

Karl L. Wandry was appointed to the District Board on February 5, 2003, elected in 2004, and re-elected in 2008. Mr. Wandry represents most of Antioch, Oakley, northern Brentwood, and the Los Vaqueros Reservoir Project's watershed properties. Mr. Wandry is a planning consultant with extensive experience in city and regional planning and community development throughout the region. He has served as Contra Costa County's Chief of Land Development and Zoning Administrator; Deputy Director, Community Development Department; and Advance Planner in the County Planning Department. In addition, Mr. Wandry has served as the Community Development Director for the City of Rio Vista and Supervising Planner for the City of Antioch. Mr. Wandry is a graduate of Antioch High School, and is a long time resident of eastern Contra Costa County. Mr. Wandry graduated with honors from Diablo Valley College in 1966, and Magna Cum Laude from California State University, Hayward in 1968. He went on to study for a Master's degree in Geography from the University of Victoria in British Columbia, Canada. He is a past director of the Contra Costa Child Care Council, the Boy Scouts of America Executive Board, Mt. Diablo Council, and Rio Vista Care. He is a current member of the American Institute of Certified Planners and the American Planning Association.

Bette Boatmun, *Division 4 Director*

Bette Boatmun was elected to the District Board in 1974, representing Pittsburg, Antioch, and the northeast portion of Concord. She served as president of the Board from 1990 to 1992, and vice president from 1981 to 1989. She is the former executive director of the YWCA of Contra Costa County, and continues to be active in a number of community organizations, including the Concord American Association of University Women, Sons of Italy, and Soroptomist International. She is a member of the Board of Directors for the Kennedy King Scholarship Foundation and Gallery Concord. In 2002 and 2003, she was president of the Association of California Water Agencies (ACWA), a statewide organization that represents agencies receiving approximately 90 percent of the water delivered in California, and is past chair of ACWA Region 5. She currently holds chair positions on the Governing Board of East County Water Management Association and the Contra Costa Special Districts' Association and is past chair of the Sanitation & Water Agencies of Contra Costa County. In March 2001, Ms. Boatmun was honored as the California State Assembly's "Woman of the Year" for the 11th Assembly District. Ms. Boatmun has a Bachelor of Science degree from Russell Sage College, Troy, New York, and a Master of Education from Holy Names College, Oakland, California. She was a teacher in public schools in California and New York and a consultant for the Job Corps.

John A. Burgh, *Division 2 Director*

John Burgh was appointed to the District Board in 2004, elected later that year and re-elected in 2006, representing Pleasant Hill and portions of Concord, Walnut Creek, and Martinez. He is a retired engineer who has worked on water and wastewater projects throughout the world. He has a total of 42 years of experience in the administration, project management, and design of public works projects. For 30 years of his career, he worked for an environmental engineering consulting firm, where he retired as Vice President. Prior to that, he worked for the U.S. Navy Facilities Engineering Command, the State of Alaska Department of Health and Welfare, and other consulting firms. He holds a Bachelor of Science degree from the University of Notre Dame and a Masters in Management degree from the University of New Mexico. He is a registered civil engineer in California and a Diplomat of the American Academy of Environmental Engineers. A 25-year resident of Concord, he works as a volunteer with the Clayton K9 Coalition and the Star Quest Youth Musical Program in Pleasant Hill. He is a member of Concord Friends of the Library, Pleasant Hill Rotary Club, and Contra Costa County Historical Society.

Lisa M. Borba, *Division 1 Director*

Lisa M. Borba, AICP, was appointed to the District Board in April 2010 to represent Division 1, which includes the cities and communities of Martinez, north and downtown Concord, Pacheco, Port Costa, Clyde, Bay Point, Pleasant Hill, and parts of Pittsburg. She will serve out the remainder of the previous Board member's term and stand for election to a four-year term in November 2010. A resident of Concord, she is a professional land planner certified by the American Institute of Certified Planners and currently employed by a private land development company. She started her planning career in 1990 after earning a bachelor's degree in environmental studies from the University of California at Santa Barbara. Her professional experience includes working with federal and state permitting agencies, the county Board of Supervisors, and local city councils and commissions. As a volunteer, she has worked with the Holbrook Heights Community Association, Wheelchair Foundation, Baldwin Park Canine Contingent, and Leadership San Ramon Valley. She is also a member of the American Planning Association, American Institute of Certified Planners, Pleasant Hill/Walnut Creek Mothers Club, Executive Women's Golf Association, and El Sobrante Golf Club.

The senior District management is comprised of:

Jerry D. Brown, *Interim General Manager*

Mr. Brown was selected as Interim General Manager effective May 2010, and has been with the District since 2001. The District's Board is not currently, nor does it anticipate, conducting a search for a new General Manager. The "Interim" designation represents a probationary status, which is anticipated to last approximately twelve months. Jerry Brown has 25 years of experience in planning, design, construction, operation and maintenance of water, wastewater and water recycling systems for urban areas. He has expertise in management and leadership of large organizations including strategic business planning and financial management. Since coming to the District in 2001, Mr. Brown has served as Director of Planning from 2000 to 2007 and Assistant General Manager – Planning/Operations and Maintenance beginning in January 2008. During his tenure with the District he has managed the operations and maintenance of water system facilities serving more than 550,000 customers and the planning activities of the District associated with securing water supply and water quality, development of new business initiatives, conducting infrastructure planning including development of the annual capital improvement program, and conducting planning studies for enlarging the 100,000 acre-feet Los Vaqueros Reservoir. Mr. Brown is a registered Civil and Mechanical Engineer in California. He holds a Bachelors Degree in Mechanical Engineering from California State University at Northridge, a Master's Degree in Civil Engineering from the University of Southern California and a Master's Degree in Business Administration from California State University at San Jose. His career began with the Los Angeles Department of Water and Power in 1986. From 1991 to 2000 he worked with the East Bay Municipal Utility District. He then worked with the San Jose Water Company prior to starting with the District in 2001.

Kurt G. Ladensack, *Assistant General Manager – Administration*

Mr. Ladensack has been the Assistant General Manager – Administration for the District since February 2001. In that role Mr. Ladensack has management responsibility for diverse functions including: Finance and Human Resources and Risk Management, Regulatory Compliance, Public Affairs and State Legislative Program with annual budgets totaling approximately \$15 Million. In addition, Mr. Ladensack serves as Individual Trustee of the District's Retirement Plan Trust and Other Post Retirement Benefits Trust with combined assets under management totaling approximately \$110 Million. From 1983 through 2001, Mr. Ladensack was employed with the East Bay Municipal Utility District, serving in progressively more responsible roles including Executive Assistant to the General Manager, Director

level assignments in Budget and Rates, and Human Resources and as Project Manager of a \$750 Million supplemental water supply infrastructure program. Mr. Ladensack graduated with a B.S. in Environmental Science from John Carroll University in 1977 and completed the M.S. program in Environmental Management at the University of San Francisco in 1982.

Gregory Gartrell, *Assistant General Manager – Planning/Water Resources*

Dr. Gartrell has been Assistant General Manager – Water Resources for the District since August 2002. He has been with the District since 1988, holding increasingly responsible positions including serving as Director of Planning from 1995 to 2002. Dr. Gartrell manages the Planning, Water Resources and Delta Projects Departments. His responsibilities have included planning and permitting for the District’s \$100 million Middle River Intake Project, and the \$122 million Los Vaqueros Reservoir Expansion Project. He directed the District’s Delta Projects including \$15 million in drainage mitigation water quality projects, as well as the District’s 50-year Future Water Supply Implementation and 10-year, \$500 million Capital Improvement Program. He served on the CALFED Bay-Delta Public Advisory Committee as an appointee of the Secretary of the Interior and Governor of California, and on the Delta Vision Stakeholder Committee. Prior to his tenure at the District, Dr. Gartrell worked in engineering consulting and academics. Dr. Gartrell graduated with a B.S. with honors in 1973 and received his Ph.D. in Environmental Engineering Science in 1979, both from the California Institute of Technology.

Steve Welch, *Assistant General Manager – Capital Projects/Operations & Maintenance (O&M)*

Mr. Welch has been Assistant General Manager – Capital Projects/O&M for the District since January 2008. He holds a Bachelor and Masters of Science in Civil Engineering and a Masters of Business Administration all from the University of California at Berkeley. Mr. Welch began with the District in 1997 as a Principal Engineer and has earned promotions to his current position. He currently is responsible for over \$200 million in engineering and construction work, District operations and maintenance, lands and the Los Vaqueros watershed. He manages a staff of over 230 people among four departments.

Brice Bledsoe, *Director of Finance*

Mr. Bledsoe has been with the District since November 1999 and was promoted to Director of Finance in March 2007, after having served as the District’s Accounting Manager. From 1997 through 1998, Mr. Bledsoe was the Finance Director for the Central Valley Project Water Association, where he advocated financial issues with the Bureau relating to the Federal Central Valley Project (CVP) on behalf of the CVP water contractors. Mr. Bledsoe worked as a CPA with a public accounting firm from 1992-1997. Mr. Bledsoe graduated with honors from California State University, Sacramento in 1992 with a Bachelors Degree in Business Administration, Concentration in Accounting.

Employee Relations

The District has two recognized employee unions: Clerical/Maintenance Representation Unit and Professional/Supervisory Representation Unit.

The International Union of Operating Engineers, Stationary Engineers, Local 39 (“Local 39”) represents the Clerical/Maintenance Representation Unit. The current Memorandum of Understanding with Local 39 covers the term of July 1, 2007 through June 30, 2012. The International Federation of Professional and Technical Engineers, Local 21 (“Local 21”), represents the Professional/Supervisory Representation Unit. The current Memorandum of Understanding with Local 21 covers the term of November 17, 2008 through November 10, 2013. A positive working relationship exists between the

District and both unions, with joint monthly meetings held to discuss any labor concerns and to collaboratively address any identified issues.

Two other employee groups (not recognized bargaining units) exist at the District: the Confidential Unit, covering confidential employees such as Human Resources staff and Confidential Secretaries, and the Unrepresented Employees Group, consisting of all management employees. Both groups have an annual employment contract issued in October that describes all employment terms and conditions for the next year.

The District has experienced no labor strikes and considers its labor relations environment to be collaborative and successful, as evidenced by the long-term contracts negotiated in 2007 and 2008, respectively.

Insurance

The District maintains the following liability insurance coverage:

Primary Excess Liability Policy: Everest National Insurance Company. Limit \$10,000,000 subject to a \$500,000 self-insurance retention. Coverage includes comprehensive general, automobile, errors and omissions, and employment practices liability.

Secondary Excess Liability Policy: Lexington Insurance Company. Limit \$20,000,000, excess of \$10,000,000 (primary policy limits).

Affiliated FM Insurance Company provides property insurance for \$150,000,000 any one occurrence, subject to a \$100,000 deductible. Coverage includes all risks (subject to policy exclusions) including flood, boiler and machinery, \$5,000,000 business interruption, \$2,000,000 Extra Expense. Earth movement is limited to \$1,500,000 per occurrence and covers the water distribution control systems referred to as the Supervisory Control and Data Acquisition (SCADA) system, and the Distributed Control System (DCS). The District's insurance does not provide coverage for terrorist acts; however, the District conducted a vulnerability assessment as required by the EPA and has implemented all recommendations contained in the assessment.

The District also maintains a public employee Faithful Performance Blanket Bond for the District's General Manager, watercraft property and liability insurance, and a policy covering crime (employee dishonesty, computer fraud, theft, disappearance, destruction, forgery or alteration).

The District's insurance is reviewed by its risk manager on an annual basis and adjustments are made as necessary.

Retirement Program

The District has an independent single employer defined pension benefit retirement plan established by a trust agreement in which all permanent and full-time employees to the District are eligible to participate. The plan is a defined benefit plan providing a retirement allowance determined by an employee's highest basic compensation in the last twelve consecutive months of employment and the length of employment with the District. The plan is funded by employee and employer contributions. As of June 30, 2009, there were 318 active members in the plan. Retired members and beneficiaries currently receiving benefits number 218. Inactive members total 99 members, for total plan membership as of June 30, 2009 of 635 members. As of June 30, 2009, there was a \$3.3 million unfunded pension benefit obligation, and the funded ratio was 96.8%.

The District currently offers post-retirement health care benefits. These benefits are paid through the Contra Costa Water District Other Post-Employment Benefit (“OPEB”) Trust. As of June 30, 2009 there were 164 retirees or their beneficiaries receiving these health care benefits. These benefits are provided through payments to an insurance company. The cost of such benefits totaled \$1,723,571 in 2009 and \$1,481,824 in 2008. Annual funding is provided for in the two-year budget and projected in the ten-year rate analysis and the Capital Improvement Program (“CIP”) and Ten-Year Financial Plan. During fiscal year 2008, the District elected to implement the provisions of The Government Accounting Standards Board Statement No. 45 (“GASB 45”) a year early. As part of the implementation, the District established an irrevocable trust to provide a funding mechanism for the OPEB. As of June 30, 2009, the District has \$6,844,101 in the OPEB Trust. As of June 30, 2009, the District has prefunded the OPEB obligation ahead of schedule by \$4,266,670. The District has up to 30 years to fully fund its liabilities under GASB 45. The District does not anticipate any rate increases due to GASB 45.

Investment Policy

The investment goals of the District are to provide safety, liquidity, diversity, and minimize risks while maintaining a competitive yield on its investment portfolio. District funds are invested in accordance with the requirements of California Government Code Section 53651 governing public funds and Section 7.16.060 of the District’s Code of Regulations. See Note 3C to the financial statements included in APPENDIX A. As of June 30, 2009, the District’s investments include approximately 55% in cash and cash equivalents with maturities of 90 days or less and the balance in U.S. government securities, corporate bonds and guaranteed investment contracts.

No Interest Rate Swaps

The District has not previously entered into any interest rate swaps and does not intend to enter into any interest rate swaps with respect to its indebtedness.

THE WATER SYSTEM

Water Supply

The District’s current water demand is approximately 92,000 acre-feet annually to service the District’s customer base.

The District obtains most of its untreated water supply from the Central Valley Project (“CVP”) by diversion from the Delta under a long-term contract with the Bureau (the “Bureau Contract”) that was renewed on May 10, 2005, and by its terms is effective from March 1, 2005 through February 28, 2045. The water is diverted from the Delta at either Rock Slough on the south of the San Joaquin River or Old River, near Discovery Bay; water may also be diverted at Mallard Slough under District water rights depending on water quality and availability. When completed, the District will also be able to divert water at its new Middle River Intake on Victoria Island by middle to late 2010. Diverted water is conveyed to the District’s water treatment facilities and its untreated water distribution system through the Contra Costa Canal.

The District’s existing Bureau Contract provides for water deliveries through the year 2045. The Bureau Contract provides that it may be extended under terms and conditions agreeable to the parties for successive periods not to exceed 40 years each. The District’s annual quantity of water available from CVP is 195,000 acre feet.

The Bureau Contract provides for water service. A separate repayment contract provision for operation and maintenance of the Contra Costa Unit of the Central Valley Project was also included in the Bureau Contract. The Contra Costa Unit consists of the Contra Costa Canal system, Contra Loma Reservoir, the so-called “New Facilities” (which include the Short Cut pipeline, four pumping units and related facilities), and various lateral connections. The United States government holds title to these facilities. The District is responsible for operating and maintaining these facilities and is required to pay for the capital cost of these facilities under its contract with the Bureau, at the Bureau’s cost plus interest. The repayment provision of the contract specifies the amounts the District is required to remit to the Bureau each year until all costs have been repaid to the Bureau. At the conclusion of the repayment term, the transfer of title for the Contra Costa Canal to the District can only take place with the approval of the U.S. Congress, as is the case with any transfer of ownership of a federal facility. The District completed repayment of the original repayment obligation in 2010. However, the District has a continuing Federal obligation to make capital improvements. The District has established a capital project to begin refurbishing of the Short Cut pipeline component estimated at \$15 million in 2010. The District levies a tax on its service area specifically for the repayment costs related to the Federal obligation.

The quantity of water that can be delivered to the District by the Bureau under the Bureau Contract is 195,000 acre-feet per year. The shortage provision under the Bureau Contract establishes a firm water delivery “floor” in the event of shortages. No reduction in the water available to the District can occur unless the Bureau has declared that a shortage exists and has imposed reductions in deliveries to irrigation users. If the Bureau is unable to make full deliveries due to water shortage (i.e., drought), the District’s supply shall be not less than the lesser of (i) 75% of contract entitlement (146,250 acre-feet), or (ii) 85% of historical use, but not more than actual need in that year (i.e., no CVP water can be stored in that year). This is the highest entitlement percentage given to any CVP participant. If the Bureau is unable to make full deliveries due to regulatory restrictions (e.g., restrictions due to the Endangered Species Act, or Bay-Delta standards imposed by the State Water Resources Control Board (“SWRCB”) or the EPA, on delivery of CVP water to the District), the minimum deliveries shall be the greater of (i) 75% of contract entitlement, or (ii) 85% of historical use. Under no circumstances (except when the Bureau determines that a water shortage emergency exists and that the shortage is so severe that CVP agricultural water users’ allocations are being established on a case-by-case basis for sustaining trees and vines) will the District’s supply be reduced below 75% of historical use. In such event, the delivery of CVP water is expected to be sufficient to satisfy public health and safety requirements as set forth in the District’s then current water shortage contingency plan (65% of historical use).

The Bureau set annual water allocations, of which the District has received, the full amount of supply needed and used by the District. Although shortages were declared for the CVP in 2008 and 2009, under the shortage formulas specific to the District’s contract, the District received a full and sufficient supply in both years. While the Bureau’s allocation is based upon contractual entitlements and water supply circumstances, the deliveries reflect actual usage and needs.

ANNUAL DISTRICT BUREAU WATER ALLOCATIONS AND ACTUAL DELIVERIES

Bureau Water Supply Year	District Fiscal Year	Acre-Feet Allocated	Acre-Feet Delivered	
2005	2006	195,000	83,646	
2006	2007	195,000	89,845	
2007	2008	195,000	93,420	
2008	2009	127,500	92,191	
2009	2010	110,500	91,000	(Projected)
2010	2011	195,000	92,000	(Budgeted)

The rate for CVP water service paid by the District covers reimbursement for service charges, cost of power, repair and replacements. The cost of water under the Bureau Contract is currently \$17.31 per acre-foot.

In October 1992, Congress enacted the Central Valley Project Improvement Act (“CVPIA;” Title XXXIV, P.L. 102-575). The most significant impact of this legislation on the District was the establishment of the Restoration Fund, which currently is \$18.23 per acre-foot, for municipal and industrial water and irrigation water delivered under the Bureau Contract. The District has been making payments to the Restoration Fund since the 1994 amended Bureau Contract went into effect. For Fiscal Year 2009 \$1,575,303 of the District payments to the Bureau went to this fund. The Restoration Fund was established to carry out the habitat restoration, improvement and acquisition provisions of the CVPIA.

The District also obtains untreated water from Mallard Slough in the Delta under a State water rights permit and license. The District diverts untreated water from Mallard Slough, which is closer to San Francisco Bay than the District’s other water diversion points, when the water quality is better than the District’s minimum quality standards. The District is permitted to divert up to 26,780 acre-feet per year from Mallard Slough. The average annual yield for the Mallard Slough diversion for the period from 1968 through 2009 has been approximately 5,100 acre-feet. Over the five years 2005 - 2009, the District diverted the following amounts at Mallard Slough.

ANNUAL DISTRICT DIVERSIONS AT MALLARD SLOUGH

Year	Acre-Feet Diverted
2005	5,033
2006	1,788
2007	0
2008	0
2009	458

In its Decision 1629 (June 2, 1994), the SWRCB granted to the District the right to divert up to 95,850 acre-feet per year of water from the Sacramento/San Joaquin Delta (Los Vaqueros Water Right), and the District has also secured an additional long-term water supply from East Contra Costa Irrigation District by contract. The District entered into an agreement with the East Contra Costa Irrigation District (“ECCID”) in late 1999 which provides a permanent entitlement of 8,200 acre feet annually that may be used in the overlapping service areas of the two districts. The agreement also provides for an additional 4,000 acre-feet annually to be available to the District in shortage periods. The current cost for the 8,200 acre-feet of permanent entitlement water is \$32 per acre-foot and the cost of shortage year water is \$65

per acre-foot. In Fiscal Year 2009, the District received 4,242 acre-feet of Los Vaqueros Water Rights Water and 10,010 acre feet from ECCID.

In total, the District has 329,830 acre-feet of available annual water supply as shown in the table below:

Source of Supply	Acre-Feet
Bureau CVP Contract	195,000
Los Vaqueros Water Right	95,850
Mallard Slough Water Right	26,780
ECCID	12,200
Total Available Water Supply	329,830

The District’s current demand is approximately 92,000 acre-feet annually as it recovers from the drought and economic downturn. Demand is projected to reach 115,000 acre-feet by 2020. Some of the District’s wholesale treated and untreated water customers have alternative water supplies from either their own Delta water rights or access to well water. The District’s water supply planning includes being able to serve the total demand in its service area in the event these alternative water supplies are not available to the wholesalers during times of drought or poor water quality. Projected total demand in the District’s service area under these circumstances is projected to be approximately 200,000 acre-feet annually by 2020. Note that the combined annual deliveries to customers under the Bureau CVP Contract and the Los Vaqueros Water Rights cannot exceed 195,000 acre-feet in a given year, excluding water diverted for storage into Los Vaqueros. The District’s total available annual water supply is more than sufficient to meet the total demands of its service area.

Drought and Water Conservation

The District received its full allocation on its CVP contract supply of up to 195,000 acre-feet from FY2003 through FY2008 with CVP water deliveries of approximately 110,000 acre-feet annually. In FY2009, the District’s allocation was reduced to 127,500 acre-feet on the heels of two critically dry years. The District’s successful conservation programs resulted in reducing water deliveries to 92,191 acre-feet in FY2009. In FY2010, California was in a third critical dry year and a state-wide drought was declared. The District’s water allocation was 110,500 acre-feet, which the District imposed a 15% water reduction or “drought management program.” The program reduced water consumption approximately 20% from historical usage. Total water deliveries in FY2010 are projected at 91,000 acre-feet. The District has received its full allocation of 195,000 acre-feet from the Bureau for its CVP supply in FY2011, and budgeted projected deliveries of 92,000 acre-feet of water to its customers in FY2011.

Water Facilities

The District’s water facilities currently include pipelines, pump stations, canals, reservoirs (concrete and steel) and three treatment plants, the Bollman Water Treatment Plant, the Randall-Bold Water Treatment Plant (which is jointly owned by the District and the Diablo Water District through the Authority) and the Brentwood Water Treatment Plant. All District-owned and operated water treatment plants use ozone purification systems that are already compliant with upcoming EPA regulations and other governmental standards. A series of four pump stations along the Canal lift the water to the elevation of 124 feet after it is diverted. Water is diverted to the Randall-Bold Water Treatment Plant just downstream of Pumping Plant No. 4. The Canal is 48 miles long and flows east to west throughout the District, terminating in the Martinez Reservoir. The Canal is connected to the Contra Loma Reservoir, which is used for flow regulation, peaking flows and emergency supply, while the Martinez Reservoir is

terminal and used for treated water regulation. The water storage capacity for the two reservoirs is approximately 888.4 million gallons (or 2,725 acre-feet).

The District constructed the Multi-Purpose Pipeline (“MPP”) from 2001 to 2004 at a total final cost of \$85.7 million, which was lower than the MPP’s \$90 million budget. The central feature of the MPP is a 21-mile treated water pipeline and a 3,200 horsepower pump station with six electric pumps. Its primary purposes are to deliver water from the Randall-Bold water treatment plant in Oakley to the District’s existing treated water distribution system in Concord and to enhance the District’s water delivery capabilities following seismic events. By supplying treated water to the central portions of the County, the pipeline frees up capacity in the Canal to meet the needs of surrounding cities through about 2020. In addition, the MPP is used to deliver treated water to the City of Antioch to supplement Antioch’s existing water treatment capacity. A new untreated water pipeline to further supplement canal capacity is scheduled to be in service prior to 2020 to provide untreated water capacity for full build-out of the service area.

