

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

\$491,495,000

**STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES
CENTRAL VALLEY PROJECT WATER SYSTEM REVENUE BONDS**

**\$350,670,000
SERIES AX**

**\$140,825,000
SERIES AY (Federally Taxable)**

**Dated: Date of Delivery****Due: December 1, as shown on Maturity Schedule**

The State of California Department of Water Resources (the “Department”) is issuing its \$350,670,000 Central Valley Project Water System Revenue Bonds, Series AX (the “Series AX Bonds”), for the purpose of refunding a portion of the Department’s outstanding Bonds, making a deposit to the Debt Service Reserve Account and paying costs of issuing the Series AX Bonds and its \$140,825,000 Central Valley Project Water System Revenue Bonds, Series AY (Federally Taxable) (the “Series AY Bonds” and together with the Series AX Bonds, the “Series AX and AY Bonds”), for the purpose of refunding a portion of the Department’s outstanding Bonds and paying costs of issuance of the Series AY Bonds.

Each of the Series AX Bonds and the Series AY Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity, and will be delivered in book-entry form, without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Series AX and AY Bonds will not receive physical certificates representing their interests in the Series AX and AY Bonds. DTC will act as securities depository for the Series AX and AY Bonds. The principal of and interest on the Series AX and AY Bonds are payable directly to DTC by the Treasurer of the State of California. Interest is payable semiannually on June 1 and December 1 of each year, commencing on June 1, 2018. Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series AX and AY Bonds. (See APPENDIX G – “DTC AND BOOK-ENTRY.”)

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

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

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

**Maturity Schedule
(See Pages Following Cover)**

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

The Series AX and AY Bonds are offered when, as and if issued and received by the Underwriters subject to approval of validity by The Honorable Xavier Becerra, the Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department, and certain other matters. Certain legal matters are also subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriters. It is expected that the Series AX and AY Bonds in book-entry form will be available for delivery through the facilities of DTC on or about December 19, 2017.

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

**Goldman Sachs & Co. LLC
Cabrera Capital Markets, LLC**

**Alamo Capital
Backstrom McCarley Berry & Co., LLC
Drexel Hamilton LLC
Mischler Financial Group, Inc.
Stern Brothers & Co.
U.S. Bancorp Investments, Inc.
Ziegler**

**BofA Merrill Lynch
Citigroup
Mesirow Financial, Inc.
Piper Jaffray & Co.
The Williams Capital Group, L.P.
Wedbush Securities Inc.**

MATURITY SCHEDULE

relating to

\$491,495,000

**State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series AX and Series AY (Federally Taxable)
(Base CUSIP[†] 13067W)**

\$350,670,000**Series AX**

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP[†]</u> <u>Suffix</u>
2018	\$24,480,000	5.000%	103.616%	1.160%	NH1
2019	22,740,000	5.000	106.940	1.380	NJ7
2020	20,865,000	5.000	110.336	1.410	NK4
2021	25,890,000	5.000	113.497	1.470	NL2
2022	26,745,000	5.000	116.532	1.520	NM0
2023	14,140,000	5.000	119.348	1.580	NN8
2024	22,295,000	5.000	122.057	1.630	NP3
2025	24,050,000	5.000	124.609	1.680	NQ1
2026	20,300,000	5.000	126.909	1.740	NR9
2027	32,500,000	5.000	129.136	1.790	NS7
2028	12,200,000	5.000	127.983 ^c	1.900	NT5
2029	10,590,000	5.000	127.151 ^c	1.980	NU2
2030	24,390,000	5.000	126.635 ^c	2.030	NV0
2031	25,805,000	5.000	125.916 ^c	2.100	NW8
2032	18,960,000	5.000	125.406 ^c	2.150	NX6
2033	19,920,000	5.000	124.999 ^c	2.190	NY4
2034	2,335,000	5.000	124.493 ^c	2.240	NZ1
2035	2,465,000	5.000	123.989 ^c	2.290	PA4

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS data base. CUSIP numbers have been assigned by an independent company not affiliated with the Department and are provided solely for convenience of reference. Neither the Department nor the Underwriters assume any responsibility for the accuracy of such numbers.

^c Priced to par call on December 1, 2027.

\$140,825,000
Series AY (Federally Taxable)

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP[†]</u> <u>Suffix</u>
2019	\$ 6,170,000	2.052%	100.000%	2.052%	PB2
2020	11,895,000	2.209	100.000	2.209	PC0
2021	10,040,000	2.368	100.000	2.368	PD8
2022	12,940,000	2.518	100.000	2.518	PE6
2023	15,525,000	2.601	100.000	2.601	PF3
2024	14,100,000	2.751	100.000	2.751	PG1
2025	12,560,000	2.827	100.000	2.827	PH9
2026	15,175,000	2.907	100.000	2.907	PJ5
2027	9,635,000	2.977	100.000	2.977	PK2
2028	13,895,000	3.077	100.000	3.077	PL0
2029	18,890,000	3.127	100.000	3.127	PM8

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

STATE
WATER
PROJECT



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

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

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

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

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

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

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

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

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Department does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur or do not occur, except as described under the caption "CONTINUING DISCLOSURE" and in APPENDIX D.

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

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SUMMARY STATEMENT

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

The Department

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

Authorization of the Series AX and AY Bonds

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

Each of the Series AX Bonds and the Series AY Bonds constitute a series of the Department’s Central Valley Project Water System Revenue Bonds issued under the Resolution (all bonds issued under the Resolution, collectively, the “Bonds”).

Purpose of the Series AX and AY Bonds

The Series AX Bonds are being issued to (1) refund certain of the Department’s outstanding Water System Revenue Bonds, (2) fund a deposit to the Debt Service Reserve Account and (3) pay costs of issuance of the Series AX Bonds. (See “PLAN OF REFUNDING” and “ESTIMATED APPLICATION OF SERIES AX AND AY BOND PROCEEDS.”)

The Series AY Bonds are being issued to (1) refund certain of the Department’s outstanding Water System Revenue Bonds and (2) pay costs of issuance of the Series AY Bonds. (See “PLAN OF REFUNDING” and “ESTIMATED APPLICATION OF SERIES AX AND AY BOND PROCEEDS.”)

Description of the Series AX and AY Bonds

Interest. The Series AX and AY Bonds will bear interest payable semiannually on June 1 and December 1 of each year, commencing on June 1, 2018, at the respective rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the Maturity Schedules immediately following the cover page of this Official Statement.

