

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Contra Costa Water District (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, when issued in accordance with the Trust Agreement and the Tax Certificate relating to the Notes, interest on the Notes will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and will be exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. 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 Notes. See "TAX MATTERS."*

**CONTRA COSTA WATER DISTRICT  
(CONTRA COSTA COUNTY, CALIFORNIA)  
EXTENDABLE MUNICIPAL COMMERCIAL PAPER NOTES**

*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 Offering Memorandum 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 information and expressions of opinion in this Offering Memorandum are subject to change without notice after the date hereof. Future use of this Offering Memorandum shall not create any implication that there has been no change in the matters referred to in this Offering Memorandum since its date.*

*The short-term ratings in this Offering Memorandum are only accurate as of the date set forth above, and do not reflect watch status, if any. The ratings may subsequently be changed or withdrawn, and, therefore, any prospective purchaser should confirm the ratings prior to purchasing the Notes.*

The Contra Costa Water District Extendable Municipal Commercial Paper Notes (the "Notes") are being issued by the Contra Costa Water District (the "District") to provide funds to finance a portion of the costs relating to the District's Los Vaqueros Reservoir Expansion Project, the Shortcut Pipeline Project and other future capital costs of the District, as more fully described herein, to pay Notes as they mature, and to pay certain other outstanding obligations of the District as more particularly described herein.

**The Notes are subject to redemption after their Original Maturity Date and prior to their Extended Maturity Date as described herein.**

The Notes are limited obligations of the District, payable solely from Available Subordinate Revenues of the Water System 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, second there shall be applied all sums required for the payment of debt service and certain other payments on Senior Debt, and third there shall be applied all sums required for the payment of debt service and certain other payments on Mezzanine Debt, as described herein. **The obligation of the District to pay debt service on the Notes from Available Subordinate Revenues will be subordinate to payments on the Senior Debt and the Mezzanine Debt.** See "SECURITY FOR THE NOTES – Outstanding Debt of the District."

**Neither the faith and credit nor the taxing power of the District is pledged to the payment of the principal of or interest on the Notes.**

Morgan Stanley & Co. LLC will be exclusive dealer (the "Dealer") in connection with the offering and issuance of the Notes.

**MORGAN STANLEY**

This Offering Memorandum is intended only to furnish information in connection with the purchase of the Notes. The Offering Memorandum DOES NOT constitute a recommendation, expressed or implied, to purchase or not to purchase the Notes or any other obligations or bonds 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 Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

The Dealer has provided the following sentence for inclusion in this Offering Memorandum. The Dealer has reviewed the information in this Offering Memorandum 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 Dealer does not guarantee the accuracy or completeness of such information.

This Offering Memorandum is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Offering Memorandum 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 Offering Memorandum 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 Offering Memorandum is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE NOTES, NOR SHALL THERE BE ANY SALE OF ANY OF THE 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. The Notes have not been registered or qualified under the securities laws of any state. 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 Offering Memorandum. Any representation to the contrary is a criminal offense.

The summaries and references to the Trust Agreement, 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. The 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.

Certain statements included or incorporated by reference in this Offering Memorandum 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 "THE WATER SYSTEM – Water Supply," "WATER SYSTEM FINANCES – Ten-Year Capital Improvement Program and Financial Plan," "– Rate Adjustments" and "– Projected Operating Results and Debt Service Coverage" in this Offering Memorandum. 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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**CONTRA COSTA WATER DISTRICT  
(CONTRA COSTA COUNTY, CALIFORNIA)  
EXTENDABLE MUNICIPAL COMMERCIAL PAPER NOTES**

**INTRODUCTION**

The purpose of this Offering Memorandum, 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"), System finances, and the economy of the service area of the District in connection with the issuance of the Contra Costa Water District Extendable Municipal Commercial Paper Notes (the "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 Offering Memorandum and not otherwise defined herein shall have the same meaning as in the Trust Agreement (defined below).

The Notes are limited obligations of the District, payable solely from Available Subordinate Revenues of the Water System, as defined in the Extendable Municipal Commercial Paper Note Trust Agreement (the "Trust Agreement"), dated as of September 1, 2012, between the District and U.S. Bank National Association, as trustee (the "Trustee"). The Notes are secured by a pledge of Revenues on a parity with other Parity Subordinate Debt (as defined herein); provided, however, that out of Revenues first there shall be applied all sums required for the payment of Maintenance and Operation Costs, second payment of debt service and certain other payments on the Senior Debt, and third payment of debt service and certain other payments on Mezzanine Debt. **Payments on the Notes are subordinate to payments on the Senior Debt and Mezzanine Debt and are payable on a parity with any Parity Subordinate Debt.** See "SECURITY FOR THE NOTES – Pledge of Revenues" for further details about the payments relating to Senior Debt and Mezzanine Debt and see also "– Outstanding Debt of the District – Senior Debt" and "– Outstanding Debt of the District – Mezzanine Debt" for a discussion of the outstanding Senior Debt and Mezzanine Debt of the District. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the Notes or the interest thereon. See "SECURITY FOR THE NOTES – Pledge of Revenues" herein.

**The Notes**

The Notes are authorized pursuant to 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 (the "Law"). The Notes are payable only from Available Subordinate Revenues or the proceeds of Notes as provided in the Trust Agreement. Neither the faith and credit nor the taxing power of the District is pledged for the payment of the Notes. See "SECURITY FOR THE NOTES."

**Senior and Mezzanine Debt**

The District covenants in the Trust Agreement not to incur additional Senior Debt except in compliance with the Master Bond Resolution, and not to incur additional Mezzanine Debt except in compliance with the Mezzanine Note Trust Agreement.

Additionally, the District has covenanted in the Trust Agreement not to amend, modify or supplement the Master Bond Resolution except in compliance with the Master Bond Resolution and not to amend, modify or supplement the Mezzanine Note Trust Agreement except in compliance with the Mezzanine Note Trust Agreement. 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 Subordinate Debt then outstanding.

### **Parity Subordinate Debt**

The District can issue additional indebtedness on a parity with the Notes without notice to or the consent of any holder of the Notes.

### **Use of Proceeds of the Notes**

The proceeds of the Notes will be used (i) to finance a portion of the costs relating to the District's Los Vaqueros Reservoir Expansion (LVE) Project, Shortcut Pipeline Project and other future capital costs of the District, as more fully described herein, and (ii) for any expenses or charges incurred in connection with the foregoing purposes and to reimburse the District for expenditures for any such purposes. In addition, the Notes will be used to refinance maturing Mezzanine Debt, including all or a portion of the \$30 million in Water Revenue Notes scheduled to mature on October 1, 2012, and potentially another \$30 million in Water Revenue Notes maturing on October 1, 2013.

### **Further Information Available**

The District will provide upon request copies of its most recent annual report, official statements concerning the Water System bonds, the Master Bond Resolution, the Mezzanine Note Trust Agreement, and the Trust Agreement. In addition, pursuant to continuing disclosure undertakings of the District in connection with certain of its outstanding Senior Debt, the District is obligated to provide certain financial information and operating data relating to the District and the Water System by not later than nine months following the end of each fiscal year of the District (presently June 30), copies of which are available from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). The information and opinions herein and in such annual reports, official statements, and EMMA filings are subject to change without notice, and neither the delivery thereof nor the delivery of this Offering Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described therein or herein. Copies of any of the foregoing may be obtained from the District through the Dealer at: Morgan Stanley & Co. LLC, 1221 Avenue of the Americas, 30<sup>th</sup> Floor, New York, New York 10020.

## **THE NOTES**

### **General Description**

The Notes of the District are authorized under the Law. The Notes may be issued in an unlimited aggregate principal amount so long as the outstanding aggregate principal amount at any one time does not exceed any limitations contained in the Law. The District has determined that the aggregate principal amount of Notes to be issued initially shall not exceed \$80,000,000.

The Notes will be dated the date of their authentication and issuance, in denominations for each Series of \$100,000 and integral multiples of \$1,000 in excess thereof and, except as described below, will be issued in book-entry form through the book-entry system of The Depository Trust Company, New York, New York ("DTC") as described below. Each Note will mature on its "Original Maturity Date," which may range from one to 120 days from the date of issuance, unless its maturity is extended on the Original Maturity Date to the "Extended Maturity Date," which will be the date that is 270 days after the date of issuance of the respective Note.

Each Note will bear interest from its date of issuance to its Original Maturity Date at the rate determined at the date of issuance, payable on the Original Maturity Date unless its maturity is extended to the Extended Maturity Date. If the maturity date of a Note is extended, it will bear interest from its Original Maturity Date at the Reset Rate described below and interest will be payable on the first Business Day of the month after the Original Maturity Date, the first Business Day of each month thereafter and on the Extended Maturity Date or on the date of any earlier redemption (each, a "Reset Interest Payment Date"). Interest on a Note will not be payable on its Original Maturity Date if its maturity date has been extended. Interest is computed on the basis of a 365- or 366-day year, and the actual number of days elapsed (actual/actual basis). In no event may the rate of interest, including any Reset Rate, exceed 12% per annum.

The principal of and interest on the Notes in book-entry form will be paid at maturity to DTC and distributed by it to its participants as described below. The principal of and interest on all other Notes will be paid upon presentation and surrender at maturity at the principal corporate trust office of U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent") or by wire transfer to the Holders of the Notes at the wire transfer addresses in the continental United States to which the Holders have directed the Issuing and Paying Agent to wire payment.

#### **Extension of Maturity Date**

The District will notify the Dealer and the Issuing and Paying Agent no later than 11:00 a.m. (New York City time) on the Original Maturity Date of a Note of its intent to extend the Original Maturity Date of such Note to the Extended Maturity Date, and the Issuing and Paying Agent shall correspondingly notify DTC by 11:30 a.m. (New York City time) that the maturity date of that Note is being extended to the Extended Maturity Date. Such notice, however, is for convenience purposes only, and any such Note for which payment is not received on or before the Original Payment Date will be automatically extended to the Extended Maturity Date so long as no event of default is continuing under the Trust Agreement. Furthermore, in no event will the extension of the Original Maturity Date of a Note to the Extended Maturity Date constitute a default under the Notes or a breach of any covenant or default under the Trust Agreement.

Notes will bear interest at the Reset Rate from Original Maturity Date for such Note to the earlier of the Extended Maturity Date or the earlier redemption of such Note. Failure to pay the principal of any note on its Extended Maturity Date constitutes an Event of Default under the Trust Agreement, and such Note shall thereafter bear interest at the Maximum Rate.

#### **Reset Rates**

The Reset Rate will be a rate of interest per annum determined by the following formula; provided that such Reset Rate shall not exceed the Maximum Rate (i.e., lesser of 12% per annum or the maximum rate permitted by law):

The greater of (SIFMA Index + *E*) or *F*

As used in the above formula, the SIFMA variable will be the SIFMA Index and the *E* and *F* variables will be fixed percentage rates, expressed in basis points and yields, respectively, determined based on the Prevailing Ratings, as follows:

PREVAILING RATINGS

FITCH	MOODY'S	S&P	E VARIABLE (IN BASIS POINTS)	F VARIABLE
F1+	P-1	A-1+	300	7.00%
F1	-	A-1	400	8.00%
F2	P-2	A-2	600	9.00%
F3	P-3	A-3	800	10.00%
LOWER THAN F3 OR RATING WITHDRAWN FOR CREDIT REASONS	LOWER THAN P-3 OR RATING WITHDRAWN FOR CREDIT REASONS	LOWER THAN A-3 OR RATING WITHDRAWN FOR CREDIT REASONS	MAXIMUM RATE	MAXIMUM RATE

If the individual Prevailing Ratings would indicate different *E* or *F* variables as a result of split ratings assigned to the District, the *E* or *F* variable will be the lowest of those indicated by the Prevailing Ratings.

The District has covenanted in the Trust Agreement to at all times maintain a rating on the Notes from at least two Rating Services.

“SIFMA Index” means the SIFMA Municipal Swap Index (formerly The Bond Market Association Municipal Swap Index), a seven-day high-grade market index composed of selected tax-exempt variable-rate demand obligations meeting specific criteria. The SIFMA Index is calculated weekly and released each Wednesday afternoon. If at any time the SIFMA Index is not available, there shall be used in its place such index as the Issuing and Paying Agent, following consultation with the District and the Dealers, from time to time determines most closely approximates the SIFMA Index.

The Reset Rate applicable to a Note will be determined by the Issuing and Paying Agent based on the Prevailing Ratings and other information available as of 11:00 a.m., New York City time, on its Original Maturity Date and on each Thursday thereafter and will apply through the following Wednesday.

**Redemption of Notes**

The Notes are not subject to redemption prior to their respective Original Maturity Dates.

Any Note may be redeemed on any date after its respective Original Maturity Date and prior to its respective Extended Maturity Date at the election of the District, in whole, but not in part, with all other Outstanding Notes on which the Maturity Date is the Extended Maturity Date, at a Redemption Price equal to one hundred percent (100%) of the principal amount of Notes to be redeemed on such date plus accrued and unpaid interest to the date of redemption.

To exercise its redemption option, the District will provide not less than five (5) calendar days' notice to the Issuing and Paying Agent. The Issuing and Paying Agent will promptly notify, by certified mail, postage prepaid, return receipt requested, DTC of the Notes to be redeemed.

If, by the date of mailing of any such notice of redemption, the District shall not have deposited with the Issuing and Paying Agent moneys sufficient to redeem all the Notes called for redemption, then such notice shall state that it is subject to the availability of funds for such purpose not later than the opening of business on the redemption date and shall be of no effect unless funds sufficient for such purpose are available.

### **Use of Proceeds of the Notes**

The proceeds of the Notes will be used (i) to finance a portion of the costs relating to the District's Los Vaqueros Reservoir Expansion (LVE) Project, Shortcut Pipeline Project and other future capital costs of the District, as more fully described herein, (ii) for any expenses or charges incurred in connection with the foregoing purposes and to reimburse the District for expenditures for any such purposes. In addition, the Notes will be used to refinance maturing Mezzanine Debt, including all or a portion of the \$30 million in Water Revenue Notes scheduled to mature on October 1, 2012 and potentially another \$30 million in Water Revenue Notes maturing on October 1, 2013.

## **SECURITY FOR THE NOTES**

### **General**

The Notes are revenue obligations and are payable as to both principal and interest exclusively from the Available Subordinate Revenues of the Water System. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the Notes. The owners of the Notes cannot compel the exercise of any taxing power of the District or the forfeiture of any of its property. The Notes are not a legal or equitable pledge, charge, lien or encumbrance upon any of the District's property (including the Water System) or upon any of its income, receipts or revenues except the Revenues of the Water System to the extent of the pledge thereof contained in the Trust Agreement. **Payments on the Notes are subordinate to payments on the Senior Debt and Mezzanine 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, are pledged to the payment of the Notes and any Parity Subordinate Debt. The pledge of Revenues constitutes a charge and lien on and security interest in such assets.

The Revenues are pledged to the payment of Notes and Parity Subordinate 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 Master 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 Bond Reserve Fund under the Master Bond Resolution.

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

Fourth: There shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on all Notes and Parity Subordinate Debt, together with any reserve fund payments of Notes and Parity Subordinate 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 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 Water System or arising from the Water System, together with any receipts derived from the sale of any property pertaining to the Water System or incidental to the operation of the Water 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 Master Bond Resolution (other than any fund established pursuant to a Rebate 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 PRINCIPAL DOCUMENTS.”

“Maintenance and Operation Costs” is generally defined in the Trust Agreement to mean (i) the reasonable and necessary costs of maintaining and operating the Water 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 Water 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 PRINCIPAL DOCUMENTS – DEFINITIONS RELATING TO THE TRUST AGREEMENT” hereto), 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).

“Master Bond Resolution” means Resolution No. 87-50, adopted on October 15, 1987, by the Board under the Law, providing for the issuance of Contra Costa Water District Water Revenue 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 Master Bond Resolution.

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

### **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 Subordinate Debt Service Coverage Ratio at the end of each such Fiscal Year is not less than 1.15:1.0. 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 Subordinate 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 PRINCIPAL DOCUMENTS – DEFINITIONS RELATING TO THE TRUST AGREEMENT” for definitions of certain capitalized terms used herein.

### **Rate Stabilization Fund**

The District is required by the Master 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 Master 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 Master 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 June 1, 2012, 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.

### **Allocation of Proceeds; Payment Fund**

There shall be deposited into the Proceeds Fund the proceeds of the sale of the Notes and such amounts in the Proceeds Fund shall be applied immediately after receipt as follows and in the following order of priority:

First, there shall be transferred to the applicable account of the Payment Fund on the date such proceeds are received, the amount necessary to pay the principal of Notes that mature (either on their respective Original Maturity Dates or Extended Maturity Dates) or have been called for redemption, in each case on the date such transfer is made;

Second, if Notes have been issued for the purpose of refunding, paying or providing for the payment or discharge of any obligations of the District, there shall be transferred in accordance with the written direction of an Authorized Representative of the District, the amount necessary to refund, pay or provide for the payment and discharge of any of such obligations; and

Third, there shall be transferred to the District or as otherwise specified by the District in accordance with the written direction of an Authorized Representative of the District, the amount

specified by the District to be applied to, or to reimburse the District for funds applied to, any or all of the purposes specified by the District.

In addition to the proceeds of the sale of Notes transferred to the Payment Fund as described above, there shall be deposited in such account in the Payment Fund such other amounts as the District may direct or otherwise deposit in the Payment Fund, including all amounts provided by the District for the payment of interest on the Notes. Amounts in the Payment Fund are to be used solely to pay the principal of and interest on the Notes and shall be held by the Issuing and Paying Agent in trust for such purpose.

#### **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 Subordinate Revenues as permitted by the Master Bond Resolution and the Mezzanine Note Trust Agreement (defined below).

#### **Issuance of Senior Debt and Mezzanine Debt; Amendment of Master Bond Resolution and Mezzanine Note Trust Agreement**

The District covenants in the Trust Agreement not to incur additional Senior Debt except in compliance with the Master Bond Resolution, and not to incur additional Mezzanine Debt except in compliance with the Mezzanine Note Trust Agreement.

Additionally, the District has covenanted in the Trust Agreement not to amend, modify or supplement the Master Bond Resolution except in compliance with the Master Bond Resolution and not to amend, modify or supplement the Mezzanine Note Trust Agreement except in compliance with the Mezzanine Note Trust Agreement. 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 Subordinate Debt then outstanding.

#### **Provisions from Master Bond Resolution and Mezzanine Note Trust Agreement Relating to Limitations on Issuance of Obligations Payable from Net Revenues**

For a discussion of certain provisions of the Master Bond Resolution and Mezzanine Note Trust Agreement relating to limitations on issuance of obligations payable from Net Revenues see APPENDIX B – “SUMMARY OF PRINCIPAL DOCUMENTS.”

#### **Outstanding Debt of the District**

As described herein, the Notes and other Parity Subordinate Debt are subordinate to and payable from Net Revenues after the payment of the principal of and interest on the Senior Debt and the Mezzanine Debt. See “SECURITY FOR THE NOTES – Pledge of Revenues.”

**Parity Subordinate Debt.** There is no Parity Subordinate Debt other than the Notes outstanding.

**Mezzanine Debt.** Pursuant to a Note Trust Agreement, dated as of June 1, 2010, as supplemented (the “Mezzanine Note Trust Agreement”), the District issued a series of its promissory notes (the “Series A Notes”) which are currently outstanding in the principal amount of \$97,630,000. On July 6, 2011 the District issued an additional series of promissory notes (the “Series B Notes”) pursuant to

the Mezzanine Note Trust Agreement which are currently outstanding in the principal amount of \$59,820,000 to finance or refinance certain capital projects of the District. The Series A Notes and Series B Notes constitute Mezzanine Debt. The Mezzanine Debt was used to finance certain capital improvements of the District and to refund certain of the District's prior commercial paper notes.

**Senior Debt.** As of September 1, 2012, the District had outstanding Senior Debt in the aggregate principal amount of \$422,525,842 consisting of the following series and amounts:

	<b>Principal Amount Outstanding as of September 1, 2012</b>
<u>District – Water Revenue Bonds</u>	
Senior Series E Bonds	\$ 1,965,000
Senior Series L Bonds	3,685,000
Senior Series M Bonds	69,305,000
Senior Series N Bonds	114,555,000
Senior Series O Bonds	60,035,000
Senior Series P Bonds	46,705,000
Senior Series Q Bonds	87,115,000
<b>Total</b>	<b>\$383,365,000</b>
<u>Authority</u>	
2002 Series A Bonds	\$ 2,550,000
2012 Series A Bonds	22,940,000
<b>Total</b>	<b>\$ 25,490,000</b>
<u>District – State Revolving Fund Loans</u>	
SRF Loan 2002	\$ 8,509,186
SRF Loan 2003	1,264,217
SRF Loan 2004	3,897,439
<b>Total SRF Loans</b>	<b>\$ 13,670,842</b>
 <b>Total Senior Debt</b>	 <b>\$ 422,525,842</b>

As shown in the table above, there are outstanding \$22,940,000 principal amount of the Contra Costa Water Authority's (the "Authority") Water Treatment Revenue Refunding Bonds, 2012 Series A, payable from rental payments received by the Authority from the District pursuant to a Facility Lease, which rental payments are payable by the District from Net Revenues and secured on a parity with the outstanding Water Revenue Bonds. The outstanding \$2,550,000 of the Authority's Water Treatment Revenue Refunding Bonds, 2002 Series A, mature on October 1, 2012.