The District owns and operates the 100,000 acre-foot Los Vaqueros Reservoir. Los Vaqueros facilities include a dam, the Reservoir, pipelines, pumping stations, two Delta intakes at Old River and Middle River (operation in summer 2010) with fish screens, watershed lands, recreation facilities, and other facilities convenient or necessary in obtaining and delivering water and mitigating the environmental impacts of the projects. The water is stored in the Reservoir for delivery when water from the Delta does not meet the District’s quality standards. Diverted water from the Old River intake and the Middle River intake (operational in summer 2010) can be pumped to the Reservoir or pumped directly to the Contra Costa Canal System. The Los Vaqueros Reservoir Expansion Project will expand the reservoir to 160,000 acre-feet.

The District owns and operates a new 12 million gallon per day facility to treat water for a major customer, the City of Brentwood (“Brentwood”), constructed for a total cost of approximately \$52 million. Under a contract between the District and Brentwood, Brentwood is responsible for all costs associated with this facility. This facility is intended to serve the long-term treated water needs of Brentwood through treatment of non-Los Vaqueros water, for use in the part of Brentwood that is outside the District’s service area. The new treatment plant began delivering water to Brentwood in July 2008.

The Randall-Bold Water Treatment Plant commenced operations in July 1992. Untreated water is withdrawn from the Canal for treatment at the Randall-Bold Plant and then delivered to the Diablo Water District to serve its treated water customers. Treated water from the Randall-Bold Plant is also delivered to CCWD’s treated water service area and to the City of Antioch via the MPP. The Randall-Bold plant has a nominal capacity of 40 million gallons per day (“mgd”). The plant has stand-by power generators intended to insure that plant operations will not be disrupted by potential power failures. The Randall-Bold plant also serves as a secondary treated water source for Brentwood.

The District owns and operates the Bollman Water Treatment Plant. The Bollman Plant has a nominal capacity of 75 mgd. The plant has stand-by power generators intended to insure that plant operations will not be disrupted by potential power failures. The MPP provides the capability for treated water delivery either from the Randall-Bold Plant to central Contra Costa County or from the Bollman Plant to the eastern part of the County. Treated water storage capacity is 73.6 million gallons in 41 reservoirs. The treated water is distributed to customers through 778 miles of pipeline.

Seismic Considerations

One of the objectives involved in the planning and operation of the District's water system is to minimize potential effects on service availability and financial resources arising from natural disasters such as earthquakes.

Several active fault zones lie within the San Francisco Bay Area. In recognition of the potential hazard, the District's water conveyance facilities are designed, where applicable, in accordance with the recommendations of the Uniform Building Code as a minimum. Some critical facilities are more conservatively designed using site-specific data. The Los Vaqueros Dam has been designed using state-of-the-art design methods appropriate for potential seismic events in the region, and has been subject to the review and approval of the State Division of Safety of Dams.

The District has implemented a risk management and security program to identify and minimize exposures, and to improve the response to potential operational problems in the event of natural or other disasters. In addition, as part of its capital improvement program, the District has completed a seismic and reliability improvement study which established seismic design and related criteria for the District facilities, as well as establishing priorities and schedules for a series of capital projects which have improved or will improve the reliability of the District's raw and treated water supplies. To date, no District facilities have suffered any major earthquake damage.

Bay-Delta Water Quality Standards and Delta Stewardship Council

In 1995, the SWRCB adopted a Water Quality Control Plan for the Sacramento-San Joaquin Delta estuary. The Plan's standards protect municipal, industrial and agricultural water uses as well as fish and wildlife resources. In January 2003, the SWRCB completed its water rights process for implementing the Plan. The Water Quality Control Plan standards have improved the quality of the District's water supply, and have improved the District's ability to divert water from the Delta, both under the District's amended Contract with the Bureau and under the District's Los Vaqueros Project water rights (SWRCB Decision 1629).

As part of a Bay Area initiative, a consortium of 20 State and Federal agencies known as CALFED was formed. The mission of the CALFED Bay-Delta Program was to develop and implement a long-term comprehensive plan that will restore ecological health and improve water management for beneficial uses of the Bay-Delta System. The August 2000 CALFED Record of Decision initiated detailed environmental studies of numerous projects, including storage and conveyance, drinking water quality improvement, and ecosystem restoration projects. The District has served as project manager for several CALFED projects, including studies for a potential project to enlarge the District's Los Vaqueros Reservoir beyond its current capacity of 100,000 acre-feet. The first phase of enlargement to 160,000 acre-feet is being funded by the District and is under design and construction. A second phase of enlargement would provide water quality and reliability benefits for the Bay Area as well as Delta environmental enhancement. The Bureau and the California Department of Water Resources ("DWR") are funding the effort to study this potential second phase of expansion, and the District is the local manager under contract to the Bureau and DWR responsible for implementing the feasibility studies and environmental review. In November of 2009, California Senate Bill SB7X-1 established the Delta Stewardship Council, which takes over CALFED's Delta management activities and is responsible for developing a Delta Plan to meet the co-equal goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Delta ecosystem. The second phase to expand the reservoir beyond 160,000 acre-feet, if pursued, will be fully funded by Federal, State or other local funding, and not by the District.

Water Quality and Water Quality Regulation

As described herein, water quality at the Rock Slough, Mallard Slough, Old River, and Middle River diversion points is highly variable. It is affected by seawater intrusion during periods of low fresh water inflow. It is also subject to seasonal variations due to drainage or runoff from tributary agricultural areas. The District's water supply is also vulnerable to Delta emergencies including those from chemical spills, agricultural discharge and levee failures. Sea water intrusion, which increases the mineral content of the water, occurs between summer and mid-winter, when flows in the Sacramento and San Joaquin Rivers are at a seasonal low. The mineral content at the Rock Slough intake has occasionally exceeded the EPA's secondary drinking water standards during prolonged dry periods or critically dry years. The Los Vaqueros Project, which added the ability for the District to divert higher quality untreated water from the Old River Intake, and the Middle River Intake Project, which will add the ability for the District to divert higher quality untreated water from the Middle River, provide the District with improved water quality and assure a more reliable supply to meet existing and future needs during emergencies. In addition, the Los Vaqueros Reservoir provides storage of high-quality water that can be released to blend with lower-quality source water to meet the District's delivered water quality goals, and provides dedicated storage for emergency use. The expansion of the Reservoir will improve the District's ability to meet these water quality goals and enhance emergency storage.

The District must comply with the growing list of drinking water standards under the 1996 amendments to the federal Safe Drinking Water Act ("SDWA") and additional State-specific regulations being developed by the California Department of Public Health ("CDPH"). The District believes that it is in full compliance with all existing applicable regulations. Furthermore, efforts over the years to improve treatment technology, protect the source of supply and manage the water quality of the distribution system have positioned the District to be in full compliance with the long-term regulatory horizon.

The California Safe Drinking Water Act of 1996 added two new sections to the California Health and Safety Code. These sections introduced the concept of Public Health Goals ("PHGs") to drinking water regulations. The PHGs represent non-mandatory goals based solely on public health considerations (without consideration of technical feasibility), and are developed on the basis of the best available health effects data in current scientific literature. The federal equivalent of PHGs is the Maximum Contaminant Level Goals ("MCLGs"). Both PHGs and MCLGs are listed in the District's Consumer Confidence Report ("CCR"). California regulators use PHGs to develop or revise health-based standards known as Maximum Contaminant Levels ("MCLs") for drinking water contaminants. As required, the District prepared and made available to the public a triennial PHG report in 2004, 2007 and 2010. The SDWA requires all public water systems to prepare an annual CCR for customers that provides in plain language an explanation of water quality and relevant health information about it to consumers. The State has had a similar reporting requirement since 1989 and the District has complied with the requirement by providing a full-size report that is mailed directly to its customers each year since the inception of the requirement. Additionally, the District has posted a copy of the CCR on its website since the federal requirement took effect.

The District is in full compliance with the EPA's recently promulgated Long Term 2 Enhanced Surface Water Treatment Rule ("LT2ESWTR") and the Stage 2 Disinfectants-Disinfection By-Products Rule ("Stage 2 DBPR").

The LT2ESWTR requires a specific inactivation requirement for *Cryptosporidium* at the District's water treatment plants. Ahead of rule adoption, the District proactively completed over two years of monitoring that indicated no presence of *Cryptosporidium* in the source water. As such, the District was granted a notice of full compliance from CDPH well ahead of the dates required in the new rule. The Stage 2 DBPR builds on previous rules by requiring reduced levels of disinfection byproducts,

specifically total trihalomethanes (“TTHM”) and haloacetic acids (“HAA5”) at worst case locations within the distribution system. The numerical MCLs established by previous rules remain the same. This rule was developed with an exemption allowance for systems that have a history of disinfection byproducts at very low levels. The District effectively uses chloramination as a distribution system disinfectant which results in levels well below the MCLs and within the exemption allowance. The District was issued a full rule exemption in March 2008.

The EPA is currently reviewing the Total Coliform Rule and preparing to enter stakeholder negotiations to update the rule with new compliance requirements. A new rule is expected to promulgate no later than 2012. The new rule is expected to update the previously established total coliform MCL and require systems to adopt cross-connection control programs. The District is actively engaged in developing this new rule and is well positioned for compliance with an existing cross-connection control program, established treated water system, and water quality management plans.

In 1992 the EPA implemented the Lead and Copper Rule (“LCR”), which required water utilities to undertake treatment for the control of lead and copper corrosion throughout their distribution systems; including the plumbing of their customer’s homes. Monitoring associated with the LCR was targeted to include the “worst case” homes with the greatest likelihood of lead occurrence. In-home tap sampling has been conducted by the District annually since the inception of the LCR. Corrosion control is practiced through pH adjustment at the Treatment Plant to maintain a slightly positive corrosion index. The corrosion control practices of the District, implemented under the LCR, have proven to be effective for lead and copper as demonstrated by the District’s continuing monitoring programs.

The District has been fluoridating its water for nearly four decades in response to a positive advisory vote of its consumers. This treatment was well in advance of the 1995 enactment of the California Health & Safety Code section 116409 et seq., which conditionally required agencies with more than 10,000 water service connections to add fluoride to the drinking water they serve.

The EPA’s Drinking Water Source Assessment Program required Primacy agencies to conduct source water assessments for all existing surface and ground water sources, and to identify and categorize potential risks of contamination to each source of supply by mid-2003. The District voluntarily worked with the State to complete Source Water Assessments for its Delta sources and untreated water reservoirs in 2002 and 2003. Any new source of supply must be similarly assessed before being permitted for use, however the responsibility will be that of the agency initiating the new source, not the Primacy agency. The District is currently source permitting the Middle River Intake with the CDPH and a Source Water Assessment will be conducted as required for permit issuance.

The District conducts a regular unidirectional water main flushing program as preventative maintenance to remove accumulated sediment and thereby improve water quality. If not flushed out, the accumulated sediment can negatively affect water quality. The District’s unidirectional program can complete a full system flushing cycle of its nearly 700 miles of mains in a two-year period.

Future Water Supply

In April 1994, the District began a Future Water Supply Study to develop practical options to ensure a reliable water supply for District customers for the next 50 years. The Board adopted the plan in August 1996 and subsequently certified an Environmental Impact Report for its implementation. The study was last updated in 2002 to reflect actual growth since the original plan and to incorporate changes in the plans of land use agencies in the District’s service area. The updated study was adopted by the Board on November 13, 2002. The updated plan is not materially different from the original study. The original study concluded that the District should 1) expand its conservation program, 2) seek supplies

through water transfers to reduce the impacts of water shortages in dry years and 3) seek new supplies through water transfers to meet the needs of growth in the District’s service area through 2040. The study took into account potential reliability and/or supply reductions that resulted from implementation of the 1992 Central Valley Project Improvement Act, as well as more recent changes in permits for District water operations. The District implemented the recommended Plan by increasing its annual conservation budget, certifying the 1998 environmental documentation needed to deliver the water needed for shortages and future growth, and negotiating contracts for water transfers. Actual conservation levels have exceeded the plan goals, providing the District with additional reliability and supplies for future demand. Based on the updated plan, the District expects that its water supply will be sufficient to satisfy demand through ultimate build-out of the District’s service area, which is estimated to occur in the year 2050. The next update of the future water supply study is scheduled to be completed in 2014.

WATER SYSTEM FINANCES

10-Year Capital Improvement Program and Financial Plan

The 2011-2020 Capital Improvement Program and Ten-Year Financial Plan (“2011 CIP”) includes 53 projects with a total estimated cost of approximately \$599.1 million. Within each program area of the Ten-Year Capital Funding Plan, projects are prioritized (in three priority levels used to reflect a range of priorities from high to low) according to a standard set of criteria that measure the relative importance of a project based upon factors such as protection of health and safety, legal requirements, relationship to District goals, and rate of return on the District's investment. The priority levels provide a basis for deciding which projects should be done in any given year. They also provide a basis for scheduling projects over the ten-year span of the CIP. The following is a description of the three priority levels:

Priority Level 1 - These are the highest priority capital projects. They include projects already under construction and those required by legislation, regulation, contract, or for protecting health and safety. Priority level 1 also includes applicant and grant-funded projects.

Priority Level 2 - These are projects that provide measurable progress toward achieving the District’s goals, but over which the District has a moderate level of control as to when they should be performed. Where return on investment is a determining factor, projects in this priority level will have a payback of less than five years.

Priority Level 3 - These are projects that are projected to be needed, but over which the District has a significant level of control as to when they should be performed or the District is awaiting response to a grant application. Where return on investment is a determining factor, projects in this priority level will generally have a payback of greater than five years.

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
District Funded/Funded by Others (Priority Level 1&2)	\$ 66.9	\$ 41.1	\$ 18.8	\$ 22.7	\$ 36.2	\$ 35.1	\$ 23.9	\$ 15.6	\$ 16.4	\$ 22.8	\$ 299.5
Debt Funded ⁽¹⁾	55.2	59.6	0.7	2.9	0.5	2.3	0.7	1.8	9.1	10.1	142.9
Total Funded	<u>122.1</u>	<u>100.7</u>	<u>19.5</u>	<u>25.6</u>	<u>36.7</u>	<u>37.4</u>	<u>24.6</u>	<u>17.4</u>	<u>25.5</u>	<u>32.9</u>	<u>442.4</u>
Priority Level 3	--	--	2.9	17.2	7.1	45.7	26.6	34.3	22.5	0.4	156.7
Total Capital Projects	\$122.1	\$100.7	\$22.4	\$42.8	\$43.8	\$83.1	\$51.2	\$51.7	\$48.0	\$33.3	\$599.1

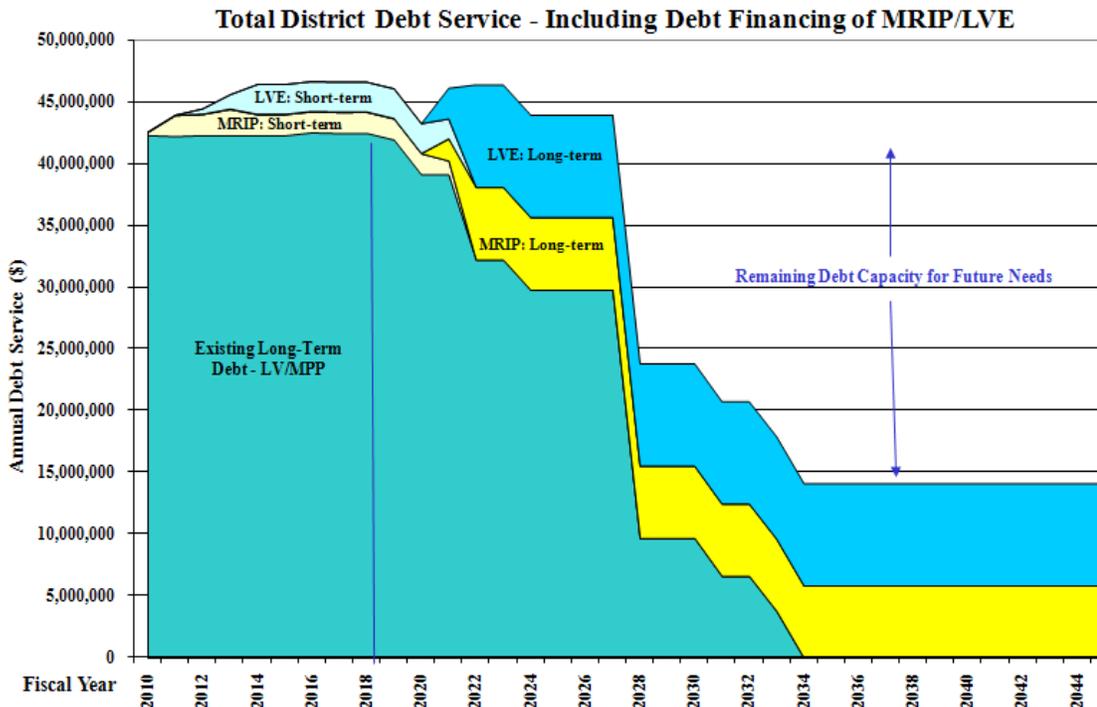
⁽¹⁾ The District expects to issue additional Notes to finance these projects through Fiscal Year 2020, at which time the District expects to issue Senior Debt to refinance the outstanding Notes.

Note that these are projections and actual funding and rate increases may differ materially from these projections.

The 2011 CIP assumes that priority level 1 and 2 projects totaling \$442.4 million are funded. This funded level is \$61.9 million higher than the 2010 CIP funded level (\$380.5 million). The primary drivers for the increase are additional outside funding for the Rock Slough Fish Screen and Canal Replacement Project and an updated cost estimate for the Los Vaqueros Reservoir Expansion Project. The District was successful in obtaining \$33 million from the American Recovery and Reinvestment Act (“ARRA”) through the Bureau for the fish screen project, which is scheduled to be completed in FY2011. The District is also seeking additional federal funding for the second phase of the Canal Replacement Project, which was authorized in the 2004 Water Resources Development Act to receive up to \$23 million. The 2011 CIP assumes 100% District funding for design and construction of a phased expansion of the Los Vaqueros Reservoir to 160,000 acre-feet. The Board certified the Final Environmental Impact Report (“EIR”) in March 2010 and approved the 160,000 acre-foot expansion project alternative. Permitting and initial design work began in FY2010 to maintain the flexibility to implement an expansion project on an immediate basis.

The 2011 CIP addresses the financial impacts associated with the drought and economic downturn being experienced throughout the State. The economic downturn and slow housing market, as well as the rebound from the drought will have a longer term effect on water sales growth and new connections and it is assumed these will not return to normal until 2014. The 2011 CIP bridges the potential funding gap by financing the Middle River Intake Project with short-term debt. The use of short-term debt preserves flexibility for retiring the debt should outside funding become available, such as the \$30 million from the State under Proposition 84. Short-term debt can also be refinanced as debt capacity becomes available and refinancing opportunities arise beginning in 2020. This allows the District to maintain rate increases at or below the rate of inflation, consistent with the Board’s rate and reserve policies.

The following table illustrates the District’s capacity for incurring additional long-term indebtedness for future capital needs:



The CIP includes a Ten-Year Financial Plan that includes estimates of all costs during the planning period, both operating and capital, and forecasts annual revenue requirements and rate increases. Consistent with Board policy, rate increases projected for the 10-year planning period are modest, incremental increases at or below the assumed rate of inflation. The District's historical and currently projected rate increases are provided below; rate adjustments in 2010 were 2.75% for both untreated and treated water.

HISTORICAL AND PROJECTED RATE INCREASES

	<u>Historical</u>				<u>Projected</u>						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Untreated Water	3.00%	3.00%	4.30%	2.75%	3.50%	3.50%	3.50%	3.50%	3.75%	3.75%	3.75%
Treated Water	3.00%	2.80%	4.30%	2.75%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

The District's key financial planning assumptions are reviewed and concurred with annually by the Board. The CIP and Ten-Year Financial Plan serves as the District's primary planning document for funding capital projects, operating costs and debt service and, together with the adopted budget, provides the basis for the ten-year rate projections.

Currently, California water agencies, including the District, are impacted by a weak housing market that has also resulted in lower than planned growth in water sales and fewer new connection fees. The previous CIP projected a reduction in water consumption in 2010 of 25% from the prior CIP three year average due to the assumed implementation of a 25% Drought Program. Results for FY2010 are projected to be about 20% lower than the three year average because the District implemented a 15% Drought Management Program in 2009 instead of the 25% Drought Program originally assumed.

The District's projected rate increases from the 2003-2012 Ten-Year Plan are compared to actual rate adjustments and current Ten-Year Financial Plan projections as follows:

COMPARISON PROJECTED RATE INCREASES TO ACTUAL RATES

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Untreated Water</u>							
2003 Financial Plan	2.00%	2.50%	2.50%	2.50%	2.50%	3.00%	3.00%
Actual to date	2.00%	2.50%	2.50%	3.00%	3.00%	4.30%	2.75%
<u>Treated Water</u>							
2003 Financial Plan	1.50%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Actual to date	2.00%	2.00%	2.00%	3.00%	2.80%	4.30%	2.75%

The District continues to maintain and upgrade its storage, treatment, and distribution facilities, such as water treatment plants, to meet increasingly rigorous regulatory standards and customer service expectations.

Total water sales were 114,520 acre-feet in FY2009. Total District operating revenue from water sales was \$101.3 million in FY2009. Of the total, untreated water customer sales accounted for approximately \$35.3 million. The following table sets forth a five-year history of operating revenues provided by untreated water and treated water sales.

FIVE-YEAR HISTORY OF WATER SALES REVENUES

Fiscal Year Ended June 30	<u>UNTREATED WATER</u>		<u>TREATED WATER</u>		<u>TOTAL</u>
	Sales (in \$000's)	% of Total Operating Revenues	Sales (in \$000's)	% of Total Operating Revenues	Sales (in \$000's)
2005	34,144	37.8	54,946	60.8	90,337
2006	33,427	36.2	57,604	62.3	92,480
2007	36,378	36.5	61,967	62.1	99,783
2008	37,663	36.3	64,047	61.8	103,659
2009	35,349	34.9	61,517	60.8	101,257

Note: Treated water customers are also users of untreated water; therefore, a portion of treated water rates cover untreated water costs.

Untreated Water

While in FY2009 the untreated-water-only customers account for approximately 67% of the water sales by volume, these customers accounted for approximately 35% of water sales revenues. Untreated water municipal customers, consisting of the City of Antioch, the City of Pittsburg, Diablo Water District, the City of Martinez, the City of Brentwood and Golden State Water Company and other unincorporated areas and smaller municipal water distributors, account for about 54% of untreated water revenue. Industrial customers account for approximately 41% of untreated water revenue. The District's major industrial customers include Tesoro and Shell Oil Company oil refineries, General Chemical and USS-POSCO Industries, a sheet metal/sheet fabrication company. Demand from the existing major industrial customers is relatively constant. Two energy plants were put into service by Calpine Energy in 2002. The primary cooling water source for these plants is reclaimed water from the Delta Diablo Sanitation District. The balance (approximately 5%) of untreated water revenue is generated from the District's irrigation customers and other miscellaneous services. The following table presents the District's major untreated water customers, untreated water consumption and the estimated percentage of water sales revenue provided by such customers in FY2009.