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

Security for the Bonds; Limited Obligations

The payment of the scheduled principal of and interest on all Bonds, including the Series AX and AY Bonds, is secured by a pledge of the Revenues under the Resolution, which are the portion of the receipts of the Department under the Water Supply Contracts resulting from the construction, acquisition or operation of Water System Projects (but only in the amounts required to meet the rate covenant of the Resolution), income from the investment of moneys held in the Revenue Fund pursuant to the Resolution and certain other moneys received by the Department under the Water Supply Contracts, which the Department in its discretion determines to be Revenues. The Department estimates (accounting for projected capital expenditures on Water System Projects after the issuance of the Series AX and AY Bonds) that payments from The Metropolitan Water District of Southern California (“Metropolitan”) will account for approximately 35 percent of the Revenues to be derived from Water Supply Contract payments through the final maturity of the Bonds. However, that percentage may change over time. The balance of such Revenues will be receivable from the other Contractors. (See “SECURITY FOR THE BONDS” and “THE WATER SUPPLY CONTRACTS.”)

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

Rate Covenant

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

Debt Service Reserve Account

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

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

The State Water Project

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

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

Financing of the State Water Project

The Department has previously issued forty-nine series of Bonds totaling \$9,426,025,000 in aggregate principal amount, of which \$2,508,665,000 in aggregate principal amount are outstanding under the Resolution. The Series AX and AY Bonds offered hereby will be the fiftieth and fifty-first series of Bonds to be issued pursuant to the Resolution and secured by the Revenues pledged under, and the funds and accounts established by, the Resolution. The Department may from time to time issue additional Bonds secured by a lien on Revenues under the Resolution equally and ratably with the payment of scheduled principal of and interest on the Series AX and AY Bonds and the currently outstanding Bonds. (See “INTRODUCTION,” “PLAN OF REFUNDING,” “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds,” “FINANCIAL OPERATIONS – Outstanding Revenue Obligations of the Department for the State Water Project.”)

The Department has authorized the issuance of its Water Revenue Commercial Paper Notes, Series 1 (the “Series 1 Notes”) in a principal amount outstanding at any one time not to exceed the lesser of \$300,000,000 or the principal amount of Series 1 Notes supported by the credit agreement then in effect (currently \$300,000,000). The Department has also authorized the issuance of its Water Revenue Commercial Paper NW:\California\+State\State-13 DWR AX AYotes, Series 2 (the “Series 2 Notes” and together with the Series 1 Notes, the “Notes”) in a principal amount outstanding at any one time not to exceed the lesser of \$500,000,000 or the principal amount of Series 2 Notes supported by the credit agreement then in effect (currently \$500,000,000). Proceeds from the sale of Notes are used to finance Water System Projects prior to permanent financing from the sale of Bonds. Proceeds from the Series 2 Notes are expected to be used to provide funds for costs related to the Oroville Dam Spillway Recovery and Restoration Project and proceeds from the Series 1 Notes are expected to be used to provide funds for costs related to other Water System Projects. (See APPENDIX I – “WATER SYSTEM PROJECTS.”) The Department’s obligation to make debt service payments on the Notes is subordinate to its payment obligations with respect to the Bonds. The Department has approximately \$400 million in aggregate principal amount of Series 2 Notes outstanding, and expects a portion of those Series 2 Notes to be paid with proceeds of federal reimbursement for costs of the Oroville Dam Spillway Recovery and Restoration Project and other sources of emergency funds to extent available and the remainder with one or more issues of Bonds. No Series 1 Notes are currently outstanding and based on projected capitalization and

future expenditures on Water System Projects, the Department does not expect to issue Series 1 Notes until 2018.

A large portion of the State Water Project has been financed from the issuance of \$1,582,400,000 in aggregate principal amount of State general obligation bonds, of which \$70,415,000 in aggregate principal amount are outstanding as of November 1, 2017. The Department has also issued \$1,526,155,000 in aggregate principal amount of revenue bonds for certain power facilities of the State Water Project, of which \$38,955,000 in aggregate principal amount are outstanding as of November 1, 2017. Such revenue bonds are secured by revenues of the Department other than those that are pledged to secure the Bonds and were and are issued under and secured by resolutions separate and apart from the Resolution authorizing and securing the Bonds. (See “POWER OPERATIONS OF THE STATE WATER PROJECT” and “FINANCIAL OPERATIONS – Financing of the State Water Project.”)

Additional Bonds

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

The Contractors

The 29 Contractors are principally located in the San Francisco Bay Area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 25 percent of the State’s land area and approximately 68 percent of its population. Each Contractor has entered into a Water Supply Contract with the Department, acting on behalf of the State. Certain of the Contractors receive a major portion of their income from *ad valorem* taxes. The ability of Contractors to tax for general purposes and to appropriate tax revenue for general purposes is limited under California law. (See “THE WATER SUPPLY CONTRACTS” and “CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES.”)

The Water Supply Contracts

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

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

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

Continuing Disclosure

The Department will covenant for the benefit of the holders and beneficial owners of the Series AX and AY Bonds to provide certain financial information and operating data relating to the Department not later than 270 days following the end of each Department fiscal year (the “Annual Report”), commencing with the report containing 2016-2017 Fiscal Year financial information and to provide notices of the occurrence of certain enumerated events (“Event Notices”). The specific nature of the information expected to be contained in the Annual Report or the Event Notices and certain other terms of this continuing disclosure obligation are set forth in APPENDIX D – “SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE.”

No Relationship to Power Supply Revenue Bonds

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

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

Relating to its

**\$350,670,000
Central Valley Project
Water System Revenue Bonds,
Series AX**

**\$140,825,000
Central Valley Project
Water System Revenue Bonds,
Series AY (Federally Taxable)**

INTRODUCTION

This Official Statement is furnished by the State of California Department of Water Resources, in its capacity as operator of the State Water Project (the “Department”), for the purpose of setting forth information concerning its Central Valley Project Water System Revenue Bonds (the “Bonds” or the “Water System Revenue Bonds”), particularly the \$350,670,000 Central Valley Project Water System Revenue Bonds, Series AX (the “Series AX Bonds”) and the \$140,825,000 Central Valley Project Water System Revenue Bonds, Series AY (Federally Taxable) (the “Series AY Bonds” and together with the Series AX Bonds, the “Series AX and AY Bonds”).

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

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

Purpose of the Series AX and AY Bonds

The Series AX Bonds are being issued to (1) refund certain of the Department’s outstanding Water System Revenue Bonds, Series AK, Series AN, Series AO, Series AP, Series AQ and Series AR, (2) fund a deposit to the Debt Service Reserve Account and (3) pay costs of issuance of the Series AX Bonds. (See “PLAN OF REFUNDING and “ESTIMATED APPLICATION OF SERIES AX AND AY BOND PROCEEDS.”)