In June 2002, the District also borrowed \$15,137,776 (of which \$8,509,186 is outstanding as of September 1, 2012) from the State of California's (the "State") Safe Drinking Water Act State Revolving Fund ("SRF") loan program. This 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 \$1,264,217 is outstanding as of September 1, 2012) from the SRF loan program. This 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 \$3,897,439 is outstanding as of September 1, 2012) from the SRF loan program. This loan covers the District's investment in improvements to the Sedimentation Basins at its 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 is payable by the District from Net Revenues and constitutes Senior Parity Debt.

All of the District's Water Revenue Bonds and Senior Parity Debt bear interest at fixed rates. The District has not previously entered into any interest rate swaps or other derivatives and does not currently intend to enter into any interest rate swaps or other derivatives with respect to its indebtedness.

## **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, California (the "County"). The District purchases and distributes water provided primarily by the United States Bureau of Reclamation ("Reclamation") 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 newly expanded capacity of 160,000 acre-feet. The District operates three water treatment plants, Randall-Bold and Contra Costa Water District/City of Brentwood in Oakley, and Ralph D. Bollman in Concord. The District delivers safe, high-quality drinking water to approximately 500,000 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 200,000 people in the cities of Clayton, Clyde, Concord, Pacheco, Port Costa and parts of Martinez, Pleasant Hill, and Walnut Creek. Treated water is also sold on a wholesale basis 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 approximately 300,000 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 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 when the District was formed in 1936).

### **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 323 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 Clayton and parts of Concord, Walnut Creek, and Pleasant Hill. He is the current Board President and has served in that capacity for more than 17 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. He has served as Board Vice President since 2008. Mr. Wandry represents parts of Antioch, Oakley, Brentwood, and the Los Vaqueros Reservoir watershed. 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 (East Bay) 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 and represents parts of Pittsburg, Antioch, and 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 and 2010. Mr. Burgh represents Pacheco, Port Costa, and parts of Pleasant Hill, Concord, 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 26-year resident of Concord, he works as a volunteer with the Clayton K9 Coalition and is a member of the 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. She represents parts of Martinez, Pleasant Hill, Concord, Clyde, Bay Point, and Pittsburg. She was re-elected 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, League of Women Voters, Pleasant Hill/Walnut Creek Mothers Club, Executive Women's Golf Association, El Sobrante Golf Club, and Concord Bocce Federation.

The senior District management is comprised of:

**Jerry D. Brown, PE, *General Manager***

Jerry Brown was appointed General Manager of the District in September 2010. He has 26 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.

Mr. Brown has been with the District since 2001, beginning as Director of Planning and then becoming the Assistant General Manager of Planning and Operations & Maintenance in 2008. In these capacities, he lead the operations and maintenance of water system facilities serving more than 500,000 customers while overseeing 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 Los Vaqueros Reservoir to a capacity of 160,000 acre-feet.

Mr. Brown is actively involved with the Climate Change Committee with the Association of Metropolitan Water Agencies. He is a dedicated member of the American Water Works Association and serves as a project advisor on various water research projects including the Recycled Water Standards Committee. He is an active member of the American Society of Civil Engineers where he was past chair of the Committee on Engineering Management and Business Practices. He is an Executive Committee Member of CalDesal, and is also engaged in work with the Water Research Foundation as a member of the Project Advisory Committee and as a past co-chair on the Regulation/Permitting Workgroup of California Water Recycling Task Force. Mr. Brown has authored several papers and articles focused on water and wastewater management, and engineering.

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.

**Gregory Gartrell, *Assistant General Manager – Planning/Watershed and Lands***

Dr. Gartrell has been Assistant General Manager – Planning/Watershed and Lands 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 2001. Dr. Gartrell manages the Planning, Water Resources, Delta Projects, and Watershed and Lands 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 Ten-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 Bachelor of Science degree with honors in 1973 and received his Ph.D. in Environmental Engineering Science in 1979, both from the California Institute of Technology.

**Stephen J. Welch, Assistant General Manager – Engineering**

Mr. Welch has been Assistant General Manager – Engineering, overseeing Capital Projects/Operations and Maintenance (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, as well as District operations and maintenance. He manages a staff of over 220 people among three departments.

**Brice Bledsoe, Director of Finance and Human Resources**

Mr. Bledsoe has been with the District since November 1999 and was promoted, effective February 27, 2012 to Director of Finance and Human Resources. Subsequent to the retirement of Mr. Kurt G. Ladensack as the District's Assistant General Manager for Administrative functions, Mr. Bledsoe assumed responsibility for the District's Human Resource Division, as well as management of the District's Retirement Trust and Other Post Employment Benefit (OPEB) Contribution Plan. Mr. Bledsoe had served as the District's Director of Finance since March 2007, after having previously 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 Reclamation 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, 2014. 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 8, 2015. 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, which include language specifying that an agreement has been made to resolve any potential disputes via mediation.

## **Insurance**

The District maintains the following liability insurance coverage:

Primary Excess Liability Policy: Starr Indemnity & Liability Company. Limit of \$10 million 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 of \$20 million, in excess of \$10 million (primary policy limit).

Affiliated FM Insurance Company provides property insurance for \$150 million any one occurrence, subject to a \$100,000 deductible. Coverage includes all risks (subject to policy exclusions) including flood, boiler and machinery; \$5 million business interruption; \$2 million Extra Expense. Earth movement coverage of \$1.5 million is provided only for damage to 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 Environmental Protection Agency ("EPA") and has implemented all recommendations contained in the assessment.

The District also maintains a marine policy (watercraft property and liability insurance), with a \$1 million limit, subject to a \$5,000 deductible, and a policy covering crime (employee dishonesty, computer fraud, theft, disappearance, destruction, forgery or alteration), with a \$1 million limit, subject to a maximum deductible.

In addition, the District maintains Workers' Compensation and Employer's Liability coverage, at the statutory limits, with employer's liability limited to \$5 million with no deductible.

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

## **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, 2012, there were 301 active members in the plan. Retired members and beneficiaries currently receiving benefits number 244. Inactive members total 96 members, for total plan membership as of June 30, 2012 of 645 members. As of June 30, 2011, the date of the most recent actuarial analysis, there was a \$17.5 million unfunded pension benefit obligation, and the funded ratio was 85.7%. From FY 2010 to FY 2011, the District's funded ratio decreased from 89.8% to 85.7%. The District believes this is a short-term impact caused by market losses experienced during depressed economic conditions in 2008 and 2009 and the impact of five-year smoothing on the actuarial value of assets. Projected annual pension cost for FY 2013 is \$3.8 million and is included in operation and maintenance expenses.

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, 2012 there were 196 retirees or their beneficiaries receiving these health care benefits. These benefits are provided through payments to an insurance company. The actual benefits paid to beneficiaries totaled

\$2.4 million in FY 2012 and is included in operation and maintenance expenses. 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 FY 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, 2012, the District has \$15.1 million in the OPEB Trust, which represents a funded ratio of 21%. The District has up to 30 years to fully fund its liabilities under GASB 45. The projected cost for FY 2013 is \$2.9 million.

### **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 2 to the financial statements included in APPENDIX A. As of June 30, 2012, the District’s investments include approximately 25% 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 or other derivatives and does not currently intend to enter into any interest rate swaps or other derivatives with respect to its indebtedness.

## **THE WATER SYSTEM**

### **Water Supply**

The District’s current water deliveries are approximately 100,000 acre-feet annually to service the District’s customer base. This level of water use reflects lower than normal deliveries due to the recent economic downturn and prior years’ conservation efforts. The District’s water sales are 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 contemplates the need to serve the total demand in its service area in the event these alternative water supplies are not available to its wholesale customers 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. The water supply that the District is authorized to divert under its current biological operating permit from the California Department of Fish and Game is 222,000 acre-feet annually, which is more than sufficient to meet both its current water demand and its projected water demand in 2020 of 200,000 acre-feet.

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 Reclamation 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 Rock Slough on the south of the San Joaquin River, Old River near Discovery Bay, Middle River near Victoria Island, or the Freeport Intake on the Sacramento River. Water may also be diverted at Mallard Slough under District water rights depending on water quality and availability. 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 Reclamation Contract provides for water deliveries through the year 2045. The Reclamation 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 Reclamation Contract provides for water service. A separate contract provision for District operation and maintenance of the Contra Costa Unit of the CVP was also included in the Reclamation Contract. The Contra Costa Unit consists of the Contra Costa Canal system, Contra Loma Reservoir, the so-called "New Facilities" (which include the Shortcut 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 Reclamation, at Reclamation's cost plus interest. The District completed repayment of the capital 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 the Shortcut Pipeline component, with costs estimated at \$11.2 million. The District currently levies a tax on its service area to pay costs that it is obligated to bear under the District's CVP water service contract with Reclamation. The proceeds of this tax are not pledged or available to pay debt service.

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 Reclamation Contract is currently \$16.94 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 \$18.78 per acre-foot, for municipal and industrial water and irrigation water delivered under the Reclamation Contract. The District has been making payments to the Restoration Fund since the 1994 amended Reclamation Contract went into effect. For FY 2011, \$934,136 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 quantity of water that can be delivered to the District by Reclamation under the Reclamation Contract is 195,000 acre-feet per year. The shortage provision under the Reclamation Contract establishes a firm water delivery "floor" in the event of shortages. No reduction in the water available to the District can occur unless Reclamation has declared that a shortage exists and has imposed significant reductions in deliveries to irrigation users. If Reclamation is unable to make full deliveries due to water shortage (i.e., drought), the District's supply shall be not less than 75% of historical use, unless allocations to irrigation customers fall below 25%. In the event that Reclamation determines that a water shortage emergency exists and that the shortage is so severe that CVP agricultural water users' allocations are reduced below 25%, the District's supply can be reduced below 75% of historical use. In such event, the delivery of CVP water will not be less than 65% of historical use, which is the quantity estimated to be sufficient to satisfy public health and safety requirements as set forth in the District's current water shortage contingency plan.

Reclamation 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 Reclamation's water supply years 2008 and 2009, under the shortage formulas specific to the District's contract, the District received a sufficient supply in both years. While Reclamation's allocation is based upon contractual entitlements and water supply circumstances, the deliveries reflect actual usage and needs of CVP water.

**DISTRICT'S ANNUAL RECLAMATION WATER  
ALLOCATIONS AND ACTUAL DELIVERIES**

<b>Bureau Water Supply Year (Mar-Feb)</b>	<b>Acre-Feet Allocated</b>	<b>Acre-Feet Delivered</b>
2005	195,000	83,529
2006	195,000	89,767
2007	195,000	93,363
2008	127,500	92,107
2009	110,500	92,867
2010*	195,000	59,390
2011 <sup>†</sup>	195,000	82,654
2012 <sup>†</sup>	195,000	98,000 (Projected)

\* Deliveries in 2010 were lower due to drawdown of the Los Vaqueros Reservoir to support construction of an expanded facility.

<sup>†</sup> Increased deliveries in 2011 and 2012 reflect a rebound in water sales.

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.

In its Decision 1629 (June 2, 1994), the State Water Resources Control Board ("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 Calendar Year 2011, the District received 6,000 acre feet from ECCID.

Construction of the District's Los Vaqueros Reservoir Expansion (LVE) Project began in 2011, with a formal dedication held in July 2012 to acknowledge completion of a vast majority of the work. The LVE Project expands the capacity of the Los Vaqueros Reservoir from 100,000 acre-feet to 160,000 acre-feet, providing additional water supply reliability and water quality benefits.

In total, the District has 329,830 acre-feet of water supplies through its contract with Reclamation, water rights, and long-term agreements as shown in the following table:

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

\* Biological operating permits issued by the California Department of Fish and Game currently limit annual diversions to a maximum of 222,000 acre feet.

Note that the combined annual deliveries to customers under the Reclamation 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.

After two years of curtailments of the District's allocation under its CVP Contract in 2009 and 2010 due to a statewide drought in California, Reclamation increased the District's allocation to 100 percent in 2011 and Reclamation has announced that the District's allocation will again be 100 percent in 2012. Although the drought is over, California is still experiencing the impacts of the nationwide economic downturn, and actual water demands and deliveries remain lower than historical levels.

The following table shows annual water sales from 2006 through 2012:

#### **DISTRICT'S ANNUAL WATER SALES**

<b>Calendar Year</b>	<b>Annual Water Sales in Acre-Feet</b>
2006	118,430
2007	121,670
2008	113,091
2009	103,758
2010	93,011
2011	94,123
2012	98,500 (projected)

The District has re-evaluated the pace of economic recovery and rebound in water sales in its current Ten-Year Financial Plan, and is assuming a more pronounced long-term effect on water sales growth than assumed in the prior Ten-Year Financial Plan. The current Ten-Year Financial Plan assumes that water sales will not return to normal levels until 2017. The associated revenue impacts are projected to be offset by acquisition of grants, containment of costs, and expansion of District services to a level sufficient to fund all planned capital projects and all operating and debt service expenditures without impacts to service levels, consistent with the Board's rate and reserve policies. Expansion of services helps to offset the District's fixed administrative costs by spreading them over a larger service base.

#### **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 Contra Costa Water District/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 Contra Costa Canal lift the water to the elevation of 124 feet after it is diverted. The Contra Costa Canal is 48 miles long and flows east to west throughout the District, terminating in the Martinez Reservoir. The Contra Costa 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. 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. 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 Contra Costa Canal to meet the needs of surrounding cities through approximately 2020. In addition, the MPP is used to deliver treated water to the City of Antioch and to Golden State Water Company for distribution to the community of Bay Point. 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 Los Vaqueros Project. Los Vaqueros facilities include a dam, a reservoir, pipelines, pumping stations, Delta intakes at Old River and Middle River (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 overall project. 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 and Middle River Intakes can be pumped directly to the Contra Costa Canal System or to the Los Vaqueros Reservoir, which through expansion has a storage capacity of up to 160,000 acre-feet.

The District also owns and operates a 12 million gallon per day facility to treat water for a major customer, the City of Brentwood ("Brentwood"), constructed in 2008 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 plant has stand-by power generators intended to insure that plant operations will not be disrupted by potential power failures.

The Randall-Bold Water Treatment Plant commenced operations in July 1992. Untreated water is withdrawn from the Contra Costa 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 the District's treated water service area and to the City of Antioch and Golden State Water Company via the MPP. The Randall-Bold Plant was re-rated in 2010 to increase its capacity from 40 million to 50 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 the City of Brentwood.

The District owns and operates the Bollman Water Treatment Plant. The Bollman Plant has a nominal capacity of 75 mgd to serve customers within the District's treated water service area. 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 distribution system reservoirs. The treated water is distributed to customers through 778 miles of distribution system pipelines.

### **Seismic Considerations**

An objective of planning, designing, and operating 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 are located within the San Francisco Bay Area. In recognition of this potential hazard, the District has identified faults within the service area that could impact District facilities. To minimize the effects of earthquakes, the District's water treatment and conveyance facilities are designed in accordance with Uniform Building Code and American Water Works Association recommendations as a minimum standard, consistent with industry practice. Some critical facilities are designed with additional safety factors using site-specific earthquake data from the United States Geological Survey. The District's largest facility, the Los Vaqueros Dam, has been designed using methods appropriate for potential seismic events in the region. The Los Vaqueros Dam design and operation is subject to scheduled reviews by the State Division of Safety of Dams and is consistently approved by the State.

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. The District has planned, designed, constructed, and successfully tested backup conveyance facilities for pipelines located along fault zones for temporary use after an earthquake should the conveyance facilities be impacted. 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 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. The District has completed seismic retrofits of major water facilities and is in the process of retrofitting remaining District facilities. The District also maintains an emergency operations center to coordinate operations after an emergency. 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 Reclamation 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 in 1995. The mission of the CALFED Bay-Delta Program was to develop and implement a long-term comprehensive plan intended to 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 160,000 acre-feet up to 500,000 acre-feet. The first phase of enlargement to 160,000 acre-feet from 100,000 acre-feet is

substantially complete. A second phase of enlargement would provide water quality and reliability benefits for the Bay Area as well as Delta environmental enhancement, with other agencies contributing as financial partners. Reclamation 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 Reclamation and DWR responsible for implementing the feasibility studies and environmental review. The second phase to expand the reservoir beyond 160,000 acre-feet, if pursued, is expected to be fully funded by Federal, State or other local funding, and not by the District.

In November 2009, California Senate Bill X7-1 established the Delta Stewardship Council, which assumed 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. That effort is resulting in a plan that includes emergency planning; Delta levee improvements to protect water, transportation, agricultural and other infrastructure in the Delta; ecosystem enhancements in the Delta and Suisun Marsh; a reduction in conflicts between water diversions and fishery flow needs; potentially new water conveyance for the Delta; an economic sustainability plan for the Delta and a plan for dealing with climate and sea level changes. The final plan is scheduled to be adopted in 2012.

### **Water Quality and Water Quality Regulation**

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 added the ability for the District to divert higher quality untreated water from the Old River and Middle River Intakes. These facilities 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 recent expansion of the Los Vaqueros Reservoir to 160,000 acre-feet has improved 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 developed by the California Department of Public Health (“CDPH”). The District 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 triennial PHG reports in 2004, 2007 and 2010. The SDWA requires all public water systems to prepare an annual CCR that provides in plain language an explanation of water quality and relevant health information to all 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 first 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 CDPH Source Permitting for the Middle River Intake added the requirement for 24 months of cryptosporidium monitoring at both the Middle River and Old River Intakes, which was initiated in November 2010.

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 a monitoring plan 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 the monitoring plan exemption in March 2008.

The EPA has proposed a revised Total Coliform Rule, which it is expected to promulgate no later than 2012. The District actively participated in national committees focused on developing the rule revisions. The revised rule established a new maximum contaminant level for E. Coli bacteria. The District is preparing for full compliance with the revised rule due to its 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 customers' 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 plants 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. The District has received source permitting for the Middle River Intake through the CDPH and a Source Water Assessment was completed in January of 2012 as required for permit issuance. In addition, the District performs a detailed Watershed Sanitary Survey every five years.

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 four-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 or projects that provide similar benefits 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. The implementation schedule is updated annually as part of the Ten-Year Capital Improvement Program and Financial Plan. 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**

### **Ten-Year Capital Improvement Program and Financial Plan**

The 2013-2022 Capital Improvement Program and Ten-Year Financial Plan ("2013 CIP") includes 48 projects with a total estimated cost of approximately \$477.6 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.

**DISTRICT'S TEN-YEAR CAPITAL IMPROVEMENT PROGRAM**

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	TOTAL
District Funded/Funded by Others	\$27.5	\$29.9	\$20.2	\$15.5	\$14.8	\$13.9	\$13.7	\$19.3	\$35.5	\$28.5	\$218.8
(Priority Level 1&2)											
Debt Funded <sup>(1)</sup>	9.7	14.0	9.0	2.6	2.5	0.0	0.0	0.0	0.0	0.8	38.6
<b>Total Funded</b>	<b>37.2</b>	<b>43.9</b>	<b>29.2</b>	<b>18.1</b>	<b>17.3</b>	<b>13.9</b>	<b>13.7</b>	<b>19.3</b>	<b>35.5</b>	<b>59.3</b>	<b>287.4</b>
Priority Level 3	0.0	0.0	3.4	9.9	10.0	47.7	49.4	32.1	17.4	20.2	190.2
<b>Total Capital Projects</b>	<b>\$37.2</b>	<b>\$43.9</b>	<b>\$32.6</b>	<b>\$28.0</b>	<b>\$27.3</b>	<b>\$61.6</b>	<b>\$63.1</b>	<b>\$51.4</b>	<b>\$52.9</b>	<b>\$79.5</b>	<b>\$477.6</b>

<sup>(1)</sup> The District expects to issue Notes or additional Mezzanine Debt to finance these projects through approximately Fiscal Year 2017, at which time the District expects to issue Senior Debt to refinance the outstanding Mezzanine Debt. *Note that these are projections and actual funding and rate increases may differ materially from these projections. Numbers may not add due to independent rounding.*

The 2013 CIP, adopted in February 2012, assumes that priority level 1 and 2 projects totaling \$287.4 million are funded. This funded level is \$39.8 million lower than the 2012 CIP funded level (\$327.2 million). The primary driver for the reduction in funded projects was completion of the Rock Slough Fish Screen and substantial completion of the Los Vaqueros Reservoir Expansion Project (LVE). The Rock Slough Fish Screen was constructed in partnership with the Bureau of Reclamation to protect the environment and ensure the District's reliable supply of water by preventing Delta fish from entering the Canal. All four of the District's Delta intakes are now screened. Although the District has substantially completed the Phase 1 expansion of the Los Vaqueros Reservoir (from 100,000 to 160,000 acre-feet), Phase 2 expansion studies will continue.