LARGEST UNTREATED WATER CUSTOMERS, WATER CONSUMPTION
AND WATER SALES REVENUES
(Fiscal Year 2009)

<u>Major Municipal Customers:</u>	<u>Consumption</u>		<u>Revenues</u>	
	<u>Acre feet</u>	<u>Percent</u>	<u>000's</u>	<u>Percent of Total</u>
City of Antioch	17,469	25%	\$ 7,324	21%
City of Pittsburg	8,700	12%	\$ 4,665	13%
Diablo Water District	5,049	7%	\$ 2,616	8%
City of Martinez	4,778	7%	\$ 2,505	7%
City of Brentwood	3,014	4%	\$ 1,756	5%
Subtotal	39,010	55%	\$ 18,866	54%
<u>Major Industrial Customers:</u>				
Shell Refinery	12,107	18%	\$ 6,289	18%
Tesoro Refinery	11,509	16%	\$ 6,093	17%
USS/POSCO Industries	4,312	6%	\$ 2,280	6%
Subtotal	27,928	40%	\$ 14,662	41%
All Other Customers	3,403	5%	\$ 1,821	5%
Total	70,341	100%	\$35,349	100%

Treated Water

The treated water customers generated water sales revenues of \$61.5 million in FY2009. The following table shows the number of active treated water accounts, metered water consumption by type of treated water customers and the estimated percentage of water sales revenues provided by such customers in FY2009.

TREATED WATER
Active Accounts, Water Consumption by Type of Customer and Water Sales Revenues
(Fiscal Year 2009)

	ACTIVE ACCOUNTS		METERED CONSUMPTION		REVENUES	
	Number	Percent	Acre-feet	Percent	\$ in 000's	% of Treated Water Sales Revenues
Residential	56,062	92	26,847	79	46,028	75
Commercial & Industrial	3,147	5	5,470	16	8,497	14
Public Facilities	222	1	1,001	3	2,820	4
Municipal & Other	1,554	2	802	2	4,172	7
TOTAL	60,985	100	34,120	100	61,517	100

The following table presents a five-year record through Fiscal Year 2009 of total and average daily gross consumption by both untreated water and treated water customers of the District.

DISTRICT GROSS WATER CONSUMPTION
(millions of gallons)

Fiscal Year	Total	Average Per Day (MGD)
2005	35,783	98
2006	41,766	114
2007	42,840	117
2008	37,527	103
2009	37,317	102

Other Revenues

The District is expressly empowered under the County Water District Law to levy taxes on all taxable property within its boundaries for the purpose of paying its voter approved indebtedness. The tax has been levied annually since prior to voter approval of Proposition 13 in 1978. These Land Levy Revenues are used to pay Federal obligations under the District's CVP water service contract with the Bureau. The Series A Notes do not constitute voter-approved indebtedness.

Historically, connection fees, or Facility Reserve Charges ("FRC"), compose about 11% of the District's annual revenues, and are used to pay for capital cost associated with providing for growth. In addition, large developers directly pay for the costs of extending service to new sub-divisions, which are not included in the FRC collections. Typically, these "funded by others" costs represent 2% to 3% of annual revenues.

Rates and Charges

The District's Board has the power and the authority under State law to establish water rates, fees and charges for service without the oversight or review of the California Public Utilities Commission ("CPUC") or any other governmental body. It is possible, but probably unlikely, that future legislation and/or regulatory changes could subject the rates and or service area of the District to the jurisdiction of the CPUC or to other limitations or requirements. The District's rates and charges are established by regulations adopted by the District's Board and reviewed in detail on an annual basis. The rates and charges become effective upon adoption or at a specified future date. The District has the right to refuse or terminate water service to delinquent customers and to require full payment of delinquent amounts and reconnection fees to resume service.

The District establishes and collects rates and charges for both its treated water customers and its untreated water customers. The District bills its metered untreated water customers monthly and its treated water customers on a bimonthly basis. The District considers its rates of payment delinquency, service discontinuance for non-payment, and write-offs for uncollectible accounts to be very low, and in the last five years the percentage of uncollectible revenues has been greatly reduced. Uncollectible revenues by fiscal year have been:

UNCOLLECTIBLE REVENUES

Fiscal Year Ended June 30	Uncollectible Revenues	Percent of Water Revenues
2005	\$ 156,354	0.2
2006	\$ 150,687	0.2
2007	\$ 142,069	0.1
2008	\$ 221,525	0.2
2009	\$ 277,364	0.2

TREATED WATER RATES & CHARGES

Quantity Charge (per hundred cubic feet)	\$2.741
Service and Demand Charge	The daily charge for water service is assessed by meter size. It ranges from \$0.5469 for a 5/8" meter to \$ 117.5835 for a 12" meter.
Energy Surcharge	An energy surcharge per hundred cubic feet of water use is assessed by zone, and ranges from \$0.0767 in Zone 1 to \$0.7545 in Zone 8.
Fire Protection Surcharge	A surcharge to defray the cost of furnishing water to publicly owned fire hydrants for fire fighting is assessed by meter size. It ranges from \$0.0323 per day for a 5/8" meter to \$6.9445 per day for a 12" meter.

UNTREATED WATER RATES & CHARGES

Quantity Charge (per thousand gallons)	\$1.6473
Service Charge	A monthly service charge is assessed according to customer class. The monthly service charges ranges from \$22.32 to \$158.80.
Demand Charge	A monthly demand charge based upon maximum day and maximum hour usage is assessed on those customers with recording water meters. The charge ranges from \$1.6064 to \$2.013 per gallon per minute.

CHARGES FOR NEW SERVICE

	Facilities Reserve Charges		Meter Charge
	Treated Water ⁽¹⁾	Untreated Water (Monthly) ⁽²⁾	(Treated Water)
5/8" meter	\$ 17,704	\$ 4,843	\$53.00
3/4" meter	26,556	7,265	96.00
1" meter	44,260	12,108	133.00
1-1/2" meter	88,520	24,215	Cost ⁽³⁾
2" meter	141,632	38,744	Cost ⁽³⁾
Larger and dual meters	Based on size	Based on size	Cost ⁽³⁾

⁽¹⁾ Including untreated water component.

⁽²⁾ Amount in for Service Area A used as an example.

⁽³⁾ Equals the District's actual cost of materials and installation, including usual overhead charge. Note that a charge of \$44.00 will be made for each installation (regardless of size) made at any time other than when the service line is installed.

Comparison of Average Annual Treated Water Service Charges

The District's current average annual treated water service charge for single-family residential service is \$691.32. The following table sets forth a list of some other major water agencies and municipalities in Northern California and their most recently available average annual water service charges from 2010. The figures are based on an average household using 1,425 cubic-feet per month.

Water Supplier	Average Annual Household Water Service Charge
Golden State Water Co. (Bay Point)	\$895.44
City of Martinez	846.60
Contra Costa Water District	691.32
Marin Municipal Water District	688.20
City of Pittsburg	665.52
East Bay Municipal Utility District	650.64
City of Brentwood	553.56
Diablo Water District	535.80
City of Antioch	450.00

Rate Adjustments

The District develops rates that include funding for mandatory and necessary projects, but not for discretionary projects. Discretionary projects may only become funded if they meet economic criteria, such as a five-year or shorter payback period subject to the funding constraints of the Ten-Year Financial Plan. The 2011 CIP includes \$442.4 million of mandatory and necessary projects. Of this amount, \$142.9 million is expected to be debt-funded. Outside-funded projects will only be undertaken if the outside funding is actually received. See “WATER SYSTEM FINANCES – 10-Year Capital Improvement Program and Financial Plan” above for further information about the 2011 CIP.

Outstanding Indebtedness

See “Outstanding Debt of the District” under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES” above.

Historical Financial Information

The District’s operations are accounted for under its Enterprise Fund, which includes the District’s water supply and treated water operating funds and the Contra Costa Water Authority. The District also maintains separate Retirement and Other Post-Employment Benefit Plans that are accounted for separately from the District’s Enterprise Fund activities.

The District’s accounting policies conform to the generally accepted accounting principles for water utilities. The accounts are maintained on an accrual basis in accordance with the Uniform System of Accounts for Water Utilities followed by investor-owned and major municipally owned water utilities. Significant inter-fund transactions (including water sales) are eliminated.

The District’s audited financial statement for the fiscal year ended June 30, 2009 (the “Audited Financial Statement”), is included as Appendix A. The Fiscal Year 2009 Audited Financial Statement was reported on by Maze and Associates, independent auditors (the “Auditors”). The letter of the Auditors concludes that the Audited Financial Statement presents fairly in all material respects, the respective financial position of the business-type activities and each major fund of the District at June 30, 2009 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America. The Audited Financial Statement should be read in its entirety. The Auditors have not reviewed or audited this Official Statement.

The following table shows revenues, maintenance and operation costs, and debt service coverage ratios for the five fiscal years ended June 30, 2005 through June 30, 2009. The following financial results have been presented in conformity with requirements of the Trust Agreement.

SCHEDULE OF DEBT SERVICE COVERAGE
(PER TRUST AGREEMENT)
(In Millions of Dollars)

	Fiscal Year ended June 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
OPERATING REVENUES:					
Untreated Water Sales	\$34.2	\$33.4	\$36.4	\$37.7	\$35.4
Treated Water Sales	54.9	57.6	62.0	64.0	61.5
Reimbursement of Operating Expenses	1.1	1.3	1.3	1.8	4.2
Other Revenues	0.14	0.2	.01	0.1	0.2
Total Operating Revenues	90.3	92.5	99.8	103.6	101.3
NON-OPERATING REVENUES:					
Contributions in Aid of Construction	12.8	15.6	14.7	12.4	58.6
Grants, Rents & Other Revenues	18.9	7.7	13.3	12.2	14.5
Interest Income	9.1	9.8	11.4	11.7	9.7
Property Taxes / Land Levy Taxes ⁽¹⁾	N/A	N/A	N/A	N/A	N/A
Total Non-Operating Revenues	40.8	33.1	39.4	36.3	82.8
Gross Revenues	131.1	125.6	139.2	139.9	184.1
OPERATING MAINTENANCE EXPENSES:					
Source of Supply	11.0	7.8	6.9	7.4	6.7
Water Treatment	6.2	7.4	7.4	7.7	8.3
Pumping	5.1	4.1	3.6	4.6	4.6
Transmission and Distribution	0.4	0.8	1.2	1.6	1.2
Other Operation Expenses	33.1	36.3	37.4	39.4	43.4
Operations (before depreciation and debt service)	55.8	56.4	56.5	60.7	64.2
Less: Expenses Paid with Property Taxes ⁽¹⁾	(1.2)	(1.4)	(3.3)	(3.3)	(3.2)
Total Expenses	54.6	55.0	53.2	57.4	61.0
Net Revenues Available for Debt Service	76.5	70.6	86.0	82.5	123.1
Total Senior Debt Service	45.3	45.7	45.7	44.5	44.2
Debt Service Coverage Ratio – Senior Debt Only	1.69x	1.54x	1.88x	1.85x	2.79x

(1) Property taxes and land levy taxes are not included in Net Revenues when calculating the Debt Service Coverage Ratio; accordingly, expenses paid with property taxes are also excluded.

The following table presents certain audited financial information for the Fiscal Years ended June 30, 2009 and June 30, 2008. The information has been prepared on an accrual basis.

SUMMARY OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
(In millions of dollars)
Fiscal Years Ended June 30

	2008	2009
REVENUES:		
Untreated Water Sales	\$ 37.7	\$ 35.4
Treated Water Sales	64.0	61.5
Reimbursement of Operation Expenses	1.8	4.2
Other Operating Revenues	0.1	0.2
Total Operating Revenues	103.6	101.3
Non-Operating Revenues:		
Contributions in Aid of Construction	12.4	58.6
Grants, Rents & Other Revenues	12.2	14.5
Investment Income	11.7	9.7
Investment FMV Adjustment	(1.7)	(5.8)
Property Taxes/Land Levy	3.3	3.2
Total Non-Operating Revenue	37.9	80.2
Total Revenues	141.5	181.5
 EXPENSES:		
Source of Supply	7.4	6.7
Water Treatment	7.7	8.3
Pumping	4.6	4.6
Transmission and Distribution	1.6	1.2
Maintenance	14.0	14.9
Public Information & Customer Service	4.0	4.1
Administration & General	21.4	24.4
Depreciation and Amortization	23.3	24.9
Total Operating Expenses	84.0	89.1
Non Operating Expenses:		
Interest Expense	26.3	26.6
Total Non-Operating Expenses	26.3	26.6
Total Expenses	110.3	115.7
Changes in Net Assets	\$31.2	\$65.8
Net Assets, Beginning of Year	\$713.2	\$744.4
Net Assets, End of Year	\$744.4	\$810.2

Note: Amounts in columns may not equal totals due to rounding.

District Management's Discussion on Financial Operations

In 2009 California faced its third year of drought. The District did its part to save water by instituting a Drought Management Program asking customers to reduce their water use by 15% overall. Customers were assigned a water budget based on a percentage of their historical use, and excess-use charges were applied when customers failed to conserve. The program minimized its impact on jobs and the economy by focusing mainly on achieving significant reductions in landscape irrigation use and by requesting industrial users to voluntarily reduce their water use by only 5%.

The District was well-prepared to deal with the drought and economic downturn with a solid foundation of long-range planning and sound financial strategies adopted by the Board nearly 20 years ago. Since then, the District has consistently achieved its goals through a ten-year planning approach that controls spending and focuses expenditures on the highest priorities. The District's strong financial plan allowed the District to operate as a sustainable utility and meet its obligations without raising rates beyond planned levels.

The District's total revenues in fiscal year 2009 (FY09) were \$181.5 million, up \$40.0 million from the prior year due to increased contributions in aid of construction, as discussed below. However, operating revenues of \$101.3 million were down \$2.4 million from the prior year due to the District's successful drought management efforts and the economic downturn.

Water Sales ended Fiscal Year 2009 at \$96.8 million, compared to budgeted sales of \$101.1 million. The \$4.2 million lower than budgeted water sales reflects reduced untreated and treated water consumption, partially offset by higher wholesale treated water sales. The overall reduction in water sales is consistent with the impacts assumed in the Financial Plan related to the drought and economic downturn. Untreated water sales ended the year at \$35.4 million, \$1.9 million lower than budgeted, with reduced deliveries to both municipal and industrial customers. Treated water sales ended the year at \$61.5 million, \$3.3 million lower than budgeted, with reduced deliveries across all customer classes. Wholesale treated water sales ended the year at \$3.4 million due to higher sales to Golden State Water Company (GSWC), which shutdown its treatment plant earlier in the year and began purchasing only treated water from the District.

Industrial and commercial water sales generated \$24.4 million of the District's total revenues in FY09, down \$1.4 million from the prior year due to the economic downturn. These customers include the Shell and Tesoro refineries, USS-POSCO Industries, Dow Chemical, Calpine Corp., and other businesses.

Untreated and treated water sales to municipal customers constituted \$24.5 million of total revenues, down \$2.1 million from the prior year due to the District's water conservation efforts. However, with the increasing population in these municipal service areas, sales are expected to increase with the growing demand in the coming year. Treated water sales to residential customers made up \$46.0 million of the District's total revenues, down \$1.8 million from the prior year because of the District's efforts to inform customers of drought conditions and the need to reduce water usage.

Contributions in aid of construction comprised \$58.6 million of FY09 revenues, a significant increase (\$46.2 million) over the prior year due to reimbursements received from the City of Brentwood for the CCWD/City of Brentwood Water Treatment Plant. The balance of other revenue is primarily derived from investment income, grants, property taxes, and rent totaling \$28.0 million in FY09.

Projected Operating Results and Debt Service Coverage

The following table projects the District's operating results and debt service coverage for the fiscal years ending June 30, 2010 to 2014. The financial forecast represents the District's estimate of projected financial results based on the assumptions set forth in the footnotes to the chart set forth below. *Such assumptions are material in development of the District's financial projections; variations in the assumptions may produce substantially different financial results.* Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

PROJECTED REVENUES, OPERATIONS & MAINTENANCE AND DEBT SERVICE (In Millions of Dollars)

	2010	2011	2012	2013	2014
OPERATING REVENUES:					
Untreated Water Sales	32.7	36.4	39.7	44.4	48.3
Treated Water Sales	59.7	57.8	65.1	72.9	79.3
Reimbursement of Operating Expenses	5.5	6.0	6.1	7.0	7.3
Other Revenues	1.8	1.9	2.0	1.2	1.2
Total Operating Revenues	99.7	102.1	112.9	125.5	136.1
NON-OPERATING REVENUES:					
Contributions in Aid of Construction	5.9	7.5	9.9	12.7	12.6
Grants, Rents & Other Revenues	14.8	4.6	4.1	4.1	4.1
Interest Income	7.0	7.5	7.5	4.9	4.8
Property Taxes / Land Levy Taxes ⁽¹⁾	N/A	N/A	N/A	N/A	N/A
Total Non-Operating Revenues	27.7	19.6	21.5	21.7	21.5
Gross Revenues	127.4	121.7	134.4	147.2	157.6
OPERATING & MAINTENANCE EXPENSES:					
Operations (before depreciation and debt service)	65.8	69.2	71.1	80.3	83.3
Less: Expenses Paid with Property Taxes ⁽¹⁾	(2.1)	(2.4)	(2.4)	(2.4)	(2.4)
Total Expenses	63.7	66.8	68.7	77.9	80.9
Net Revenues Available for Debt Service	63.7	54.9	65.7	69.3	76.7
Total Senior Debt Service	43.8	43.8	43.8	43.8	43.8
Debt Service Coverage Ratio – Senior Debt Only	1.45x	1.26x	1.50x	1.58x	1.75x
Mezzanine Debt Service⁽²⁾	0.0	0.3	2.9	4.3	3.6
Total Senior/Mezzanine Debt Service	43.8	44.1	46.7	48.1	47.4
Annual Mezzanine Debt Service Coverage Ratio	N/A	1.25x	1.41x	1.44x	1.62x
UNITS OF WATER SOLD (acre-feet)	87,700	92,000	96,600	105,600	110,500

(1) Property taxes and land levy taxes are not included in Net Revenues when calculating the Annual Mezzanine Debt Service Coverage Ratio or Mezzanine Debt Service Coverage Ratio; accordingly, expenses paid with property taxes are also excluded.

(2) Reflects interest payments on the Series A Notes and includes assumed interest on a Note financing in 2012 at a projected interest rate of 3.03% per annum.

As described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Rate Covenant; Debt Coverage" in this Official Statement, the Trust Agreement requires the District to maintain a Annual Mezzanine Debt Service Coverage Ratio (which is defined as the ratio of Net Revenues to Annual Debt Service, including debt service on Senior Debt and the Notes) of 1.25:1.0 calculated at the end of each Fiscal Year. Consistent with the Trust Agreement, for purposes of the table above, only interest payments on the Series A Notes and not the actual principal maturities of

the Series A Notes are included in the calculation of Annual Debt Service for purposes of calculating the Annual Mezzanine Debt Service Coverage Ratio, based on the assumption that the principal of the Series A Notes will be paid from the proceeds of additional Notes or Senior Debt rather than from Net Revenues during the forecast period.

As described under the caption “PLAN OF FINANCE,” the District plans to refinance the Series A Notes at maturity rather than pay the principal of the Series A Notes with Available Mezzanine Revenues. Pursuant to the Note Trust Agreement, in order to issue additional Notes, including refunding Notes, the Mezzanine Debt Service Coverage Ratio must at least equal 1.25:1.0. The District plans to designate the principal payments on the Series A Notes as Excluded Principal Payments under the Trust Agreement because the District intends to pay the Series A Notes at maturity with moneys which are not Revenues. Accordingly, Assumed Debt Service rather than the actual principal payments on the Series A Notes will be included when calculating Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio. Assumed Debt Service is calculated by amortizing Excluded Principal Payments over a period specified by the District of not more than 30 years on a substantially level debt basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a financial advisor or investment banker. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues.” Based upon current water service rates, anticipated water sales and other assumptions included in the table above, the District may be required to withdraw funds from the Rate Stabilization Fund for inclusion in Revenues in order to achieve the Mezzanine Debt Service Coverage Ratio required to issue refunding Notes in years in which the Series A Notes mature. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Rate Stabilization Fund.”

The District’s budgets are based on the assumption that projected Mezzanine Debt Service will not exceed an average annual budget of \$3.5 million to \$4.0 million, including future debt issuance as contemplated in the “Total District Debt Service – Including Debt Financing of MRIP/LVE” table under the caption “WATER SYSTEM FINANCES – 10-Year Capital Improvement Program and Financial Plan” and in the table on the previous page, and projected refinancings of the Series A Notes at their respective maturity dates. The projected Mezzanine Debt Service in the table on the previous page does not adjust for the use of capitalized interest, original issue premium, or other mechanisms as part of future debt issuances that can assist the District in satisfying its future Mezzanine Debt Service budgetary targets. The District has several budgetary and debt service alternatives, including but not limited to mid-year budgetary adjustments and the use of reserves, to mitigate refinancing risks associated with the Series A Notes and to maintain the Mezzanine Debt Service Coverage Ratio at the level required by the Trust Agreement.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Tax Limitations - Proposition 13

Article XIII A of the California Constitution, commonly known as “Proposition 13”, provides that each county will levy the maximum ad valorem property tax permitted by Proposition 13 and will distribute the proceeds to local agencies in accordance with an allocation formula based, in part, on pre-Proposition 13 ad valorem property tax rates levied by local agencies.

Article XIII A limits the maximum ad valorem tax on real property to 1% of “full cash value”, which is defined as “the County Assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation, at a rate not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and requires a vote of two-thirds of the qualified electorate to impose special taxes, or any additional ad valorem, sales or transaction taxes on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues. On June 3, 1986, California voters approved an amendment to Article XIII A of the California Constitution to allow local governments and school districts to raise their property tax rates above the constitutionally mandated 1% ceiling for the purpose of paying debt service on certain new general obligation debt issued for the acquisition or improvement of real property and approved by two-thirds of the votes cast by the qualified electorate.

The effect of Article XIII A on the District's finances, has been to restrict ad valorem tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy ad valorem taxes in whatever rate or amount may be required to pay debt service on its outstanding general obligation bonds.

State and local government agencies in California and the State of California itself are subject to annual "appropriation limits" imposed by Article XIII B of the State Constitution. Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are authorizations to spend "proceeds of taxes", which consist of tax revenues, certain State subventions and certain other funds, including proceeds from regulatory licenses, user charges, or other fees to the extent that such proceeds exceed "the cost reasonably born by such entity in providing the regulation, product or service". No limit is imposed on appropriations of funds which are not "proceeds of taxes", such as debt service on indebtedness existing or authorized before January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the Federal government, reasonable user charges or fees and certain other non-tax funds. The District believes that the appropriations of the District are excluded from the limitations of Article XIII B under this provision.

Court Challenges to Proposition 13

The U.S. Supreme Court struck down as a violation of equal protection certain property tax assessment practices in West Virginia, which had resulted in vastly different assessments of similar properties. Since Proposition 13 provides that property may only be reassessed up to 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than longtime owners of comparable property in a community. The Supreme Court in the West Virginia case expressly declined to comment in any way on the constitutionality of Proposition 13.

Based on this decision, however, property owners in California brought three suits challenging the acquisition value assessment provisions of Proposition 13. All three suits were dismissed by the trial court and subsequently appealed. The State Courts of Appeal upheld Proposition 13 in two cases in December 1990 and the third case in April 1991. On February 28, 1991, the California Supreme Court declined to hear the appeals of the two cases decided in December 1990. The two cases were appealed to the United States Supreme Court. On June 3, 1991, the United States Supreme Court agreed to hear *R.H. Macy & Co. v. Contra Costa County*. Subsequently, R.H. Macy & Co. withdrew its appeal. On June 18, 1992, the United States Supreme Court decided the second case, *Nordlinger v. Hahn*, (505 U.S. 1), holding that the acquisition value assessment provisions of Proposition 13 did not violate the Equal Protection Clause of the United States Constitution.