The Series AY Bonds are being issued to (1) refund certain of the Department’s outstanding Water System Revenue Bonds, Series AE, Series AF, Series AG, Series AH and Series AI and (2) pay costs of issuance of the Series AY Bonds. (See “PLAN OF REFUNDING and “ESTIMATED APPLICATION OF SERIES AX AND AY BOND PROCEEDS.”)

PLAN OF REFUNDING

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

Bonds to be Refunded by the Series AX and AY Bonds

Water System Revenue Bond Series	Year of Issuance	Outstanding Principal Amount	Principal Amount to be Refunded	Interest Rate	Maturity Date	Redemption Date	Redemption Price
AE	2008	\$ 5,985,000	\$ 5,985,000	5.000%	12/1/2019	6/1/2018	100.000
AE	2008	6,790,000	6,790,000	5.000	12/1/2020	6/1/2018	100.000
AE	2008	4,200,000	4,200,000	5.000	12/1/2021	6/1/2018	100.000
AE	2008	1,935,000	1,935,000	5.000	12/1/2022	6/1/2018	100.000
AE	2008	520,000	520,000	4.250	12/1/2023	6/1/2018	100.000
AE	2008	20,000	20,000	5.000	12/1/2023	6/1/2018	100.000
AE	2008	565,000	565,000	5.000	12/1/2024	6/1/2018	100.000
AE	2008	600,000	600,000	5.000	12/1/2025	6/1/2018	100.000
AE	2008	1,635,000	1,635,000	5.000	12/1/2026	6/1/2018	100.000
AE	2008	2,170,000	2,170,000	5.000	12/1/2027	6/1/2018	100.000
AE	2008	2,270,000	2,270,000	5.000	12/1/2028	6/1/2018	100.000
AE	2008	330,000	330,000	4.500	12/1/2029	6/1/2018	100.000
AE	2008	2,030,000	2,030,000	5.000	12/1/2029	6/1/2018	100.000
AF	2009	4,115,000	4,115,000	5.000	12/1/2020	12/1/2018	100.000
AF	2009	1,680,000	1,680,000	4.000	12/1/2021	12/1/2018	100.000
AF	2009	3,295,000	3,295,000	5.000	12/1/2021	12/1/2018	100.000
AF	2009	425,000	425,000	4.125	12/1/2022	12/1/2018	100.000
AF	2009	10,125,000	10,125,000	5.000	12/1/2022	12/1/2018	100.000
AF	2009	605,000	605,000	4.125	12/1/2023	12/1/2018	100.000
AF	2009	8,745,000	8,745,000	5.000	12/1/2023	12/1/2018	100.000
AF	2009	895,000	895,000	4.300	12/1/2024	12/1/2018	100.000
AF	2009	8,115,000	8,115,000	5.000	12/1/2024	12/1/2018	100.000
AF	2009	620,000	620,000	4.500	12/1/2025	12/1/2018	100.000
AF	2009	7,975,000	7,975,000	5.000	12/1/2025	12/1/2018	100.000
AF	2009	9,040,000	9,040,000	5.000	12/1/2026	12/1/2018	100.000
AF	2009	9,625,000	9,625,000	5.000	12/1/2028*	12/1/2018	100.000
AF	2009	1,110,000	1,110,000	4.750	12/1/2029	12/1/2018	100.000
AF	2009	6,260,000	6,260,000	5.000	12/1/2029	12/1/2018	100.000
AG	2009	725,000	725,000	4.250	12/1/2023	12/1/2019	100.000
AG	2009	1,080,000	1,080,000	5.000	12/1/2023	12/1/2019	100.000
AG	2009	435,000	435,000	4.250	12/1/2024	12/1/2019	100.000
AG	2009	1,460,000	1,460,000	5.000	12/1/2024	12/1/2019	100.000
AG	2009	15,000	15,000	4.000	12/1/2025	12/1/2019	100.000
AG	2009	1,965,000	1,965,000	5.000	12/1/2025	12/1/2019	100.000
AG	2009	1,930,000	1,930,000	5.000	12/1/2026	12/1/2019	100.000
AG	2009	150,000	150,000	4.125	12/1/2026	12/1/2019	100.000
AG	2009	2,185,000	2,185,000	5.000	12/1/2027	12/1/2019	100.000
AG	2009	2,280,000	2,280,000	5.000	12/1/2028	12/1/2019	100.000

* Term Bond.