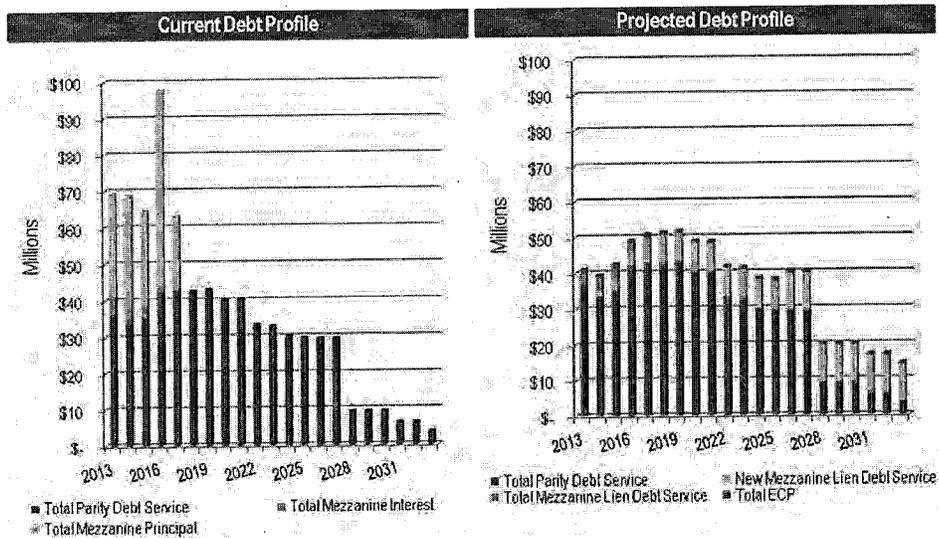
The pace of economic recovery and rebound in water sales and new connections has been reevaluated in this CIP based on current conditions. The economic downturn and slow housing market, as well as the rebound from the FY 2010 drought program is expected to have a longer-term effect on water sales growth and new connections. It is now assumed in the Ten-Year Financial Plan that water sales will not return to normal levels until 2017, which is three years beyond what was assumed in the prior year's CIP. The number of new connections is assumed to remain low for several years.

The current Ten-Year Financial Plan also reflects reduced projected water sales beginning in 2017 to comply with the California State Senate Bill (SB) X7-7 (20% by 2020), which was enacted in November 2009. This legislation sets an overall requirement of increasing water use efficiency and reducing per capita urban water use, including wholesale customers, by 20% as of December 31, 2020. Additional conservation efforts beginning in 2017 are incorporated in the current Ten Year Financial Plan

and will result in a 7% reduction to annual retail and wholesale water sales by 2020. This 7% reduction in addition to the District's past and planned investments in water use efficiency will achieve the required 20% by 2020 requirements. These events will have an \$80 million negative financial impact over the course of the ten-year planning horizon, but acquisition of grants, containment of costs, and expansion of District services to a larger service base in order to offset fixed administrative costs are projected to supplement net revenue to a level sufficient to fund all planned capital projects and all operating and debt service expenditures without impacts to service levels, consistent with the Board's rate and reserve policies.

The following table illustrates how Extendable Municipal Commercial Paper will be used to gradually roll out the Mezzanine Notes and how the District's projected debt profile has sufficient back end capacity to accommodate this plan:

### COMPARISON TO PROJECTED DEBT PROFILE



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 ten-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 2012 were 3.5% for both untreated and treated water.

## HISTORICAL AND PROJECTED RATE INCREASES

	<u>Historical</u>					<u>Projected – 2013 Financial Plan</u>					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Untreated Water	3.00%	4.30%	2.75%	2.90%	3.50%	3.50%	3.50%	3.75%	3.75%	3.75%	3.75%
Treated Water	2.80%	4.30%	2.75%	2.90%	3.50%	3.50%	3.50%	3.50%	3.50%	3.75%	3.75%
Financial Plan	2.50%	3.00%	3.00%	3.00%	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, debt service and, together with the adopted budget, provides the basis for the ten-year rate projections.

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 82,654 acre feet in FY 2011. Total District operating revenue from water sales was \$92.8 million in FY 2011. Of the total, untreated water customer sales accounted for approximately \$31.1 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)
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
2010	31,922	33.0	60,964	63.0	96,750
2011	31,116	33.5	57,065	61.5	92,803

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

#### Untreated Water

While the untreated-water customers account for approximately 68% of the water sales by volume in FY 2011, 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 45% of untreated water revenue. Industrial customers account for approximately 48% 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 7%) 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 FY 2011.

**LARGEST UNTREATED WATER CUSTOMERS, WATER CONSUMPTION  
AND WATER SALES REVENUES  
(Fiscal Year 2011)**

<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	8,822	17%	\$ 5,068	16%
City of Pittsburg	6,958	13%	\$ 4,195	13%
Diablo Water District	4,447	8%	\$ 2,382	8%
City of Martinez	4,246	8%	\$ 2,377	8%
City of Brentwood	938	2%	\$ 762	2%
<b>Subtotal</b>	<b>25,411</b>	<b>48%</b>	<b>\$ 14,784</b>	<b>47%</b>
<u>Major Industrial Customers:</u>				
Shell Refinery	12,092	23%	\$ 6,779	22%
Tesoro Refinery	8,923	17%	\$ 5,114	16%
USS/POSCO Industries	3,610	7%	\$ 2,074	7%
<b>Subtotal</b>	<b>24,625</b>	<b>47%</b>	<b>\$ 13,967</b>	<b>45%</b>
All Other Customers	2,765	5%	\$ 2,365	8%
<b>Total</b>	<b>52,801</b>	<b>100%</b>	<b>\$ 31,116</b>	<b>100%</b>

**Treated Water**

The treated water customers generated water sales revenues of \$57.1 million in FY 2011. 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 FY 2011.

**TREATED WATER**  
**Active Accounts, Water Consumption by Type of Customer and Water Sales Revenues**  
**(Fiscal Year 2011)**

	ACTIVE ACCOUNTS		METERED CONSUMPTION		REVENUES	
	Number	Percent	Acre-feet	Percent	\$ in 000's	% of Treated Water Sales Revenues
Residential	56,084	92%	23,569	79%	44,448	78%
Commercial & Industrial	3,151	5%	4,760	16%	6,590	14%
Public Facilities	230	0%	889	3%	2,761	5%
Municipal & Other	1,540	3%	635	2%	1,644	3%
<b>Total</b>	<b>61,005</b>	<b>100%</b>	<b>29,853</b>	<b>100%</b>	<b>57,065</b>	<b>100%</b>

The following table presents a five-year record through Fiscal Year 2011 of total and average daily gross consumption in million gallons per day 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)
2007	42,840	117
2008	37,527	103
2009	37,317	102
2010	30,122	83
2011	29,979	82

**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. This tax has been levied annually since prior to voter approval of Proposition 13 in 1978. The revenues received from this tax are used to pay Federal obligations under the District's CVP water service contract with Reclamation.

Contributions in aid of construction, which includes connection fees and other developer contributions, composed approximately 4.0% of the District's total revenues in Fiscal Year 2011. These contributions are used to pay for the capital cost associated with providing for growth.

**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. 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
2007	\$ 142,069	0.1
2008	\$ 221,525	0.2
2009	\$ 277,364	0.3
2010	\$ 330,051	0.3
2011	\$ 220,520	0.3

**TREATED WATER RATES & CHARGES**

Quantity Charge (per hundred cubic feet)	\$3.0046
Service and Demand Charge	The daily charge for water service is assessed by meter size. It ranges from \$0.5569 for a 5/8" meter to \$118.7335 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 firefighting 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)	\$1.7544
Service Charge	\$171.76
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 \$2.1802 per gallon per minute.

## CHARGES FOR NEW SERVICE

	Facilities Reserve Charges		Meter Charge
	Treated Water <sup>(1)</sup>	Untreated Water <sup>(2)</sup>	(Treated Water)
5/8" meter	\$ 18,156	\$ 4,873	\$68.84
3/4" meter	27,235	7,310	129.15
1" meter	45,391	12,183	170.31
1-1/2" meter	90,782	24,366	Cost <sup>(3)</sup>
2" meter	145,251	38,985	Cost <sup>(3)</sup>
Larger and dual meters	Based on size	Based on size	Cost <sup>(3)</sup>

<sup>(1)</sup> Including untreated water component.

<sup>(2)</sup> Amount in for Service Area A used as an example.

<sup>(3)</sup> 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 \$746.76. 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 2011. 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)	\$1,069.29
City of Martinez	899.45
City of Pittsburg	746.79
Contra Costa Water District	746.76
Marin Municipal Water District	725.03
East Bay Municipal Utility District	701.38
City of Brentwood	592.98
Diablo Water District	565.57
City of Antioch	534.05

### Rate Adjustments

The District develops rates that include funding for mandatory and necessary (priority level 1 and 2) 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 2013 CIP includes \$287.4 million of mandatory and necessary projects. Of this amount, \$38.6 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 – Ten-Year Capital Improvement Program and Financial Plan" above for further information about the 2013 CIP.

### Outstanding Indebtedness

See "– Outstanding Debt of the District" under "SECURITY FOR THE 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, 2011 (the "Audited Financial Statement"), is included as Appendix A. The Fiscal Year 2011 Audited Financial Statement was reported on by Macias Gini and O'Connell LLP, independent auditors (the "Auditors"). (The audit of the Fiscal Year 2012 Financial Statements has not yet been finalized.) The letter of the Auditors concludes that the Audited Fiscal Year 2011 Financial Statement presents fairly in all material respects, the respective financial position of the business-type activities, each major fund, and the fiduciary funds of the District at June 30, 2011 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, 2008 through June 30, 2012. The following financial results have been presented in conformity with requirements of the Trust Agreement.

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

	<u>Fiscal Year ended June 30</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>(1)</sup></u>
<b>OPERATING REVENUES:</b>					
Untreated Water Sales	\$37.7	\$35.4	\$31.9	\$31.1	\$33.3
Treated Water Sales	64.0	61.5	61.0	57.1	62.1
Reimbursement of Operating Expenses	1.8	4.2	3.7	4.5	5.6
Other Revenues (Misc. Service Charges)	0.1	0.2	0.2	0.1	0.1
<b>Total Operating Revenues</b>	<b>\$103.6</b>	<b>\$101.3</b>	<b>\$96.8</b>	<b>\$92.8</b>	<b>\$101.1</b>
<b>NON-OPERATING REVENUES:</b>					
Contributions in Aid of Construction <sup>(2)</sup>	\$12.4	\$58.6	\$56.6	\$6.1	\$7.7
Grants, Rents & Other Revenues <sup>(3)</sup>	7.4	14.5	20.6	36.5	8.6
Interest Income	11.7	9.7	6.3	4.4	3.4
Property Taxes / Land Levy Taxes <sup>(4)</sup>	N/A	N/A	N/A	N/A	N/A
<b>Total Non-Operating Revenues</b>	<b>\$31.5</b>	<b>\$82.8</b>	<b>\$33.5</b>	<b>\$47.0</b>	<b>\$19.7</b>
Gross Revenues	\$135.1	\$184.1	\$130.3	\$139.8	\$120.8
<b>OPERATING AND MAINTENANCE EXPENSES:</b>					
Source of Supply	\$7.4	\$6.7	\$5.7	\$5.4	\$6.4
Water Treatment	7.7	8.3	7.7	7.8	7.9
Pumping	4.6	4.6	4.2	4.5	8.0
Transmission and Distribution	1.6	1.2	1.0	1.1	1.0
Other Operation Expenses	39.4	43.4	41.7	41.0	44.3
Operations (before depreciation and debt service)	\$60.7	\$64.2	\$60.3	\$59.8	\$67.6
Less: Expenses Paid with Property Taxes <sup>(4)</sup>	(2.5)	(2.4)	(1.9)	(2.1)	(3.6)
<b>Total Expenses</b>	<b>\$58.2</b>	<b>\$61.8</b>	<b>\$58.4</b>	<b>\$57.7</b>	<b>\$64.0</b>
Net Revenues Available for Debt Service	\$76.9	\$122.3	\$71.9	\$82.1	\$56.8
Total Senior Debt Service	42.8	42.2	43.8	44.0	42.6
Debt Service Coverage Ratio – Senior Debt Only	<b>1.80x</b>	<b>2.89x</b>	<b>1.64x</b>	<b>1.86x</b>	<b>1.33x</b>
Mezzanine Debt Service	\$0.0	\$0.0	\$0.0	\$0.3	\$2.9
Total Senior/Mezzanine Debt Service	42.8	42.2	43.8	44.3	45.5
Annual Mezzanine Debt Service Coverage Ratio	<b>1.80x</b>	<b>2.89x</b>	<b>1.64x</b>	<b>1.85x</b>	<b>1.25x</b>

(1) FY 2012 data is based on unaudited results as of June 30, 2012.

(2) Increase in contributions in Aid of Construction in FY 2009 was due to the one-time reimbursement from the City of Brentwood for the District's construction of the CCWD/City of Brentwood Water Treatment Plant.

(3) Reflects receipt of \$26 million in grant funding in FY 2011 from the State through Proposition 84 for repayment of costs related to the construction of the District's Middle River Intake.

(4) 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 Year ended June 30, 2011 and comparable unaudited financial information for the Fiscal Year ended June 30, 2012. 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	
	2011	2012 <sup>(1)</sup>
<b>REVENUES:</b>		
Untreated Water Sales	\$31.1	\$33.3
Treated Water Sales	57.1	62.1
Reimbursement of Operation Expenses	4.5	5.6
Other Operating Revenues	0.1	0.1
Total Operating Revenues	\$92.8	\$101.1
Non-Operating Revenues:		
Contributions in Aid of Construction	\$6.1	\$7.7
Grants, Rents & Other Revenues	35.4	14.7
Investment Income	4.4	3.4
Investment FMV Adjustment	-0.1	-0.1
Property Taxes/Land Levy	2.9	3.6
Total Non-Operating Revenue	\$48.6	\$29.3
<b>Total Revenues</b>	\$141.4	\$130.4
<b>EXPENSES:</b>		
Source of Supply	\$5.4	\$6.4
Water Treatment	7.8	7.9
Pumping	4.5	8.0
Transmission and Distribution	1.1	1.0
Maintenance	16.8	16.6
Public Information & Customer Service	3.8	3.9
Administration & General	20.4	18.7
Depreciation and Amortization	27.1	29.1
Total Operating Expenses	\$87.0	\$91.6
Non Operating Expenses:		
Interest Expense	\$24.0	\$20.8
Total Non-Operating Expenses	\$24.0	\$20.8
<b>Total Expenses</b>	\$111.0	\$112.4
Changes in Net Assets	\$30.4	\$18.0
Net Assets, Beginning of Year	\$833.0	\$863.4
Net Assets, End of Year	\$863.4	\$881.4

(1) Unaudited results as of June 30, 2012.

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

## **District Management's Discussion on Financial Operations**

The District implemented a Conservation Program in May 2010 to encourage continued efficient and reasonable water use, while striving for the elimination of water waste. This was followed by a wet winter, which allowed excellent water storage reserves at Shasta Reservoir, the District's primary water source. The result was that in 2011 the District had available its full CVP allocation of 195,000 acre feet for the year. While 2012 has been a relatively dry year, the water reserves currently in place leave the District well positioned to meet customer and operating needs for the coming year.

Three years of drought, significant conservation efforts, as well as a sustained economic downturn have presented considerable challenges to District finances. However, sound financial planning and the following of conservative strategies initiated by the Board almost 20 years ago have allowed the District to prudently navigate recent uncertainties. The District remains well positioned to deal with the near-term issues connected with continuing economic recovery and the regulatory mandates that remain on the horizon. The District utilizes a rolling Ten-Year CIP, which allows control of spending and prioritization of needs as economic and revenue situations dictate. The District's historical conservative strategies and financial planning have allowed the District to meet its obligations while avoiding the need to raise rates beyond planned levels.

The District ended FY 2012 with net revenues (revenues less than expenditures) \$3.1 million higher than it had projected in its ten-year financial plan. Despite a \$7.2 million revenue shortfall, the District was able to exceed fiscal projections through the implementation of cost-saving initiatives and productivity improvements.

FY 2012 revenues, net of debt-funded capital, totaled \$130.4 million. Categories that came in under budget, with the amount thereof shown in parentheses, include: water sales (\$3.2 million), facility reserve charges (a component of grants, rents and other revenues) (\$3.1 million), interest income (\$3.1 million), and cost reimbursement from Diablo Water District (\$0.1 million) for its share of the operating costs for the Randall-Bold Water Treatment Plant. The negative results were partially offset by the receipt of \$0.4 million in higher property tax revenue and \$1.9 million in unbudgeted miscellaneous revenues. The \$3.2 million shortfall in water sales was due primarily to the increased precipitation during the spring season and the good water quality conditions in the Delta, which allowed the City of Antioch to utilize its river supply and thereby reduce purchases of untreated water from the District. Challenging economic conditions contributed to lower than planned facility reserve charges and investment earnings. The \$1.9 million of unanticipated miscellaneous revenue consists of settlement payments received from GE Capital and the San Luis Delta Mendota Water Authority.

Cost containment efforts were the primary driver of FY 2012 operating savings. Reductions were realized across all departments and expenditure categories due to successful cost containment efforts. These savings were driven by productivity improvements and reduced costs for water purchases and treatment chemicals. Revenue funded capital projects contributed to the savings, primarily due to various projects being completed under budget.

### **FY 2013 Year-End Projections**

During FY 2013, the District anticipates a continued increase in water sales based on the results seen during the first quarter. Led by the rebound in water consumption as we move further away from the impacts of the drought and economic downfall, the District anticipates an 8% increase in annual operating revenues during FY 2013. This trend is also supported by the warm weather conditions experienced thus far during the late spring and summer. To manage and avoid potential shortfalls the District is continuing its efforts toward cost containment, pursuing outside revenues, and securing competitive bids on capital

projects. During both FY 2013 and FY 2014, the District will focus on refilling the expanded Los Vaqueros Reservoir. Therefore, additional expenditures for water purchases and pumping add approximately \$5.0 million to the projections in the next two years.

**Projected Operating Results and Debt Service Coverage**

The table on the following page projects the District's operating results and debt service coverage for the fiscal years ending June 30, 2013 to 2017. 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 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)

	2013	2014	2015	2016	2017
<b>OPERATING REVENUES:</b> <sup>(1)(2)</sup>					
Untreated Water Sales	\$34.7	\$37.6	\$40.8	\$44.2	\$45.3
Treated Water Sales	70.5	76.6	83.1	89.9	92.4
Reimbursement of Operating Expenses	6.0	6.2	6.3	6.6	6.7
Other Revenues	0.1	0.1	0.1	0.1	0.1
<b>Total Operating Revenues</b>	<b>\$111.3</b>	<b>\$120.5</b>	<b>\$130.3</b>	<b>\$140.8</b>	<b>\$144.5</b>
<b>NON-OPERATING REVENUES:</b>					
Contributions in Aid of Construction	\$16.9	\$17.4	\$13.5	\$13.1	\$15.5
Grants, Rents & Other Revenues	1.1	1.1	1.2	1.2	1.3
Interest Income	3.5	4.4	4.0	3.8	5.4
Property Taxes / Land Levy Taxes <sup>(3)</sup>	N/A	N/A	N/A	N/A	N/A
<b>Total Non-Operating Revenues</b>	<b>\$21.5</b>	<b>\$22.9</b>	<b>\$18.7</b>	<b>\$18.1</b>	<b>\$22.2</b>
 Gross Revenues	 \$132.8	 \$143.4	 \$149.0	 \$158.9	 \$166.7
<b>OPERATING &amp; MAINTENANCE EXPENSES:</b> <sup>(1)(2)</sup>					
Operations (before depreciation and debt service)	\$78.9	\$79.8	\$90.4	\$96.3	\$100.0
Less: Expenses Paid with Property Taxes <sup>(3)</sup>	-2.9	-2.9	-3.0	-3.0	-3.1
<b>Total Expenses</b>	<b>\$76.0</b>	<b>\$76.9</b>	<b>\$87.4</b>	<b>\$93.3</b>	<b>\$96.9</b>
 Net Revenues Available for Debt Service	 \$56.8	 \$66.5	 \$61.6	 \$65.6	 \$69.8
Total Senior Parity Debt Service	38.4	33.6	35.5	42.3	43.0
Debt Service Coverage Ratio – Senior Debt Only	<b>1.48x</b>	<b>1.98x</b>	<b>1.74x</b>	<b>1.55x</b>	<b>1.62x</b>
 Mezzanine Debt Service (Current and Projected) <sup>(4)</sup>	 5.1	 4.4	 7.4	 6.9	 5.4
Total Senior/Mezzanine Debt Service	43.5	38.0	42.9	49.2	48.4
Debt Service Coverage Ratio – Senior/Mezzanine Debt	<b>1.31x</b>	<b>1.75x</b>	<b>1.44x</b>	<b>1.33x</b>	<b>1.44x</b>
 Total Subordinate Debt Service (Projected) <sup>(5)</sup>	 0.4	 0.8	 0.9	 0.9	 0.9
Total Senior/Mezzanine/Subordinate Debt Service	43.9	38.0	42.9	49.2	48.4
Debt Service Coverage Ratio – All Debt Categories	<b>1.29</b>	<b>1.71</b>	<b>1.41</b>	<b>1.31</b>	<b>1.42</b>
 UNITS OF WATER SOLD (acre-feet)	 <b>94,670</b>	 <b>99,150</b>	 <b>103,630</b>	 <b>108,111</b>	 <b>107,400</b>

- (1) Projections for FY 2015-FY 2017 revenues and expenditures are based on the District's 2013-2022 Capital Improvement Program (CIP), adopted in February 2012, which include planning assumptions for inflation, demands, and rate requirements.
- (2) FY 2013-FY 2014 estimates reflect the budget approved by the Board of Directors in June 2012, including adjustments for refilling the expanded Los Vaqueros Reservoir and the projected rebound in water sales.
- (3) Property taxes and land levy taxes are not included in Net Revenues when calculating the Annual Debt Service Coverage Ratio or Debt Service Coverage Ratio; accordingly, expenses paid with property taxes are also excluded.
- (4) Mezzanine debt service projections reflect the refinancing of \$60 million of Water Revenue Notes (\$30 million in October 2012 and another \$30 million in October 2013) with Extendable Municipal Commercial Paper. The mezzanine debt scheduled to mature in FY 2014-2017 is assumed to be rolled with Water Revenue Notes.
- (5) The District currently does not hold subordinate debt. Subordinate debt service projections assume the issuance of \$50 million in Extendable Municipal Commercial Paper in FY 2013 (\$30 million to refinance mezzanine debt and \$20 million in support of capital projects) and the additional \$30 million in FY 2014.