If the assessment rules of Article XIII A are at some point struck down, it is not known what rules would become operative. Further legislation would then be likely. The District cannot predict what

impact any of these developments might have on the District or on the District's ability to meet its obligations.

In November 1986, California voters approved a statutory initiative ("Proposition 62") that established certain voter requirements in order for local governments, such as cities and counties, and districts to impose or raise taxes. Various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and by implication upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The District has not imposed any taxes subject to the provisions of Proposition 62.

Right to Vote on Taxes Initiative

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Proposition 218") was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Article XIIC and Article XIID to the California Constitution. According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIID defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property related service" is defined as "a public service having a direct relationship to property ownership." In the case of *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205, 46 Cal.Rptr.3d 73 ("Bighorn") in July 2006, the Supreme Court held that charges for ongoing water delivery are also "fees" within the meaning of Section 3 of Article XIIC, which establishes that the initiative power of the electorate "shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." Therefore, the Court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. However, the Court stated that it was *not* determining whether the electorate's initiative power is subject to certain statutory provisions applicable to the Bighorn-Desert View Water Agency that require water service charges to be set at certain minimum rates to cover operations and maintenance costs, debt service and other costs.

No courts have ruled on the question of whether Article XIIC grants to the voters the power to repeal or reduce rates and charges in a manner or to an extent which would impair the District's contractual obligations, including but not limited to, an obligation to pay installment payments. Courts have held under certain circumstances that the Contracts Clause of the United States Constitution prohibits public agencies from enacting laws that impair obligations of the public agencies under their own contracts. There can be no assurance of the availability of particular remedies adequate to protect the interests of Noteholders. Remedies available to Noteholders in the event of a default are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Certain aspects of the impact of Proposition 218 in these and other areas remain unclear as court decisions interpreting the application of Proposition 218 to various circumstances continue to be published on a frequent basis.

Article XIID. Article XIID defines the terms “fee” and “charge” to mean “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID includes a number of limitations applicable to existing fees and charges, including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. The District believes that its rates and charges comply with all of the foregoing substantive provisions of Article XIID. Property-related fees or charges based on potential or future use of a service are not permitted. Based upon the California Court of Appeals decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), it was generally believed that Article XIID did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 9 Cal. Rptr. 3d 121 (“*Richmond*”), upheld a Court of Appeals decision that water connection fees for new service were not property-related fees or charges subject to Article XIID, but stated, in a portion of the decision not necessary to its decision (and therefore “dicta”), that “water service fees, being fees for property-related services, may be fees or charges within the meaning of Article XIID.” Confirming this dicta from *Richmond*, the Supreme Court also decided in *Bighorn* that fees for ongoing water service through an existing connection were property-related fees and charges subject to the procedural and substantive provision of Article XIID. The substantive requirements of Article XIID have been applicable since it was approved by the voters, but the applicability of the procedural requirements, such as providing written notice to all ratepayers or property owners at least 45 days in advance of a hearing on any rate increase, was in doubt until the *Bighorn* decision.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot and were approved by the voters pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting the District’s revenues or ability to increase revenues.

RATINGS

Fitch Ratings (“Fitch”) and Standard & Poor’s Ratings Service (“S&P”) have assigned the Series A Notes with ratings of “AA” and “AA+,” respectively. The District applied for a rating with another nationally-recognized rating agency concerning the Series A Notes, but ultimately decided to withdraw its application. The District believes that any such rating would have been lower than the rating assigned by Fitch and S&P. Certain information was supplied by the District to the rating agencies to be considered in evaluating the Series A Notes. Such ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings and any ratings on any of the outstanding indebtedness of the District should be obtained from such rating agencies. There is no assurance that any such rating will be retained for any given period of time or that any such rating will not be revised, either downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The District undertakes no responsibility either to notify the owners of any revision or withdrawal or to oppose any such revision or withdrawal. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series A Notes.

INDEPENDENT ACCOUNTANTS

The District’s audited financial statement for the fiscal year ended June 30, 2009 (the “Audited Financial Statement”), is included as Appendix A. The Fiscal Year 2009 Audited Financial Statement was reported on by Maze and Associates, independent auditors (the “Auditors”). The letter of the Auditors concludes that the Audited Financial Statement presents fairly in all material respects, the respective financial position of the business-type activities and each major fund of the District at June 30, 2009 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America. The Audited Financial Statement should be read in its entirety. The Auditors have not reviewed or audited this Official Statement.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District (“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 A Notes 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. In the further opinion of Bond Counsel, interest on the Series A Notes is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Notes, including whether interest on the Series A Notes 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 D hereto.

To the extent the issue price of any maturity of the Series A Notes is less than the amount to be paid at maturity of such Series A Notes (excluding amounts stated to be interest and payable at least annually over the term of such Series A Notes), 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 A Notes which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series A Notes is the first price at which a substantial amount of such maturity of the Series A Notes 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 A Notes accrues daily over the term to maturity of such Series A Notes 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 A Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series A Notes. Beneficial Owners of the Series A Notes should consult their own tax advisors with respect to the tax consequences of ownership of Series A Notes with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series A Notes in the original offering to the public at the first price at which a substantial amount of such Series A Notes is sold to the public.

Series A Notes 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 Notes”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of notes, like the Premium Notes, 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 Note, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable note 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 A Notes. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series A Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series A Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Notes. 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 A Notes may adversely affect the value of, or the tax status of interest on, the Series A Notes. 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 A Notes 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 interest on, the Series A Notes 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.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series A Notes 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. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series A Notes. Prospective purchasers of the Series A Notes should consult their own tax advisors regarding any pending or proposed federal or state tax 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 A Notes 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 District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series A Notes ends with the issuance of the Series A Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series A Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the District 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 notes is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series A Notes 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 A Notes, and may cause the District or the Beneficial Owners to incur significant expense.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to the District or its counsel to be pending or threatened, restraining or enjoining the execution or delivery of the Series A Notes, or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing.

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which the Series A Notes are payable, contesting the District's water rights, or which would have a material adverse effect on the District, including the District's ability to make payments on the Series A Notes.

CONTINUING DISCLOSURE

The District has covenanted to provide certain financial information and operating data relating to the District by not later than nine months after the end of the District's fiscal year (presently June 30) in each year, commencing with its report for the 2009/2010 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Reports will be filed by the Dissemination Agent on behalf of the District with each Nationally Recognized Municipal Securities Information Repository. The Trustee on behalf of the District will file the notices of material events with each Nationally Recognized Municipal Securities Information Repository and any state repository. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX F — FORM OF CONTINUING DISCLOSURE AGREEMENT." The District has never failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12 promulgated by the Securities and Exchange Commission to provide financial information and data, operating data or material events.

UNDERWRITING

Stone & Youngberg LLC and Wedbush Securities Inc., as the Underwriters for the Series A Notes have agreed to purchase the Series A Notes at a purchase price of \$132,286,785.68 (consisting of the principal amount of the Series A Notes of \$127,630,000.00, plus a net original issue premium of \$4,875,118.15, less an underwriting discount of \$218,332.47. The Purchase Contract for the Series A Notes provides that the Underwriters for the Series A Notes will purchase all of the Series A Notes if any are purchased.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc. as financial advisor with respect to the issuance of the Series A Notes. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTAIN LEGAL MATTERS

The validity of the Series A Notes and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. A copy of the proposed form of the opinion of Bond Counsel is attached as APPENDIX D hereto. Orrick, Herrington & Sutcliffe LLP also acts as Disclosure Counsel to the District. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bold, Polisner, Maddow, Nelson & Judson, A Professional Corporation, will provide an opinion upon certain legal matters in connection with the Series A Notes for the District. Certain legal matters will be passed upon for the Underwriters by its counsel Stradling Yocca Carlson & Rauth, A Professional Corporation, Sacramento, California.

APPENDIX A

**CONTRA COSTA WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009**

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**CONTRA COSTA WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

**PREPARED BY THE
FINANCE DEPARTMENT**

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**CONTRA COSTA WATER DISTRICT
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Contra Costa Water District
Concord, California

We have audited the financial statements of the business-type activities and each major fund of the Contra Costa Water District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative totals have been derived from the District's 2008 financial statements and our report dated August 28, 2008, in which we expressed an unqualified opinion.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and each major fund of the Contra Costa Water District at June 30, 2009 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2009 on our consideration of the Contra Costa Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is required by the Governmental Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Mage + Associates

August 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board Statement Number 34 (GASB 34) requires that management prepare a Management's Discussion and Analysis (MDA) section as a component of the audited financial statements.

The Contra Costa Water District (the District) MDA presents management's analysis of the District's financial condition and activities for the year ended June 30, 2009. The MDA is intended to serve as an introduction to the District's basic financial statements. A comparative analysis of fiscal year 2009 to 2008 information is presented in this report. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

The information in this MDA is presented in the following order:

- 1 Organization and Overview of Financial Statements
- 2 Financial Analysis
- 3 Capital Assets
- 4 Debt Administration
- 5 Request for Information

Organization and Overview of Financial Statements:

The Contra Costa Water District was formed as a legal entity on May 9, 1936, in response to the growing water demands of Contra Costa County. The District purchases and distributes water provided primarily by the United States Bureau of Reclamation from the Federal Government's Central Valley Project. The District's service area has grown from its original 48,000 acres to a current area of over 137,000 acres in the central and eastern portions of the County. The District delivers treated water to a population of approximately 550,000 people within the County. The District derives most of its revenue from the sale of untreated water and treated water. The District has broad powers to finance, construct and operate a system of transportation, storage, treatment and distribution of untreated and treated water.

The Contra Costa Water Authority (Authority) was created as a joint powers authority pursuant to the Joint Exercise of Powers Agreement, dated June 6, 1989, between Contra Costa Water District and Diablo Water District for the purpose of providing for the financing, construction, and operations of the Randall Bold water treatment plant, which subsequently began operations in 1992. The financial operations of the Authority and the District are closely related, and the Authority is governed by the District's Board of Directors. As a result, the Authority is a component unit of the District. The Authority's component unit financial statements are included as a blended component of the District's basic financial statements.

The District is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes. Proprietary funds are reported using the accrual basis of accounting and account for activities in a manner similar to private business

enterprises. The intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed primarily through user rates, fees and charges.

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by GASB 34.

Government-wide financial statements: The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information on how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Financial Analysis:

Contra Costa Water District has a tradition of strong financial management based on fair rates, cost containment, long-term planning, on going infrastructure improvement, and the development of alternative revenues. This financial strategy guided the District through Fiscal Year 2009 despite the challenges presented by the worldwide economic downturn and California's statewide drought. Although the District maintains required balances in restricted and designated funds, no significant restrictions, commitments, or other limitations exist which significantly inhibit the availability of fund resources for future use. This is illustrated by the financial analysis below.

Financial Condition

Net Assets
District and Authority
June 30, 2009 and 2008
(In Millions of Dollars)

	2009	2008	Increase (Decrease)
ASSETS:			
Capital assets	\$1,093	\$1,046	\$47
Cash and investments	261	250	11
Receivables and other current assets	33	28	5
Total Assets	<u>1,387</u>	<u>1,324</u>	<u>63</u>
LIABILITIES:			
Noncurrent liabilities	461	489	(28)
Current liabilities	116	91	25
Total Liabilities	<u>577</u>	<u>580</u>	<u>(3)</u>
NET ASSETS:			
Invested in capital assets (net of related debt)	617	553	64
Restricted	155	140	15
Unrestricted	38	51	(13)
Total Net Assets	<u>\$810</u>	<u>\$744</u>	<u>\$66</u>

Comparison of fiscal year 2009 to fiscal year 2008: Total assets increased by \$63 million in fiscal year 2009 to \$1.4 billion, while total liabilities decreased by \$3 million to \$577 million, resulting in an overall increase in net assets of \$66 million. Key components in the increase in net assets are as follows:

1. Capital assets increased \$47 million in FY09 due to projects such as the Brentwood Water Treatment Plant (WTP), the Alternative Intake Project, and needed upgrades, replacements and installation of new District facilities and equipment, including canal replacement, reservoirs, transmission and distribution facilities. Please refer to the Capital Assets section of the MDA for further details.

2. Cash and investments increased \$11 million. This is primarily the result of the issuance of commercial paper for construction of the Alternative Intake Project offset by the reduction in water sales resulting from conservation and drought management efforts, and the decline in Fair Market Value of District investments due to the current economic downturn.
3. Receivables and other assets increased by \$5 million due to miscellaneous billings to the Department of Water Resources and the City of Brentwood which were unpaid at year end.
4. Total liabilities decreased by \$3 million due to the annual debt service payments offset by the issuance of commercial paper to provide cash flow liquidity to funding the construction of the Alternative Intake Project.

Results of Operations

Revenues, Expenses, and Changes in Net Assets
District and Authority
June 30, 2009 and 2008
(In Millions of Dollars)

	2009	2008	Increase (Decrease)
REVENUES:			
Untreated water sales	\$35	\$38	\$(3)
Treated water sales	62	64	(2)
Other operating revenues	4	2	2
Total Operating Revenues	101	104	(3)
Nonoperating income:			
Property taxes	3	3	0
Investment earnings	10	12	(2)
Investment FMV adjustment	(6)	(2)	(4)
Contributions in aid of construction.	59	13	46
CALFED grant	7	4	3
Rent and other	7	8	(1)
Total Nonoperating Income:	80	38	42
TOTAL REVENUES	181	142	39
EXPENSES:			
Operations	36	35	1
Public information, customer service and administrative and general	28	26	2
Depreciation and amortization	25	24	1
Total Operating Expenses	89	85	4
Non operating expenses:			
Interest expense	26	26	0
Total Nonoperating Expenses:	26	26	0
TOTAL EXPENSES	115	111	4
CHANGES IN NET ASSETS	66	31	35
NET ASSETS BEGINNING OF YEAR	744	713	31
NET ASSETS END OF YEAR	\$810	\$744	\$66

Comparison of fiscal year 2009 to fiscal year 2008: The District ended the year with total revenues exceeding total expenses by \$66 million. In comparison to FY08, total FY09 revenues increased \$39 million to \$181 million, while total expenses increased by \$4 million to \$115 million. Major contributors to this year's results of operations are as follows:

- 1 Operating revenues decreased by \$3 million in FY09, due primarily to decreases in treated and untreated water sales of \$2 million and \$3 million respectively. Decreased water sales resulted as California experienced a statewide drought for a third consecutive year and the District implemented a Drought Management Program. The Program asked for overall water use reductions of 15 percent effective May 1, 2009. The reduction in water sales revenue was partially offset by \$2.4 million of expense reimbursements received from the City of Brentwood related to operations of the new City of Brentwood Water Treatment Plant which came online in July 2008.
- 2 Nonoperating income increased by \$42 million in FY09 due to several factors. Contributions in aid of construction increased by \$46 million as \$53 million of Brentwood WTP reimbursements were partially offset by a \$7 million reduction in developer project activity and facility reserve charge receipts. CALFED grants also increased by \$3 million due to a one time grant of \$4.8 million from the East County Integrated Regional Water Management Plant for the Alternative Intake Project. Economic and financial market distresses in FY09 resulted in a \$4 million decrease in the fair market value of the District's investment portfolio and lower investment earnings in the amount of \$2 million compared to FY08.
- 3 Overall expenses for FY09 increased by \$4 million in comparison to FY08. Operations expenses increased by \$1 million. Lower cost of water, driven by reduced diversions purchased, were more than offset by increased water treatment and maintenance costs as the Brentwood WTP came on line, which the City of Brentwood reimbursed as mentioned above. Administrative and general expenses increased by \$2 million in FY09 due to a contribution to retirement formula change (\$1.5 million), higher commercial paper fees for Alternative Intake Project (\$0.3 million), and outreach cost (\$0.1 million) for the Drought Management Program. Depreciation and amortization costs increased by approximately \$1 million due the increased capital assets booked in FY09.

Capital Assets:

The District's investment in capital assets as of June 30, 2009, amounts to \$1.1 billion (net of accumulated depreciation). The investment in capital assets includes utility plant and canal system, land and rights of way, and construction in progress as follows:

Capital Assets, Net of Depreciation
District and Authority
June 30, 2009 and 2008
(In Millions of Dollars)

	2009	2008	Increase (Decrease)
Utility Plant and Canal System (net of depreciation)	\$745	\$684	\$61
Land and Rights of Way	227	227	0
Construction in Progress	121	135	(14)
Total	\$1,093	\$1,046	\$47

The total increase in the District's investment in capital assets for fiscal year 2009 was \$47 million (net of \$25.0 million in annual depreciation). Major contributors to the increase in capital assets are as follows:

- 1 Utility plant and canal – Completion of the City of Brentwood Water Treatment Plant, Bollman Water Treatment Plant upgrades, ensure and increase of reservoirs including Midhill II and Seminary, backup generator projects, and the Old River and Rock Slough projects funded by the Department of Water Resources and other projects accounted for a total of \$86 million in FY09.
- 2 The increases in utility plant and canal assets were offset by depreciation expense in FY09 of \$25 million. Increased depreciation expense in FY09 was due to a large number of projects closed out during FY09.
- 3 Construction in progress decreased by \$14 million due primarily to completion of the following projects: the City of Brentwood Water Treatment Plant, generator upgrades, Bollman Ozone Quenching system, MidHill and Seminary reservoirs. Major projects in the current construction in progress balance include the Alternative Intake Project (\$61 million), Los Vaqueros Expansion Studies (\$25 million), and Canal Replacement Phase I (\$11 million), as well as various other projects (\$23 million).

Readers desiring more detailed information on the District's capital assets should refer to Note 2 of the accompanying financial statements.

Debt Administration:

At June 30, 2009, the District had \$537 million total debt outstanding. During fiscal year 2009 the District issued an additional \$55 million of short term debt as temporary financing for construction of the Alternative Intake Project. The District repaid \$41 million of outstanding commercial paper following reimbursement from the City of Brentwood upon completion of the Brentwood WTP, resulting in a net \$14 million increase for commercial paper outstanding at year end. Without the commercial paper

new issuances and repayments, total debt would have reflected a reduction of \$16 million from the previous year. Total debt outstanding consists of \$458 million of water revenue bonds (net of unamortized discount and issuance costs), \$61 million in commercial paper, and \$18 million in State Revolving Fund loans. The District's annual debt service for the upcoming fiscal year 2010 is \$42.5 million, inclusive of the State Revolving Fund loans, but excluding the commercial paper for the Alternative Intake Project. Readers desiring more detailed information on the District's long-term debt should refer to Note 5 of the accompanying financial statements.

Request for Information:

This report is designed to provide ratepayers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact the Accounting Manager, P.O. Box H2O, Concord, CA 94524.

CONTRA COSTA WATER DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS - ENTERPRISE
AS OF JUNE 30, 2009
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2008

ASSETS	Water District Fund	Water Authority Fund	Totals	
			2009	2008
Noncurrent Assets:				
Capital assets, net of accumulated depreciation (Note 2)	\$1,057,184,564	\$35,709,180	\$1,092,893,744	\$1,046,257,617
Notes receivable	1,506,751		1,506,751	2,042,936
Prepaid other post-employment benefits (Note 8)	4,266,670		4,266,670	5,236,445
Restricted Assets (Note 3):				
Cash and cash equivalents	69,231,298		69,231,298	10,432,298
Investments	77,774,089	3,787,517	81,561,606	124,159,540
Total Restricted Assets	147,005,387	3,787,517	150,792,904	134,591,838
Designated Assets (Note 3):				
Cash and cash equivalents	25,681,893		25,681,893	7,540,084
Investments	36,954,397		36,954,397	51,325,333
Total Designated Assets	62,636,290		62,636,290	58,865,417
Total Noncurrent Assets	1,272,599,662	39,496,697	1,312,096,359	1,246,994,253
Current Assets:				
Cash and cash equivalents (Note 3)	47,564,387		47,564,387	52,062,544
Investments (Note 3)	455,088		455,088	4,453,545
Receivables (Note 1I)	24,374,567	13,500	24,388,067	19,334,117
Other current assets	2,294,820		2,294,820	1,683,494
Interfund balances (Note 1J)	1,276,189	(1,276,189)		
Total Current Assets	75,965,051	(1,262,689)	74,702,362	77,533,700
Total Assets	1,348,564,713	38,234,008	1,386,798,721	1,324,527,953

(Continued)

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS - ENTERPRISE
AS OF JUNE 30, 2009
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2008

LIABILITIES	Water District Fund	Water Authority Fund	Totals	
			2009	2008
Noncurrent Liabilities:				
Contracts payable (Note 4A)				713,620
Advances for construction (Note 4B)	3,600,093		3,600,093	12,694,327
Unearned revenue and other (Note 4C)	1,423,144		1,423,144	1,623,426
Long-term debt (Note 5)	424,197,799	31,340,926	455,538,725	473,905,013
Total Noncurrent Liabilities	429,221,036	31,340,926	460,561,962	488,936,386
Current Liabilities				
Contracts payable, due within one year (Note 4A)	713,620		713,620	712,176
Current maturities of long-term debt (Note 5)	17,920,426	2,260,000	20,180,426	17,645,055
Accounts payable	22,466,822		22,466,822	14,924,657
Accrued payroll and related expenses	5,459,529		5,459,529	4,484,367
Interest payable	5,753,953	389,023	6,142,976	6,362,976
Commercial paper (Note 5E)	61,000,000		61,000,000	47,000,000
Total Current Liabilities	113,314,350	2,649,023	115,963,373	91,129,231
Total Liabilities	542,535,386	33,989,949	576,525,335	580,065,617
NET ASSETS (Note 6)				
Invested in capital assets, net of related debt	615,066,339	2,108,254	617,174,593	554,707,549
Restricted for:				
Capital projects	108,273,101		108,273,101	91,805,679
Debt service	38,732,286	3,787,517	42,519,803	42,786,159
Other post-employment benefits	4,266,670		4,266,670	5,236,445
Unrestricted Net Assets	39,690,931	(1,651,712)	38,039,219	49,926,504
Total Net Assets	\$806,029,327	\$4,244,059	\$810,273,386	\$744,462,336

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2009
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2008

	Water District Fund	Water Authority Fund	Totals	
			2009	2008
OPERATING REVENUES:				
Untreated water sales	\$35,349,121		\$35,349,121	\$37,663,975
Treated water sales	61,517,021		61,517,021	64,046,744
Reimbursement of operating expenses	4,242,325		4,242,325	1,825,557
Miscellaneous service charges	148,081		148,081	123,589
Total Operating Revenues	101,256,548		101,256,548	103,659,865
OPERATING EXPENSES:				
Source of supply	6,693,063		6,693,063	7,423,558
Water treatment	8,301,214		8,301,214	7,676,734
Pumping	4,581,618		4,581,618	4,605,771
Transmission and distribution	1,219,167		1,219,167	1,626,666
Maintenance	14,915,790		14,915,790	14,011,990
Public information and customer service	4,099,866		4,099,866	3,960,935
Administrative and general	24,408,789		24,408,789	21,430,275
Depreciation (Note 2)	23,692,669	\$1,234,960	24,927,629	23,312,555
Total Operating Expenses	87,912,176	1,234,960	89,147,136	84,048,484
NET OPERATING INCOME (LOSS)	13,344,372	(1,234,960)	12,109,412	19,611,381
NONOPERATING REVENUE (EXPENSE):				
Property taxes	3,212,811	5	3,212,816	3,312,949
Investment earnings	9,468,465	273,281	9,741,746	11,701,439
Net (decrease) in fair value of investments	(5,823,122)		(5,823,122)	(1,698,619)
Interest expense	(24,877,509)	(1,678,488)	(26,555,997)	(26,270,712)
CALFED grant	7,388,979		7,388,979	4,071,248
Rent and other, net	3,634,097	3,480,796	7,114,893	8,056,693
Nonoperating revenue (expenses), net	(6,996,279)	2,075,594	(4,920,685)	(827,002)
NET INCOME BEFORE CONTRIBUTIONS	6,348,093	840,634	7,188,727	18,784,379
CONTRIBUTIONS:				
Contributions in aid of construction	58,622,323		58,622,323	12,424,017
CHANGES IN NET ASSETS	64,970,416	840,634	65,811,050	31,208,396
NET ASSETS, BEGINNING OF YEAR	741,058,911	3,403,425	744,462,336	713,253,940
NET ASSETS, END OF YEAR	\$806,029,327	\$4,244,059	\$810,273,386	\$744,462,336