Water System Revenue Bond Series	Year of Issuance	Outstanding Principal Amount	Principal Amount to be Refunded	Interest Rate	Maturity Date	Redemption Date	Redemption Price
AG	2009	\$ 15,000	\$ 15,000	4.250%	12/1/2028	12/1/2019	100.000
AG	2009	6,485,000	6,485,000	5.000	12/1/2029	12/1/2019	100.000
AG	2009	625,000	625,000	4.375	12/1/2029	12/1/2019	100.000
AH	2010	2,895,000	2,895,000	5.000	12/1/2023	12/1/2020	100.000
AH	2010	1,970,000	1,970,000	5.000	12/1/2024	12/1/2020	100.000
AH	2010	960,000	960,000	5.000	12/1/2025	12/1/2020	100.000
AH	2010	1,020,000	1,020,000	5.000	12/1/2026	12/1/2020	100.000
AH	2010	1,060,000	1,060,000	5.250	12/1/2027	12/1/2020	100.000
AH	2010	1,120,000	1,120,000	5.250	12/1/2028	12/1/2020	100.000
AH	2010	1,185,000	1,185,000	5.250	12/1/2029	12/1/2020	100.000
AI	2011	4,865,000	4,865,000	5.000	12/1/2029*	12/1/2021	100.000
AK	2012	100,000	100,000	4.000	12/1/2028	6/1/2022	100.000
AK	2012	1,000,000	1,000,000	3.500	12/1/2029	6/1/2022	100.000
AK	2012	225,000	225,000	4.000	12/1/2031	6/1/2022	100.000
AN	2012	2,290,000	2,290,000	5.000	12/1/2032	12/1/2022	100.000
AN	2012	7,600,000	7,600,000	5.000	12/1/2035*	12/1/2022	100.000
AO	2012	29,595,000	29,595,000	1.671	12/1/2018	12/20/2017	100.000
AO	2012	27,555,000	27,555,000	1.871	12/1/2019	12/20/2017	100.000
AO	2012	24,950,000	24,950,000	2.237	12/1/2020	12/20/2017	100.391
AO	2012	29,635,000	29,635,000	2.437	12/1/2021	12/20/2017	101.271
AO	2012	29,900,000	29,900,000	2.637	12/1/2022	12/20/2017	101.381
AO	2012	14,465,000	14,465,000	2.837	12/1/2023	12/20/2017	102.746
AO	2012	15,010,000	15,010,000	2.937	12/1/2024	12/20/2017	102.708
AO	2012	15,880,000	15,880,000	3.037	12/1/2025	12/20/2017	103.777
AO	2012	16,440,000	16,440,000	3.137	12/1/2026	12/20/2017	104.101
AO	2012	28,575,000	28,575,000	3.237	12/1/2027	12/20/2017	105.374
AO	2012	4,630,000	4,630,000	3.337	12/1/2028	12/20/2017	106.787
AO	2012	1,655,000	1,655,000	3.500	12/1/2029	12/20/2017	108.979
AP	2013	2,295,000	2,295,000	4.000	12/1/2028	6/1/2023	100.000
AP	2013	2,400,000	2,400,000	4.000	12/1/2029	6/1/2023	100.000
AP	2013	2,485,000	2,485,000	4.000	12/1/2030	6/1/2023	100.000
AP	2013	2,585,000	2,585,000	4.000	12/1/2031	6/1/2023	100.000
AP	2013	2,690,000	2,690,000	4.000	12/1/2032	6/1/2023	100.000
AP	2013	2,800,000	2,800,000	4.000	12/1/2033	6/1/2023	100.000
AQ	2013	2,345,000	2,345,000	5.000	12/1/2023	6/1/2023	100.000
AQ	2013	2,540,000	2,540,000	4.000	12/1/2024	6/1/2023	100.000
AQ	2013	2,890,000	2,890,000	4.000	12/1/2025	6/1/2023	100.000
AQ	2013	14,560,000	14,560,000	4.000	12/1/2030	6/1/2023	100.000
AQ	2013	15,140,000	15,140,000	4.000	12/1/2031	6/1/2023	100.000
AQ	2013	15,745,000	15,745,000	4.000	12/1/2032	6/1/2023	100.000
AQ	2013	16,385,000	16,385,000	4.000	12/1/2033	6/1/2023	100.000
AR	2014	7,855,000	7,855,000	5.000	12/1/2024	6/1/2024	100.000
AR	2014	8,235,000	8,235,000	5.000	12/1/2025	6/1/2024	100.000
AR	2014	5,780,000	5,780,000	5.000	12/1/2026	6/1/2024	100.000
AR	2014	6,050,000	6,050,000	5.000	12/1/2027	6/1/2024	100.000
AR	2014	6,355,000	6,355,000	4.000	12/1/2028	6/1/2024	100.000
AR	2014	6,600,000	6,600,000	4.000	12/1/2029	6/1/2024	100.000
AR	2014	9,755,000	9,755,000	4.000	12/1/2030	6/1/2024	100.000
AR	2014	10,155,000	10,155,000	4.000	12/1/2031	6/1/2024	100.000
Total:		\$ 531,255,000	\$ 531,255,000				

* Term Bond.

On the date of delivery of the Series AX and AY Bonds, the Department will cause a portion of the proceeds of the Series AX Bonds, together with other available money, to be applied on the date of issuance of the Series AX Bonds to redeem the Bonds of Series AO at the applicable make-whole redemption price. The redemption price for the remaining Refunded Bonds will be equal to 100 percent of the principal amount thereof.

On the date of delivery of the Series AX and AY Bonds, the Department will cause a portion of the proceeds of 1) the Series AX Bonds, together with other available moneys, to be applied to the purchase of obligations of the United States of America or certain of its agencies or certain other securities permitted under the Resolution (the "Government Obligations"), which will be deposited, together with certain uninvested cash, if any, in an irrevocable trust (the "Series AX Escrow Account") to be held by the Treasurer as security solely for the Series AX Refunded Bonds and 2) the Series AY Bonds, together with other available moneys, to be applied to the purchase of Government Obligations, which will be deposited, together with certain uninvested cash, if any, in a separate irrevocable trust (the "Series AY Escrow Account" and together with the Series AX Escrow Account, the "Escrow Accounts") to be held by the Treasurer as security solely for the Series AY Refunded Bonds. The Government Obligations in the respective Escrow Accounts will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts that, together with the uninvested cash on deposit in the applicable Escrow Account, if any, sufficient moneys will be available to pay, when due or called for redemption, all principal of and interest on the Series AX Refunded Bonds or the Series AY Refunded Bonds, as applicable. (See "VERIFICATION.") Concurrently with the issuance of the Series AX and AY Bonds, irrevocable instructions will be given to the Treasurer, as Trustee for the Series AX Refunded Bonds and the Series AY Refunded Bonds, to mail timely notices of redemption with respect to the Series AX Refunded Bonds and the Series AY Refunded Bonds in each case in accordance with the related Escrow Agreement. Accordingly, upon issuance of the Series AX and AY Bonds, adequate and complete provision will be made for the full and timely payment of the principal or redemption price of and interest on the Refunded Bonds when due, and the Refunded Bonds will be payable solely from the Government Obligations and uninvested cash, if any, on deposit in the applicable Escrow Account. Once the deposit to the Escrow Accounts is made as described above, the Refunded Bonds will not be payable from Revenues as hereinafter defined nor from any other source of revenues.

Application of Escrow Accounts

The uninvested cash, and the maturing principal of, and the investment income to be derived from, the Government Obligations held by the Treasurer in trust in the respective Escrow Accounts is solely for payment of principal or redemption price of and interest on the Refunded Bonds payable from such Escrow Account as provided in the related Escrow Agreement and will not be available to pay principal of, or premium or interest on, any Bonds other than the Refunded Bonds payable from such Escrow Account.

ESTIMATED APPLICATION OF SERIES AX AND AY BOND PROCEEDS

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

Deposit to Series AX Escrow Account ⁽¹⁾	\$420,875,313
Deposit to Debt Service Reserve Account	235,025
Cost of Issuance of Series AX Bonds ⁽²⁾	1,032,221
Total Proceeds of the Series AX Bonds	<u>\$422,142,559</u>
Less Original Issue Premium	71,472,559
Principal Amount of Series AX Bonds	<u><u>\$350,670,000</u></u>

- (1) Simultaneous with the delivery of the Series AX Bonds, \$608,734.25 will be released from the Debt Service Reserve Account, representing an amount associated with the Series AX Refunded Bonds. This amount will be deposited in the Series AX Escrow Fund providing for the payment of the Series AX Refunded Bonds to and including their call date.
- (2) Includes underwriting discount, legal fees, municipal advisory fees, printing expenses and other costs.