## 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, 45 Cal.Rptr.2d 207, 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 XIII C 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 Bond Owners. Remedies available to Bond Owners 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 XIII D.** Article XIII D 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 XIII D 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 XIII D 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 XIII D, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIII D 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 XIII D. 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, 101 Cal.Rptr.2d 905 (2000), it was generally believed that Article XIII D 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*, 32 Cal.4th 409, 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 XIII D, 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.” In *Bighorn*, the Supreme Court confirmed this dicta in *Richmond*, holding that fees for ongoing water service through an existing connection were held to be 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. The District has complied with all notice provisions and hearing requirements since the *Bighorn* decision was reached in July 2006. The District has not and does not expect these procedures to have any significant impact on its finances or operations.

### **Supermajority Vote to Pass New Taxes and Fees Initiative**

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

**Article XIII C Amendments.** Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

- “(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

The District believes its water rates and charges do not constitute “taxes” under Article XIII C as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIII C, they are “property-related fees imposed in accordance with the provisions of Article XIID” (and are also charges for a “property-related service” as defined in subsection 2(g) of Article XIID) and because, as described in subsection 1(e)(2) of Article XIII C, they are charged for water service, “a specific government service or product provided directly to the payor that is not provided to those not charged.”

The District believes its facilities reserve charge is not a “tax” as defined by Proposition 26 because it is a charge that is imposed only on individuals who request a new service connection as a condition of initiating new water and, as described in subsection 1(e) of Article XIII C, it is imposed (1) “for a specific benefit or privilege [of obtaining new water service] conferred or privilege granted directly to the payor that is not provided to those not charged” and/or (2) “for a specific government service or product [a time-limited share of capacity in the District’s water system] provided directly to the payor that

is not provided to those not charged, and which does not exceed [either] the reasonable costs” of conferring the benefit or privilege and/or the reasonable costs of providing the service or product.

### **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**

Standard & Poor’s Ratings Service and Fitch Ratings Inc. have assigned the Notes with ratings of “A1+” and “F1+,” respectively. Certain information was supplied by the District to the rating agencies to be considered in evaluating the 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 Notes.

### **INDEPENDENT ACCOUNTANTS**

The District’s audited financial statement for the fiscal year ended June 30, 2011 (the “Audited Financial Statement”), is included as Appendix A. The Fiscal Year 2011 Audited Financial Statement was reported on by Macias, Gini & O’Connell, 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, each major fund, and the fiduciary funds of the District at June 30, 2011 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 Offering Memorandum.

### **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, compliance with certain representations and compliance with certain representations and compliance with certain covenants, when issued in accordance with the Trust Agreement and the Tax Certificate of the District relating to the Notes, interest on the Notes will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and will be exempt from State of California personal income taxes. Bond Counsel is of the further opinion that, interest on the Notes will not be a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest will be included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

Notes purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (“Premium Notes”) will be treated as having amortizable premium.

No deduction is allowable for the amortizable premium in the case of obligations, 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 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 premium in their particular circumstances.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Prospective purchasers of Notes should consult their own tax advisors with respect to the tax consequences of ownership of Notes if the prospective purchaser elects original issue discount treatment.

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 Notes. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 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 Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 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 Notes may adversely affect the value of, or the tax status of interest on, the 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 Notes is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 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. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Notes to some extent for taxpayers who are individuals and whose income is subject to higher marginal

income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Notes. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Notes for federal income tax purposes. It is not binding on the 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 Notes ends with the issuance of the 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 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 obligations 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 Notes for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the 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 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 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 Notes.

#### **CONTINUING DISCLOSURE**

The District has previously undertaken in connection with its outstanding Senior Debt to provide certain financial information and operating data relating to the District and the Water System to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website ("EMMA") by not later than nine months after the end of each fiscal year of the district, copies of which are available from EMMA. The information and opinions herein and in such annual reports, official statements and EMMA filings are subject to change without notice and neither the delivery thereof nor the delivery of this Offering Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described therein or herein.

## **FINANCIAL ADVISOR**

The District has retained Public Financial Management, Inc. as financial advisor with respect to the issuance of the 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 Offering Memorandum. 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 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 C hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Offering Memorandum. Bold, Polisner, Maddow, Nelson & Judson, A Professional Corporation, will provide an opinion upon certain legal matters in connection with the Notes for the District. Certain legal matters will be passed upon by Stradling, Yocca, Carlson and Rauth, a Professional Corporation, as counsel to the Dealer.

**MISCELLANEOUS**

This Offering Memorandum includes descriptions of the terms of the Notes, the Trust Agreement and certain provisions of the Law. Such descriptions do not purport to be complete, and all such descriptions and references thereto are qualified in their entirety by reference to each such document and the Law. The Board of Directors of the District has duly authorized the distribution of the Offering Memorandum.

CONTRA COSTA WATER DISTRICT  
CONTRA COSTA COUNTY, CALIFORNIA

By: B. J. Blodgett  
Director of Finance and Human Resources

**APPENDIX A**

**CONTRA COSTA WATER DISTRICT  
AUDITED FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**CONTRA COSTA WATER DISTRICT**

Basic Financial Statements  
For the Year Ended June 30, 2011

**MGC** **Certified Public Accountants.**

**CONTRA COSTA WATER DISTRICT**  
For the Year Ended June 30, 2011

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Board of Directors  
Contra Costa Water District  
Concord, California

**Independent Auditor's Report**

We have audited the accompanying financial statements of the business-type activities, each major fund and the fiduciary funds of the Contra Costa Water District (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the fiduciary funds of the District as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The basic financial statements include summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended June 30, 2010, from which such summarized information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Macias Gini & Connell LLP*

Walnut Creek, California

November 22, 2011

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Required Supplementary Information (Unaudited)**

The Governmental Accounting Standards Board Statement Number 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, 2011. The MDA is intended to serve as an introduction to the District's basic financial statements. A comparative analysis of fiscal year 2011 (FY11) to 2010 (FY10) 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 (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 500,000 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 the 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 basic financial statements include the statement of net assets; statement of revenues, expenses, and changes in net assets; and statement of cash flows. The following is a brief explanation of the use of each of the statements:

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).

The *statement of cash flows* presents the cash inflows and outflows and the resulting cash position at fiscal year end.

The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Financial Analysis:**

The financial position of the District remained strong during FY11 despite continuing weak economic conditions during the year. This is illustrated by the financial analysis below.

Financial Position

	Net Assets June 30, 2011 and 2010 (In Millions of Dollars)		
	2011	2010	Increase (Decrease)
<b>ASSETS:</b>			
Capital assets	\$1,176	\$1,136	\$40
Cash and investments	265	286	(21)
Other assets	29	39	(10)
Total Assets	1,470	1,461	9
<b>LIABILITIES:</b>			
Noncurrent liabilities	524	576	(52)
Current liabilities	83	52	31
Total Liabilities	607	628	(21)
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	663	639	24
Restricted	112	90	22
Unrestricted	88	104	(16)
Total Net Assets	\$863	\$833	\$30

Comparison of FY11 to FY10: Total assets increased by \$9 million in FY11 to \$1.5 billion, while total liabilities decreased by \$21 million to \$607 million, resulting in an overall increase in net assets of \$30 million. Key components in the increase in net assets are as follows:

- Capital assets increased \$40 million in FY11 primarily due to the addition of assets associated with the completion of the Middle River Intake Project, as well as needed upgrades, replacements and installation of new District facilities and equipment (including generators, reservoirs, transmission and distribution facilities). Please refer to the Capital Assets section of the MDA for further details.
- Cash and investments reflect a net decrease of \$21 million. Significant uses of cash include the spend down of Water Revenue Note proceeds associated with construction of the Middle River Intake and Los Vaqueros Expansion Projects (\$38 million), net release of contractor retentions associated with the Middle River Intake and Pipeline (\$4 million), and the net effect from operations and debt service payments (\$5 million). These impacts were partially offset by an increase of \$26 million consisting of grant revenue received from the State of California. Other assets decreased by \$10 million. Of this amount, miscellaneous accounts receivable decreased by \$7 million (due primarily to the receipt of \$6 million from the Department of Water Resources); \$1 million of prior year interest due to the write-off of the Lehman Brothers investment; \$1 million of prepaid insurance and benefits were amortized in FY11; and accrued water billings were \$1 million lower due to reduced demand from municipal customers.
- Total liabilities decreased by \$21 million in FY11 due primarily to the scheduled, annual debt service principal payments. The amount of long-term debt reclassified to short-term increased by \$31 million in FY11 as the first portion of principal from the Water Revenue Notes Series A will come due for payment in October 2012.

## Changes in Financial Position

### Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2011 and 2010 (In Millions of Dollars)

	2011	2010	Increase (Decrease)
<b>OPERATING REVENUES:</b>			
Untreated water sales	\$31	\$32	\$(1)
Treated water sales	57	61	(4)
Other operating revenues	5	4	1
Total Operating Revenues	93	97	(4)
<b>OPERATING EXPENSES:</b>			
Operations	36	34	2
Public information and customer service	4	4	0
Administrative and general	20	22	(2)
Depreciation and amortization	27	27	0
Total Operating Expenses	87	87	0
Net Operating Income	6	10	(4)
Nonoperating Expenses, net	(12)	(13)	1
Net Income Before Contributions	(6)	(3)	(3)
Capital Contributions	36	26	10
CHANGES IN NET ASSETS	30	23	7
NET ASSETS BEGINNING OF YEAR	833	810	23
NET ASSETS END OF YEAR	\$863	\$833	\$30

Comparison of FY11 to FY10: The District ended the year with total revenues exceeding total expenses by \$30 million. Total FY11 operating revenues of \$93 million were \$4 million lower in comparison to FY10, while total operating expenses remained at \$87 million. Capital contributions of \$36 million represented a \$10 million increase over FY10. Major contributors to this year's results are as follows:

- Operating revenues decreased by \$4 million in FY11, due primarily to decreases in treated and untreated water sales of \$4 million and \$1 million, respectively. The lower water sales were the result of a cool and wet spring along with an early summer.
- Operating expenses for FY11 remained consistent with FY10 at \$87 million. This reflects the net impact of a \$2 million decrease in administrative costs offset by a \$2 million increase in operations expense. The decrease in administrative costs is the result of reclassifying overhead expense applied to capital projects. The reclassification aligns the offsetting overhead credit against the administrative operating expenses that have been capitalized. Retirement plan

investment management fees were reclassified from operating to nonoperating consistent with other investment related expenses. The offsetting increase in operating expense is attributable to slight cost increases in FY11 for labor and benefits (\$0.5 million); maintenance services, including paving, fencing, and weed abatement work (\$0.8 million); fuel costs (\$0.1 million); utility expenses (\$0.3 million); and general cost increases (\$0.4 million).

- Capital contributions increased by \$10 million in FY11 compared to FY10, due mainly to the receipt of \$26 million from the State of California in Proposition 84 grant funds for the Middle River Intake Project.

**Capital Assets:**

The District's investment in capital assets as of June 30, 2011, amounts to \$1.2 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  
June 30, 2011 and 2010  
(In Millions of Dollars)

	2011	2010	Increase (Decrease)
Utility plant and canal system (net of depreciation)	\$846	\$757	\$89
Land and rights of way	249	228	21
Construction in progress	81	151	(70)
Total	\$1,176	\$1,136	\$40

The total increase in the District's investment in capital assets for FY11 was \$40 million (net of annual depreciation). Major contributors to the increase in capital assets are as follows:

- Utility plant and canal system increased by \$89 million, net of depreciation. Completed projects for the year totaled \$116 million and included the Middle River Intake, GIS Mapping Master Plan, San Miguel Solar, Seminary/Kirker Pass Pump Station Rehabilitation, Treated Water Reservoir Rehabilitation at Gregory Garden/Midhill, Water Quality Improvement Rebate Programs and various other electrical, reservoir and tank upgrade, and generator projects. Offsetting depreciation totaled \$27 million.
- Land and rights of way increased by \$21 million in FY11 due to land purchased for construction/mitigation efforts related to Los Vaqueros Expansion and the Middle River Intake Projects.
- Construction in progress decreased by \$70 million in FY11 due primarily to completion of a number of longer term projects, including the Contra Costa Canal Fish Screens and Middle River Intake Project.

Readers desiring more detailed information on the District's capital assets should refer to Note 3 of the accompanying financial statements.

**Debt Administration:**

At June 30, 2011, the District had \$571 million total debt outstanding. The District used the \$132 million of long-term Water Revenue Notes issued at the end of FY10 to repay \$79 million of previously issued commercial paper and to fund the Los Vaqueros Expansion and Short-cut Pipeline Projects. Remaining proceeds from the Water Revenue Note issuance were \$16 million at year end and will be fully depleted in early FY12. Total debt outstanding consists of \$425 million of Water Revenue Bonds (net of unamortized premiums, discounts and losses on refundings) and \$131 million in Water Revenue Notes (net of unamortized premium), as well as \$15 million in State Revolving Fund loans. The District's annual debt service for the upcoming fiscal year is \$77 million, inclusive of the State Revolving Fund loans and Water Revenue Notes. The issuance of \$60 million in Water Revenue Notes (Series B) and \$47 million in Water Revenue Refunding Bonds (Series P) in early FY12 will pay for certain capital improvements and refund \$50 million of the previously issued Series K Water Revenue Bonds as well as meet the upcoming FY12 debt service payments. 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 Finance Manager, P.O. Box H2O, Concord, CA 94524.

## **Basic Financial Statements**

**CONTRA COSTA WATER DISTRICT  
STATEMENT OF NET ASSETS  
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS  
AS OF JUNE 30, 2011  
WITH SUMMARIZED TOTALS AS OF JUNE 30, 2010**

ASSETS	Water District Fund	Water Authority Fund	Totals	
			2011	2010
<b>Noncurrent Assets:</b>				
<b>Capital Assets (Note 3):</b>				
Non-depreciable	\$ 326,923,317	\$ 3,272,324	\$ 330,195,641	\$ 379,112,307
Depreciable, net	815,725,278	30,011,480	845,736,758	756,667,658
<b>Total Capital Assets</b>	<b>1,142,648,595</b>	<b>33,283,804</b>	<b>1,175,932,399</b>	<b>1,135,779,965</b>
Notes receivable	743,073	-	743,073	977,136
Net other post-employment benefits asset (Note 7)	3,202,512	-	3,202,512	3,043,778
Unamortized bond issuance costs	2,257,831	154,417	2,412,248	2,877,062
<b>Restricted Assets (Note 2):</b>				
Cash and cash equivalents	71,777,235	3,791,597	75,568,832	114,088,016
Investments	92,764,741	-	92,764,741	69,122,790
<b>Total Restricted Assets</b>	<b>164,541,976</b>	<b>3,791,597</b>	<b>168,333,573</b>	<b>183,210,806</b>
<b>Total Noncurrent Assets</b>	<b>1,313,393,987</b>	<b>37,229,818</b>	<b>1,350,623,805</b>	<b>1,325,888,747</b>
<b>Current Assets:</b>				
Cash and cash equivalents (Note 2)	41,230,658	-	41,230,658	54,954,259
Investments (Note 2)	55,421,000	-	55,421,000	47,560,438
Receivables (Note 1)	21,786,256	13,500	21,799,756	30,115,780
Other current assets	1,771,147	-	1,771,147	2,527,427
Interfund balances (Note 1)	1,264,316	(1,264,316)	-	-
<b>Total Current Assets</b>	<b>121,473,377</b>	<b>(1,250,816)</b>	<b>120,222,561</b>	<b>135,157,904</b>
<b>Total Assets</b>	<b>1,434,867,364</b>	<b>35,979,002</b>	<b>1,470,846,366</b>	<b>1,461,046,651</b>

(Continued)

See accompanying notes to the basic financial statements.

**CONTRA COSTA WATER DISTRICT**  
**STATEMENT OF NET ASSETS (CONTINUED)**  
**BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS**  
**AS OF JUNE 30, 2011**  
**WITH SUMMARIZED TOTALS AS OF JUNE 30, 2010**

	Water District Fund	Water Authority Fund	Totals	
			2011	2010
<b>LIABILITIES</b>				
Noncurrent Liabilities:				
Advances for construction (Note 4)	\$ 4,445,696	\$ -	\$ 4,445,696	\$ 4,472,011
Unearned revenue and other (Note 4)	976,651	-	976,651	1,203,510
Notes payable (Note 5)	99,979,872	-	99,979,872	131,530,095
Bonds and loans payable (Note 5)	391,483,081	26,901,660	418,384,741	439,031,146
Total Noncurrent Liabilities	<u>496,885,300</u>	<u>26,901,660</u>	<u>523,786,960</u>	<u>576,236,762</u>
Current Liabilities				
Current maturities of notes payable (Note 5)	31,092,392	-	31,092,392	1,160,142
Current maturities of bonds and loans payable (Note 5)	19,279,502	2,450,000	21,729,502	21,020,787
Accounts payable	17,964,596	-	17,964,596	17,895,855
Accrued payroll and related expenses	6,352,190	-	6,352,190	5,806,189
Interest payable	6,110,812	342,923	6,453,735	5,894,708
Total Current Liabilities	<u>80,799,492</u>	<u>2,792,923</u>	<u>83,592,415</u>	<u>51,777,681</u>
Total Liabilities	<u>577,684,792</u>	<u>29,694,583</u>	<u>607,379,375</u>	<u>628,014,443</u>
<b>NET ASSETS (Note 1)</b>				
Invested in capital assets, net of related debt	655,240,754	7,878,158	663,118,912	639,237,428
Restricted for capital projects	112,372,800	-	112,372,800	89,888,234
Unrestricted net assets (deficit)	89,569,018	(1,593,739)	87,975,279	103,906,546
Total Net Assets	<u>\$ 857,182,572</u>	<u>\$ 6,284,419</u>	<u>\$ 863,466,991</u>	<u>\$ 833,032,208</u>

See accompanying notes to the basic financial statements.