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2009
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2008

	Water District Fund	Water Authority Fund	Totals	
			2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$91,018,984		\$91,018,984	\$103,862,202
Payments to suppliers	(18,920,472)		(18,920,472)	(25,131,344)
Payments to employees	(36,623,542)		(36,623,542)	(38,032,046)
Internal activity - payments to other funds	(61,336)	\$61,336		
Other receipts	15,949,666	3,480,796	19,430,462	14,582,370
Cash Flows from Operating Activities	51,363,300	3,542,132	54,905,432	55,281,182
CASH FLOWS FROM INVESTING ACTIVITIES				
Net change in guaranteed investment contracts	11,808,827		11,808,827	6,955,981
Purchase of investments	(40,302,015)		(40,302,015)	(156,288,000)
Proceeds from investment maturities and redemptions	83,000,000		83,000,000	169,900,000
Investment income	10,873,845	298,502	11,172,347	9,368,446
Net Cash Flows From Investing Activities	65,380,657	298,502	65,679,159	29,936,427
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property taxes received and other	3,212,816		3,212,816	3,312,949
Cash Flows from Noncapital Financing Activities	3,212,816		3,212,816	3,312,949
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to utility plant and equipment	(71,492,616)	(71,141)	(71,563,757)	(73,026,751)
Principal defeased in current year				(65,399,808)
Principal payments on long-term debt and contracts payable	(16,187,230)	(2,170,000)	(18,357,230)	(19,007,104)
Net proceeds from debt issues	14,000,000		14,000,000	96,266,590
Contributions in aid of construction	49,528,090		49,528,090	11,166,282
Interest paid on long-term debt	(25,075,808)	(1,700,188)	(26,775,996)	(26,556,538)
Unamortized discount & issuance costs	1,713,443	100,695	1,814,138	1,978,330
Cash Flows from Capital and Related Financing Activities	(47,514,121)	(3,840,634)	(51,354,755)	(74,578,999)
NET CASH FLOWS	72,442,652		72,442,652	13,951,559
Cash and cash equivalents at beginning of year	70,034,926		70,034,926	56,083,367
Cash and cash equivalents at end of year	<u>\$142,477,578</u>		<u>\$142,477,578</u>	<u>\$70,034,926</u>

(Continued)

See accompanying notes to financial statements

CONTRA COSTA WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE
FOR THE YEAR ENDED JUNE 30, 2009
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2008

	Water District Fund	Water Authority Fund	Totals	
			2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income	\$13,344,372	(\$1,234,960)	\$12,109,412	\$19,611,381
Adjustments to reconcile operating income to cash flows from operating activities:				
Depreciation	23,692,669	1,234,960	24,927,629	23,312,555
CALFED studies	7,388,979		7,388,979	4,071,248
Rent and other, net	3,634,097	3,480,796	7,114,893	8,056,693
Effect of changes in:				
Accounts receivable	(5,847,157)		(5,847,157)	2,151,483
Notes receivable	536,185		536,185	505,280
Other assets	1,328,222		1,328,222	761,517
Accounts payable and accrued expenses	8,517,327		8,517,327	2,223,582
Due to/due from	(61,336)	61,336		
Unearned revenue and other	(200,283)		(200,283)	(176,112)
Prepaid other post-employment benefits	(969,775)		(969,775)	(5,236,445)
	<u>\$51,363,300</u>	<u>\$3,542,132</u>	<u>\$54,905,432</u>	<u>\$55,281,182</u>
SCHEDULE OF NON CASH ACTIVITIES				
Change in Fair Market Value	<u>\$2,235,659</u>		<u>\$2,235,659</u>	<u>\$2,235,659</u>

See accompanying notes to financial statements

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**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Contra Costa Water District (the District) was formed under the authority of the County Water District Law, constituting Division 12 of the State Water Code (the “County Water District Law”) and is governed by an elected five-member Board of Directors. The District, which was established on May 9, 1936, was created to purchase and distribute water provided by the United States Government’s Bureau of Reclamation from the federal government’s Central Valley Project. The District’s service area encompasses approximately 136,000 acres in the central and northeastern portions of Contra Costa County.

B. Financial Reporting Entity

The accompanying basic financial statements of the District include the financial activities of the Contra Costa Water Authority (the Authority), a component unit of the District (see Note 9), because financial operations are closely related and the Authority is governed by the same Board. Separate financial statements of the Authority can be obtained from the District. The basic financial statements do not include the Contra Costa Water District Retirement Plan (the Plan) or Contra Costa Water District Other Post-Employment Benefits Trust (the Trust), which covers substantially all of the District’s employees. Summarized financial information related to the Plan and the Trust are disclosed in Note 7 and Note 8, respectively.

C. Basis of Presentation

The District’s Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The District reports the following major proprietary (enterprise) funds:

Water District Fund – was established to purchase and distribute water provided by the United States Government’s Bureau of Reclamation from the federal government’s Central Valley Project.

Water Authority Fund – is a joint powers authority created pursuant to the Joint Exercise of Powers Agreement, dated June 6, 1989 (the Agreement), between Contra Costa Water District (the District) and the Diablo Water District (Diablo) for the purpose of providing for the financing and construction of a joint water treatment plant.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, including taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

For its proprietary activities, the District does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The proprietary funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as statements and interpretations of FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Measurement Focus

Enterprise funds are accounted for on a cost of services or *economic resources* measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

F. Classification of Revenues

Operating revenues consist of sales of water. Nonoperating revenues consist of property taxes, investment earnings, and contributions in aid of construction; grant revenues, rent and special charges that can be used for either operating or capital purposes.

When restricted resources are available for use for a specific purpose, it is the District's policy to use these restricted resources first, and then unrestricted resources as they are needed.

G. Cash and Cash Equivalents

For purposes of the statement of cash flows the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Investments

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments. Measurement of the fair value of investments is based upon quoted market prices.

I. Receivables

The District bills water consumption on a cycle billing method. Cycle billing results in an amount of services rendered but not yet billed at year-end. The District has recorded this revenue by estimating the unbilled amount. The estimate was calculated by using the billings subsequent to the balance sheet date (June 30) and calculating the amount of service provided prior to June 30. This calculated amount is included in accounts receivable.

Receivables at June 30 are comprised of the following:

	2009	2008
Customer Amounts	\$16,427,782	\$13,918,559
Calfed grants		23,763
Accrued interest	1,825,491	2,618,698
Current portion of notes receivable	537,308	519,486
Leases and loans	567,656	560,754
Miscellaneous	5,029,830	1,692,857
Total Receivables	\$24,388,067	\$19,334,117

J. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year.

At June 30, 2009, the Water Authority Fund owed the Water District Fund \$1,223,089 which primarily represents the District's share of upcoming semi-annual debt service payment for the Water Authority bonds that is made in the subsequent fiscal year.

K. Budgets and Budgetary Accounting

The District follows these procedures in establishing its' budgetary data:

1. Budgets are adopted on a two-year basis consistent with generally accepted accounting principles (GAAP). These budgeted amounts are as originally adopted, or as amended by the Board. Budget adjustments with no-net-change impact are allowed. The General Manager is authorized to make no-net-change budget adjustments that do not exceed \$50,000 per adjustment, except for changes in labor. Budget adjustments that exceed \$50,000 or change labor budgets, or make a net change to the total budget, require the approval of the Board of Directors.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Prior to June 30, the proposed two-year budget is submitted to the General Manager, District Finance Officer, Finance Committee and District Board for review.
3. Prior to June 30 the proposed two-year budget is submitted to the District Board for approval and the budget resolution is introduced. At a regularly scheduled Board meeting the resolution is adopted, normally before July 1.
4. Noticed public meetings are conducted to obtain rate payer comments.
5. Budgetary status is reviewed at mid-year by the Board of Directors. Prior to July 1 of the second year of a two-year budget, that year's budget is reviewed in detail by the Board of Directors with proposed changes being submitted for approval by Board resolution.

L. Property Taxes

Property taxes are levied by Contra Costa County and a portion is distributed to the District. The District recognizes property taxes as revenue in the fiscal year of levy.

M. Debt Discount and Issuance Costs

Debt discount and issuance costs are capitalized as an offset to long-term debt and amortized using the effective interest method over the life of the related debt. Issuance costs for the District's tax-exempt commercial paper short-term borrowings are expensed as incurred.

N. Compensated Absences

Compensated absences including accumulated unpaid vacation, sick pay and other employee benefits are accounted for as expenses in the year earned.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Reclassification

For the year ended June 30, 2009, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform with the fiscal year 2009 presentation.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CAPITAL ASSETS

A. Summary

Property, plant and equipment are stated at cost. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of additions to utility plant and major replacements of property are capitalized. Capitalized costs include material, direct labor, transportation and such indirect items as engineering, supervision, employee fringe benefits and interest on net borrowed funds related to plant under construction. Contributed property is recorded at estimated fair market value at the date of donation. Payments received for connection fees are recorded as contributions in aid of construction. Repairs, maintenance and minor replacements of property are expensed.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight line method of depreciation, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Utility plant:	<u>Years</u>
Transmission and distribution	42
Treatment	42
Pumping	45-50
Reservoir and appurtenances:	
Electrical/instrumentation	15
Roads	33
Structures/piping/fencing	40
Steel reservoirs/pumps/motors	50
Pipelines	75
Dam/intake/outlet pipes	100
General plant:	
Computers/furniture/operating equipment	5
Vehicles	7
Scada equipment/forklifts	10
Building and facilities	42
Canal system	100

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CAPITAL ASSETS (Continued)

Pursuant to an agreement between the District and the United States Government (United States) dated June 28, 1972, the District has the right to acquire specific quantities of water from the United States Bureau of Reclamation (the USBR). Under the terms of the agreement, the United States was responsible for constructing the Contra Costa Canal System, which includes reservoirs, transmission, distribution, pumping and various facilities required to deliver the water to the District. The District has the responsibility for operating and maintaining the facilities and is required to reimburse the United States for the facilities under contractual terms (Note 4). Through May 1994, the District amortized the USBR contract payable based upon water usage. Subsequent to May 1994, the USBR contract was amortized at a fixed rate for the canal system and the remaining contract payable was amortized based upon water usage. In May 1994, the District and the USBR renegotiated the agreement, which resulted in a more reliable water supply for the District in the event of a water shortage.

B. Additions, Retirements, and Transfers

Capital assets balances and activity are summarized below:

	Balance at June 30, 2008	Additions and Transfers, net	Retirements	Balance at June 30, 2009
Capital assets not being depreciated:				
Land and land rights	\$227,172,881		(\$103,592)	\$227,069,289
Construction in progress	135,079,769	(\$14,112,881)		120,966,888
Total capital assets not being depreciated	<u>362,252,650</u>	<u>(14,112,881)</u>	<u>(103,592)</u>	<u>348,036,177</u>
Capital assets being depreciated:				
Utility plant	940,089,827	85,837,764	(765,352)	1,025,162,239
Canal system	20,212,697			20,212,697
Total capital assets being depreciated	<u>960,302,524</u>	<u>85,837,764</u>	<u>(765,352)</u>	<u>1,045,374,936</u>
Less accumulated depreciation for:				
Utility plant	(269,321,697)	(24,716,530)	707,817	(293,330,410)
Canal system	(6,975,860)	(211,099)		(7,186,959)
Total accumulated depreciation	<u>(276,297,557)</u>	<u>(24,927,629)</u>	<u>707,817</u>	<u>(300,517,369)</u>
Net capital assets being depreciated	<u>684,004,967</u>	<u>60,910,135</u>	<u>(57,535)</u>	<u>744,857,567</u>
Total capital assets, net	<u>\$1,046,257,617</u>	<u>\$46,797,254</u>	<u>(\$161,127)</u>	<u>\$1,092,893,744</u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CAPITAL ASSETS (Continued)

C. Capacity Agreements with the City of Brentwood

The District entered into a long-term treated water agreement with the City of Brentwood (City) in 2000. This agreement was subsequently amended in 2003. Under the 2003 amendment, the City purchased a six million gallon per day (MGD) capacity right in the District's Randall-Bold Water Treatment Plant (Plant) for \$10 million. The District retains complete ownership in the Plant.

In 2004, the District entered into a separate agreement to design, construct and operate for the City a dedicated water treatment plant (Brentwood WTP). The agreement was amended in December 2006 to clarify the terms and conditions of the original agreement. Brentwood WTP was placed in service July 2008. Under the terms of the agreement, the District owns the plant and is responsible for all aspects of ownership including maintaining the plant in good working order. The City holds an exclusive capacity right in the plant and is responsible to reimburse the District for all plant expenditures including, operating, maintenance, and subsequent capital expenditures.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CAPITAL ASSETS (Continued)

D. Construction in Progress

Construction in Progress in fiscal 2008-2009 comprises:

	Expended to Date
Alternative Intake Project	\$61,307,308
Los Vaqueros Expansion	25,403,719
Canal Replacement Phase 1	11,260,348
Treated Water Facility Improvement Program	3,060,601
Water Demand Reduction Program	2,883,931
Pipeline Renewals/Replacement Program	2,657,383
Untreated Water Facility Improvement Program	2,574,024
Applicant Funded Projects	2,534,550
Contry Club Pump Station Expansion	1,900,960
Water Treatment Plant Improvements Program	1,553,265
District Wide GIS System	1,413,680
Admin., Maintenance & Support Facility Improvement Program	1,020,598
Contra Costa Canal Fish Screen	525,779
Los Vaqueros Energy Recovery	426,544
Grant Proposal Development Program	301,612
Treated Water Reservoir Rehabilitation Program	296,087
Untreated Water Reservoir Rehabilitation Program	289,316
Future Water Supply Study Update	268,893
Other Projects & Programs	1,288,290
	<hr/>
Total	<u>\$120,966,888</u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – CAPITAL ASSETS (Continued)

At June 30, 2009, the remaining costs for major projects are estimated to be:

	<u>Projected Costs</u>	<u>Estimated Completion Date</u>
Alternative Intake Project	\$39,572,692	2011
Canal Replacement Phase 1	8,827,988	2010
Contra Costa Canal Fish Screen	7,384,497	2011
Los Vaqueros Energy Recovery	5,750,456	2011
Los Vaqueros Expansion	5,151,679	2010
Pipeline Renewals/Replacement Program	2,972,360	ongoing
Water Treatment Plant Improvements Program	2,803,386	ongoing
Treated Water Facility Improvement Program	2,239,806	ongoing
Applicant Funded Projects	1,880,444	ongoing
Treated Water Reservoir Rehabilitation Program	1,671,861	ongoing
Water Demand Reduction Program	1,449,838	ongoing
Untreated Water Facility Improvement Program	902,964	ongoing
Country Club Pump Station Expansion	707,800	ongoing
Admin., Maintenance & Support Facility Improvement Program	485,000	ongoing
District Wide GIS System	303,132	2010
Untreated Water Reservoir Rehabilitation Program	108,750	ongoing
Future Water Supply Study Update	76,884	2010
Grant Proposal Development Program	52,020	ongoing
Other Projects & Programs	6,185,591	Ongoing
Total	<u>\$88,527,148</u>	

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 - CASH AND INVESTMENTS

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the District employs the Trust Department of a bank as the custodian of certain District managed investments, regardless of their form.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The District is in compliance with the Board approved Investment Policy and California Government Code requirements.

B. Classification

The District's cash and investments consist of the following at June 30, 2009 and 2008:

		2009			
		Restricted	Designated	Undesignated Unrestricted	Total
Cash and cash equivalents		\$69,231,298	\$25,681,893	\$47,564,387	\$142,477,578
Investments		81,561,606	36,954,397	455,088	118,971,091
		<u>\$150,792,904</u>	<u>\$62,636,290</u>	<u>\$48,019,475</u>	<u>\$261,448,669</u>
		2008			
		Restricted	Designated	Undesignated Unrestricted	Total
Cash and cash equivalents		\$10,432,298	\$7,540,084	\$52,062,544	\$70,034,926
Investments		124,159,540	51,325,333	4,453,545	179,938,418
		<u>\$134,591,838</u>	<u>\$58,865,417</u>	<u>\$56,516,089</u>	<u>\$249,973,344</u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. Investments Authorized by the California Government Code and the District's Investment Policy

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	92 Days	N/A	20%	(A)
California Local Agency Investment Fund	Upon Demand	N/A	(A)	(B)
U. S. Treasury Obligations	5 Years	N/A	(A)	(A)
U.S. Agency Securities	5 Years	N/A	(A)	(A)
Bankers' Acceptances	180 Days	A	25%	30%
Commercial Paper	270 Days	A1, P1	15%	10%
Collateralized Certificates of Deposit	5 Years	N/A	30%	(A)
Medium Term Corporate Notes	5 Years	A	30%	(A)
California Asset Management Program	Upon Demand	N/A	(A)	(A)

(A) No Board established limit.

(B) LAIF limit is \$40,000,000.

D. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statute. In addition to the authorized investments of the District listed above, the table below identifies additional investment types that are authorized for investments held by fiscal agents.

Authorized Investment Type	Minimum Credit Quality
Corporate Securities	Highest Rating Category
Secured Municipal and Public Agency Housing Authority Bonds and Project Notes	N/A
General Obligations of any State	2 Highest Rating Categories
Variable Rate Obligations	Highest Rating Category
Cash Sweep Accounts	N/A
Money Market Funds	N/A
Shares in Common Law Trusts	2 Highest Rating Categories
Investment Agreement	Highest Rating Category

There are no restrictions on the maximum amount invested in each security type or a maximum that can be invested in any one issuer. All investments are required to have maturity dates of less than five years or not later than the date the moneys are required by the Trustee.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
U.S. Agency Securities:					
Non-Callable	\$6,496,875	\$2,623,000			\$9,119,875
Callable	19,970,442				19,970,442
Medium Term Notes		15,641,750	\$40,588,658		56,230,408
Guaranteed Investment Contracts		9,142,858		\$11,645,494	20,788,352
Collateralized Certificates of Deposit	12,862,014				12,862,014
Total Investments	<u>39,329,331</u>	<u>\$27,407,608</u>	<u>\$40,588,658</u>	<u>\$11,645,494</u>	<u>118,971,091</u>
Money Market Funds	65,342,187				65,342,187
California Local Agency Investment Fund	38,396,480				38,396,480
California Asset Management Program	23,927,441				23,927,441
Cash in Banks	14,811,470				14,811,470
Total Cash and Cash Equivalents	<u>\$142,477,578</u>				<u>142,477,578</u>
Total Cash and Investments					<u><u>\$261,448,669</u></u>

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. June 30, 2009, these investments matured in an average of 235 days.

Money market funds are available for withdrawal on demand and at June 30, 2009, matured in an average of 38 days.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2009 for each investment type as provided by Moody's.

Investment Type	Aaa	Aa2	Aa3	A1	Not Rated	Total
U.S. Agency Securities:						
Non-Callable	\$9,119,875					\$9,119,875
Callable	19,970,442					19,970,442
Medium Term Notes		\$26,618,418	\$28,161,990	\$1,450,000		56,230,408
Guaranteed Investment Contracts	18,067,374	2,720,978				20,788,352
Collateralized Certificates of Deposit					\$12,862,014	12,862,014
Totals Investments	<u>\$47,157,691</u>	<u>\$29,339,396</u>	<u>\$28,161,990</u>	<u>\$1,450,000</u>	12,862,014	118,971,091
Money Market Funds					65,342,187	65,342,187
California Local Agency Investment Fund					38,396,480	38,396,480
California Asset Management Program					23,927,441	23,927,441
Cash in Banks					14,811,470	14,811,470
Total Cash and Investments					<u>\$155,339,592</u>	<u>\$261,448,669</u>

G. Concentration of Credit Risk

Included in the table at F. above are the following significant investments in the securities of issuers other than U. S. Treasury securities, mutual funds, and external investment pools in any organization that represent in excess of 5% of the District's total investments as follows:

Reporting Unit	Issuer	Investment Type	Reported Amount
District	Federal Home Loan Mortgage Corporation	U.S. Agency Securities	\$14,994,653
	Federal National Mortgage Association	U.S. Agency Securities	14,095,664
Authority	US Bank	Collateralized Certificate of Deposit	3,787,517

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 – NONCURRENT LIABILITIES

A. Contracts Payable

Contracts payable at June 30, 2009 and 2008 are as follows:

	2009	2008
Contracts payable to the United States Bureau of Reclamation bearing interest at 2% to 3.34%, repayment through 2010	\$713,620	\$1,405,840
Contract payable to the California Department of Water Resources bearing interest at 3.37%, due in equal semi-annual installments of principal and interest of \$20,000 through 2008	0	19,956
Total contracts payable	713,620	1,425,796
Less amount due within one year	(713,620)	(712,176)
Contract payable, net	\$0	\$713,620

Maturities of contracts payable are as follows:

Fiscal Year Ended	Principal	Interest
June 30, 2010	\$713,620	\$21,976

B. Advances for Construction

The District records deposits from contractors for the design and construction of facilities to provide water services as advances for construction. Changes in this account for the year ended June 30, 2009 were as follows:

Balance, July 1, 2008	\$12,694,327
Deposits received	1,979,958
Earned revenue or deposits refunded	(11,074,192)
Balance, June 30, 2009	\$3,600,093

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 – NONCURRENT LIABILITIES (Continued)

C. Unearned Revenue and Other

The District records facility Reserve Charges as unearned revenues, and amortizes such revenue over the life of the underlying agreement. Changes in this account for the year ended June 30, 2009 were as follows:

Balance, July 1, 2008	\$1,623,426
Revenue recognized	<u>(200,282)</u>
Balance, June 30, 2009	<u><u>\$1,423,144</u></u>

NOTE 5 – LONG-TERM DEBT

A. Composition and Changes

The District generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Amount due within one year
<i>Water Revenue Bonds:</i>						
1992 Series E Refunding Bonds, 3.50 - 6.10%, due 10/01/18	\$35,340,000	\$8,730,000		\$1,545,000	\$7,185,000	\$1,635,000
1999 Series J, 4.25 - 5.38%, due 10/01/29	46,755,000	2,070,000		1,010,000	1,060,000	1,060,000
2001 Series K, 3.5 - 4.5%, due 10/01/31	113,045,000	100,485,000		8,140,000	92,345,000	8,560,000
2002 Series L Refunding Bonds, 3.00% to 5.00%, due 10/01/32	120,715,000	100,700,000		3,155,000	97,545,000	3,280,000
2003 Series M Refunding Bonds, 2.00% to 5.00%, due 10/01/26	86,620,000	71,760,000		580,000	71,180,000	600,000
2005 Series N Refunding Bonds, 5.00%, due 10/01/26	114,555,000	114,555,000			114,555,000	
2007 Series O Refunding Bonds 4.25-5.00%, due 10/01/29	67,710,000	67,710,000		25,000	67,685,000	1,740,000
<i>Water Treatment Revenue Bonds:</i>						
2002 Series A Refunding Bonds 2.5 % - 5.00%, due 10/01/20	46,660,000	36,800,000		2,170,000	34,630,000	2,260,000
<i>State Revolving Fund Loans:</i>						
2001 State Revolving Fund Loan 2.5132%, due 07/01/22	15,137,776	11,697,509		677,878	11,019,631	695,021
2004 State Revolving Fund Loan 2.39%, due 07/01/24	2,000,000	1,672,207		86,932	1,585,275	89,023
2005 State Revolving Fund Loan 2.39%, due 07/01/24	5,942,427	5,095,347		255,245	4,840,102	261,382
Total long-term debt		521,275,063		17,645,055	503,630,008	20,180,426
Amount due within one year		(17,645,055)			(20,180,426)	
Less: Unamortized discount and issuance costs		(29,724,995)	1,814,138		(27,910,857)	
Total long-term debt, net		<u>\$473,905,013</u>	<u>\$1,814,138</u>	<u>\$17,645,055</u>	<u>\$455,538,725</u>	<u>\$20,180,426</u>

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - LONG TERM DEBT (Continued)

B. Description of the District's Long Term Debt Issues

1992 Water Revenue Bonds, Series D, and Refunding Bonds, Series E – The District issued Water Revenue Bonds on May 15, 1992 to refund bonds issued in 1988 and to provide funds to finance the costs of acquisition of land, environmental and engineering work and other expenditures related to the acquisition and construction of a dam, reservoir and associated water conveyance facilities for the District's Water System. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1 and interest payments semi-annually on April 1 and October 1. On December 3, 2002, proceeds from the 2002 Water Revenue Refunding Bonds, Series L (described below), were used to fully refund the Series D bonds, and refund \$19,560,000 of the Series E bonds.