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

Deposit to Series AY Escrow Account ⁽¹⁾	\$140,388,759
Cost of Issuance of Series AY Bonds ⁽²⁾	436,241
Total Proceeds of the Series AY Bonds	<u>\$140,825,000</u>
Principal Amount of Series AY Bonds	<u><u>\$140,825,000</u></u>

- (1) Simultaneous with the delivery of the Series AY Bonds, \$1,362,527.64 will be released from the Debt Service Reserve Account, representing an amount associated with the Series AY Refunded Bonds. This amount will be deposited in the Series AY Escrow Account providing for the payment of the Series AY Refunded Bonds to and including their call date.
- (2) Includes underwriting discount, legal fees, municipal advisory fees, printing expenses and other costs.

DESCRIPTION OF THE SERIES AX AND AY BONDS

General

Each of the Series AX Bonds and the Series AY Bonds will be dated the date of delivery thereof, expected to be on or about December 19, 2017, will be issued in fully registered form without coupons, will be in denominations of \$5,000 principal amount or any integral multiple thereof within a maturity, and will bear interest payable semiannually on June 1 and December 1 of each year, commencing on June 1, 2018 (each, an “interest payment date”). The Series AX and AY Bonds will mature (subject to the right of prior redemption discussed below) on December 1 in each of the years and in the respective principal amounts, and will bear interest at the respective rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the Maturity Schedules immediately following the cover page of this Official Statement.

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

THE SERIES AX AND AY BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES. THE SERIES AX AND AY

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

Book-Entry Only

The Series AX and AY Bonds will be issued as fully registered bonds and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series AX and AY Bonds. Purchasers will not receive certificates representing Series AX and AY Bonds purchased by them. The State Treasurer will pay principal of and interest on the Series AX and AY Bonds directly to DTC. Upon receipt of payment of principal and interest DTC is obligated to remit such payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Series AX and AY Bonds. (See APPENDIX G – “DTC BOOK ENTRY.”)

Redemption

Optional Redemption. The Series AX Bonds. The Series AX Bonds maturing on or after December 1, 2028 will be subject to redemption prior to their respective stated maturities, at the option of the Department from any source of available funds, as a whole, or in part, by such maturities as the Department may designate (and by lot within any maturity), on any date on or after December 1, 2027, upon payment of a redemption price equal to the principal amount of the Series AX Bonds to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

The Series AY Bonds. Make-Whole Optional Redemption. The Series AY Bonds are subject to redemption prior to their stated maturity dates at the option of the Department, in whole or in part on any date prior to December 1, 2027, at a redemption price (the “Make-Whole Redemption Price”) equal to the greater of:

(1) the issue price set forth on the Maturity Schedule for the Series AY Bonds following the cover page hereof (but not less than 100%) of the principal amount of the Series AY Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series AY Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series AY Bonds are to be redeemed, discounted to the date on which the Series AY Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus: (i) 5 basis points with respect to the Series AY Bonds maturing on December 1, 2019 through December 1, 2021, inclusive; (ii) 10 basis points with respect to the Series AY Bonds maturing on December 1, 2022 through December 1, 2027, inclusive and (iii) 12.5 basis points with respect to the Series AY Bonds maturing on December 1, 2028 and December 1, 2029;

plus, in each case, accrued interest on the Series AY Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series AY Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available on a date selected by the Department at least two Business Days, but not more than forty-five (45) calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series AY Bonds to be redeemed; provided, however, that if the period from the redemption date to such

maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

On and after December 1, 2027, the Series AY Bonds maturing on or after December 1, 2028 will be subject to redemption as described under “***Par Call Optional Redemption***” below and will no longer be called at the Make-Whole Redemption Price.

Par Call Optional Redemption. The Series AY Bonds maturing on or after December 1, 2028 will be subject to redemption prior to their respective stated maturities, at the option of the Department from any source of available funds, as a whole, or in part by such maturities as the Department may designate (and by lot within any maturity), on any date on or after December 1, 2027, upon payment of a redemption price equal to the principal amount of the Series AY Bonds to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

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

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

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

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

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

Defeasance

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

If the Department defeases any Series AY Bond, such Series AY Bond may be deemed to be retired and “reissued” for federal income tax purposes as a result of the defeasance. In that event, the Beneficial Owner of the Series AY Bond will recognize taxable gain or loss equal to the difference between the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Beneficial Owner’s adjusted tax basis in the Series AY Bond. (See “TAX MATTERS.”)

SECURITY FOR THE BONDS

Sources of Revenues

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

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

subject to regulation by any state or federal regulatory authority. (See “THE WATER SUPPLY CONTRACTS – Amendments Providing Certain Revenues to Pay Water System Revenue Bonds.”)

The Department estimates that upon issuance of the Series AX and AY Bonds, payments from Metropolitan will account for approximately 35 percent of the Revenues to be derived from Water Supply Contract payments. (See “THE CONTRACTORS – Selected Contractor Financial Information.”) However, that percentage may change over time.

Pledge of Revenues

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

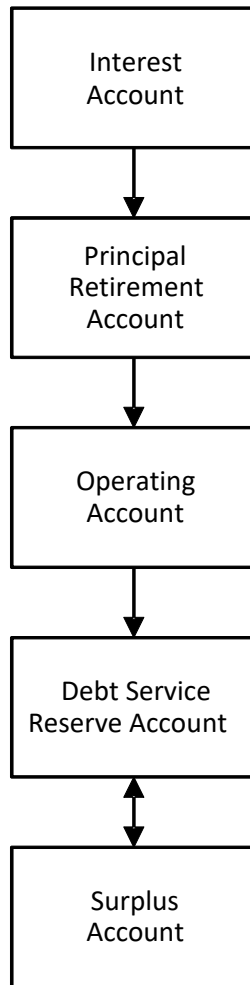
THE SERIES AX AND AY BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE DEPARTMENT. THE SERIES AX AND AY BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE STATE OF CALIFORNIA. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL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

Flow of Funds

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

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

Priority of Allocation of Revenues



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

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

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

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

Rate Covenant

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

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

Debt Service Reserve Account

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

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

On the date of issuance of the Series AX and AY Bonds, the amount of the Reserve Account Requirement for the outstanding Bonds will be approximately \$125,279,551. The Department anticipates that approximately 66.0 percent of the amount held in the Debt Service Reserve Account on the date of issuance of the Series AX and AY Bonds will be invested in the State Treasurer’s Pooled Money Investment Account, with the balance invested directly in U.S. Government securities. (See “THE DEPARTMENT – Investments of Department Moneys.”) This percentage may change. (See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Debt Service Reserve Account.”)