**CONTRA COSTA WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	Water	Water	Totals	
	District Fund	Authority Fund	2011	2010
<b>OPERATING REVENUES:</b>				
Untreated water sales	\$ 31,116,132	\$ -	\$ 31,116,132	\$ 31,921,696
Treated water sales	57,064,934	-	57,064,934	60,964,303
Reimbursement of operating expenses	4,477,957	-	4,477,957	3,725,519
Miscellaneous service charges	143,576	-	143,576	139,306
Total operating revenues	<u>92,802,599</u>	<u>-</u>	<u>92,802,599</u>	<u>96,750,824</u>
<b>OPERATING EXPENSES:</b>				
Source of supply	5,385,065	-	5,385,065	5,692,705
Water treatment	7,826,702	-	7,826,702	7,742,452
Pumping	4,487,442	-	4,487,442	4,187,622
Transmission and distribution	1,112,076	-	1,112,076	994,399
Maintenance	16,824,696	-	16,824,696	15,518,557
Public information and customer service	3,758,649	-	3,758,649	4,014,269
Administrative and general	20,447,853	-	20,447,853	22,144,516
Depreciation and amortization	25,877,442	1,231,685	27,109,127	26,486,715
Total operating expenses	<u>85,719,925</u>	<u>1,231,685</u>	<u>86,951,610</u>	<u>86,781,235</u>
OPERATING INCOME (LOSS)	<u>7,082,674</u>	<u>(1,231,685)</u>	<u>5,850,989</u>	<u>9,969,589</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Property taxes	2,880,114	-	2,880,114	2,678,217
Investment earnings	4,350,458	8,759	4,359,217	6,251,399
Net increase (decrease) in fair value of investments	(74,283)	-	(74,283)	2,564,544
Interest expense	(22,523,017)	(1,497,487)	(24,020,504)	(25,976,023)
CALFED operating grant	-	-	-	184,147
Rent and other, net	716,501	3,791,370	4,507,871	1,649,615
Nonoperating revenues (expenses), net	<u>(14,650,227)</u>	<u>2,302,642</u>	<u>(12,347,585)</u>	<u>(12,648,101)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(7,567,553)</u>	<u>1,070,957</u>	<u>(6,496,596)</u>	<u>(2,678,512)</u>
<b>CAPITAL CONTRIBUTIONS:</b>				
Contributions in aid of construction	6,072,676	-	6,072,676	6,649,595
Capital grants	30,858,703	-	30,858,703	18,787,739
Total capital contributions	<u>36,931,379</u>	<u>-</u>	<u>36,931,379</u>	<u>25,437,334</u>
CHANGES IN NET ASSETS	<u>29,363,826</u>	<u>1,070,957</u>	<u>30,434,783</u>	<u>22,758,822</u>
NET ASSETS, BEGINNING OF YEAR	<u>827,818,746</u>	<u>5,213,462</u>	<u>833,032,208</u>	<u>810,273,386</u>
NET ASSETS, END OF YEAR	<u>\$ 857,182,572</u>	<u>\$ 6,284,419</u>	<u>\$ 863,466,991</u>	<u>\$ 833,032,208</u>

See accompanying notes to the basic financial statements

**CONTRA COSTA WATER DISTRICT  
STATEMENT OF CASH FLOWS  
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	Water	Water	Totals	
	District Fund	Authority Fund	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 95,412,120	\$ -	\$ 95,412,120	\$ 87,688,407
Payments to suppliers	(25,131,111)	-	(25,131,111)	(30,058,310)
Payments to employees	(35,714,990)	-	(35,714,990)	(35,017,462)
Internal activity - payments to other funds	(24,242)	24,242	-	-
Other receipts	1,215,314	3,777,870	4,993,184	14,525,833
Net cash provided by operating activities	<u>35,757,091</u>	<u>3,802,112</u>	<u>39,559,203</u>	<u>37,138,468</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(123,420,000)	-	(123,420,000)	(35,000,000)
Proceeds from investment maturities and redemptions	95,847,589	-	95,847,589	39,757,950
Investment income	1,444,541	8,759	1,453,300	5,815,737
Net cash provided by (used in) investing activities	<u>(26,127,870)</u>	<u>8,759</u>	<u>(26,119,111)</u>	<u>10,573,687</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Property taxes received and other	2,880,114	-	2,880,114	2,678,217
Net cash provided by noncapital financing activities	<u>2,880,114</u>	<u>-</u>	<u>2,880,114</u>	<u>2,678,217</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to utility plant and equipment	(66,571,124)	(37,955)	(66,609,079)	(68,501,019)
Receipts from capital grants	36,525,740	-	36,525,740	11,817,702
Receipts from contributions in aid of construction	6,072,676	-	6,072,676	6,649,595
Proceeds from debt issues	-	-	-	150,505,118
Principal payments on long-term debt and commercial paper	(18,691,427)	(2,350,000)	(21,041,427)	(99,894,045)
Interest paid on long-term debt	(22,092,207)	(1,418,694)	(23,510,901)	(24,403,026)
Net cash used in capital and related financing activities	<u>(64,756,342)</u>	<u>(3,806,649)</u>	<u>(68,562,991)</u>	<u>(23,825,675)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(52,247,007)	4,222	(52,242,785)	26,564,697
Cash and cash equivalents at beginning of year	165,254,900	3,787,375	169,042,275	142,477,578
Cash and cash equivalents at end of year	<u>\$ 113,007,893</u>	<u>\$ 3,791,597</u>	<u>\$ 116,799,490</u>	<u>\$ 169,042,275</u>
<b>SUMMARY OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF NET ASSETS</b>				
Cash and Cash Equivalents:				
Restricted cash and cash equivalents	\$ 71,777,235	\$ 3,791,597	\$ 75,568,832	\$ 114,088,016
Unrestricted cash and cash equivalents	41,230,658	-	41,230,658	54,954,259
Total Cash and Cash Equivalents	<u>\$ 113,007,893</u>	<u>\$ 3,791,597</u>	<u>\$ 116,799,490</u>	<u>\$ 169,042,275</u>

(Continued)

See accompanying notes to the basic financial statements

**CONTRA COSTA WATER DISTRICT**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	Water District Fund	Water Authority Fund	Totals	
			2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 7,082,674	\$ (1,231,685)	\$ 5,850,989	\$ 9,969,589
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	25,877,442	1,231,685	27,109,127	26,486,715
Operating grants	-	-	-	184,147
Rent and other, net	37,708	3,791,369	3,829,077	1,649,614
Effect of changes in:				
Accounts receivable	1,564,017	(13,500)	1,550,517	1,772,446
Notes receivable	234,063	-	234,063	529,615
Other assets	756,280	-	756,280	(232,607)
Accounts payable and accrued expenses	614,743	-	614,743	(4,224,309)
Internal balances	(24,243)	24,243	-	-
Unearned revenue and other	(226,859)	-	(226,859)	(219,634)
Net OPEB asset	(158,734)	-	(158,734)	1,222,892
Net cash provided by operating activities	<u>\$ 35,757,091</u>	<u>\$ 3,802,112</u>	<u>\$ 39,559,203</u>	<u>\$ 37,138,468</u>
<b>SCHEDULE OF NON CASH ACTIVITIES</b>				
Change in fair value of investments	\$ 3,916,604	\$ -	\$ 3,916,604	\$ 5,494,237
Change in receivables related to capital grants	5,667,037	-	5,667,037	(6,970,037)
Change in accounts payable related to acquisition of capital assets	699,751	-	699,751	920,195
Amortization of deferred bond issuance costs	(434,112)	(30,702)	(464,814)	(406,475)
Amortization of bond related discount and deferred loss on refunding	(2,362,826)	(71,591)	(2,434,417)	(1,414,790)

See accompanying notes to the basic financial statements

**CONTRA COSTA WATER DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS  
AS OF JUNE 30, 2011  
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS:</b>		
Cash and cash equivalents (Note 2)	\$ 1,661,388	\$ 779,157
Investments, at fair value:		
US Treasury securities	11,515,997	11,081,061
Federal agency securities	3,482,060	2,322,296
Mortgage/Asset - Backed securities	13,032,689	13,278,355
Real estate investment fund	6,063,628	4,759,843
Corporate bonds	11,269,315	13,133,062
Equity securities	3,675,111	2,868,882
Equity mutual funds	72,932,668	52,560,491
Municipal bonds	237,877	137,909
Total Investments (Note 2)	<u>122,209,345</u>	<u>100,141,899</u>
Total Cash and Investments	<u>123,870,733</u>	<u>100,921,056</u>
Receivables:		
Accrued income	314,540	306,771
Contribution due from District	136,735	105,397
Contribution due from participants	68,605	66,006
Total Receivables	<u>519,880</u>	<u>478,174</u>
Total Assets	<u>124,390,613</u>	<u>101,399,230</u>
<b>LIABILITIES:</b>		
Pending trades payable	<u>77,477</u>	<u>-</u>
<b>NET ASSETS:</b>		
Held in trust for pension benefits	111,752,969	92,655,809
Held in trust for other post-employment benefits	<u>12,560,167</u>	<u>8,743,421</u>
Total Net Assets	<u>\$124,313,136</u>	<u>\$101,399,230</u>

See accompanying notes to the basic financial statements.

**CONTRA COSTA WATER DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**WITH COMPARITIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>	<u>2010</u>
Additions:		
Contributions:		
District	\$ 6,353,864	\$ 5,013,156
Paid by the District on behalf of employees	594,858	569,850
Paid by employees	2,105,505	1,742,035
Total contributions	<u>9,054,227</u>	<u>7,325,041</u>
Investment income:		
Net increase in fair value of investments (Note 4)	18,910,618	7,936,998
Interest, dividends, and other	2,830,364	2,558,320
Less: investment expenses	(104,781)	(170,059)
Net investment income	<u>21,636,201</u>	<u>10,325,259</u>
Total additions	<u>30,690,428</u>	<u>17,650,300</u>
Deductions:		
Distributions paid to participants	7,774,591	7,214,511
Administrative expenses	1,931	1,056
Total deductions	<u>7,776,522</u>	<u>7,215,567</u>
Net increase	<u>22,913,906</u>	<u>10,434,733</u>
Net Assets:		
Beginning of year	<u>101,399,230</u>	<u>90,964,497</u>
End of year	<u>\$ 124,313,136</u>	<u>\$ 101,399,230</u>

See accompanying notes to the basic financial statements.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements**  
Year Ended June 30, 2011

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - 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 (Board). 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.

**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, because its 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 financial activities of the Contra Costa Water District Retirement Plan (the Plan) and the Contra Costa Water District Other Post-Employment Benefits Trust (the Trust) are reported in fiduciary funds within the basic financial statements because the Plan and the Trust exclusively serve the employees of the District.

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 30.0% 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 2002 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 financial statements.

**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 Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

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* – this fund presents the activity of the Authority, which was created pursuant to the Joint Exercise of Powers Agreement, dated June 6, 1989, between the District and the Diablo Water District 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.

The District reports the Retirement Plan and Other Post-Employment Benefits Trust Funds, which are comprised of two separate fiduciary funds, as follows:

*Retirement Plan Trust Fund* – was established under a trust agreement made on February 17, 1962, and subsequently amended, and is a single-employer defined benefit retirement plan in which all permanent and full-time employees and eligible members of the Board participate.

*Other Post-Employment Benefits Trust Fund* – was established in 2008 to administer a single-employer, contributory, defined benefit post-employment medical plan. The Trust provides post-employment health insurance benefits for eligible directors, officers, and employees of the District.

***Basis of Accounting*** - The proprietary and fiduciary 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, include 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.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

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.

**Measurement Focus** – Enterprise and fiduciary 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 activities are included on their financial statements. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

**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.

**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.

**Investments** - Investments are stated at fair value. Any realized gains or losses in investments such as interest earned are reported as investment earnings. The unrealized appreciation (depreciation) of those investments is reported as such in the Statement of Revenues, Expenses and Changes in Net Assets. Measurement of the fair value of investments is based upon quoted market prices.

**Enterprise 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 financial statement date (June 30) and calculating the amount of service provided prior to June 30. This calculated amount is included within accounts receivable as part of the customer accounts balance.

Receivables at June 30, 2011, were comprised of the following:

Customer accounts	\$ 14,085,838
Accrued interest	1,270,641
Current portion of notes receivable	233,578
Leases and loans	558,446
Grants receivable	5,449,867
Miscellaneous	201,386
	\$ 21,799,756

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**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, 2011, the Water Authority Fund owed the Water District Fund \$1,264,316, 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.

**Capital Assets** - 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 more than one year. 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 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 allocate the cost of capital assets over the life 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 financial statements 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:

	<u>Years</u>
Utility plant:	
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:	
Computer/furniture/operating equipment	5
Vehicles	7
Scada equipment/forklifts	10
Building and facilities	42
Canal system	100

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

*Net Assets* – Net assets of the enterprise funds are divided into three captions under GASB Statement 34, as 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.

*Unrestricted* - describes the portion of net assets which is not restricted to use.

In addition, the District reports its fiduciary fund net assets as net assets held in trust for pension and other post-employment benefits. These fiduciary funds report resources that are required to be held in trust for the members and beneficiaries of the defined benefit pension plan and the other post-employment benefits plan.

***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.
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.

***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.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**Long-term Debt, Debt Discount and Issuance Costs** - Debt discount and issuance costs are amortized using the effective interest method over the life of the related debt. Long-term debt is reported at face value, net of applicable premium, discounts and deferred loss on refunding. Issuance costs are deferred and shown as an asset on the Statement of Net Assets. Issuance costs for the District's tax-exempt commercial paper short-term borrowings are expensed as incurred.

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

**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.

**Reclassification** - For the year ended June 30, 2011, 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 2011 presentation.

**Implementation of New GASB Pronouncements** - The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. Application of this Statement is effective for the District's fiscal year ending June 30, 2013.
- In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. GASB Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. Application of this Statement is effective for the District's fiscal year ending June 30, 2013.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the authoritative pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the District's fiscal year ending June 30, 2013.

**2 CASH AND INVESTMENTS**

Enterprise Funds – Investment Policies and Specific Risks

**Policies** -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.

**Classification** - The District's cash and investments consist of the following at June 30, 2011:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 75,568,832	\$ 41,230,658	\$ 116,799,490
Investments	92,764,741	55,421,000	148,185,741
	<u>\$ 168,333,573</u>	<u>\$ 96,651,658</u>	<u>\$ 264,985,231</u>

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

Included within unrestricted cash and investment balances are designated cash and investments, which represent those resources that have been collected by customers and developers and designated by the Board to be used for specific purposes. The designated balances at June 30, 2011 are as follows:

Cash and cash equivalents	\$ 14,435,418
Investments	<u>42,342,744</u>
Total designated cash and investments	<u>\$ 56,778,162</u>

***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)
Money Market Mutual Funds	Upon Demand	N/A	(A)	(A)

(A) No Board established limit.

(B) LAIF limit is \$50,000,000.

***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.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

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.

**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	Maturities				Total
	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
U.S. Agency Securities:					
Callable	\$ -	\$ -	\$ 20,871,052	\$ -	\$ 20,871,052
Non-Callable	889,938	10,628,115	51,834,632	-	63,352,685
Medium Term Notes	13,511,670	7,384,910	31,419,930	-	52,316,510
Guaranteed Investment Contracts	-	-	-	11,645,494	11,645,494
California Local Agency Investment Fund	25,138,084	-	-	-	25,138,084
California Asset Management Program	27,584,618	-	-	-	27,584,618
Money Market Mutual Funds	36,617,046	-	-	-	36,617,046
Total Investments	103,741,356	18,013,025	104,125,614	11,645,494	237,525,489
Cash Deposits	27,459,742	-	-	-	27,459,742
Total Cash and Investments	\$ 131,201,098	\$ 18,013,025	\$ 104,125,614	\$ 11,645,494	\$ 264,985,231

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-

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

sponsored enterprises, United States Treasury Notes and Bills, and corporations. As of June 30, 2011, these investments matured in an average of 237 days.

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The investments are limited to those permitted by the California Government Code. The District reports its investments in CAMP at fair value, which is the same as the value of the pooled shares. At June 30, 2011, these investments have an average maturity of 57 days.

**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, 2011, for each investment type as provided by Moody's Investors Service.

Investment Type	Ratings						Total
	Aaa	Aa2	Aa3	A1	A2	Not Rated	
U.S. Agency Securities:							
Callable	\$ 20,871,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,871,052
Non-Callable	62,462,747	-	-	889,938	-	-	63,352,685
Medium Term Notes	4,947,050	25,679,000	6,159,900	12,495,160	3,035,400	-	52,316,510
Guaranteed Investment Contracts	-	-	-	-	-	11,645,494	11,645,494
California Local Agency Investment Fund	-	-	-	-	-	25,138,084	25,138,084
California Asset Management Program	-	-	-	-	-	27,584,618	27,584,618
Money Market Mutual Funds	36,617,046	-	-	-	-	-	36,617,046
Total Investments	<u>\$ 124,897,895</u>	<u>\$ 25,679,000</u>	<u>\$ 6,159,900</u>	<u>\$ 13,385,098</u>	<u>3,035,400</u>	<u>64,368,196</u>	<u>237,525,489</u>
Cash in Banks						27,459,742	27,459,742
Total Cash and Investments						<u>\$ 91,827,938</u>	<u>\$ 264,985,231</u>

**Concentration of Credit Risk** – This is the risk that the failure of any one issuer would place an undue financial burden on the District. Included in the table at **Credit Risk** above are the following significant investments in the securities of issuers other than U. S. Treasury securities, mutual funds, and external investment pools that represent in excess of 5% of the District's total investments as follows:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	\$ 57,598,865
Federal National Mortgage Association	U.S. Agency Securities	21,817,553
General Electric CAP	Corporate Medium Term Notes	10,528,400
FSA Capital	Guaranteed Investment Contract	11,645,494

**Custodial Credit Risk** – 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 in excess of federal deposit insurance limits, 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.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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.

Fiduciary Funds – Investment Policies and Specific Risks

**Retirement Plan**

**Investments Authorized by the Plan's Investment Policy** - The Plan's Trust agreement and applicable state laws authorize the Plan's Trust to invest in obligations of the U.S. Treasury and other U.S. agencies, certificates of deposit, domestic and international stocks, bankers' acceptances, corporate bonds rated A or better by Moody's Investor Service or Standard & Poor's Corporation, mortgage and asset-backed securities, money market mutual funds, and real estate. All investments of the Plan are held separately from District funds by the Plan's custodian in the Plan's name. The custodian is a counterparty and agent of the District.

**Classification** - The Plan's cash and investments consist of the following at June 30, 2011:

Cash and cash equivalents	\$ 1,661,388
Investments	109,649,178
	\$ 111,310,566

**Interest Rate Risk** - Interest rate risk is the risk that changes in market 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 Plan generally manages its interest rate risk by holding investments to maturity. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan's investments by maturity or earliest call date:

Investment Type	Maturities				Total
	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
U.S. Treasury Securities (non-callable)	\$ 352,145	\$ 355,044	\$ 799,127	\$ 9,484,672	\$ 10,990,988
Mortgage/Asset-Backed Securities:					
Commercial	-	-	106,018	3,709,797	3,815,815
Government	-	-	36,675	9,180,199	9,216,874
U.S. Agency Securities (non-callable)	-	-	2,335,728	-	2,335,728
Corporate Bonds	760,777	169,906	1,978,270	6,015,068	8,924,021
Money Market Mutual Funds	1,661,388	-	-	-	1,661,388
Subtotal	\$ 2,774,310	\$ 524,950	\$ 5,255,818	\$ 28,389,736	36,944,814
Real Estate Investment Fund					6,063,628
Equity Mutual Funds					68,302,124
Total Investments					\$ 111,310,566

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**Fair Value Highly Sensitive to Change in Interest Rates** – The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The Plan has invested in mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS), which are mortgage-backed bonds that pay pass-through rates with varying maturities. The fair values of MBS and CMBS are considered sensitive to interest rate changes because they have embedded options, which are triggers related to quantities of delinquencies or defaults in the loans backing the mortgage pool. If a balance of delinquent loans reaches a certain threshold, interest and principal that would be used to pay junior bondholders is instead directed to pay off the principal balance of senior bondholders, shortening the life of the senior bonds.

The Plan's investments include the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated above:

Investment Type	Weighted Average Coupon Rate	Weighted Average Maturity (in years)	2011 Fair Value	Percentage of Total Investments
Mortgage - Backed Securities	4.73%	4.38	\$ 9,670,556	9%

**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, 2011, for each investment type as provided by Moody's Investors Service.

Investment Rating	U.S. Agency Securities	Asset Backed Securities	Money Market Funds	Corporate Bonds	Totals
Aaa	\$ 2,335,728	\$ 12,932,057	\$ -	\$ 760,778	\$ 16,028,563
Aa1	-	-	-	176,866	176,866
Aa2	-	100,632	-	317,179	417,811
Aa3	-	-	-	89,062	89,062
A1	-	-	-	229,648	229,648
A2	-	-	-	834,079	834,079
A3	-	-	-	1,418,552	1,418,552
Baa1	-	-	-	1,301,575	1,301,575
Baa2	-	-	-	2,576,981	2,576,981
Baa3	-	-	-	1,108,301	1,108,301
Ba2	-	-	-	111,000	111,000
Not rated	-	-	1,661,388	-	1,661,388
Subtotal	<u>\$ 2,335,728</u>	<u>\$ 13,032,689</u>	<u>\$ 1,661,388</u>	<u>\$ 8,924,021</u>	25,953,826
Exempt from Ratings Disclosure:					
U.S. Treasury Securities					10,990,988
Real Estate Investment Funds					6,063,628
Equity Mutual Funds					68,302,124
Total					<u>\$ 111,310,566</u>

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**Concentration of Credit Risk** - This is the risk that the failure of any one issuer would place an undue financial burden on the District. Information regarding significant investments at June 30, 2011, (other than U.S. Government or U.S. Government guaranteed obligations, mutual funds, external investment pools and other pooled investments) in any organization that represents in excess of 5% of the fiduciary fund's net assets is \$7,391,848 in the Federal National Mortgage Association.

**Custodial Credit Risk** - Custodial credit risk for cash on deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Plan's cash on deposit in excess of federal deposit insurance limits, 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 Plan's name and places the Plan ahead of general creditors of the institution.

The Plan 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 Plan employs the Trust Department of a bank or trustee as the custodian of certain Plan investments, regardless of their form.

**Other Post-Employment Benefits Trust**

**Investments Authorized by the Trust's Investment Policy** - The Trust's investment policies authorize the Trust to invest in financial instruments in three broad investment categories: domestic fixed income, equity funds, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Domestic fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio.

The District Board is authorized to designate its investment manager to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the District Board. Allocation of assets to the investment managers is determined by the District Board to accommodate changing conditions and laws. The long range asset allocation goal is as follows:

Domestic Fixed Income	40%
Equity Funds	55%
Real Estate	5%

The composite asset allocation goal is pursued by the Trust on a long-term basis and revised if significant changes occur within the economic and/or capital market environment. Progress toward the goal is reviewed at least annually.