1999 Water Revenue Bonds, Series J – The District issued Water Revenue Bonds on July 15, 1999 to refinance \$28,000,000 of outstanding Tax-exempt Commercial Paper Notes and to fund portions of the Los Vaqueros Project. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1 thereafter.

2001 Water Revenue Bonds, Series K – The District issued Water Revenue Bonds on April 1, 2001 to provide funds for the refinancing of \$66,355,000 of outstanding Water Revenue Bonds, Series G Bonds, for the refinancing of \$40,000,000 of outstanding Tax-Exempt Commercial Paper Notes, for the funding of the Bond Reserve Fund, and for the payment of costs of issuance of the Series K Bonds. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1 thereafter. Interest payments are payable semi-annually on April 1 and October 1 thereafter.

2002 Water Revenue Refunding Bonds, Series L – The District issued Water Revenue Bonds on December 3, 2002 to provide funds for refunding \$1,605,000 of outstanding Water Revenue Bonds Series D, \$19,560,000 of outstanding Water Revenue Bonds Series E, \$38,625,000 Water Revenue Bonds Series F, for the refinancing of \$60,000,000 of outstanding Tax-Exempt Commercial Paper Notes, and for the payment of the costs of issuance of the Series L Bonds. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - LONG TERM DEBT (Continued)

2003 Water Revenue Refunding Bonds, Series M – The District issued Water Revenue Bonds on July 23, 2003 to provide funds for refunding \$72,010,000 of outstanding Water Revenue Bonds Series G, and \$10,700,000 of outstanding Tax-Exempt Commercial Paper Notes. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2005 Water Revenue Refunding Bonds, Series N – The District issued Water Revenue Bonds on March 9, 2005 to provide funds for refunding \$114,555,000 of outstanding Water Revenue Bonds Series G. In accordance with the District’s policy, the difference between the refunded amount and the carrying value of the refunded bonds, which amounted to \$23,607,795 has been capitalized and included in unamortized discounts and issuance costs and amortized over the remaining life of the refunded debts. The Water Revenue Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments commence on October 1, 2020 and are payable annually on October 1 thereafter. Interest payments commence on October 1, 2005 and are payable semi-annually on April 1 and October 1 thereafter.

2007 Water Revenue Refunding Bonds, Series O – The District issued Water Revenue Bonds on July 5, 2007 for refunding a portion of the District’s outstanding Water Revenue Refunding Bonds, Series H and Water Revenue Refunding Bonds, Series J (the “Refunded Series H Bonds” and the “Refunded Series J Bonds”). The Water Revenue Refunding Bonds are special obligations of the District and are payable solely from and secured by a pledge of net revenues of the Water System. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2002 Contra Costa Water Authority, Water Treatment Revenue Refunding Bonds, Series A – On December 3, 2002, the Authority issued 2002 Water Treatment Revenue Bonds Series A to refund \$45,970,000 of the outstanding 1993 Series A Bonds and for the issuance costs of the 2002 Series A Bonds. The Water Revenue Bonds are special obligations of the Authority and are payable solely from revenue. Principal payments are payable annually on October 1. Interest payments are payable semi-annually on April 1 and October 1.

2001 State Revolving Fund Loan – On June 10, 2002, the District obtained a \$15,137,776 loan from the State of California, proceeds of which were used to pay off a portion of the \$20,000,000 Tax-Exempt Commercial Paper (See **Note E** below). Principal and interest payments are due semi-annually on January 1 and July 1.

2004 State Revolving Fund Loan - On October 29, 2003, the District obtained a \$2,000,000 loan from the State of California, proceeds of which were used to assist in meeting safe drinking water standards for the water supply. Principal and interest payments are due semi-annually on January 1 and July 1.

2005 State Revolving Fund Loan – During the fiscal year ended June 30, 2005, the District obtained a \$5,942,427 loan from the State of California, proceeds of which were used to assist in meeting safe drinking water standards for the water supply. Principal and interest payments are due semi-annually on January 1 and July 1.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - LONG TERM DEBT (Continued)

C. Debt Service Requirements

Annual debt service requirements are shown below for the above debt issues:

For the Year Ending June 30	Business-Type Activities	
	Principal	Interest
2010	\$20,180,426	\$23,642,304
2011	21,041,426	22,700,079
2012	22,133,076	21,689,535
2013	23,200,389	20,603,130
2014	24,338,380	19,472,618
2015 - 2019	140,206,769	79,103,917
2020 - 2024	133,784,006	44,816,349
2025 - 2029	94,045,536	15,039,782
2030 - 2033	24,700,000	2,039,598
Totals	\$503,630,008	\$249,107,312

The Water Revenue Bonds and Series A of the Water Treatment Revenue Refunding Bonds are callable, at a premium, in the tenth and eleventh years after issuance and are callable, without a premium thereafter.

The District is subject to certain revenue bond covenants, the most restrictive of which requires the setting of rates and charges to yield net revenue (as defined) equal to at least 125% of the current annual debt service requirements of the Water Revenue Bonds and the Water Treatment Revenue Refunding Bonds. Management believes the District is in compliance with all applicable bond covenants.

D. Prior-Year Defeasances

In prior years, the District defeased various bond issues by placing the proceeds of the new bonds in separate irrevocable trust funds to provide for all future debt service payments on the old bonds or to call bonds, when economically beneficial. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2009, \$366,430,000 of bonds outstanding are considered defeased (\$34,115,000 of 1990 Water Treatment Revenue Bonds, Series A; \$20,700,000 of 1988 Water Revenue Bonds, Series B; \$30,130,000 of 1990 Water Revenue Bonds, Series C; \$28,565,000 of 1992 Water Revenue Bonds, Series D; and \$252,920,000 of outstanding 2009 to 2021 maturities of 1994 Water Revenue Bonds, Series G).

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - LONG TERM DEBT (Continued)

E. Short-Term Borrowing

On July 16, 2008 the District’s Board of Directors authorized an increase of the Commercial Paper program from \$60 million to \$100 million. The use of the paper will allow the District to cash flow the Alternative Intake Project. As of June 30, 2009, total Commercial Paper outstanding under this program was \$61 million.

During fiscal years ending June 30, 2007 and 2008, the District issued a total of \$47 million In Tax-Exempt Commercial Paper to fund the City of Brentwood Water Treatment Plant. Of the amount issued, \$41 million was to be reimbursed by the City. As of June 30, 2009, the City of Brentwood has reimbursed the District for the amount of Commercial Paper.

Changes in Commercial Paper are as follows:

Balance, July 1, 2008	\$47,000,000
Additions	55,000,000
Retirements	<u>(41,000,000)</u>
Balance, June 30, 2009	<u><u>\$61,000,000</u></u>

F. Debt Without District Commitment

Special Assessment debt of \$0 and \$370,000 as of June 30, 2009 and 2008, respectively, is not included in the District’s combined financial statements because the District is not obligated for repayment of such debt but is only acting as agent for property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate.

NOTE 6 – NET ASSETS & FUND DEFICIT

Net Assets is the excess of all the District’s assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District’s capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, fees charged for the provision of future water resources and funds deposited into the other post-employment benefits trust.

Unrestricted describes the portion of Net Assets which is not restricted to use.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 – RETIREMENT PLAN

A. Plan Description

The Contra Costa Water District Retirement Plan (the Retirement Plan), established under a trust agreement made on February 17, 1962 and subsequently amended, is a single-employer defined benefit retirement plan in which all permanent and full-time employees and members of the Board of Directors of the District are eligible to participate. Employee participants are divided into five primary classifications for coverage: clerical/maintenance, confidential, professional/supervisory, unrepresented and Board Members. The Retirement Plan provides retirement benefits to all eligible participants.

Benefit and contribution provisions are established by the trust agreement. The Retirement Plan is managed by the Retirement Plan Committee and is administered by an individual trustee who is appointed by the District's Board of Directors. All recommendations of the Retirement Plan Committee are subject to review and approval by the District's Board of Directors.

A stand-alone financial report of the Retirement plan is available at the District's office located at 1331 Concord Avenue, Concord, California 94524.

B. Funding Policy

The District's annual covered payroll for employees participating in the Retirement Plan for the years ended June 30, 2009 and 2008 was approximately \$24,548,221 and \$22,990,702 respectively. The District's 2009 and 2008 payroll for all employees was approximately \$28,064,201 and \$27,072,142 respectively. Benefit and contribution provisions are established by the trust agreement creating the Retirement Plan. Participants are required to contribute a predetermined percentage of their base salary ranging from 1% to 8% depending upon the participant's classification. In addition, the District contributes on behalf of the participants, from 0% to 5% of base salary, depending upon classification. The District is required to contribute the remaining amounts necessary to fund the Retirement Plan as determined by the Retirement Plan's actuary. The District's contribution rate, as a percentage of covered payroll, was 7.27% as required by the June 30, 2008 (most recent) actuarial report.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 – RETIREMENT PLAN (Continued)

C. Net Pension Obligation

The District's net pension obligation to the Retirement Plan was zero at June 30, 2009 and 2008, determined in accordance with GASB Statement No. 27. The Retirement Plan's ten year contribution information follows:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	\$818,000	100%
2001	632,000	100%
2002	478,000	100%
2003	673,000	100%
2004	891,000	100%
2005	1,207,000	100%
2006	1,547,000	100%
2007	2,849,000	216%
2008	3,327,200	186%

The Plan's actuarial value and funding progress over the past three years are set forth below at their (most recent) actuarial valuation date of June 30:

In Thousands						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Over-funded (Under- funded) AAL (a-b)	Funding Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
June 30, 2006	\$83,533	\$88,926	(\$5,393)	93.9%	23,034	(23.41%)
June 30, 2007	93,937	95,166	(1,229)	98.7%	22,991	(5.35%)
June 30, 2008	101,765	103,699	(1,934)	98.1%	24,578	(7.87%)

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 – RETIREMENT PLAN (Continued)

D. Actuarial Method and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2008
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	15 Years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	8%
Projected salary increases*	5.25%
Cost-of-living adjustments	Based on economic trends

*Includes inflation at 4.25%

NOTE 8 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

A. Trust Description

The District's employees are eligible for postretirement health care benefits if they directly retire from employment at the District. These benefits are paid through the Contra Costa Water District Other Post-Employment Benefits Trust. To be eligible for retirement medical, an active employee must be at least age 50 and have a minimum of 5 years of service (10 years of service for Clerical/Maintenance and Board of Directors).

As of June 30, 2009 and 2008, there were 164 and 156 retirees or their beneficiaries, respectively, receiving these health care benefits. These benefits are fully funded by the District in accordance with the District's Code of Regulations and with the Memorandum of Understanding for employees in the Clerical/Maintenance Representation Unit. These benefits are accounted for on a pay-as-you-go basis through payments to an insurance company. The cost of these benefits totaled \$1,723,571 in 2009 and \$1,481,824 in 2008.

During fiscal year 2008, the District early implemented the provisions of the Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing other postemployment benefits (OPEB). As part of the implementation, the District elected to establish an irrevocable trust to provide a funding mechanism for the OPEB and to apply the provisions of the statements on a prospective basis. The activities of the Trust are accounted for in the Other Post-Employment Benefits Trust Fund. A stand-alone financial report of the Trust is available at the District's office located at 1331 Concord Avenue, Concord, California 94524.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT (Continued)

B. Funding Policy and Actuarial Assumptions

The District's policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above. The annual required contribution (ARC) was determined by an actuarial valuation using the actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) 8% health inflation increases. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period.

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. On June 4, 2008, the District deposited \$7,340,396 to prefund the pay-as-you-go benefits. As a result, the District has calculated and recorded the net OPEB asset, representing the difference between the ARC, amortization and contributions, as presented below:

OPEB prepaid asset at June 30, 2008	(\$5,236,445)
Annual required contribution	3,585,775
Contributions made	<u>(2,616,000)</u>
OPEB prepaid asset at June 30, 2009	<u><u>(\$4,266,670)</u></u>

The Trust's annual OPEB cost and actual OPEB Cost contributed for the year ended June 30, 2009 and 2008 is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Costs Contributed	Current Year OPEB (Asset)/ Liability	Net OPEB Obligation (Asset)
6/30/2008	\$3,585,775	\$8,822,220	246%	(\$5,236,445)	#####
6/30/2009	3,585,775	2,616,000	73%	969,775	(4,266,670)

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the July 1, 2007 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Cost Method Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A-B)	Funding Ratio (A/B)
7/1/2007	\$0	\$48,373,956	(\$48,373,956)	0

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9 – INVESTMENT IN CONTRA COSTA WATER AUTHORITY

The Authority was formed in June 1989 pursuant to the Joint Exercise of Powers Agreement (the Agreement), between the District and the Diablo Water District (Diablo) to provide for financing, constructing and owning the Randall-Bold Treatment Plant (the Plant). The Plant began operations and commenced water deliverance to the District and Diablo in July 1992.

The Plant is jointly owned by the District and Diablo, and is operated by the District in accordance with the Agreement. The District is solely responsible for authorization and payment of any indebtedness of the Authority.

Diablo is not responsible for any contractual obligations, liabilities, indebtedness or expenses of the Authority.

Diablo reimburses the District 35.5% of the annual debt service. Diablo also reimburses the District 37.5% of the annual fixed operating and maintenance costs and a percentage of the Plant's annual variable operating costs equal to the percentage of total water production received by Diablo.

Under a site lease dated May 15, 1990, amended and restated May 1, 1993, the District and Diablo, as lessors, leased the project site and improvements to the Authority. In consideration, the District pays the Authority base rent as set forth in the facility lease. All base rental payments are used for payment of principal and interest on the Water Treatment Revenue Refunding Bonds, Series A (see Note 5). In addition, the District pays as additional rent all costs required to be paid by the Authority in connection with the facility lease and trust agreement. The District is not required to advance monies under the facility lease from any source other than operating income. The District is required to fix, charge and collect rates, fees and charges as long as any of the bonds are outstanding which, together with all other revenue of the District, will produce sufficient operating income in each fiscal year so that the debt service coverage ratio is not less than 1.25:1 and the obligation service coverage ratio is not less than 1:1. Lease payments made by the District to the Authority are eliminated in the combined financial statements.

NOTE 10 - RISK MANAGEMENT

The District has purchased commercial insurance for property and liability in the insurance marketplace through Arthur J. Gallagher & Co., the Districts' selected insurance broker/consultant. During the fiscal year which ended June 30, 2009 the District paid \$714,642 for current year coverage.

The District purchased workers' compensation insurance through Wausau Insurance Company. During the fiscal year which ended June 30, 2009, the District paid \$570,785 for current year coverage.

Liabilities under these programs are accrued and charged to expense when the claims are reasonably determinable and when the existence of the District's liability is probable.

**CONTRA COSTA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 10 - RISK MANAGEMENT (Continued)

The following types of loss risks are covered by the commercial insurance policies as follows:

Type of Coverage	Coverage Limit	Retention/Deductible
General Liability, including Employment Practices Liability	\$55,000,000	\$250,000
Property	150,000,000	100,000
DIC - SCADA (Earthquake)	1,500,000	Minimum of 100,000
Flood	150,000,000	100,000
Crime	250,000-1,000,000	0 to 5,000
Public Official Bond	25,000	No deductible
Hull Collision, Protection & Indemnity	67,900-1000000	5,000
Workers' Compensation	Statutory	No deductible
Employers Liability	1,000,000	No deductible

The District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

NOTE 11 - COMMITMENT AND CONTINGENT LIABILITIES

The District is a defendant in a number of lawsuits, which have arisen, in the normal course of business including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

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APPENDIX B

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement as supplemented by the First Supplemental Trust Agreement. This summary is not to be considered a full statement of the terms and conditions contained in the Trust Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof. All capitalized terms not defined in this Official Statement shall have the meanings set forth in the Trust Agreement.

DEFINITIONS

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either at maturity or by mandatory redemption) and sinking fund payments (or lease or installment purchase payments with separately designated interest and principal components) required to be paid in that Fiscal Year on (a) all Senior Debt and (b) all Notes and Parity Mezzanine Debt, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest or sinking fund payments (or lease or installment purchase payments with separately designated interest and principal components) on Senior Debt, Notes and Parity Mezzanine Debt; provided, however, that for purposes of the calculation of Annual Debt Service:

(a) Except as otherwise provided by subparagraph (b) with respect to Senior Debt, Variable Interest Rate Notes or Parity Mezzanine Debt and by subparagraph (c) with respect to Senior Debt, Notes or Parity Mezzanine Debt with respect to which a Payment Agreement is in force, interest on any Senior Debt, Notes or Parity Mezzanine Debt shall be calculated based on the actual amount of interest that is payable under such Notes or Parity Mezzanine Debt;

(b) The amount of interest deemed to be payable on any Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt for any period for which Annual Debt Service on such Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt cannot be determined shall be calculated on the assumption that the interest rate on the Senior Debt, Notes or Parity Mezzanine Debt would be equal to the rate that is ninety per cent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which the calculation is made; and

(c) With respect to Senior Debt, Notes or Parity Mezzanine Debt with respect to which a Payment Agreement has been entered into by the District, interest on such Senior Debt, Notes or Parity Mezzanine Debt shall be included in the determination of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Senior Debt, Notes or Parity Mezzanine Debt in such Fiscal Year at the rate or rates stated in such Senior Debt, Notes or Parity Mezzanine Debt plus any Payment Agreement Payments payable in such Fiscal Year minus any Payment Agreement Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the determination of Annual Debt Service and provided, further, that the amount of variable rate Payment Agreement Payments or Payment Agreement Receipts for any period for which such Payment Agreement Payments or Payment Agreement Receipts cannot be determined shall be calculated on the assumption that the amount of such variable rate Payment Agreement Payments or Payment Agreement Receipts would be equal to the rate that is ninety per cent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which the calculation is made.

Annual Mezzanine Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Net Revenues by Annual Debt Service.

Assumed Debt Service means for any Fiscal Year the sum of the amount of Annual Debt Service which would be payable if each Excluded Principal Payment were amortized for a period specified by the District (no greater than 30 years from the commencement of amortization) on a substantially level debt service basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee within 30 days of the date of calculation.

Available Mezzanine Revenues means, for any Fiscal Year, Net Revenues for such Fiscal Year less the sum of all amounts required to be paid for principal, interest, and reserve fund requirements on Senior Debt for such Fiscal Year.

Excluded Principal Payments shall mean each payment of principal (or the principal component of lease or installment purchase payments) of Senior Debt, Notes or Parity Mezzanine Debt which District specifies in a Certificate of the District filed with the Trustee on a date not later than the date of issuance of such Senior Debt, Notes or Parity Mezzanine Debt that the District intends to pay with moneys which are not Revenues. No such determination shall affect the security for such Senior Debt, Notes or Parity Mezzanine Debt or the obligation of the District to pay such payments from Revenues.

Investment Securities means, any investments which at the time are legal investments under the laws of the State for moneys held and then proposed to be invested under the Trust Agreement, including, without limitation, the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Association;

(iv) new housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof, provided that at the time of their purchase such obligations are rated in either of the two highest Rating Categories by each rating agency then rating the Notes;

(vi) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) which

fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vi) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which have been rated in one of the top two Rating Categories of Moody's and S&P;

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by a nationally recognized rating agency in its highest Rating Category, and by at least one other nationally recognized rating agency in either of its two highest Rating Categories, for comparable types of debt obligations;

(viii) unsecured certificates of deposit, time deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase "A-1+" or better by Standard and Poor's Corporation and "P-1" by Moody's Investors Service and certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated on the date of purchase A-1 or better by Standard and Poor's Corporation, Moody's Investors Service;

(ix) commercial paper rated in the highest Rating Category by a nationally recognized bond rating agency;

(x) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in the highest Rating Category in respect to its long term rating if any, and in either of the two highest categories in respect to its short term rating by a nationally recognized bond rating agency, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in either of the two highest Rating Categories by a nationally recognized bond rating agency;

(xi) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of seventy five million dollars (\$75,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above;

(xii) any cash sweep or similar account arrangement of the Trustee, the investments of which are limited to investments described in items (i), (ii), (iii), (iv) and (xi) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in (i), (ii), (iii), (iv) and (xi) of this definition of Investment Securities or rated "AAAm" or "AAAm-G" or better by Standard and Poor's Corporation, including any such money market fund from which the Trustee or its affiliates receive fees for services to such fund;

(xiii) bankers' acceptances of any bank (including the Trustee) or savings and loan association, the long term debt obligations of which, in the case of each rating agency then rating the Notes, are rated at least equal to the then current rating on the Notes assigned by such rating agency;

(xiv) any investment agreement with (i) any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, having a combined capital and surplus of at least \$100,000,000; or (ii) any corporation that is organized and operating within the United States of America if (a) the corporation has (or the guarantor of such corporation's obligations has) total assets in excess of \$300,000,000 and (b) the corporation's unsecured obligations (or such guarantor's unsecured obligations) are rated in one of the three highest Rating Categories of each rating agency then rating the Notes;

(xv) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code, which shares are rated in one of the two highest Rating Categories of each rating agency then rating the Notes; and

(xv) the Local Agency Investment Fund of the State of California or any state-administered pool investment fund in which the District is statutorily permitted or required to invest.

Maintenance and Operation Costs means (i) the reasonable and necessary costs of maintaining and operating the System, calculated in accordance with generally accepted accounting principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, and (ii) Purchased Water Costs, but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, losses or gains on subsidiaries accounted for on an equity basis, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the District, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the District (other than Purchased Water Costs).

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments (and interest on such Excluded Principal Payments from the date such Excluded Principal Payments are due and payable) shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation; and

(b) Debt service on Senior Debt, Notes or Parity Mezzanine Debt incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio calculation required by the Trust Agreement, only in proportion to the amount of interest on such Senior Debt, Notes or Parity Mezzanine Debt which is payable in the then-current Fiscal Year from sources other than the proceeds of such Senior Debt, Notes and Parity Mezzanine Debt.

Mezzanine Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Net Revenues by Maximum Annual Debt Service.

Net Revenues means for any fiscal period, the sum of (a) the Revenues for such fiscal period plus (b) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund, less the sum of (a) all Maintenance and Operation Costs for such fiscal period, and (b) the amount of Revenues, if any, deposited by the District into the Rate Stabilization Fund.

Notes means the Contra Costa Water District Water Revenue Notes authorized by, and at any time Outstanding pursuant to, the Trust Agreement.