Outstanding Bonds; Additional Bonds

Bonds in an aggregate principal amount of \$2,508,665,000 are currently Outstanding and all Outstanding Bonds (including any additional Bonds) are secured equally and ratably with the Series AX and AY Bonds. (See “PLAN OF REFUNDING,” and “FINANCIAL OPERATIONS – Outstanding Revenue Obligations of the Department for the State Water Project” and “– Estimated Annual Debt Service.”)

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

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

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

THE DEPARTMENT

Introduction

The Department is a department within the California Natural Resources Agency of the State of California (the “State”) and is responsible for the planning, construction, operation and maintenance of the State Water Project. The Department is also responsible for, among other things, the operation of programs for the safety of dams, flood management, local assistance and subventions and other water-related matters. The Department was established in 1956 by an act of the State Legislature that combined the functions of the Water Project Authority and certain responsibilities of the Department of Public Works’ former Division of Water Resources. As of November 1, 2017, the Department employs approximately 3,122 full-time staff throughout the State.

Management

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

Grant Davis was appointed Director of Water Resources by the Governor on July 19, 2017. Mr. Davis started in his new role effective August 1, 2017. Prior to his appointment as Director, Mr. Davis served as general manager of the Sonoma County Water Agency since 2009, where he was assistant general manager from 2007 to 2009. Prior to working at the Sonoma County Water Agency Mr. Davis was executive director of the Bay Institute from 1997 to 2007.

Cindy Messer was appointed Chief Deputy Director of the Department in February 2017. The Chief Deputy Director is responsible for many of the Department’s water management and administrative policy issues. Ms. Messer served as Assistant Chief Deputy Director from January 2016 until February 2017. Prior to joining the Department Ms. Messer was the Deputy Director of the Planning, Performance and Technology Division at the Delta Stewardship Council since 2012. Ms. Messer has a Bachelor’s Degree in Environmental Policy Analysis and Planning and a Master’s Degree in Conservation Biology. Ms. Messer was designated as Acting Director of the Department, effective July 1, 2017, due to the retirement of the Director of Water Resources and continued in that role through July 2017, as the newly appointed Director of Water Resources started on August 1, 2017.

Joel Ledesma was appointed Deputy Director for the State Water Project, effective July 17, 2017. Mr. Ledesma has over 25 years of experience in State Water Project operations and maintenance within the Department’s Joint Operations Center and Field Divisions. He has served in many leadership roles at the Department, including Chief of the Energy Management Systems Branch, Chief of the Systems Support Office, Chief of the Delta Field Division, Chief of the Plant Asset Management Office, and Assistant Division Chief of the Division of Operations and Maintenance. During the Oroville Spillway Emergency Response effort, Mr.

Ledesma served as an Incident Commander. Mr. Ledesma has a Bachelor of Science degree in Electrical/Electronic Engineering with a concentration in power.

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

Vinay Narjit Singh Behl has served as the Chief of the Division of Fiscal Services since April 2017 and as such is the Controller and Chief Financial Officer of the Department. Mr. Behl manages and directs the activities of the Budget Office, General Accounting Branch, Enterprise Accounting Branch, Financial Analysis and Risk Management Office, Administration/Out of State Travel, and Master Data Office, which includes the long term financial planning of the State Water Project and management of the outstanding debt of the department. Prior to joining the department Mr. Behl served as Chief Financial Officer of a subsidiary of Guardian Life Insurance Corporation from 2015 through 2017, Chief Financial Officer of an operating division of United States Department of Health & Human Services from 2010 to 2015 and Vice President Finance of multinational software companies from 1997 to 2010. Mr. Behl has a Masters in International Financial Management and Masters in Business Administration from University of California, Davis. Mr. Behl is a licensed CPA in Delaware with various certifications in Accounting, Audit and Finance.

Fund Accounting

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

Employee Relations

The Ralph C. Dills Act, enacted in 1977, provides that State employees have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. However, once an employee organization is recognized as the exclusive representative of a bargaining unit, only that organization may represent the bargaining unit employees. As of November 1, 2017, the Department has approximately 3,122 full-time employees of whom approximately 2,369 are represented in 9 of the 21 statewide bargaining units adopted by the Public Employment Relations Board ("PERB") for collective bargaining purposes. The remainder of the Department's employees are not covered by collective bargaining agreements because of their managerial, supervisory or confidential status.

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

Nine bargaining units represent employees of the Department. The nine memoranda of understanding (each an "MOU"), one with respect to each bargaining unit, are all currently in effect. These nine current MOUs are each a multi-year contract and have effective dates through either June 30, 2018, July 1, 2018, or July, 2020. If an MOU expires without a successor MOU in place, as provided by State law the MOU remains

in effect until the successor MOU or an extension of the current MOU is negotiated and approved by the respective bargaining unit and the Legislature.

Pension Obligations

State departments and agencies, including the Department, participate in the California Public Employees' Retirement System ("PERS"), an agent multiple-employer pension system that provides a contributory defined-benefit pension for substantially all State employees. PERS has unfunded liabilities in the tens of billions of dollars. For the years ended June 30, 2017 and June 30, 2016, the allocable share of annual pension contributions paid by the Department with respect to the State Water Project were approximately \$51.6 million and \$48.0 million, respectively. The level of future required annual pension contributions by the Department depends on a variety of factors, including changes in policy by the PERS Board of Administration, future investment portfolio performance, actuarial methods and assumptions, and additional potential changes in retirement benefits. Due to recent changes in actuarial assumptions and other factors, required contributions to PERS are expected to increase. There can be no assurances that the Department's required annual contribution to PERS will not significantly increase.

Additional information concerning State Water Project pension obligations, including a description of the actuarial assumptions and methods used to determine required contributions, is set forth in Note 8 of the financial statements of the State Water Resources Development System appearing in APPENDIX B. Such information is reported in part on the basis of State Miscellaneous Category Tier I and Tier II employees, of which State Water Project employees represent only a portion. For the years ended June 30, 2017 and June 30, 2016, Department pensionable compensation with respect to the State Water Project represented approximately 1.7 percent of contributions for all of State Miscellaneous Category Tier I and Tier II.