**Classification** - The Trust's investments totaled \$12,560,167 at June 30, 2011.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**Interest Rate Risk** - Interest rate risk is the risk that changes in market 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 Trust generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Trust's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Trust's investments by maturity or earliest call date:

Investment Type	Maturities				Total
	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	
U.S. Treasury Securities					
Non-Callable	\$ -	\$ -	\$ 189,242	\$ 335,767	\$ 525,009
U.S. Agency Securities:					
Non-Callable	-	203,852	-	942,480	1,146,332
Corporate Bonds	-	97,370	772,265	1,475,659	2,345,294
Municipal Bonds	-	-	-	237,877	237,877
Subtotal	<u>\$ -</u>	<u>\$ 301,222</u>	<u>\$ 961,507</u>	<u>\$ 2,991,783</u>	<u>4,254,512</u>
Equity Securities					3,675,111
Equity Mutual Funds					4,630,544
Total Investments					<u>\$ 12,560,167</u>

**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, 2011, for each investment type as provided by Moody's Investors Service.

Investment Rating	2011			Totals
	Municipal Bonds	U.S. Agency Securities	Corporate Bonds	
Aaa	\$ -	\$ 1,146,332	\$ 473,975	\$ 1,620,307
Aa1	84,859	-	53,830	138,689
Aa2	68,904	-	175,378	244,282
Aa3	39,234	-	107,049	146,283
A1	27,438	-	112,454	139,892
A2	-	-	315,130	315,130
A3	17,442	-	363,508	380,950
Baa1	-	-	432,795	432,795
Baa2	-	-	242,074	242,074
Baa3	-	-	50,029	50,029
Ba3	-	-	19,072	19,072
Subtotal	<u>\$ 237,877</u>	<u>\$ 1,146,332</u>	<u>\$ 2,345,294</u>	<u>3,729,503</u>
Exempt from Ratings Disclosure:				
U.S. Treasury Securities				525,009
Equity Securities				3,675,111
Equity Mutual Funds				4,630,544
Total				<u>\$ 12,560,167</u>

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

*Concentration of Credit Risk* - This is the risk that the failure of any one issuer would place an undue financial burden on the District. The District did not have significant investments at June 30, 2011, that are in excess of 5% of the fiduciary fund's net assets.

*Custodial Credit Risk* - Custodial credit risk for cash on deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Trust's cash on deposit in excess of federal deposit insurance limits, 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 Trust's name and places the Trust ahead of general creditors of the institution.

The Trust 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 Trust employs the Trust Department of a bank or trustee as the custodian of certain Trust investments, regardless of their form.

### **3 CAPITAL ASSETS**

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 (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. 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. The contract was fully repaid as of June 30, 2010.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

*Additions, Retirements, and Transfers* - Capital assets balances and activity are summarized below:

	Balance at June 30, 2010	Additions	Retirements	Transfers	Balance at June 30, 2011
Capital assets not being depreciated:					
Land and land rights	\$ 227,890,191	\$ 21,324,115	\$ -	\$ -	\$ 249,214,306
Construction in progress	151,222,116	43,541,869	-	(113,782,650)	80,981,335
Total capital assets not being depreciated	<u>379,112,307</u>	<u>64,865,984</u>	<u>-</u>	<u>(113,782,650)</u>	<u>330,195,641</u>
Capital assets being depreciated:					
Utility plant	1,062,386,658	1,945,852	(128,184)	113,324,346	1,177,528,672
Canal system	20,212,697	459,039	-	458,304	21,130,040
Total capital assets being depreciated	<u>1,082,599,355</u>	<u>2,404,891</u>	<u>(128,184)</u>	<u>113,782,650</u>	<u>1,198,658,712</u>
Less accumulated depreciation for:					
Utility plant	(318,533,639)	(26,482,798)	118,870	-	(344,897,567)
Canal system	(7,398,058)	(626,329)	-	-	(8,024,387)
Total accumulated depreciation	<u>(325,931,697)</u>	<u>(27,109,127)</u>	<u>118,870</u>	<u>-</u>	<u>(352,921,954)</u>
Net capital assets being depreciated	<u>756,667,658</u>	<u>(24,704,236)</u>	<u>(9,314)</u>	<u>113,782,650</u>	<u>845,736,758</u>
Total capital assets, net	<u>\$ 1,135,779,965</u>	<u>\$ 40,161,748</u>	<u>\$ (9,314)</u>	<u>\$ -</u>	<u>\$ 1,175,932,399</u>

**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 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, the CCWD/City of Brentwood 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 the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**Construction in Progress** - Construction in Progress at June 30, 2011, was comprised of the following:

	Expended to Date	Projected Remaining Costs	Estimated Completion Date
Los Vaqueros Expansion 275TAF Federal/State Studies	\$ 28,277,815	\$ 8,180,185	2014
Los Vaqueros Expansion 160TAF Expansion	21,778,117	96,291,883	2014
Contra Costa Canal Fish Screen	7,692,435	1,461,347	2012
Middle River Intake Project	3,367,281	3,681	*
2003 Water Treatment Plant Master Plan Implementation	2,507,047	770,717	*
Los Vaqueros Energy Recovery	2,001,327	6,407,225	2012
Untreated Water Revenue Meter Data Loggers	1,979,302	76,000	2012
Applicant Funded Projects	1,916,329	1,836,717	*
Shortcut Pipeline Improvements	1,839,843	10,469,157	2016
Treated Water Facility Improvement Program	1,492,541	1,884,185	*
Pipeline Renewals/Replacement Program	1,447,550	3,452,784	*
SCADA Upgrades	1,347,227	491,000	2012
Paso Nogal Abandonment	1,170,386	86,000	2012
Canal Replacement	751,046	137,467	2012
Treatment Plant Restoration	480,399	580,000	*
Water Demand Reduction Program	463,911	1,189,000	*
Untreated Water Facility Improvement Program	385,181	2,060,975	*
2011 Water Treatment Plant Master Plan & Implementation	361,429	410,400	*
Treated Water Reservoir Rehabilitation Program	289,978	1,549,251	*
Other Projects & Programs	1,432,191	5,208,690	*
Total	<u>\$ 80,981,335</u>	<u>\$ 142,546,664</u>	

\* Completed segments of these projects will be transferred out when placed into service.

**4 CERTAIN NONCURRENT LIABILITIES**

**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, 2011, were as follows:

Balance, July 1, 2010	\$ 4,472,011
Deposits received	1,263,538
Earned revenue or deposits refunded	<u>(1,289,853)</u>
Balance, June 30, 2011	<u>\$ 4,445,696</u>

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**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, 2011, were as follows:

Balance, July 1, 2010	\$ 1,203,510
Revenue recognized	<u>(226,859)</u>
Balance, June 30, 2011	<u>\$ 976,651</u>

**5 LONG-TERM LIABILITIES**

**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, 2010	Additions	Retirements	Balance June 30, 2011	Amount due within one year
<b>Water Revenue Notes:</b>						
<b>2010 Series A,</b>						
1.00 - 4.00%, due 10/01/15	\$ 127,630,000	\$ 127,630,000	\$ -	\$ -	\$ 127,630,000	\$ 30,000,000
Add: Unamortized premium		4,875,118	-	1,432,854	3,442,264	1,092,392
Water revenue notes, net		<u>132,505,118</u>	<u>-</u>	<u>1,432,854</u>	<u>131,072,264</u>	<u>31,092,392</u>
<b>Water Revenue Bonds:</b>						
<b>1992 Series E Refunding,</b>						
3.50 - 6.10%, due 10/01/18	35,340,000	5,550,000	-	1,740,000	3,810,000	1,845,000
<b>2001 Series K,</b>						
3.5 - 4.5%, due 10/01/31	113,045,000	83,785,000	-	8,995,000	74,790,000	9,480,000
<b>2002 Series L Refunding,</b>						
3.00 - 5.00%, due 10/01/32	120,715,000	94,265,000	-	3,415,000	90,850,000	3,545,000
<b>2003 Series M Refunding,</b>						
2.00 - 5.00%, due 10/01/26	86,620,000	70,580,000	-	625,000	69,955,000	650,000
<b>2005 Series N Refunding,</b>						
5.00%, due 10/01/26	114,555,000	114,555,000	-	-	114,555,000	-
<b>2007 Series O Refunding,</b>						
4.25 - 5.00%, due 10/01/29	67,710,000	65,945,000	-	2,845,000	63,100,000	3,065,000
<b>2002 Series A Refunding,</b>						
2.5 - 5.00%, due 10/01/20	46,660,000	32,370,000	-	2,350,000	30,020,000	2,450,000
<b>State Revolving Fund Loans:</b>						
<b>2001 State Revolving Fund Loan</b>						
2.5132%, due 07/01/22	15,137,776	10,324,612	-	712,598	9,612,014	730,619
<b>2004 State Revolving Fund Loan</b>						
2.39%, due 07/01/24	2,000,000	1,496,251	-	91,163	1,405,088	93,355
<b>2005 State Revolving Fund Loan</b>						
2.9%, due 07/01/24	5,942,427	4,578,719	-	267,666	4,311,053	274,102
Less: Unamortized discounts, premiums, and deferred losses on refundings		<u>(26,089,592)</u>	<u>-</u>	<u>(3,795,680)</u>	<u>(22,293,912)</u>	<u>(403,574)</u>
Total bonds and loans payable, net		<u>457,359,990</u>	<u>-</u>	<u>17,245,747</u>	<u>440,114,243</u>	<u>21,729,502</u>
Total long-term debt, net		<u>\$ 589,865,108</u>	<u>\$ -</u>	<u>\$ 18,678,601</u>	<u>\$ 571,186,507</u>	<u>\$ 52,821,894</u>

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

*Description of the District's Long-Term Debt Issues*

**2010 Water Revenue Notes, Series A** – The District issued Water Revenue Notes on June 30, 2010, for refinancing \$79,000,000 of outstanding Tax-Exempt Commercial Paper Notes and for funding \$53,505,118 of future construction projects. The Water Revenue Notes 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.

**1992 Water Revenue 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 refund \$19,560,000 of the Series E bonds.

**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. Interest payments are payable semi-annually on April 1 and October 1.

**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.

**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.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**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. Interest payments commence on October 1, 2005, and are payable semi-annually on April 1 and October 1.

**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 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 *Short-Term Borrowing* 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.

**Pledged Revenues** – The District has pledged future water revenues, net of specified operating expenses, to repay the various water revenue notes and bonds above. The water revenue notes and bonds are payable solely from and secured by a pledge of net revenues of the Water System. The total principal and interest remaining to be paid on the water revenue notes and bonds is \$783,917,072. Principal and interest paid for the current year and total customer net revenues were \$42,699,009 and \$88,181,065, respectively.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**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
2012	\$ 52,133,076	\$ 24,613,623
2013	51,030,388	23,088,068
2014	54,963,380	21,274,812
2015	31,162,066	19,487,717
2016	60,411,470	17,712,056
2017 - 2021	147,199,641	65,531,038
2022 - 2026	125,043,134	32,128,516
2027 - 2031	58,110,000	7,455,677
2032 - 2033	9,985,000	427,438
Totals	<u>\$ 590,038,155</u>	<u>\$ 211,718,945</u>

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.

**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, 2011, \$361,460,000 of bonds outstanding are considered defeased (\$32,230,000 of 1990 Water Treatment Revenue Bonds, Series A; \$19,250,000 of 1988 Water Revenue Bonds, Series B; \$28,495,000 of 1990 Water Revenue Bonds, Series C; \$28,565,000 of 1992 Water Revenue Bonds, Series D; and \$252,920,000 of outstanding 2010 to 2021 maturities of 1994 Water Revenue Bonds, Series G).

**Short-Term Borrowing** - During fiscal years 2007-2010, the District utilized a Commercial Paper Program with a \$100 million limit, as approved by the Board of Directors, to cash flow construction of the City of Brentwood Water Treatment Plant and the Middle River Intake Project. The proceeds of the Water Revenue Notes, Series A, were used to retire all outstanding Commercial Paper borrowings in Fiscal Year 2010. The Commercial Paper Program is dormant and reactivation would require Board approval and authorization of a new letter of credit.

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**6 RETIREMENT PLAN**

**Plan Description** - The Contra Costa Water District Retirement Plan (the 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 are eligible to participate. Employee participants are divided into five primary classifications for coverage: clerical/maintenance, confidential, professional/supervisory, unrepresented, and Board Members. The Plan provides retirement and disability and death benefits to all eligible participants.

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

A stand-alone financial report of the Plan is available at the District's office located at 1331 Concord Avenue, Concord, California 94520.

**Funding Policy** - The District's annual covered payroll for employees participating in the Plan for the year ended June 30, 2011 was approximately \$26,769,000. The District's fiscal year 2011 payroll for all employees was approximately \$29,719,400. Benefit and contribution provisions are established by the trust agreement creating the 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 Plan as determined by the Plan's actuary. The District's contribution rate, as a percentage of covered payroll, was 11.06%, or \$2,700,384, as required by the June 30, 2010, (most recent) actuarial report.

The District's annual pension cost and schedule of contributions for the past three years are as follows:

Fiscal Year	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
6/30/2009	\$ 3,231,402	100%	\$ -
6/30/2010	2,168,156	100%	-
6/30/2011	2,700,384	100%	-

The Plan's actuarial value and funding progress as of June 30, 2010, is set forth below at the most recent actuarial valuation date:

Amounts 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, 2010	\$ 102,277	\$ 113,841	\$ (11,564)	89.8%	\$ 26,769	-43.20%

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

**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, 2010
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%
Cost-of-living adjustments	Based on economic trends

\*Includes inflation at 4%

A schedule of funding progress that shows multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits can be found in the required supplementary information.

**7 POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT**

**Trust Description** - The District's employees are eligible for post-employment health care benefits (OPEB) if they directly retire from employment at the District. These benefits are paid through the Contra Costa Water District Other Post-Employment Benefits Trust (the 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, 2011, there were 172 retirees or their beneficiaries 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. The Trust reports these benefits on a pay-as-you-go basis through payments to an insurance company. The actual benefits paid to beneficiaries totaled \$2,020,203 in fiscal year 2011.

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 94520.

**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 as of July 1, 2009 using the actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) 8% - 4%% 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

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

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 annual required contribution (ARC), interest, adjustment to the ARC, and contributions, as presented below:

Annual required contribution	\$ 3,725,000
Interest on net OPEB asset	(264,255)
Adjustment to annual required contribution	34,001
Annual OPEB cost	3,494,746
Contributions made	(3,653,480)
Change in net OPEB asset	(158,734)
Net OPEB asset - beginning of year	(3,043,778)
Net OPEB asset - end of year	\$ (3,202,512)

The District's annual OPEB cost and actual OPEB cost contributed for the past three years is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Change in Net OPEB Asset	Net OPEB Asset
6/30/2009	\$ 3,585,775	\$ 2,616,000	73%	\$ 969,775	\$ (4,266,670)
6/30/2010	4,067,892	2,845,000	70%	1,222,892	(3,043,778)
6/30/2011	3,494,746	3,653,480	105%	(158,734)	(3,202,512)

The schedule of funding progress shown as required supplementary information 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. Funded status from the July 1, 2009, actuarial study is presented below:

Amounts in Thousands						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Cost Method Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((A-B)/C)
7/1/2009	\$ 6,844	\$ 59,586	\$ (52,742)	11.5%	\$ 26,049	-202.5%

**CONTRA COSTA WATER DISTRICT**  
**Notes to the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

As of June 30, 2011, the Trust has accumulated assets of \$12,560,167 that will be used to pay future OPEB benefits. The assets held at June 30, 2011, represent a funded ratio of 21%, based on the latest actuarial valuation dated July 1, 2009.

**Actuarial Method and Assumptions** – Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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	July 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	8%
Projected medical trend rate**	4 - 8%
Participation in postretirement medical plan	100%

\*Includes inflation at 4%

\*\*Rate starts at 8% annually and declines over the next 5 years to 4%

**8 RISK MANAGEMENT**

The District has purchased commercial insurance for property and liability in the insurance marketplace through Arthur J. Gallagher & Co., the District's selected insurance broker/consultant. During the fiscal year which ended June 30, 2011, the District paid \$542,963 for current year coverage.

The District purchased workers' compensation insurance through Wausau Insurance Company. During the fiscal year ended June 30, 2011, the District paid \$720,979 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 the Basic Financial Statements (Continued)**  
Year Ended June 30, 2011

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	\$ 30,000,000	\$ 500,000
Property	150,000,000	100,000
DIC - SCADA (Earthquake)	1,500,000	100,000
Flood	150,000,000	100,000
Crime	50,000 - 1,000,000	0 - 5,000
Public Official Bond	25,000	No deductible
Hull Collision, Protection & Indemnity	67,900 - 1,000,000	500 - 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.

**9 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.

**10 SUBSEQUENT EVENTS**

On July 6, 2011, the District issued Series P Water Revenue Bonds to refinance \$50 million of Series K Water Revenue Bonds related to the original construction of Los Vaqueros Reservoir. On this same date, the District sold \$60 million of Series B Water Revenue Notes in support of continued funding for the Los Vaqueros Expansion project. These short-term notes have an average interest rate of 1.38% and average maturity of 4.3 years. The first debt service payment will be due on October 2011.

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**Required Supplementary Information (Unaudited)**

**CONTRA COSTA WATER DISTRICT**  
**Required Supplementary Information (Unaudited)**  
**Schedules of Funding Progress (In thousands)**  
Year Ended June 30, 2011

**CONTRA COSTA WATER DISTRICT RETIREMENT PLAN**

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, 2008	\$ 101,765	\$ 103,699	\$ (1,934)	98.1%	\$ 24,578	-7.87%
June 30, 2009	102,581	105,933	(3,352)	96.8%	26,049	-12.87%
June 30, 2010	102,277	113,841	(11,564)	89.8%	26,769	-43.20%

**CONTRA COSTA WATER DISTRICT OTHER POST-EMPLOYMENT BENEFITS TRUST**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
July 1, 2007	\$ -	\$ 48,374	\$ (48,374)	0.0%	\$ 22,991	-210.4%
July 1, 2009	6,844	59,586	(52,742)	11.5%	26,049	-202.5%

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**Supplementary Information**

**CONTRA COSTA WATER DISTRICT**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS**  
**AS OF JUNE 30, 2011**

	Retirement Plan Trust Fund	Other Post-Employment Benefit Trust Fund	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,661,388	\$ -	\$ 1,661,388
Investments, at fair value:			
US Treasury securities	10,990,988	525,009	11,515,997
Federal agency securities	2,335,728	1,146,332	3,482,060
Mortgage/Asset - Backed securities	13,032,689	-	13,032,689
Real estate invesment fund	6,063,628	-	6,063,628
Corporate bonds	8,924,021	2,345,294	11,269,315
Equity securities	-	3,675,111	3,675,111
Equity mutual funds	68,302,124	4,630,544	72,932,668
Municipal bonds	-	237,877	237,877
Total investments	<u>109,649,178</u>	<u>12,560,167</u>	<u>122,209,345</u>
Total cash and investments	<u>111,310,566</u>	<u>12,560,167</u>	<u>123,870,733</u>
Receivables:			
Accrued income	314,540	-	314,540
Contribution due from District	136,735	-	136,735
Contribution due from participants	68,605	-	68,605
Total receivables	<u>519,880</u>	<u>-</u>	<u>519,880</u>
Total assets	<u>111,830,446</u>	<u>12,560,167</u>	<u>124,390,613</u>
<b>LIABILITIES:</b>			
Pending trades payable	<u>77,477</u>	<u>-</u>	<u>77,477</u>
<b>NET ASSETS:</b>			
Net assets held in trust	<u>\$ 111,752,969</u>	<u>\$ 12,560,167</u>	<u>\$ 124,313,136</u>

**CONTRA COSTA WATER DISTRICT  
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

	Retirement Plan Trust Fund	Other Post-Employment Benefit Trust Fund	Total
Additions:			
Contributions:			
District	\$ 2,700,384	\$ 3,653,480	\$ 6,353,864
Paid by the District on behalf of employees	594,858	-	594,858
Paid by employees	2,105,505	-	2,105,505
Total contributions	<u>5,400,747</u>	<u>3,653,480</u>	<u>9,054,227</u>
Investment income:			
Net increase in fair value of investments	16,952,593	1,958,025	18,910,618
Interest, dividends, and other	2,548,649	281,715	2,830,364
Less: investment expenses	(48,510)	(56,271)	(104,781)
Net investment income	<u>19,452,732</u>	<u>2,183,469</u>	<u>21,636,201</u>
Total additions	<u>24,853,479</u>	<u>5,836,949</u>	<u>30,690,428</u>
Deductions:			
Distributions paid to participants	5,754,388	2,020,203	7,774,591
Administrative (expenses)	1,931	-	1,931
Total deductions	<u>5,756,319</u>	<u>2,020,203</u>	<u>7,776,522</u>
Net increase	<u>19,097,160</u>	<u>3,816,746</u>	<u>22,913,906</u>
Net Assets:			
Beginning of year	<u>92,655,809</u>	<u>8,743,421</u>	<u>101,399,230</u>
End of year	<u>\$ 111,752,969</u>	<u>\$ 12,560,167</u>	<u>\$ 124,313,136</u>

## APPENDIX B

### SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Extendable Municipal Commercial Paper Trust Agreement (the "Trust Agreement"), the Issuing and Paying Agency Agreement, the Mezzanine Note Trust Agreement, and the Master Bond Resolution that is not described elsewhere in this Official Statement. This summary is not to be considered a full statement of the terms and conditions contained in such documents and accordingly is qualified by reference thereto and is subject to the full text thereof.