Outstanding, when used as of any particular time with reference to Notes, means (subject to the provisions of the Trust Agreement relating to disqualified Notes) all Notes theretofore, or thereupon being, authenticated and delivered by the Trustee under the Trust Agreement except (1) Notes theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Notes with respect to which all liability of the District shall have been discharged in accordance with the discharge of liability on Notes provisions of the Trust Agreement, including Notes (or portions of Notes) referred to in the money held for particular Notes provision of the Trust Agreement; and (3) Notes for the transfer or exchange of or in lieu of or in substitution for which other Notes shall have been authenticated and delivered by the Trustee pursuant to the Trust Agreement.

Parity Mezzanine Debt means any indebtedness, installment sale obligation, lease obligation or other similar obligation of the District for borrowed money having an equal lien and charge upon the Revenues and payable from Available Mezzanine Revenues on a parity with the Notes (whether or not any Notes are Outstanding).

Payment Agreement means a written agreement for the purpose of managing or reducing the District's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counter-party as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Senior Debt, Notes or Parity Mezzanine Debt, that provides for an exchange of payments, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

Payment Agreement Payments means the amounts periodically required to be paid by the District to the Qualified Counter-party pursuant to a Payment Agreement.

Payment Agreement Receipts means the amounts periodically required to be paid by the Qualified Counter-party to the District pursuant to a Payment Agreement.

Purchased Water Costs means any contract for the purchase of water the final payments under which are due more than one year following the effective date thereof (including without limitation the District's obligations to the United States Bureau of Reclamation), which do not otherwise constitute Maintenance and Operation Costs and which (except in the case of the current contract with the United States Bureau of Reclamation) the District (on a date no later than the date of delivery of such contract) has elected to treat as Purchased Water Costs.

Qualified Counter-party means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated in one of the two (2) highest Rating Categories of each of the Rating Agencies then rating any Notes, or guaranteed by the parent of (or other person controlling) such entity which is so rated, or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two (2) highest

Rating Categories of each of the Rating Agencies then rating any Notes, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

Rate Stabilization Fund means the fund by that name established by the District pursuant to the Senior Bond Resolution.

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

Revenues means all charges received for, and all other income and receipts derived by the District from, the operation of the System or arising from the System, together with any receipts derived from the sale of any property pertaining to the System or incidental to the operation of the System, together with all interest, profits and other income derived from the investment of moneys in any fund or account established under the Trust Agreement or under the Senior Bond Resolution (other than any fund established pursuant to a Tax Certificate) or any other fund or account established by the District (including interest income from the investment of moneys in deferred compensation funds) but exclusive of any moneys derived from the levy or collection of taxes or assessments by the District.

Senior Bond Resolution means Resolution No. 87-50, adopted on the 15th day of October, 1987, by the Board, providing for the issuance of Contra Costa Water District Water Revenue Bonds (referred to herein as “Senior Bonds”), as it may from time to time be supplemented, modified, or amended by any supplemental resolution of the Board in accordance with the terms of Senior Bond Resolution.

Senior Debt means Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds issued pursuant to the Senior Bond Resolution and Parity Debt (as defined in the Senior Bond Resolution, referred to herein as “Senior Parity Debt”).

Supplemental Trust Agreement means any supplemental trust agreement executed and delivered by the District and the Trustee supplementing, modifying or amending the Trust Agreement, but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

System means the entire water system of the District and all of the facilities thereof, including all facilities for the storage, transmission, treatment or distribution of water (excluding the generation or transmission of electric power), together with all additions, betterments, extensions or improvements to said system or any part thereof.

Trust Agreement means the Note Trust Agreement, dated as of June 1, 2010, between the District and the Trustee, as originally executed and delivered and as amended or supplemented from time to time in accordance with the provisions thereof.

Variable Interest Rate means any variable interest rate or rates to be paid under any Senior Debt, Notes or Parity Mezzanine Debt, the method of computing which variable interest rate shall be as specified in the applicable Senior Debt, Notes or Parity Mezzanine Debt, which Senior Debt, Notes or Parity Mezzanine Debt shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall

become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt means, for any period of time, any Senior Debt, Notes or Parity Mezzanine Debt that bear a Variable Interest Rate during such period, except that Senior Debt, Notes and Parity Mezzanine Debt shall not be treated as Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt if the net economic effect of interest rates on particular Senior Debt, Notes or Parity Mezzanine Debt and interest rates on other Senior Debt, Notes or Parity Mezzanine Debt of the same series or the net economic effect of a Payment Agreement with respect to particular Senior Debt, Notes or Parity Mezzanine Debt, in either case is to produce obligations that bear interest at a fixed interest rate, and Senior Debt, Notes or Parity Mezzanine Debt with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Senior Debt, Notes or Parity Mezzanine Debt if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

THE TRUST AGREEMENT

The Trust Agreement provides for the authentication and delivery of Notes, including the Series A Notes, establishes and declares the terms and conditions upon which Notes, including the Series A Notes, shall be issued and secured, and secures the payment of principal thereof and premium (if any) and interest thereon. This summary does not purport to be complete or definitive and is qualified by reference to the full terms of the Trust Agreement. See also “THE SERIES A NOTES” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES” in this Official Statement for a summary of further provisions of the Trust Agreement, as supplemented by the First Supplemental Trust Agreement.

Authorization, Issuance and Form

Notes may be issued from time to time without limitation as to amount, except as provided in the Trust Agreement or as may be limited by the Law, and subject to the terms, conditions and limitations established in the Trust Agreement and in any Supplemental Trust Agreement.

Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues

See discussion under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues” in the forepart of this Official Statement.

Pledge of Revenues; Notes to Constitute Mezzanine Debt

The Notes are limited obligations, are not secured by the taxing power of the District, and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Available Mezzanine Revenues, which are pledged to secure the payment of the principal and purchase price of and interest and premium, if any, on the Notes and any Parity Mezzanine Debt in accordance with their terms, the Revenues subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein. The pledge of Revenues constitutes a lien on and security interest in such assets and attaches, is perfected and is valid and binding from and after delivery by the Trustee of the Notes, without any physical delivery thereof or further act.

The Revenues are pledged to the payment of Notes and Parity Mezzanine Debt without priority or distinction of one over the other, subject to the condition that out of Revenues:

First: There shall be applied all sums required for the Maintenance and Operation Costs.

Second: In accordance with the Senior Bond Resolution, there shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Senior Debt, together with any sinking fund or reserve fund payments on the Senior Debt and any deposits required to the Senior Bond Reserve Fund under the Senior Bond Resolution.

Third: There shall be applied all sums required for the payment of principal of (including any premium thereon) and interest on the Notes and all Parity Mezzanine Debt, together with any reserve fund payments of Notes and Parity Mezzanine Debt.

All remaining Revenues, after making the foregoing allocation, shall be available to the District for all lawful District purposes. The pledge of Revenues shall be irrevocable until all of the Notes and all Parity Mezzanine Debt are no longer Outstanding.

The Notes and all Parity Mezzanine Debt shall constitute "Mezzanine Debt" under and as defined in Resolution No. 97-1 of the District, adopted on January 8, 1997, and shall be secured by a lien on the Revenues senior to the lien created by Resolution No. 97-1 and securing the District's Tax-Exempt Commercial Paper and any Parity Notes under and as defined in Resolution No. 97-1.

For a discussion of allocation of Available Mezzanine Revenues under the Trust Agreement see discussion under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Allocation of Available Mezzanine Revenues under the Trust Agreement" in the forepart of this Official Statement.

Maintenance and Operation of the System

The District will maintain and preserve the System in good repair and working order at all times, and will operate the System in an efficient and economical manner.

Payment of Taxes and Claims

The District shall pay and discharge, or cause to be paid and discharged, any and all taxes, assessments or other governmental charges lawfully imposed on the System or upon Revenues, when the same shall become due, as well as any and all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon the System or the Revenues, or which might impair the security of the Notes.

Rate and Charges; Debt Coverage

So long as any of the Notes are Outstanding, the District will, to the fullest extent permitted by law, fix, charge and collect, or cause to be fixed, charged and collected, such rates, fees and charges for the use of and for the services furnished or to be furnished by the System which, together with all other receipts and revenues of the District, as will produce sufficient Net Revenues in each Fiscal Year so that the Mezzanine Debt Service Coverage Ratio at the end of each such Fiscal Year is not less than 1.25:1.0. The District may make adjustments from time to time in such rates, fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce such rates, fees and charges below those then in effect unless the Net Revenues from such reduced rates will at all times be sufficient to meet the requirements described in this paragraph. The District shall increase such rates, fees and charges whenever necessary to produce Net Revenues sufficient to meet the requirements described in this

paragraph and of any Supplemental Trust Agreement creating any Series of Notes. For purposes of the requirements described in this paragraph only, the Mezzanine Debt Service Coverage Ratio shall be calculated with respect to Annual Debt Service for the Fiscal Year for which the calculation is being made (after first deducting any principal or interest paid during such Fiscal Year with moneys which are not Revenues) rather than with respect to Maximum Annual Debt Service.

For purposes of the requirements described in the paragraph above only, the Mezzanine Debt Service Coverage Ratio shall be calculated with respect to Annual Debt Service for the Fiscal Year for which the calculation is being made (after first deducting any principal or interest paid during such Fiscal Year with moneys which are not Revenues, including without limitation interest paid from the proceeds of Senior Debt, Notes or Parity Mezzanine Debt) rather than with respect to Maximum Annual Debt Service.

Issuance of Senior Debt; Amendment of Senior Bond Resolution

The District shall not issue or incur additional Senior Debt except in compliance with the Senior Bond Resolution.

The District shall not amend, modify or supplement the Senior Bond Resolution except in compliance with the Senior Bond Resolution. No such amendment, modification or supplement shall permit the creation of any lien on the Revenues prior to or on a parity with the lien created by the Trust Agreement without the consent of the holders of all of the Notes and Parity Mezzanine Debt then outstanding.

Events of Default

The following events shall be Events of Default:

- (a) default in the due and punctual payment of the principal or Redemption Price of any Note when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;
- (b) default in the due and punctual payment of any installment of interest on any Note when and as such interest installment shall become due and payable;
- (c) if the District shall fail to observe or perform any covenant, condition, agreement, or provision in the Trust Agreement on its part to be observed or performed, other than as referred to in the preceding paragraphs (a) or (b), for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the District by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the District has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the District shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee;
- (d) if any default shall exist under any agreement governing any Parity Mezzanine Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;

- (e) if the holder of any Senior Debt or the trustee for any holders of Senior Debt at the time outstanding exercises a right under the Senior Debt or the constituent instruments under which such Senior Debt was issued to declare the principal thereof (and interest accrued thereon) to be payable prior to the maturity thereof;
- (f) if the District files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the System;
- (g) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the District insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the District or of the whole or any substantial part of the System, or approving a petition filed against the District seeking reorganization of the District under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or
- (h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of the System, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Acceleration of Maturities

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee or the Holders of not less than a majority in aggregate principal amount of the Notes at the time Outstanding shall be entitled, upon notice in writing to the District, to declare the principal of all of the Notes then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Trust Agreement or in the Notes contained to the contrary notwithstanding.

Application of Revenues and Other Funds After Default

If an Event of Default shall occur and be continuing, all Available Mezzanine Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Trust Agreement (except as otherwise provided in the Trust Agreement) shall be applied by the Trustee as follows and in the following order:

- (1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Notes and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Trust Agreement;
- (2) To the payment of the principal or Redemption Price of and interest then due on the Notes and Parity Mezzanine Debt (upon presentation of the Notes and Parity Mezzanine Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Trust Agreement, as follows:

- (i) Unless the principal of all of the Notes and Parity Mezzanine Debt shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Notes and Parity Mezzanine Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Notes, and, if the amount available shall not be sufficient to pay in full all the Notes and Parity Mezzanine Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

- (ii) If the principal of all of the Notes and Parity Mezzanine Debt shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Notes and Parity Mezzanine Debt, with interest on the overdue principal at the rate borne by the respective Notes and Parity Mezzanine Debt, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note or Parity Mezzanine Debt over any other Note or Parity Mezzanine Debt, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Trustee to Represent Noteholders

The Trustee is irrevocably appointed (and the successive respective Holders of the Notes, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Notes for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Notes, the Trust Agreement, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Noteholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Notes then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Trust Agreement, the Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Trust Agreement, pending such proceedings. All rights of action under the Trust Agreement or the Notes or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Notes or

the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Notes, subject to the provisions of the Trust Agreement.

Noteholders' Direction of Proceedings

Anything in the Trust Agreement to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Notes then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Trust Agreement, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Noteholders or holders of Parity Mezzanine Debt not parties to such direction.

Limitation on Noteholders' Right to Sue

No Holder of any Note shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Trust Agreement, the Law or any other applicable law with respect to such Note, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Notes then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Notes of any remedy under the Trust Agreement or under law; it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Trust Agreement or the rights of any other Holders of Notes, or to enforce any right under the Trust Agreement, the Law or other applicable law with respect to the Notes, except in the manner provided in the Trust Agreement, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the benefit and protection of all Holders of the Outstanding Notes, subject to the provisions of the Trust Agreement.

Amendments Permitted

The Trust Agreement and the rights and obligations of the District, the Holders of the Notes and the Trustee may be modified or amended from time to time and at any time by a Supplemental Trust Agreement, which the District may execute and deliver with the written consent of the Holders of a majority in aggregate principal amount of the Notes then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Notes of any particular maturity remain Outstanding, the consent of the Holders of such Notes shall not be required and such Notes shall not be deemed to be Outstanding for the purpose of any calculation of Notes Outstanding under this paragraph. No such modification or amendment shall (1) extend the fixed maturity of any Note, or reduce the amount of principal thereof, or extend the time of payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium

payable upon the redemption thereof, without the consent of the Holder of each Note so affected, or (2) reduce the aforesaid percentage of Notes the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Trust Agreement prior to or on a parity with the lien created by the Trust Agreement, or deprive the Holders of the Notes of the lien created by the Trust Agreement on such Revenues and other assets (except as expressly provided in the Trust Agreement), without the consent of the Holders of all of the Notes then Outstanding. It shall not be necessary for the consent of the Noteholders to approve the particular form of any Supplemental Trust Agreement, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery of any Supplemental Trust Agreement pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Trust Agreement to the Holders of the Notes at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Trust Agreement.

The Trust Agreement and the rights and obligations of the District, of the Trustee and of the Holders of the Notes may also be modified or amended from time to time and at any time by any Supplemental Trust Agreement, which the District may execute and deliver without the consent of any Holders, but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the District contained in the Trust Agreement, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Notes (or any portion thereof), or to surrender any right or power in the Trust Agreement reserved to or conferred upon the District, provided that no such covenant, agreement, pledge, assignment or surrender shall materially and adversely affect the interests of the Holders of the Notes;
- (2) to make such provisions for the purpose of curing any ambiguity, inconsistency, or omission, or of curing or correcting any defective provisions, contained in the Trust Agreement, or in regard to matters or questions arising under the Trust Agreement, as the District may deem necessary or desirable and not inconsistent with the Trust Agreement, and which shall not materially and adversely affect the interests of the Holders of the Notes;
- (3) to notify, amend or supplement the Trust Agreement in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; and which shall not materially and adversely affect the interests of the Holders of the Notes;
- (4) to make provisions for the issuance of variable rate or Parity Mezzanine Debt; provided that no such provisions shall materially and adversely affect the interests of the Holders of the Notes;
- (5) to provide for the issuance of Notes in book-entry form, provided that no such provision shall materially and adversely affect the interests of the Holders of the Notes; and
- (6) if the District has agreed in a Supplemental Trust Agreement to maintain the exclusion of interest on a Series of Notes from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion.

Discharge of Notes and the Trust Agreement

The District may pay Notes of any Series in any of the following ways; provided that the District also pays or causes to be paid any other sums payable pursuant to the Trust Agreement by the District:

- (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Notes Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or Investment Securities in the necessary amount (as provided in the Trust Agreement) to pay or redeem all Notes Outstanding of the Series; or
- (c) by delivering to the Trustee, for cancellation by it, all Notes then Outstanding of the Series.

If the District shall pay all Series for which any Notes are Outstanding and also pay or cause to be paid all other sums payable under the Trust Agreement by the District, then and in that case, at the election of the District (evidenced by a Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Trust Agreement), and notwithstanding that any Notes shall not have been surrendered for payment, the Trust Agreement and the pledge of Revenues and other assets made under the Trust Agreement and all covenants, agreements and other obligations of the District under the Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the District, the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the Trust Agreement which, as evidenced by a verification report from a firm of certified public accountants, or other firm acceptable to the Trustee, are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS FROM SENIOR BOND RESOLUTION RELATING TO LIMITATIONS ON ISSUANCE OF OBLIGATIONS PAYABLE FROM NET REVENUES

The following is a summary of certain provisions of the Senior Bond Resolution relating to limitations on issuance of Obligations payable from Net Revenues. This summary is not to be considered a full statement of the terms and conditions contained in the Senior Bond Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. All capitalized terms not otherwise defined in this Official Statement or Appendix C to this Official Statement shall have the meanings set forth in the Senior Bond Resolution.

DEFINITIONS

Adjusted Net Revenues for any Fiscal Year means the sum of (i) Net Revenues for such Fiscal Year and (ii) Obligation Service for such Fiscal Year.

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either at maturity or by mandatory redemption) and sinking fund payments (or lease or installment purchase payments with separately designated interest and principal components) required to be paid in that Fiscal Year on all Senior Bonds and Senior Parity Debt, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest or sinking fund payments (or lease or installment purchase payments with separately designated interest and principal components) on Senior Bonds and Senior Parity Debt; provided, however, that for purposes of the calculation of Annual Debt Service:

(A) Generally. Except as otherwise provided by subparagraph (B) with respect to Variable Interest Rate Senior Bonds or Senior Parity Debt and by subparagraph (C) with respect to Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force, interest on any Senior Bonds or Senior Parity Debt shall be calculated based on the actual amount of interest that is payable under such Senior Bonds or Senior Parity Debt;

(B) Interest on Variable Interest Rate Senior Bonds and Senior Parity Debt. The amount of interest deemed to be payable on any Variable Interest Rate Senior Bonds or Senior Parity Debt shall be calculated on the assumption that the interest rate on the Senior Bonds or Senior Parity Debt would be equal to the rate (the "assumed RBI based rate") that is ninety per cent (90%) of the average RBI during the twelve (12) calendar month period immediately preceding the date in which the calculation is made;

(C) Interest on Senior Bonds and Senior Parity Debt with respect to which a Payment Agreement is in force. The amount of interest deemed to be payable on any Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Senior Bonds or Senior Parity Debt and such Payment Agreement, including but not limited to the effects that (i) such Senior Bonds or Senior Parity Debt would, but for such Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Senior Bonds or Senior Parity Debt would, but for such Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such

Senior Bonds or Senior Parity Debt plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under such Payment Agreement, the following assumptions shall be made:

(1) Counterparty Obligated to Pay Actual Variable Interest Rate on Variable Interest Rate Senior Bonds or Senior Parity Debt. If the Payment Agreement obligates a Qualified Counterparty to make payments to the District based on the actual Variable Interest Rate on Senior Bonds or Senior Parity Debt that would, but for the Payment Agreement, be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt and obligates the District to make payments to the Qualified Counterparty based on a fixed rate, payments by the District to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the District shall be assumed to be made at the actual Variable Interest Rate on such Senior Bonds or Senior Parity Debt, without regard to the occurrence of any event that, under the provisions of the Payment Agreement, would permit the Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such Senior Bonds or Senior Parity Debt, and such Senior Bonds or Senior Parity Debt shall set forth a debt service schedule based on that assumption;

(2) Variable Interest Rate Senior Bonds or Senior Parity Debt and Payment Agreements Having the Same Variable Interest Rate Component. If both a Payment Agreement and the related Senior Bonds or Senior Parity Debt that would, but for the Payment Agreement, be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt include a variable interest rate payment component that is required to be calculated on the same basis (including, without limitation, on the basis of the same variable interest rate index), it shall be assumed that the variable interest rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable interest rate component payable on such Senior Bonds or Senior Parity Debt;

(3) Variable Interest Rate Senior Bonds or Senior Parity Debt and Payment Agreements Having Different Variable Interest Rate Components. If a Payment Agreement obligates either the District or the Qualified Counterparty to make payments of a variable interest rate component on a basis that is different (including, without limitation, on a different variable interest rate index) from the basis that is required to be used to calculate interest on the Senior Bonds or Senior Parity Debt that would, but for the Payment Agreement, be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt it shall be assumed:

(a) District Obligated to Make Payments Based on Variable Interest Rate Index. If payments by the District under the Payment Agreement are based on a variable interest rate index and payments by the Qualified Counterparty are based on a fixed interest rate, payments by the District to the Qualified Counterparty will be based upon an interest rate equal to the assumed RBI based rate, and payments by the Qualified Counterparty to the District will be based on the fixed rate specified by the Payment Agreement; and

(b) District Obligated to Make Payments Based on Fixed Interest Rate. If payments by the District under the Payment Agreement are based on a fixed interest rate and payments by the Qualified Counterparty are based on a variable interest rate index, payments by the District to the Qualified Counterparty will be based on an interest rate equal to the rate (the "assumed fixed payor rate") that is one hundred and five per cent (105%) of the fixed interest rate specified by the Payment Agreement, and payments by the Qualified Counterparty to the District will be based on a rate equal to the actual Variable Interest Rate on the Variable Interest Rate Senior Bonds or Senior Parity Debt.

(4) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (C)(1), (2) and (3) of this definition, the District shall not be required to (but may at its option) take into account (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less.

(D) Debt Service on Payment Agreements. No interest shall be taken into account with respect to a Payment Agreement for any period during which Payment Agreement Payments on that Payment Agreement are taken into account in determining Annual Debt Service on related Senior Bonds or Senior Parity Debt under subparagraph (C) of this definition; provided, that for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any Senior Bonds or Senior Parity Debt because the Payment Agreement is not then related to any Senior Bonds or Senior Parity Debt, interest on that Payment Agreement shall be taken into account by assuming:

(1) District Obligated to Make Payments Based on Fixed Interest Rate. If the District is obligated to make Payment Agreement Payments based on a fixed interest rate and the Qualified Counterparty is obligated to make payments based on a variable interest rate index, payments by the District will be based on the assumed fixed payor rate, and payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made; and

(2) District Obligated to Make Payments Based on Variable Interest Rate Index. If the District is obligated to make Payment Agreement Payments based on a variable interest rate index and the Qualified Counterparty is obligated to make payments based on a fixed interest rate, payments by the District will be based on an interest rate equal to the average rate determined by the variable interest rate index specified by the Payment Agreement during the quarter preceding the quarter in which the calculation is made, and the Qualified Counterparty will make payments based on the fixed rate specified by the Payment Agreement; and

(3) Certain Payment Agreements May be Disregarded. Notwithstanding the provisions of subparagraphs (D)(1) and (2) of this definition, the District shall not be required to (but may at its option) take into account (for the purpose of determining Annual Debt Service) the effects of any Payment Agreement that has a remaining term of ten (10) years or less.

Assumed Debt Service means for any Fiscal Year the sum of the amount of Annual Debt Service which would be payable if each Excluded Principal Payment were amortized for a period specified by the District (no greater than thirty (30) years from the commencement of amortization) on a substantially level debt service basis, calculated based on an interest rate equal to the rate at which the District could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee within thirty (30) days of the date of calculation.

Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Net Revenues by Maximum Annual Debt Service.

Excluded Principal Payments shall mean each payment of principal (or the principal component of lease or installment purchase payments) of Senior Bonds or Senior Parity Debt which District determines (on a date not later than the date of issuance of such Senior Bonds or Senior Parity Debt) that the District intends to pay with moneys which are not Revenues. No such determination shall affect the security for such Senior Bonds or Senior Parity Debt or the obligation of the District to pay such payments from Revenues. No payment of principal of Senior Bonds or Senior Parity Debt may be

determined to be an Excluded Principal Payment unless it is due within thirty (30) years from the date of issuance of such Senior Bonds or Senior Parity Debt.