Post-employment Benefits Other Than Pensions

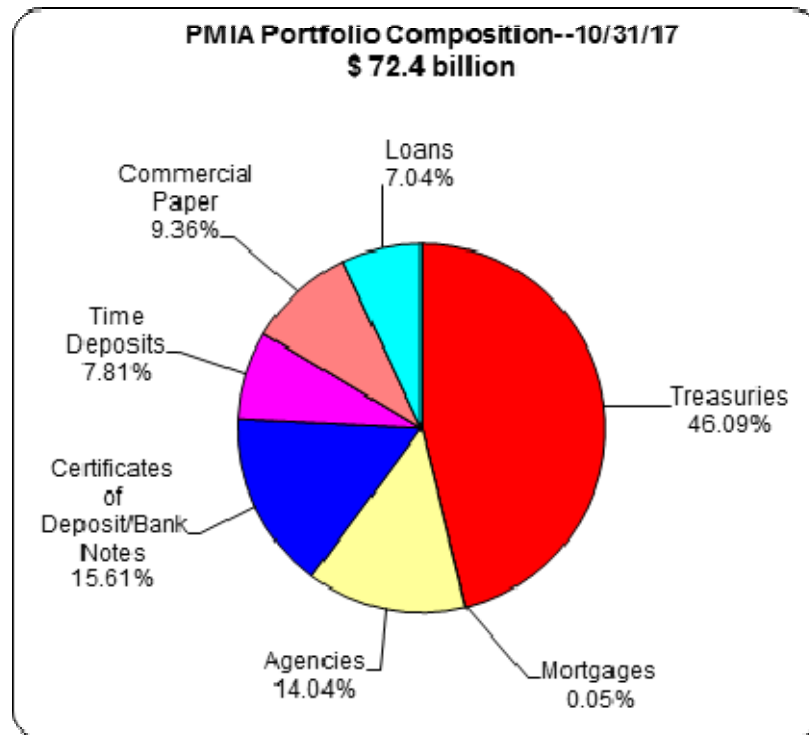
In addition to the pension benefits provided by the State, the State also provides post-retirement health care benefits, in accordance with California Government Code section 22760(g), to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State General Fund on a pay-as-you-go basis. The State Water Project allocated required contributions made for post-retirement health care benefits were \$17.8 million for the year ended June 30, 2017. The State Water Project's annual post-retirement health care benefits recognized expense was \$50.0 million for the year ended June 30, 2017. This resulted in an additional increase to the unfunded liability payable from the State General Fund of \$32.2 million. Additional information concerning State Water Project post-employment benefits other than pension obligations is set forth in Note 9 of the financial statements of the State Water Resources Development System appearing in APPENDIX B.

Investments of Department Moneys

The Department uses the State's Centralized Treasury System. Moneys on deposit in the State's Centralized Treasury System are invested by the State Treasurer in the Pooled Money Investment Account (the "PMIA"). As of October 31, 2017, the PMIA held approximately \$52 billion of State moneys, and approximately \$20.4 billion invested for about 2,438 local governmental entities through the Local Agency Investment Fund (the "LAIF"). The assets of the PMIA as of October 31, 2017, are shown in the following chart:

Analysis of the Pooled Money Investment Account Portfolio

(as of October 31, 2017)



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

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

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

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

The average life of the investment portfolio of the PMIA as of October 31, 2017, was 184 days.

As of October 31, 2017, the Department had approximately \$1,067,266,000 invested in the PMIA. The moneys consist of Contractor payments to the Department, which are invested on a short-term basis until they are expended for their designated purpose, replacement reserves, construction funds and debt service reserves.

CALIFORNIA STATE WATER PROJECT

Introduction

The State Water Project is one of the largest water supply projects undertaken in the history of water development and encompasses a complex of dams, reservoirs, pumping facilities, power plants, aqueducts and pipelines owned and operated by the State. The Department is responsible for the planning, construction, operation and maintenance of the State Water Project. After a construction program that commenced in 1957, the project is now providing water to all 29 Contractors. The maximum, contracted amount of State Water Project water each Contractor may request for delivery each year is set forth in “Table A” of the related Water Supply Contract. Under the Water Supply Contracts presently in effect, the Contractors may request Table A water from the State Water Project in a maximum amount of 4,172,686 acre-feet. (See “THE WATER SUPPLY CONTRACTS.”) An acre-foot is the amount of water that will cover one acre of land to a depth of one foot, and is equivalent to 325,900 gallons. However, the amount of water that may be made available for delivery by the State Water Project in any year will depend on various factors, and the Water Supply Contracts provide for reductions in Table A water deliveries if the total amount available for delivery is insufficient to satisfy all Contractor requests. (See “STATE WATER PROJECT WATER SUPPLY.”)

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

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

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

Aqueduct System; Pumping Facilities

All 647 miles of the initially planned aqueduct system have been completed. With the addition of the Grizzly Valley pipeline, the Thermalito Powerplant power canal and tail channel, and the extension of the East

Branch aqueduct, the entire aqueduct system totals 705 miles. The main stem of the aqueduct system, the California Aqueduct, is 443 miles in length and transports water from the Delta through the Central Valley of California, over the Tehachapi Mountains and then into Southern California. Major branch aqueducts include the 28-mile North Bay Aqueduct north of the San Francisco Bay, the 45-mile South Bay Aqueduct in the southern San Francisco Bay area, the 116-mile Coastal Branch aqueduct from the southern San Joaquin Valley over the coastal mountains to the central California coast north of Los Angeles, the 32-mile West Branch aqueduct in Southern California and the 33-mile extension of the East Branch aqueduct in Southern California. Aqueducts consist primarily of open concrete lined canals, siphons and underground pipelines. The main stem of the California Aqueduct has 381 miles of canals and siphons, 49 miles of pipelines or tunnels and 13 miles of channels and reservoirs. The branch aqueducts are mostly pipelines and tunnels rather than canals.

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

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

Storage Facilities

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

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

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

Oroville Dam Spillway Recovery and Restoration Project and Related Claims

A steady barrage of storms in early 2017, led to the wettest January and February in 110 years of Feather River hydrologic record. At the same time, the main spillway at Oroville Dam began to erode. Damage included severe erosion under the gated spillway and erosion in the areas on the hillside beneath the emergency spillway. California Governor Edmund G. Brown issued four Proclamations of a State of Emergency between January 23, 2017 and March 7, 2017 addressing areas of flooding and potential flooding, throughout the State, including at Oroville Dam.