### TRUST AGREEMENT

The Trust Agreement provides for the authentication and delivery of Notes, establishes and declares the terms and conditions upon which 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. All capitalized terms not otherwise defined in this Offering Memorandum or below under the caption "DEFINITIONS RELATING TO THE TRUST AGREEMENT" shall have the meanings set forth in the Trust Agreement.

### DEFINITIONS RELATING TO THE TRUST AGREEMENT

**Advice** means a notice, direction or other instrument executed by the Issuing and Paying Agent and delivered to the Depository which specifies the amount by which the indebtedness evidenced by a Master Note is to be increased on any particular date, the respective rates of interest at which each portion of such amount is to bear interest, the respective dates on which each portion of such amount matures and such other information as may be required pursuant to the systems and procedures of the Depository of the Master Note applicable to implementation of its book-entry program for obligations of the character of the Notes.

**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, (b) all Mezzanine Debt, and (c) all Notes and Parity Subordinate 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, Mezzanine Debt, Notes and Parity Subordinate Debt; provided, however, that for purposes of the calculation of Annual Debt Service:

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

(b) The amount of interest deemed to be payable on any Variable Interest Rate Senior Debt, Mezzanine Debt, Notes or Parity Subordinate Debt for any period for which Annual Debt Service on such Variable Interest Rate Senior Debt, Mezzanine Debt, Notes or Parity Subordinate Debt cannot be determined shall be calculated on the assumption that the interest rate on the Senior Debt, Mezzanine

Debt, Notes or Parity Subordinate 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, Mezzanine Debt, Notes or Parity Subordinate Debt with respect to which a Payment Agreement has been entered into by the District, interest on such Senior Debt, Mezzanine Debt, Notes or Parity Subordinate 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, Mezzanine Debt, Notes or Parity Subordinate Debt in such Fiscal Year at the rate or rates stated in such Senior Debt, Mezzanine Debt, Notes or Parity Subordinate 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.

**Authorized Representative**, when used with respect to the District, means the General Manager or the District or his designee.

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

**Available Subordinate 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 and Mezzanine Debt for such Fiscal Year.

**Business Day** means any day which is not a Saturday, Sunday or a legal holiday in the State or a day on which any of the following are legally authorized or required to close: (i) the District; (ii) the New York Stock Exchange; (iii) banking institutions chartered by the State or the United States of America; (iv) a Dealer; or (v) the Issuing and Paying Agent.

**Certificate, Statement, Request, Requisition and Order** of the District mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the District by its General Manager or any other person authorized by the General Manager to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Trust Agreement, each such instrument shall include the statements provided for in the Trust Agreement.

**Dealer** means the person or persons designated by an Authorized Representative of the District as the dealer for all or a portion of the Notes, or any successors or assigns approved in writing by the District, or any successor dealer appointed by the District.

**Depository** means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, or any other person, firm, association or corporation appointed by the District to serve as securities depository for a Master Note.

**EMCP Note** means a Note substantially in the form set forth in the Trust Agreement.

**Extended Maturity Date** when used in connection with any Note means the date to which the Original Maturity Date is extended, being the date, together with the number of days from the Issue Date to the Original Maturity Date, that is two hundred seventy (270) days after the Issue Date of such Note.

**Fiscal Year** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve month period hereafter selected and designated as the official fiscal year period of the District.

**Fitch** means Fitch Ratings Inc., or its successors and assigns.

**Holder or Noteholder**, whenever used herein with respect to a Note, means the person in whose name such Note is registered.

**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;

(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) any Federal agency or instrumentality of the United States;

(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 a nationally recognized statistical rating organization;

(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 by a nationally recognized statistical rating organization;

(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 statistical rating organization in either of its two highest Rating Categories;

(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 in the highest short term Rating Category by a nationally recognized statistical organization 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 in the highest short term Rating Category by a nationally recognized statistical rating organization;

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

(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 short term rating if any by a nationally recognized statistical rating organization, 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 statistical rating organization;

(xi) any repurchase agreement with 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) 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, rated in the highest Rating Category by a nationally recognized statistical rating organization, including any such money market fund from which the Trustee or its affiliates receive fees for services for such fund;

(xiii) bankers' acceptances of any bank (including the Trustee) or savings and loan association, the short term debt obligations of which are rated in the highest Rating Category by a nationally recognized statistical rating organization;

(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 by a nationally recognized statistical rating organization;

(xv) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code, which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended;

(xvi) 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; and

(xvii) any other investment which is a permitted investment of the District in accordance with the laws of the State.

**Issue Date** when used in connection with any Note means, in connection with an EMCP Note, the date on which it is issued, and, in connection with indebtedness incurred under a Master Note pursuant to an Advice, the date such indebtedness is incurred.

**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).

**Master Note** means a promissory note substantially in the form set forth in the Trust Agreement that is registered in the name of the Depository thereof or its nominee, or any successor or assign.

**Maximum Rate** means the lesser of (i) the maximum rate of interest allowable by law and (ii) twelve percent (12%) per annum.

**Mezzanine Debt** means all Mezzanine Notes and Parity Mezzanine Debt then outstanding.

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

**Moody's** means Moody's Investors Service Inc., or its successors and assigns.

**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.

**Note or Notes** means any of the EMPC Notes of the District authorized and issued pursuant to the Trust Agreement and any indebtedness incurred under a Master Note pursuant to an Advice.

**Original Maturity Date**, when used with respect to any Note means, the maturity date established by the District for such Note at the time of issuance; provided, however, that such date shall not be more than one hundred twenty (120) days after the Issue Date for such Note.

**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 Subordinate 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 Subordinate 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, Mezzanine Debt, Notes or Parity Subordinate 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 Master 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.

**Rating Service** means, as of any particular date of determination, each of Moody's, Fitch and S&P, if such rating service has at the request of the District assigned a rating to the then Outstanding Notes.

**Reset Interest Payment Date** means the first Business Day of the month after the Original Maturity Date, the first Business Day of each month thereafter and the Extended Maturity Date or the date of earlier redemption.

**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 Master 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.

**S&P** means Standard & Poor's Ratings Service, or its successors and assigns.

**Senior Debt** means Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds issued pursuant to the Master Bond Resolution and Parity Debt (as defined in the Master 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.

**Tax Certificate** means the Tax Certificate delivered by the District at the time of the issuance and delivery of Notes, as the same may be amended or supplemented in accordance with its terms.

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

## **CERTAIN PROVISIONS OF THE 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.

### **Provisions from Master Bond Resolution and Mezzanine Note Trust Agreement Relating to Limitations on Issuance of Obligations Payable from Net Revenues**

See discussion under the caption "SECURITY FOR THE NOTES – Provisions from Master Bond Resolution and Mezzanine Note Trust Agreement Relating to Limitations on Issuance of Obligations Payable from Net Revenues" in the forepart of this Official Statement.

### **Interchangeability of EMCP Notes**

EMCP Notes registered to bearer, upon surrender thereof at the office of the Issuing and Paying Agent may, at the option of the Holder thereof, be exchanged for an equal aggregate principal amount of EMCP Notes registered other than to bearer of the same date, maturity and interest rate of any other authorized denominations.

EMCP Notes registered other than to bearer, upon surrender thereof at the office of the Issuing and Paying Agent with a written instrument of transfer satisfactory to the Issuing and Paying Agent, duly executed by the registered owner or his attorney duly authorized in writing, may, subject to the provisions of the Trust Agreement, be exchanged for an equal aggregate principal amount of EMCP Notes registered to bearer of the same date, maturity and interest rate of any other authorized denominations.

### **Negotiability, Transfer and Registry**

All EMCP Notes issued under the Trust Agreement shall be negotiable, subject to the provisions for registration and transfer contained in the Trust Agreement and in the EMCP Notes. So long as any of the EMCP Notes shall not have matured, the District shall maintain and keep, at the office of the Issuing and Paying Agent, books for the registration and transfer of Notes; and, upon presentation for such purpose at said office, the District shall register or cause to be registered pursuant to the Trust Agreement, and permit to be transferred thereon, under such reasonable regulations as it or the Issuing and Paying Agent may prescribe, any EMCP Note entitled to registration or transfer. So long as any of the EMCP

Notes have not matured, the District shall make all necessary provisions to permit the exchange of EMCP Notes at the office of the Issuing and Paying Agent.

### **Transfer of Notes**

All EMCP Notes registered to bearer shall be transferable by delivery. Any such EMCP Note may be registered on the books of the District at the office of the Issuing and Paying Agent, upon presentation thereof at said office and the payment of a charge sufficient to reimburse the District or the Issuing and Paying Agent for any tax, fee or other governmental charge required to be paid with respect to such registration, and such registration shall be noted on such EMCP Note. After said registration no transfer thereof shall be valid unless made on said books by the registered owner in person or by his attorney duly authorized in writing and similarly noted on such EMCP Note; but such EMCP Note may be discharged from registration by being in like manner transferred to bearer, after which it shall again become transferable by delivery. Thereafter such EMCP Note may, subject to the provisions of the Trust Agreement, again, from time to time, be registered or discharged from registration in the same manner.

Each EMCP Note registered other than to bearer shall be transferable only upon the books of the District, which shall be kept for that purpose at the office of the Issuing and Paying Agent, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Issuing and Paying Agent duly executed by the registered owner or his duly authorized attorney and the payment of a charge sufficient to reimburse the District or the Issuing and Paying Agent for any tax, fee or other governmental charge required to be paid with respect to such transfer. Upon the transfer of any such registered EMCP Note, the District shall cause to be issued in the name of the transferee a new EMCP Note or EMCP Notes or at the option of the transferee and, subject to the provisions of the Trust Agreement, EMCP Notes registered to bearer, of the same aggregate principal amount, date, Original Maturity Date and Interest Rate as the surrendered EMCP Note.

The District and the Issuing and Paying Agent may deem and treat the bearer of any EMCP Note which shall not at the time be registered other than to bearer, or the person in whose name any EMCP Note for the time being shall be registered on the books of the District, as the absolute owner of such EMCP Note, whether such EMCP Note shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such EMCP Note and for all other purposes whatsoever, and such payments so made to the bearer of a EMCP Note registered to bearer or to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such EMCP Note to the extent of the sums paid, and neither the District nor the Issuing and Paying Agent shall be affected by any notice to the contrary. The District agrees to indemnify and save the Issuing and Paying Agent harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence or willful misconduct hereunder, in so treating such bearer or registered owner.

### **Regulations with Respect to Exchanges and Transfers**

In all cases in which the privilege of exchanging or transferring EMCP Notes is exercised, the District shall execute and the Issuing and Paying Agent shall authenticate and deliver EMCP Notes in accordance with the provisions of the Trust Agreement. All EMCP Notes surrendered in any such exchanges or transfers shall forthwith be canceled by the Issuing and Paying Agent. For every such exchange or transfer of EMCP Notes, the District or the Issuing and Paying Agent may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer.

Notwithstanding any other provisions under the Trust Agreement, the cost of preparing each new EMCP Note upon each exchange or transfer, and any other expenses of the District or the Issuing and Paying Agent incurred in connection therewith, shall be paid by the person requesting such exchange or transfer.

### **Pledge of Revenues**

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 Subordinate 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 Subordinate 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 Subordinate 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 Master 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 Master Bond Resolution.

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

Fourth: There shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on all Notes and Parity Subordinate Debt, together with any reserve fund payments of Notes and Parity Subordinate 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 are no longer Outstanding.

### **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 Subordinate Debt Service Coverage Ratio at the end of each such Fiscal Year is not less than 1.15:1.0. 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.

### **Issuance of Senior Debt; Amendment of Master Bond Resolution**

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

The District shall not amend, modify or supplement the Master Bond Resolution except in compliance with the Master 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 Subordinate Debt then outstanding.

### **Issuance of Mezzanine Debt; Amendment of Mezzanine Note Trust Agreement**

The District shall not issue or incur additional Mezzanine Debt except in compliance with the Mezzanine Note Trust Agreement.

The District shall not amend, modify or supplement the Mezzanine Note Trust Agreement except in compliance with the Mezzanine Note Trust Agreement. 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 Subordinate Debt then outstanding.

### **Tax Covenants**

The District shall at all times do and perform all acts and things permitted by law and the Trust Agreement that are necessary or desirable in order to assure that interest paid on the Notes (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the District agrees to comply with the provisions of the Tax Certificate on the date of issuance of the Notes. This covenant shall survive payment in full or defeasance of the Notes.

## 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 Subordinate 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 Mezzanine Debt or the trustee for any holders of Senior Debt or Mezzanine Debt at the time outstanding exercises a right under the Senior Debt or Mezzanine 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, (1) 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 and (2) the Notes shall bear interest at the Maximum Rate.

### **Application of Revenues and Other Funds After Default**

If an Event of Default shall occur and be continuing, all Available Subordinate 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 Subordinate Debt (upon presentation of the Notes and Parity Subordinate 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 Subordinate 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 Subordinate 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 Subordinate 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 Subordinate 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 Subordinate Debt, with interest on the overdue principal at the rate borne by the respective Notes and Parity Subordinate 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 Subordinate Debt over any other Note or Parity Subordinate 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 Subordinate 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) if the District has agreed in a Supplemental Trust Agreement to maintain the exclusion of interest on 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 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, 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; or
- (c) by delivering to the Trustee, for cancellation by it, all Notes then Outstanding.

If the District shall pay all Notes then 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 and the Issuing and Paying Agent 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 or the Issuing and Paying Agency Agreement, respectively, which, as evidenced by a verification report from a

firm of certified public accountants, or other firm selected by the District, are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption.

## ISSUING AND PAYING AGENCY AGREEMENT

The Issuing and Paying Agency Agreement provides the terms for payment of the Notes by the Issuing and Paying Agent. This summary does not purport to be complete or definitive and is qualified by reference to the full terms of the Issuing and Paying Agency Agreement. All capitalized terms not otherwise defined in this Offering Memorandum or below under the caption "DEFINITIONS RELATING TO THE TRUST AGREEMENT" shall have the meanings set forth in the Issuing and Paying Agency Agreement.

### DEFINITIONS RELATING TO THE ISSUING AND PAYING AGENCY AGREEMENT

Terms not otherwise defined herein can be found above in the Trust Agreement definitions of this Appendix B.

### CERTAIN PROVISIONS OF THE ISSUING AND PAYING AGENCY AGREEMENT

#### Creation of Funds and Accounts

(a) **Proceeds Fund and Payment Fund.** Pursuant to the Trust Agreement, the Issuing and Paying Agent shall establish two separate funds designated the "Proceeds Fund" (the "Proceeds Fund") and the "Payment Fund" (the "Payment Fund"). The moneys therein shall be held by the Issuing and Paying Agent for the benefit of the respective Holders of the Notes and applied as provided in the Issuing and Paying Agency Agreement.

(b) **Payments into Proceeds Fund.** The Issuing and Paying Agent shall deposit to the credit of the appropriate account of the Proceeds Fund the proceeds received in connection with the issuance of Notes on the day on which such proceeds are received.

(c) **Transfers to Payment Fund.** The Issuing and Paying Agent shall immediately upon receipt of amounts deposited into the Proceeds Fund as described above, transfer to the applicable account of the Payment Fund on the date such proceeds are received, the amount necessary to pay the principal of Notes that mature (either on their respective Original Maturity Dates or Extended Maturity Dates) or have been called for redemption, in each case on the date such transfer is made. The Issuing and Paying Agent shall also deposit to the credit of the appropriate account in the Payment Fund all amounts received from the District for the payment of interest on Notes and such other amounts as the District may elect to deposit in the specified account of the Payment Fund.

(d) **Payments for Refunding Purposes.** If Notes have been issued for the purpose of paying or providing for the payment or discharge of any other obligations of the District, the amount of proceeds thereof necessary for such purpose shall be applied on the date such proceeds are received in accordance with written instructions of an Authorized Representative of the District.

(e) **Transfers to District.** After deposit and application of amounts as set forth in the Issuing and Paying Agency Agreement, the balance of the proceeds received in connection with the issuance of the Notes shall be transferred to the District to be applied or to reimburse the District for prior expenditures as directed by an Authorized Representative of the District.

## **Payment of the Notes**

(a) **Payment Solely from Payment Fund.** The Issuing and Paying Agent shall pay the principal of and interest on each Note solely from moneys in the Payment Fund.

As provided in the Issuing and Paying Agency Agreement, on or before 3:00 P.M., New York City time, on each Business Day prior to the day on which Notes mature the Issuing and Paying Agent shall confirm, or provide through access to the Issuing and Paying Agent's on-line computer record-keeping ("SPANS"), to an Authorized Representative of the District the aggregate principal amount of Notes maturing on such next succeeding day and the interest due thereon. With respect to each Original Maturity Date of Notes, the District shall transfer to the Issuing and Paying Agent in immediately available funds for receipt by 2:30 P.M., New York City time, on such Original Maturity Date, for deposit in the applicable account of the Payment Fund, the amount of interest due on such Notes (unless such amount shall otherwise be on deposit in the District's account with the Issuing and Paying Agent (the "District's Account") and available therefor). In addition, with respect to the Original Maturity Date of any Note for which the Original Maturity Date has not been extended to the Extended Maturity Date as provided in the Issuing and Paying Agency Agreement and for which the Dealer has been unable to arrange for the purchase of Notes sufficient to pay the principal of the Notes maturing on such Original Maturity Date, the District shall transfer to the Issuing and Paying Agent in immediately available funds for receipt by 2:30 P.M., New York City time, on such Original Maturity Date for deposit in the applicable account of the Payment Fund, the net amount of principal therefor due on such Notes (unless such amount shall otherwise be on deposit in the District's Account with the Issuing and Paying Agent and available therefor).

(b) **Extension of Maturity Date.** On the Original Maturity Date of a Note (i) the District, by no later than 11:00 a.m., New York City time, on such Original Maturity Date shall notify the Dealer and the Issuing and Paying Agent of its intent to extend the Original Maturity Date to the Extended Maturity Date, and (ii) the Issuing and Paying Agent shall, by no later than 11:30 a.m., New York City time, on such Original Maturity Date correspondingly notify the Depository of such extension, whereupon, in accordance with the Trust Agreement, the maturity date of such Note shall be extended to the Extended Maturity Date. In the event that (i) the Issuing and Paying Agent has received from the Dealer a notice given no later than 10:30 a.m., New York City time, to the effect that the Dealer has been unable to arrange for the purchase of Notes sufficient to pay the principal of the Notes maturing on such Original Maturity Date and (ii) the District fails to notify the Issuing and Paying Agent of its intention to extend the maturity date of a Note by no later than 11:00 a.m., New York City time on the Original Maturity Date, then, if no event of default is continuing under the Trust Agreement, such notice shall be deemed to have been given and the maturity date of such Note shall automatically be extended to the Extended Maturity Date and the Issuing and Paying Agent shall notify the Depository of such extension.

With respect to any Note the Original Maturity Date of which has been extended to the Extended Maturity Date, on or before 3:00 P.M., New York City time, on each Business Day prior to each Reset Interest Payment Date for any such Note, the Issuing and Paying agent shall confirm to an Authorized Representative of the District the interest due on the Notes on each such Reset Interest Payment Date and the District shall transfer to the Issuing and Paying Agent in immediately available funds for receipt by 2:30 P.M., New York City time, on each such Reset Interest Payment Date, for deposit in the Payment Fund, the amount of interest due on such Note or Notes on each such Reset Interest Payment Date (unless such amount shall otherwise be on deposit in the District's Account with the Issuing and Paying Agent and available therefor).

(c) **Payment at Extended Maturity Date.** In the event that the Issuing and Paying Agent have received from the Dealer a notice given no later than 10:30 a.m., New York City time, on an

Extended Maturity Date, to the effect that the Dealer has been unable to arrange for the purchase of Notes sufficient to pay the principal of the Notes maturing on such Extended Maturity Date, the Issuing and Paying Agent shall immediately notify the District and the District shall transfer to the Issuing and Paying Agent in immediately available funds for receipt by 2:30 P.M., New York City time, on such Extended Maturity Date for deposit in the applicable account of the Payment Fund, the net amount of principal referred to in the Issuing and Paying Agency Agreement and therefor due on such Notes (unless such amount shall otherwise be on deposit in the District's Account with the Issuing and Paying Agent and available therefor).

The Issuing and Paying Agent shall have no obligation to pay, at the Extended Maturity Date, the net amount referred to in the Issuing and Paying Agency Agreement unless sufficient funds have been received by the Issuing and Paying Agent in collected funds.

(d) **Moneys Held for Payment of Notes.** If any Note required to be presented as a condition precedent to the payment thereof shall not be presented and sufficient moneys for the payment thereof and the interest accrued thereon are then held by the Issuing and Paying Agent in the Payment Fund, such Note shall, as between the District and the Holder thereof, be deemed paid and the Issuing and Paying Agent shall, subject to the Trust Agreement, hold such moneys uninvested, until presentation, in trust for the benefit of the Holder of such Note.