Maximum Annual Debt Service shall mean the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments (and interest on such Excluded Principal Payments from the date such Excluded Principal Payments are due and payable) shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) debt service on Senior Bonds or Senior Parity Debt incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service for purposes of the calculation of the Debt Service Coverage Ratio and Obligation Service Coverage Ratio required by the Senior Bond Resolution only in proportion to the amount of interest on such Senior Bonds or Senior Parity Debt which is payable in the then current Fiscal Year from sources other than the proceeds of such Senior Bonds and Senior Parity Debt.

Obligation means any contract or lease for the purchase of any facilities, properties, structures or works, the final payments under which are due more than one year following the effective date thereof, so long in each case as the payments thereunder constitute Maintenance and Operation Costs.

Obligation Service means, for any Fiscal Year, that portion of the sum of all contract payments required to be made on all Obligations at the times provided in such Obligations.

Obligation Service Coverage Ratio means, for any period of time, the ratio determined by dividing Adjusted Net Revenues by the sum of Obligation Service and Maximum Annual Debt Service.

Payment Agreement means a written agreement for the purpose of managing or reducing the District's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counter-party as authorized under any applicable laws of the State of California in connection with, or incidental to, the issuance of Senior Bonds or Senior Parity Debt, that provides for an exchange of payments based on inter-Government rates, ceilings or floors on such payments, options on such payments, or any combination thereof or any similar device.

Payment Agreement Payments means the amounts periodically required to be paid by the District to the Qualified Counter-party pursuant to a Payment Agreement.

Payment Agreement Receipts means the amounts periodically required to be paid by the Qualified Counter-party to the District pursuant to a Payment Agreement.

Qualified Counter-party means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated in one of the two (2) highest rating categories of each of the Rating Agencies then rating any Senior Bonds (without regard to any gradations within a rating category), or guaranteed by the parent of (or other person controlling) such entity which is so rated, or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating in one of the two (2) highest rating categories of each of the Rating

Agencies then rating any Senior Bonds, and (2) who is other wise qualified to act as the other party to a Payment Agreement under any applicable laws of the State of California.

RBI means the Bond Buyer Revenue Bond Index or comparable index, or, if no comparable index can be obtained, eighty per cent (80%) of the interest rate on actively traded thirty (30) year United States Treasury obligations.

Senior Bond Reserve Fund means the Bond Reserve Fund established pursuant to the Senior Bond Resolution.

Senior Bond Reserve Requirement means, as of any date of calculation, an amount equal to the lesser of (i) Maximum Annual Debt Service on all Senior Bonds then Outstanding and (ii) 125% of average Annual Debt Service (excluding accrued interest) on all Senior Bonds then Outstanding; provided, however, that (1) such calculations shall initially be made as of the date of issuance of each Series of Senior Bonds under the Senior Bond Resolution and the Senior Bond Reserve Requirement shall not increase (but may decrease) from such initial calculation prior to the issuance of an additional Series of Senior Bonds under the Senior Bond Resolution and (2) in making such initial calculations, the amount of the maximum Senior Bond Reserve Requirement shall not exceed the sum of (a) the Senior Bond Reserve Requirement as calculated immediately prior to the issuance of such Series of Senior Bonds plus (b) 10% of the initial proceeds of such Series of Senior Bonds.

Variable Interest Rate means any variable interest rate or rates to be paid under any Senior Bonds or Senior Parity Debt, the method of computing which variable interest rate shall be as specified in the applicable Senior Bonds or Senior Parity Debt, which Senior Bonds or Senior Parity Debt shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Senior Bonds or Senior Parity Debt means, for any period of time, any Senior Bonds or Senior Parity Debt that bear a Variable Interest Rate during such period, except that Senior Bonds and Senior Parity Debt shall not be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt if the net economic effect of interest rates on particular Senior Bonds or Senior Parity Debt and interest rates on other Senior Bonds or Senior Parity Debt of the same series or the net economic effect of a Payment Agreement with respect to particular Senior Bonds or Senior Parity Debt, in either case is to produce obligations that bear interest at a fixed interest rate, and Senior Bonds or Senior Parity Debt with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Senior Bonds or Senior Parity Debt if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

Summary of Provisions of the Senior Bond Resolution Relating to Limitations on Issuance of Obligations Payable from Net Revenues.

The District has covenanted in the Senior Bond Resolution that it will not, so long as any of the Senior Bonds are outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues except the following (capitalized terms used under this heading and not defined have the meaning set forth in the Senior Bond Resolution):

(a) Senior Bonds payable from Net Revenues and secured by the pledge made under the Senior Bond Resolution equally and ratably with Senior Bonds previously issued, provided that the following conditions are satisfied:

(i) No Event of Default under the Senior Bond Resolution shall have occurred and then be continuing.

(ii) Subject to the provisions of the Senior Bond Resolution relating to the funding and application of the Senior Bond Reserve Fund (established under the Senior Bond Resolution for the benefit of the Senior Bonds), the Supplemental Senior Resolution providing for the issuance of such Series shall require that the balance in the Senior Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of such Series, be increased, if necessary, to an amount at least equal to the Senior Bond Reserve Requirement with respect to all Senior Bonds to be Outstanding upon the issuance of such Series. Said deposit may be made from the proceeds of the sale of such Series or from other funds of the District or from both such sources, as provided in such Supplemental Senior Resolution.

(iii) The aggregate principal amount of Senior Bonds issued under the Senior Bond Resolution shall not exceed any limitation imposed by law or by any Supplemental Senior Resolution.

(iv) Either

(i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Series of Senior Bonds and including the Senior Bonds and Senior Parity Debt then Outstanding and such additional Series of Senior Bonds, shall not be less than 1.25:1.0; provided that in calculating the Debt Service Coverage Ratio:

(A) if rates and charges in effect on the date upon which such Series of Senior Bonds will become Outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by 75% of the estimated increase in Net Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and

(B) Net Revenues may be augmented by 75% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source) or to be constructed with the proceeds of the Series of Senior Bonds then being issued;

or (ii):

(A) The District has complied with Debt Service Coverage Ratio and Obligation Service Coverage Ratio provisions of the Senior Bond Resolution for the most recent Fiscal Year for which audited financial statements are available; and

(B) the Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such

additional series of Senior Bonds (or, if later, the first full Fiscal Year in which less than ten percent (10%) of the interest coming due on such additional series of Senior Bonds is to be paid from the proceeds of such Senior Bonds) is projected to be at least equal to 1.25:1.0.

(b) Refunding Senior Bonds in an aggregate principal amount sufficient (together with other available funds) to pay the principal or redemption price of all outstanding Senior Bonds or Senior Parity Debt to be refunded, all expenses incidental thereto, interest on all Outstanding Senior Bonds or Senior Parity Debt to be refunded to the date such Senior Bonds or Senior Parity Debt will be called for redemption or paid at maturity and interest on the Refunding Senior Bonds from the date thereof to the date of payment of redemption of the Senior Bonds or Senior Parity Debt to be refunded.

(c) Senior Parity Debt payable on a parity with the outstanding Senior Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Senior Parity Debt are satisfied:

(1) Such Senior Parity Debt has been duly and legally authorized for any lawful purpose.

(2) The proceedings for the issuance of such Senior Parity Debt shall require the District to establish, fix and collect rates and charges in an amount not less than the amounts necessary to maintain at the end of each Fiscal Year the Debt Service Coverage Ratio not less than 1.25:1.0 and the Obligation Service Coverage Ratio at not less than 1.0:1.0.

(3) No Event of Default under the Senior Bond Resolution shall have occurred and then be continuing, as evidenced in a Certificate of the District filed with the Trustee.

(4) Either:

(A) The District delivers to the Trustee a Certificate of the District and a certificate of an independent engineer or an independent certified public accountant evidencing that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as of the date of sale of such Senior Bonds or Senior Parity Debt and including the Senior Bonds and Senior Parity Debt then outstanding and such additional Senior Bonds or Senior Parity Debt, shall not be less than 1.25:1.0; provided that in calculating the Debt Service Coverage Ratio:

(i) if rates and charges in effect on the date upon which such Senior Bonds or Senior Parity Debt will become outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by 75% of the estimated increase in Net Revenues computed to accrue to the System in the first twelve months during which such rates and charges shall be in effect; and

(ii) Net Revenues may be augmented by 75% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source) or to be constructed with the proceeds of the Senior Bonds or Senior Parity Debt then being issued;

-or-

(B) The District delivers to the Trustee a Certificate of the District and a certificate of an independent engineer or an independent certified public accountant to the effect that:

(i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, including the Senior Bonds or Senior Parity Debt then outstanding but not such additional Senior Bonds or Senior Parity Debt, was at least equal to 1.25:1.0, and the Obligation Service Coverage Ratio was at least equal to 1.0:1.0; and

(ii) the Debt Service Coverage Ratio for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of such additional Senior Bonds or Senior Parity Debt (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such additional Senior Bonds or Senior Parity Debt is to be paid from the proceeds of such Senior Bonds or Senior Parity Debt) is projected to be at least equal to 1.25:1.0.

(5) The District delivers to the Trustee an Opinion of Bond Counsel to the effect that such Senior Bonds or Senior Parity Debt have been duly authorized in accordance with the law and all prior proceedings of the District.

(d) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Senior Bonds and all Senior Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Revenues after the prior payment of all amounts required to be paid from Net Revenues for principal, premium, interest and reserve fund requirements for the Senior Bonds and all Senior Parity Debt, as the same become due and payable and at the times and in the manner as required in the Senior Bond Resolution.

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Contra Costa Water District
Concord, California

\$127,630,000 Contra Costa Water District
Water Revenue Notes, Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Contra Costa Water District (the “District”) in connection with the issuance of \$127,630,000 aggregate principal amount of Contra Costa Water District Water Revenue Notes, Series A (the “Notes”), issued pursuant to the provisions of the County Water District Law, constituting Division 12 of the California Water Code, and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and a Note Trust Agreement dated as of June 1, 2010 between the District and U.S. Bank National Association (the “Trustee”), as supplemented and amended by a First Supplemental Note Trust Agreement, dated as of June 1, 2010 (collectively, the “Trust Agreement”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Tax Certificate, dated the date hereof (the “Tax Certificate”), opinions of counsel to the District and the Trustee, certificates of the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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 opinion speaks only as of its date and it is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Notes has concluded with their issuance, and we disclaim any obligation to update this letter. 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 District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement 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 Notes to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Notes, the Trust Agreement and the Tax Certificate 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 the limitations on legal remedies against county water districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Notes and express 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 Notes constitute the valid and binding limited obligations of the District.
2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the District. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Notes, of the Revenues, and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.
3. The Notes are not a lien or charge upon the funds or property of the District except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the District, the State of California or of any other political subdivision thereof is pledged to the payment of the principal of or interest on the Notes. The Notes are not a debt of the State of California, and said State is not liable for the payment thereof.
4. Interest on the Notes 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 Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes, including whether interest on the Notes is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

SUMMARY OF DEBT SERVICE OBLIGATIONS

The following table summarizes the annual debt service requirements for the District's outstanding Senior Debt and the Series A Notes. It does not include principal and interest requirements of assessment bonds which are paid by benefited property owners. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES - Outstanding Debt of the District" and " - Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues" in the forepart of this Official Statement.

OUTSTANDING PRINCIPAL & INTEREST REQUIREMENTS

Fiscal Year (June 30)	Series E-N Water Revenue Bond Debt Service	Authority 2002 Series A Bonds Debt Service	Series A Notes Debt Service ^(*)	State Revolving Fund	Total Senior Debt and Note Debt Service ⁽¹⁾
2010	\$37,498,469	\$3,770,894	--	\$1,469,516	\$42,738,879
2011	38,503,294	3,768,694	\$2,427,021	1,469,516	46,168,525
2012	38,580,400	3,772,694	32,924,088	1,469,516	76,746,698
2013	38,561,306	3,772,694	30,314,938	1,469,516	74,118,454
2014	38,567,888	3,773,594	32,427,194	1,469,516	76,238,192
2015	38,568,925	3,770,294	6,841,050	1,469,516	50,649,785
2016	38,806,463	3,770,797	34,076,750	1,469,516	78,123,526
2017	38,742,775	3,776,125	--	1,469,516	43,988,416
2018	38,749,925	3,781,375	--	1,469,516	44,000,816
2019	38,217,800	3,778,625	--	1,469,516	43,465,941
2020	35,386,925	3,787,375	--	1,469,516	40,643,816
2021	35,379,925	3,782,250	--	1,469,516	40,631,691
2022	32,279,175	--	--	1,469,516	33,748,691
2023	32,265,425	--	--	985,703	33,251,128
2024	29,823,138	--	--	501,890	30,325,028
2025	29,827,663	--	--	187,754	30,015,417
2026	29,831,388	--	--	--	29,831,388
2027	29,831,338	--	--	--	29,831,338
2028	9,705,413	--	--	--	9,705,413
2029	9,701,763	--	--	--	9,701,763
2030	9,703,538	--	--	--	9,703,538
2031	6,623,625	--	--	--	6,623,625
2032	6,625,063	--	--	--	6,625,063
2033	3,787,375	--	--	--	3,787,375
TOTAL	\$685,568,999	\$45,305,411	\$139,011,040	\$20,779,058	\$890,664,508

⁽¹⁾ Excludes Assessment District Bonds.

^(*) The District intends to refinance the Series A Notes at maturity rather than pay the principal of the Series A Notes with Available Mezzanine Revenues. Pursuant to the Trust Agreement, Assumed Debt Service rather than the principal payments on the Series A Notes will be included when calculating Maximum Annual Debt Service for purposes of the Mezzanine Debt Service Coverage Ratio (which is calculated in connection with the issuance of additional Notes). For more information see "PLAN OF FINANCE," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES – Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues" and "WATER SYSTEM FINANCES – Projected Operating Results and Debt Service Coverage" in this Official Statement.

Note: Numbers may not foot due to rounding.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by Contra Costa Water District (the “District”) and U.S. Bank National Association, as trustee and dissemination agent (the “Trustee” and the “Dissemination Agent”) in connection with the issuance of \$127,630,000 Contra Costa Water District Water Revenue Notes, Series A (the “Series A Notes”). The Series A Notes are being issued pursuant to a Note Trust Agreement, dated as of June 1, 2010, between the District and the Trustee, as amended and supplemented (the “Trust Agreement”), including as supplemented by the First Supplemental Note Trust Agreement, dated as of June 1, 2010, between the District and the Trustee (the “First Supplemental Trust Agreement”) relating to the Series A Notes.

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Series A Notes and in order to assist the Participating Underwriters of the Series A Notes in complying with the Rule (defined below).

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

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

“**Beneficial Owner**” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series A Notes (including persons holding Series A Notes through nominees, depositories or other intermediaries).

“**Disclosure Representative**” shall mean the Director of Finance of the District or his or her designee, or such other person as the District shall designate in writing to the Dissemination Agent and the Trustee from time to time.

“**Dissemination Agent**” shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Trustee a written acceptance of such designation.

“**Holder**” shall mean the person in whose name any Series A Notes shall be registered.

“**Listed Events**” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, 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>.

“**Participating Underwriters**” shall mean the original underwriters of the Series A Notes required to comply with the Rule in connection with offering of the Series A Notes.

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

Section 3. Provision of Annual Reports. The District shall, or upon written direction shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (presently June 30), commencing with the report for the 2010-2011 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the District 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 District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Series A Notes by name and CUSIP number.

Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to inquire if the District is in compliance with the first sentence of this subsection (b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

If the Dissemination Agent is unable to confirm that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

The Dissemination Agent shall file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

- (a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), 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 provided to the MSRB in the same manner as the Annual Report when they become available.
- (b) Financial, numerical or tabular information of the types contained in the Official Statement relating to the Series A Notes, dated June 17, 2010 under the following captions or tables:
 - (i) Five-Year History of Water Sales Revenues;

- (ii) Largest Untreated Water Customers, Water Consumption and Water Sales Revenues
- (iii) TREATED WATER - Active Accounts, Water Consumption by Type of Customer and Water Sales Revenues;
- (iv) District Gross Water Consumption;
- (v) Treated Water Rates and Charges;
- (vi) Untreated Water Rates and Charges;
- (vii) Charges for New Service;
- (viii) Historical and Projected Rate Increases;
- (ix) Schedule of Debt Service Coverage per Trust Agreement;
- (x) Summary of Revenues, Expenses and Changes in Net Assets (which will routinely be found in the annual audit);
- (xi) Retirement Program (information about which will routinely be found in the annual audit);
- (xii) Annual District Bureau Water Allocations and Actual Deliveries;
- (xiii) Annual District Diversions at Mallard Slough; and
- (xiv) Rates and Charges - Uncollectible Revenues -(information about accounts receivable will routinely be found in the annual audit).

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues with respect to which the District is an “obligated person” (as defined by the Rule), which have been made available to the public on the MSRB’s website. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

- (a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series A Notes, if material:
 - 1. principal and interest payment delinquencies;
 - 2. non-payment related defaults;
 - 3. modifications to rights of Noteholders;
 - 4. optional, contingent or unscheduled note calls;
 - 5. defeasances;
 - 6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Series A Notes;
 8. unscheduled draws on debt service reserves reflecting financial difficulties;
 9. unscheduled draws on credit enhancements reflecting financial difficulties;
 10. substitution of credit or liquidity providers, or their failure to perform;
 11. release, substitution or sale of property securing repayment of the Series A Notes.
- (b) The Trustee shall, within one (1) Business Day, or as promptly thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for matters related to the Series A Notes.
- (c) Whenever the District obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.
- (d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).
- (e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.
- (f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB, in electronic format, accompanied by such identifying information as is prescribed by the MSRB, with a copy to the District. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Series A Notes pursuant to the Trust Agreement.

Section 6. Termination of Reporting Obligation. The District’s, Trustee’s and Dissemination Agent’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series A Notes.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination

Agent shall be U.S. Bank National Association. The Dissemination Agent may resign by providing thirty (30) days' written notice to the District and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District, the Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the District, provided that neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 Series A Notes, or the type of business conducted;
- (b) The Disclosure Agreement, 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 Series A Notes, 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 Holders of the Series A Notes in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series A Notes.

In the event of any amendment or waiver of a provision of the Disclosure Agreement, the District 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 District. 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 under Section 5(f), 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.

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

Section 10. Default. In the event of a failure of the District or the Trustee to comply with any provisions of the Disclosure Agreement, the Trustee at the written request of the Participating Underwriters or the Holders of at least 25% aggregate principal amount of Outstanding Series A Notes, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Series A Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series A Notes.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District: Contra Costa Water District

1331 Concord Avenue
Concord, California 94524

To the Trustee and Dissemination Agent:

U.S. Bank National Association
Corporate Trust Specialist
One California Street, 4th Floor
San Francisco, CA 94111

Any person may, by written notice to the persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series A Notes, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: June 30, 2010.

CONTRA COSTA WATER DISTRICT

By _____
Director of Finance

U.S. BANK NATIONAL ASSOCIATION

By _____
Authorized Officer

EXHIBIT A

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Contra Costa Water District
Name of Note Issue: Contra Costa Water District Water Revenue Notes, Series A
Date of Issuance: June 30, 2010
Name of Obligated Party: Contra Costa Water District

NOTICE IS HEREBY GIVEN that Contra Costa Water District has not provided an Annual Report with respect to the above-named Series A Notes as required by the Continuing Disclosure Agreement, dated as of June 30, 2010. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION

cc: Contra Costa Water District

APPENDIX G

DTC DESCRIPTION

The information in this APPENDIX G concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC and the District takes no responsibility for the accuracy thereof. The District cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (all as defined below): (a) payments of principal of, premium if any, and interest on (“Debt Service”) Series A Notes; (b) confirmations of ownership interest in Series A Notes; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of Series A Notes, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

Neither the District nor the Trustee will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC or the Beneficial Owners with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC of any amount due to any Beneficial Owner in respect of the Debt Service on Series A Notes; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Trust Agreement; or (4) any consent given or other action taken by DTC as registered owner of Series A Notes.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series A Notes. The Series A Notes 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 A certificate will be issued for each maturity of the Series A Notes, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

Purchases of the Series A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series A Notes on DTC's records. The ownership interest of each actual purchaser of each Series A Note (the "Beneficial Owner") in turn is 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 A Notes 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 the Series A Notes, except in the event that use of the book-entry system for the Series A Notes is discontinued.

To facilitate subsequent transfers, all Series A Notes 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 A Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series A Notes 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.

Redemption notices shall be sent to DTC. If less than all of the Series A Notes 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 such other DTC nominee) will consent or vote with respect to the Series A Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District 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 the Series A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the Series A Notes will be made to Cede & Co., or such other name as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District 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 District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series A Notes at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered as described the Trust Agreement.

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

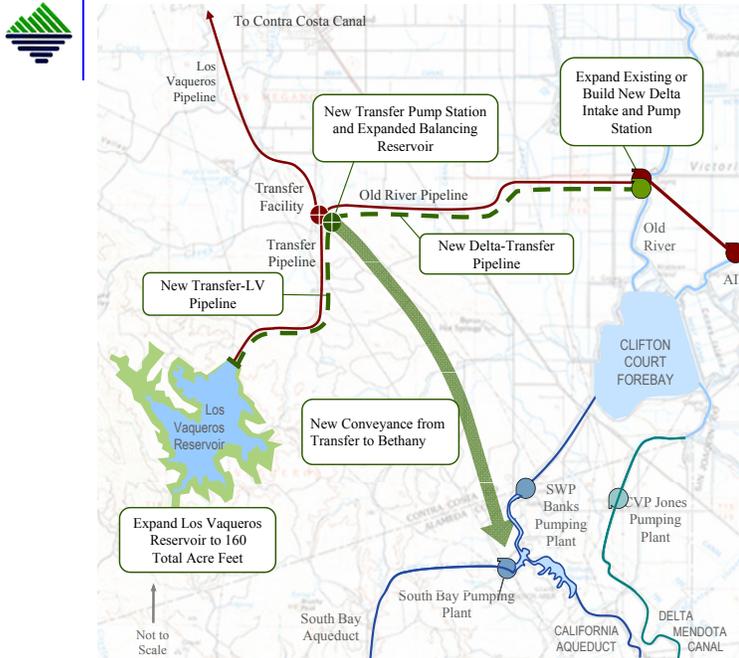
SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES A NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES A NOTES.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

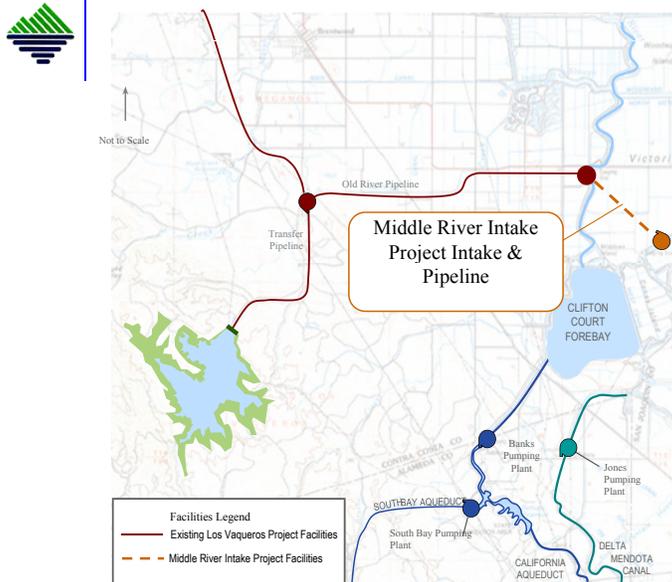
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Los Vaqueros Reservoir Expansion Project - Map



Middle River Intake Project (MRIP) - Map





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