#### **Deposits of Moneys and Investment of Funds**

(a) **Deposits Constitute Trust Funds.** All moneys paid into any fund or account established in connection with the Trust Agreement which are held by the Issuing and Paying Agent shall be held in trust for the benefit of the Holders of Notes, but shall nevertheless be disbursed, allocated and applied for the uses and purposes provided in the Issuing and Paying Agency Agreement and in the Trust Agreement.

(b) **Investment of Moneys.** Moneys held by the Issuing and Paying Agent in any fund or account established under the Issuing and Paying Agency Agreement shall, as nearly as may be practicable, upon the direction of an Authorized Representative of the District given or confirmed in writing, be invested and reinvested by the Issuing and Paying Agent pursuant to the Trust Agreement. Any written instructions by an Authorized Representative of the District shall specify the amount thereof to be so invested.

#### **Miscellaneous Provisions**

(a) **Termination of Agreement.** The Issuing and Paying Agency Agreement (other than Payment at Extended Maturity Date and Investment of Moneys and the representations and warranties and the indemnification provisions contained in the Issuing and Paying Agency Agreement, which shall be continuing) shall terminate on the Termination Date and may be terminated by the District on not less than thirty (30) days prior notice thereof to the Issuing and Paying Agent; provided, however, no termination prior to the Termination Date shall take effect until a successor Issuing and Paying Agent or successor Issuing and Paying Agents have been appointed as provided in the Trust Agreement, and, if notice is required to be given pursuant to subparagraph (b) below, such notice is given to Holders of Outstanding Notes.

Upon the termination of the Issuing and Paying Agency Agreement, the Issuing and Paying Agent will deliver all unauthenticated Notes held by the Issuing and Paying Agent to or upon the order of the District against a receipt therefor and, if terminated prior to the Termination Date, the Issuing and Paying Agent shall comply with the provisions of the Trust Agreement.

(b) **Termination Notice.** In the event that the termination of the Issuing and Paying Agency Agreement terminates the duties of the Issuing and Paying Agent with respect to Notes issued prior to the date the appointment of any successor Issuing and Paying Agent takes effect, the District shall give notice to the Holders of Outstanding Notes of the termination of the Issuing and Paying Agency Agreement and the appointment of a successor Issuing and Paying Agent, by mailing, by first-class mail, postage prepaid, as soon as practicable after such termination, notice thereof to each registered Holder of a Note, and, if any Notes are then registered to bearer, by publishing notice thereof, as soon as practicable after such termination, in The Bond Buyer and a paper of general circulation in the District.

(c) **Amendments, Etc.** The Issuing and Paying Agency Agreement or any provision thereof may be supplemented, modified, waived, rescinded, terminated or amended only by an instrument in writing and signed by the parties thereto; provided, however, that no supplement, modification, waiver, rescission, termination or amendment shall adversely affect the rights of the Holders of Outstanding Notes, unless the Holders of a majority in aggregate principal amount of Outstanding Notes consent thereto. The District shall give written notice to Standard and Poor's Ratings Service and Fitch Ratings Inc. of any of such supplement, modification, waiver, rescission, termination or amendment.

### MEZZANINE NOTE TRUST AGREEMENT

The following is a summary of certain provisions of the Mezzanine Note Trust Agreement relating to limitations on issuance of Obligations payable from Available Mezzanine Revenues. This summary is not to be considered a full statement of the terms and conditions contained in the Mezzanine Note Trust Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof. All capitalized terms not otherwise defined in this Offering Memorandum or below under the caption "DEFINITIONS RELATING TO THE MEZZANINE NOTE TRUST AGREEMENT" shall have the meanings set forth in the Mezzanine Note Trust Agreement

#### DEFINITIONS RELATING TO THE MEZZANINE NOTE TRUST AGREEMENT

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

(b) The amount of interest deemed to be payable on any Variable Interest Rate Senior Debt, Mezzanine Notes or Parity Mezzanine Debt for any period for which Annual Debt Service on such Variable Interest Rate Senior Debt, Mezzanine Notes or Parity Mezzanine Debt cannot be determined shall be calculated on the assumption that the interest rate on the Senior Debt, Mezzanine 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, Mezzanine Notes or Parity Mezzanine Debt with respect to which a Payment Agreement has been entered into by the District, interest on such Senior Debt, Mezzanine 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, Mezzanine Notes or Parity Mezzanine Debt in such Fiscal Year at the rate or rates stated in such Senior Debt, Mezzanine 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, Mezzanine 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, Mezzanine 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, Mezzanine Notes or Parity Mezzanine Debt or the obligation of the District to pay such payments from Revenues.

**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).

**Master 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 Master Bond Resolution.

**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, Mezzanine 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 Mezzanine Note Trust Agreement, only in proportion to the amount of interest on such Senior Debt, Mezzanine Notes or Parity Mezzanine Debt which is payable in the then-current Fiscal Year from sources other than the proceeds of such Senior Debt, Mezzanine 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.

**Mezzanine Note Trust Agreement** means the Mezzanine Note Mezzanine 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.

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

**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.

**Outstanding**, when used as of any particular time with reference to Mezzanine Notes, means (subject to the provisions of the Mezzanine Note Trust Agreement relating to disqualified Mezzanine Notes) all Mezzanine Notes theretofore, or thereupon being, authenticated and delivered by the Trustee under the Mezzanine Note Trust Agreement except (1) Mezzanine Notes theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Mezzanine Notes with respect to which all liability of the District shall have been discharged in accordance with the discharge of liability on Mezzanine Notes provisions of the Mezzanine Note Trust Agreement, including Mezzanine Notes (or portions of Mezzanine Notes) referred to in the money held for particular Mezzanine Notes provision of the Mezzanine Note Trust Agreement; and (3) Mezzanine Notes for the transfer or exchange of or in lieu of or in substitution for which other Mezzanine Notes shall have been authenticated and delivered by the Trustee pursuant to the Mezzanine Note 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 Mezzanine Notes (whether or not any Mezzanine 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, Mezzanine 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.

**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 Mezzanine 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 Mezzanine 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 Master Bond Resolution.

**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 Mezzanine Note Trust Agreement or under the Master 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 Debt** means Contra Costa Water District Water Revenue Bonds and Contra Costa Water District Water Revenue Refunding Bonds issued pursuant to the Master Bond Resolution and Parity Debt (as defined in the Master Bond Resolution, referred to herein as "Senior Parity Debt").

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

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

## **CERTAIN PROVISIONS OF THE MEZZANINE NOTE TRUST AGREEMENT**

### **Issuance of Mezzanine Notes**

The District may by Supplemental Mezzanine Note Trust Agreement establish one or more Series of Mezzanine Notes, payable from Available Mezzanine Revenues and secured by the pledge of Revenues made under the Mezzanine Note Trust Agreement equally and ratably with Mezzanine Notes previously issued, and the District may issue, and the Mezzanine Note Trustee may authenticate and deliver to the purchasers thereof, Mezzanine Notes of any Series so established, in such principal amount as shall be determined by the District, but only upon compliance by the District with the provisions described under the headings “– Proceedings for Issuance of Additional Series of Mezzanine Notes” and “– Issuance of Refunding Mezzanine Notes” and any additional requirements set forth in said Supplemental Mezzanine Note Trust Agreement and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Mezzanine Notes:

(a) No Event of Default shall have occurred and will be continuing after the issuance of such additional Series of Mezzanine Notes.

(b) The aggregate principal amount of Mezzanine Notes issued hereunder shall not exceed any limitation imposed by law or by any Supplemental Mezzanine Note Trust Agreement.

(c) Either (i) 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 Mezzanine Notes and including the Senior Debt, Mezzanine Notes and Parity

Mezzanine Debt then Outstanding and such additional Series of Mezzanine Notes, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

(A) if rates and charges in effect on the date upon which such Series of Mezzanine 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

(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 Mezzanine Notes then being issued;

or (ii):

(A) The District has complied with Section 6.08 for the most recent Fiscal Year for which audited financial statements are available; and

(B) 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 Mezzanine 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 Mezzanine Notes is to be paid from the proceeds of such Mezzanine Notes) is projected to be at least equal to 1.25:1.0.

Nothing in this Section or in the Mezzanine Note Trust Agreement contained shall prevent or be construed to prevent the Supplemental Mezzanine Note Trust Agreement providing for the issuance of an additional Series of Mezzanine Notes from pledging or otherwise providing, in addition to the security given or intended to be given by the Mezzanine Note Trust Agreement, additional security for the benefit of such additional Series of Mezzanine Notes or any portion thereof.

#### **Proceedings for Issuance of Additional Series of Mezzanine Notes**

Whenever the District shall determine to issue a Series of Mezzanine Notes pursuant to the provisions of the Mezzanine Note Trust Agreement described above under “– Issuance of Mezzanine Notes,” the District shall authorize the execution and delivery of a Supplemental Mezzanine Note Trust Agreement specifying the principal amount, providing for the pledge, if any, of moneys in the funds and accounts established pursuant to such Supplemental Mezzanine Note Trust Agreement, and prescribing the forms of Mezzanine Notes of such additional Series and providing the terms, conditions, distinctive designation, denominations, methods of numbering, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal or Redemption Price, if any, of and interest on such Mezzanine Notes, and any other provisions respecting the Mezzanine Notes of such Series not inconsistent with the terms of the Mezzanine Note Trust Agreement.

Before such additional Series of Mezzanine Notes shall be issued and delivered, the District shall file the following documents with the Mezzanine Note Trustee:

(a) An executed copy of the Supplemental Mezzanine Note Trust Agreement authorizing such Series.

(b) A Certificate of the District stating that no Event of Default has occurred and will be continuing after the issuance of such additional Series of Mezzanine Notes.

(c) An Opinion of Bond Counsel that the execution of the Supplemental Mezzanine Note Trust Agreement has been duly authorized by the District in accordance with the Mezzanine Note Trust Agreement; that such Series, when duly executed by the District and authenticated and delivered by the Mezzanine Note Trustee, will be valid and binding limited obligations of the District; and that upon the delivery of such Series the aggregate principal amount of Mezzanine Notes then Outstanding will not exceed the amount permitted by law or by the Mezzanine Note Trust Agreement.

(d) A Certificate of the District certifying (on the basis of calculations as of the date of sale of such Series of Mezzanine Notes) that the requirement under subparagraph (c) described above under “– Issuance of Mezzanine Notes” is satisfied.

### **Issuance of Refunding Mezzanine Notes**

Refunding Mezzanine Notes may be authorized and issued by the District without compliance with the provisions of described above under “– Issuance of Mezzanine Notes” and “– Proceedings for Issuance of Additional Series of Mezzanine Notes” in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all of the following:

(a) The principal or Redemption Price of all Outstanding Mezzanine Notes or Parity Mezzanine Debt to be refunded.

(b) All expenses incident to the calling, retiring or paying of such Outstanding Mezzanine Notes or Parity Mezzanine Debt and the Costs of Issuance of such refunding Mezzanine Notes.

(c) Interest on all Outstanding Mezzanine Notes or Parity Mezzanine Debt to be refunded to the date such Mezzanine Notes or Parity Mezzanine Debt will be called for redemption or paid at maturity.

(d) Interest on the refunding Mezzanine Notes from the date thereof to the date of payment or redemption of the Mezzanine Notes or Parity Mezzanine Debt to be refunded.

Before such additional Series of Mezzanine Notes shall be issued and delivered, the District shall file the following documents with the Mezzanine Note Trustee:

(a) An executed copy of the Supplemental Mezzanine Note Trust Agreement authorizing such additional Series of Mezzanine Notes.

(b) A Certificate of the District stating that no Event of Default has occurred and will be continuing after the issuance of such additional Series of Mezzanine Notes.

(c) An Opinion of Bond Counsel that the execution of the Supplemental Mezzanine Note Trust Agreement has been duly authorized by the District in accordance with the Mezzanine Note Trust Agreement; that such Series, when duly executed by the District and authenticated and delivered by the Mezzanine Note Trustee, will be valid and binding limited obligations of the District; and that upon the delivery of such Series the aggregate principal

amount of Mezzanine Notes then Outstanding will not exceed the amount permitted by law or by the Mezzanine Note Trust Agreement.

(d) If any of the Mezzanine Notes to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Mezzanine Note Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Mezzanine Notes or Parity Mezzanine Debt to be redeemed, or proof that such notice has been given by the District; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the District may cause to be deposited with the Mezzanine Note Trustee all of the Mezzanine Notes and Parity Mezzanine Debt proposed to be redeemed (whether cancelled or uncanceled) with irrevocable instructions to the Mezzanine Note Trustee to cancel said Mezzanine Notes or Parity Mezzanine Debt so to be redeemed upon the exchange and delivery of said refunding Mezzanine Notes; and provided further that no provision of the Mezzanine Note Trust Agreement shall be construed to require the redemption of Mezzanine Notes prior to their respective maturity dates in connection with the refunding thereof.

(e) Either (i) 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 Mezzanine Notes and including the Senior Debt, Mezzanine Notes and Parity Mezzanine Debt then Outstanding and such additional Series of Mezzanine Notes, shall not be less than 1.25:1.0; provided that in calculating the Mezzanine Debt Service Coverage Ratio:

(A) if rates and charges in effect on the date upon which such Series of Mezzanine 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

(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 (ii):

(A) The District has complied with Section 6.08 for the most recent Fiscal Year for which audited financial statements are available; and

(B) 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 Mezzanine Notes is projected to be at least equal to 1.25:1.0;

all as evidenced by a Certificate of the District delivered to the Mezzanine Note Trustee.

The proceeds of the sale of the refunding Mezzanine Notes shall be applied by the Mezzanine Note Trustee according to the direction of the District to the retirement of the Outstanding Mezzanine Notes or Parity Mezzanine Debt for the refunding of which said refunding Mezzanine Notes are to be issued. All Mezzanine Notes or Parity Mezzanine Debt purchased, redeemed or retired by use of funds received from the sale of refunding Mezzanine Notes, and all Mezzanine Notes surrendered to the

Mezzanine Note Trustee against the issuance of refunding Mezzanine Notes, shall be forthwith cancelled and shall not be reissued.

**Limitations on the Issuance of Obligations Payable from Available Mezzanine Revenues**

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

(a) Mezzanine Notes of any Series authorized pursuant to the provisions of the Mezzanine Note Trust Agreement described above under the captions “– Issuance of Mezzanine Notes” and “– Proceedings for Issuance of Additional Series of Mezzanine Notes.”

(b) Refunding Mezzanine Notes authorized pursuant to the provisions of the Mezzanine Note Trust Agreement described above under the caption “– Issuance of Refunding Mezzanine Notes.”

(c) Parity Mezzanine Debt payable on a parity with the Mezzanine 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 Mezzanine Note Trustee.

(iii) Either (i) 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 the Senior Debt, Mezzanine 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:

(A) 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

(B) 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 to be constructed with the proceeds of the Parity Mezzanine Debt then being issued;

or (ii):

(A) The District has complied with Section 6.08 for the most recent Fiscal Year for which audited financial statements are available; and

(B) 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 ten percent (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;

all as evidenced by a Certificate of the District delivered to the Mezzanine Note Trustee.

(iv) An Opinion of Bond Counsel to the effect that such Parity Mezzanine Debt has been duly authorized in accordance with law and all prior proceedings of the District.

Obligations which are junior and subordinate to the payment of the principal, purchase price, premium, and interest for the Mezzanine 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 hereunder from Available Mezzanine Revenues for principal, purchase price, premium and interest for the Mezzanine 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 Mezzanine Note Trust Agreement.

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

## MASTER BOND RESOLUTION

The following is a summary of certain provisions of the Master 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 Master 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 Offering Memorandum or below under the caption "DEFINITIONS RELATING TO THE MASTER BOND RESOLUTION" shall have the meanings set forth in the Senior Bond Resolution.

### DEFINITIONS RELATING TO THE MASTER BOND RESOLUTION

**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 Master 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 Master 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 Master 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 Master 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.

## **CERTAIN PROVISIONS OF THE MASTER BOND RESOLUTION**

### **Limitations on Issuance of Obligations Payable from Net Revenues.**

The District has covenanted in the Master 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 Master Bond Resolution):

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

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

(ii) Subject to the provisions of the Master Bond Resolution relating to the funding and application of the Senior Bond Reserve Fund (established under the Master 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 Master 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 Master 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 Master 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 Master Bond Resolution.

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Contra Costa Water District  
Concord, California

Contra Costa Water District  
Extendable Municipal Commercial Paper Notes  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Contra Costa Water District (the "District") in connection with authorization of issuance of up to \$80,000,000 aggregate principal amount (at any time outstanding) of commercial paper notes by the District, pursuant to an Extendable Municipal Commercial Paper Note Trust Agreement, dated as of September 1, 2012 between the District and U.S. Bank National Association (the "Trust Agreement"), and designated Contra Costa Water District Extendable Municipal Commercial Paper Notes (the "Notes"). 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 of the District, dated the date hereof (the "Tax Certificate"), an opinion of counsel to the District, certificates of the District, the Issuing and Paying Agent 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 and before or after Notes are issued. 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 is not intended to and may not, be relied upon or otherwise used in connection with any such actions, events or matters. 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 (as of the date hereof and as of the date of issuance from time to time of the Notes) of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, 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, possibly retroactive to the date on which the first Notes were issued. 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, arbitration, 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 assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Offering Memorandum 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 Trust Agreement has been duly executed and delivered by, and constitutes a 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, 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.

2. The Notes, when duly issued in the form authorized by and otherwise in compliance with the Trust Agreement, executed by a duly authorized official of the District and authenticated by the Issuing and Paying Agent against payment therefor, will constitute the valid and binding obligations of the District, payable solely from Available Subordinate Revenues.

3. Interest on the Notes, when issued in accordance with the Trust Agreement and the Tax Certificate, will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income will depend upon the taxpayer's election under Internal Revenue Service Notice 94-84. Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Notes is included in adjusted current earnings when calculating corporate alternate minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

**APPENDIX D**

**SUMMARY OF DEBT SERVICE OBLIGATIONS**

The following table summarizes the annual debt service requirements for the District's outstanding Senior Debt and Mezzanine Debt. It does not include principal and interest requirements of assessment bonds which are paid by benefited property owners, any payments under its water purchase contract with the Bureau, and certain other indebtedness of the District incurred for the purchase of equipment. See "SECURITY FOR THE NOTES - Outstanding Debt of the District" in the forepart of this Offering Memorandum.

**OUTSTANDING PRINCIPAL & INTEREST REQUIREMENTS**

Fiscal Year	Water Revenue Bond Debt Service	Authority Bond Debt Service	State Revolving Funds Loans Debt Service	Total Senior Debt Service <sup>(1)</sup>	Mezzanine Debt Service	Total Senior and Mezzanine Debt Service <sup>(3)</sup>
2013	\$33,997,253	\$ 2,889,920	\$1,469,516	\$ 38,356,689	\$32,950,188	\$71,306,877
2014	31,702,250	446,400	1,469,516	33,618,166	35,062,444	68,680,610
2015	31,698,100	2,336,900	1,469,516	35,504,516	29,113,375	64,617,891
2016	37,040,213	3,770,600	1,469,516	42,280,329	55,521,450	97,801,779
2017	37,722,238	3,771,825	1,469,516	42,963,579	20,270,000	63,233,579
2018	37,605,250	3,777,675	1,469,516	42,852,441	--	42,852,441
2019	38,006,125	3,777,925	1,469,516	43,253,566	--	43,253,566
2020	35,179,875	3,786,050	1,469,516	40,435,441	--	40,435,441
2021	35,171,875	3,780,875	1,469,516	40,422,266	--	40,422,266
2022	32,069,625	--	1,469,516	33,539,141	--	33,539,141
2023	32,059,000	--	985,703	33,044,703	--	33,044,703
2024	29,614,000	--	501,890	30,115,890	--	30,115,890
2025	29,619,250	--	187,754	29,807,004	--	29,807,004
2026	29,626,163	--	--	29,626,163	--	29,626,163
2027	29,600,200	--	--	29,600,200	--	29,600,200
2028	9,472,500	--	--	9,472,500	--	9,472,500
2029	9,469,100	--	--	9,469,100	--	9,469,100
2030	9,475,325	--	--	9,475,325	--	9,475,325
2031	6,392,675	--	--	6,392,675	--	6,392,675
2032	6,394,750	--	--	6,394,750	--	6,394,750
2033	3,785,950	--	--	3,785,950	--	3,785,950
<b>TOTAL</b>	<b>\$545,701,716</b>	<b>\$28,338,170</b>	<b>\$16,370,509</b>	<b>\$590,410,394</b>	<b>\$172,917,456</b>	<b>\$763,327,850</b>

<sup>(1)</sup> Excludes Assessment District Bonds, Bureau and Economic Development Administration contracts.

Note: Numbers may not foot due to rounding.

## APPENDIX E

### DTC DESCRIPTION

*The information in this APPENDIX E 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") Notes; (b) confirmations of ownership interest in Notes; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of 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 Offering Memorandum. 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 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 Notes.*

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

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

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all 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 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 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 Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as securities depository with respect to the 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.

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 Q Bond certificates will be printed and delivered to DTC.

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.