A concern regarding the potential of failure of the emergency spillway prompted the Butte County Sheriff, on February 12, 2017, to issue an evacuation order for approximately 200,000 people living in Oroville and the surrounding communities. The Department successfully dropped the water level of the lake while crews worked 24 hours a day to repair erosion areas, place large rocks and pour concrete into the eroded gullies, remove large amounts of eroded debris, construct or improve access roads, and begin the design for reconstruction efforts. The evacuation order was lifted on February 14, 2017.

To ensure public safety, the Department set a goal of November 1, 2017, to reconstruct the main spillway to handle flows of 100,000 cubic feet per second. While the Department met its November 1, 2017, goal, work still continues. Due to the enormity of the project, construction will be done over multiple phases. The Department is targeting January 2018 to complete construction of a cut-off wall 730 feet downhill of the emergency spillway which will prevent uphill erosion beyond the wall if the emergency spillway is ever used again. As weather permits, the Department will also begin construction of a buttress and splash pad on the emergency spillway, which will bolster the integrity of the spillway and the hillside downstream. In spring of

2018, work on the main spillway will ramp back up to finish the reconstruction of the main spillway, which will bring it back to original design capacity of 270,000 cubic feet per second.

Members of the U.S. Army Corps of Engineers, Federal Energy Regulatory Commission, the California Division of Safety of Dams, as well as dam experts on a board of consultants and an independent forensic team remain actively engaged with the Department throughout the project.

On April 2, 2017, the President issued a Federal Major Disaster Declaration for areas in California affected by the severe storms and flooding, which will continue to provide for a federal contribution to the costs of the Department's emergency response activities and to the repair and replacement work at Oroville Dam. Costs associated with the current recovery and restoration efforts at Oroville Dam spillways are expected to be substantial. The full extent of these costs are still being determined, a substantial portion of which are expected to be reimbursed by the Federal Government. Any remaining costs are expected to be paid for by the Contractors under the Water Supply Contracts and are expected to be financed long-term with Bonds. The amount financed could be significant. The Department does not believe the costs arising from this project will materially impact the Department's operations or ability to pay debt service on the Bonds.

The Oroville Dam Spillway Recovery and Restoration Project consists of emergency protective measures and debris removal, reconstruction of the main spillway and on the emergency spillway. The total costs of the Oroville Dam Spillway Recovery and Restoration Project prior to any federal or other reimbursement on this project are estimated to be in the range of \$500 to \$600 million; to date the Department has received approximately \$68 million in federal reimbursement. In conjunction with the Oroville Dam Spillway Recovery and Restoration Project, the Department is undertaking certain other improvements to the Oroville Dam, which, through calendar year 2019, are estimated to be in the range of \$100 to \$150 million.

A number of claims have now been filed with the Government Claims Program in the Department of General Services. (This Program was formerly a program within The Victims Compensation and Government Claims Board). Several of these claims have been filed by agricultural land owners whose property adjacent to the Feather River was flooded. These claims allege, among other things, that the Department's operation of the Oroville Dam facilities caused damages to their property and agricultural crops. Pacific Gas and Electric Company filed a claim seeking reimbursement and damages for costs it incurred to relocate electric facilities and to engineer and construct temporary electric facilities in the vicinity of Oroville Dam during the emergency. A separate claim and subsequent lawsuit has been filed as a class action on behalf of approximately 188,000 potential class members residing in areas along the Feather River, including Oroville, Marysville, and Yuba City. This suit alleges, among other things, that property values have decreased due to the proximity to the Oroville Dam. The Department believes that these claims, even if successful, would not have a material adverse effect on its ability to continue to operate and maintain the State Water Project or on the security for, or the Department's ability to repay, the Bonds.

Power Resources

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

Operational Control

The Department schedules and controls the operation of the State Water Project from a central operations center. This central operations center uses the communication and Supervisory Control and Data Acquisition ("SCADA") systems to monitor and control the water and power movements in the aqueducts, pipelines and tunnels of the State Water Project in addition to the 29 pumping and generating plants of the State Water Project. Both the SCADA and communication systems are currently being upgraded and this phase of the

upgrade is expected to be completed in 2018. When the upgrades are complete the central operations center will continue to monitor and remotely control all State Water Project facilities. Effective remote operations include start-up and shut down of pumping and generating units and opening or closing of gates and valves which control the flow of water throughout the State Water Project in a coordinated manner. Under emergency or back-up operation mode, the operations of each field division are handled at the local field division level.

Seismic Considerations

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

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

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

A major seismic event causing damage to State Water Project facilities could disrupt the operation of the State Water Project or require significant unexpected capital expenditures. Such an event could also have an impact on Central Valley and Delta levees. (See "STATE WATER PROJECT WATER SUPPLY – Central Valley and Delta Levees.")

Self-Insurance; Financing of Emergency Repairs

The State does not maintain commercial insurance for the State Water Project, nor does it maintain a funded insurance reserve. However, the Department maintains a replacement reserve, in the approximate amount of \$36.73 million as of November 1, 2017, which it uses to replace certain equipment periodically. The Department is authorized to cause the issuance of notes, payable from available revenues or federal reimbursements under the National Disaster Act, for the purpose of providing funds for emergency repairs to power projects or the State Water Project necessitated by natural disasters, provided that certain conditions can be met.

Security Efforts; Emergency Preparedness

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

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

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

Environmental Considerations

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

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

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

STATE WATER PROJECT WATER SUPPLY

General

Under the Water Supply Contracts, the charges payable by the Contractors are generally computed to enable the Department to recover its costs, including debt service on the Bonds when due. Such charges will vary with the amount of water delivered only to the extent that the amount of water delivered has an effect on the variable operation and maintenance costs of the State Water Project. The Contractors' obligations to make payments in amounts sufficient to pay debt service on the Bonds is not conditioned on the amount of water

delivered. (See “SECURITY FOR THE BONDS – Sources of Revenues” and “THE WATER SUPPLY CONTRACTS.”) However, the Department is obligated under its Water Supply Contracts, subject to the availability of funds, to make all reasonable efforts, consistent with sound fiscal policies, reasonable construction schedules and proper operating procedures, to complete the project facilities necessary to make water deliveries at the time and in the amounts specified in the Water Supply Contracts. This section describes the historical water supply available for delivery by the State Water Project and certain factors that have had or may in the future have an effect on the availability of such water supply. The Department can give no assurances that future legislation or regulation in any of the areas discussed in this section will not affect State Water Project operations including, but not limited to, reductions in the water supply available to the State Water Project.

Annual Water Deliveries

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

**Annual Water Deliveries of the State Water Project
(Percentage of Contractor Requests)
(Acre-Feet in Thousands)**

Calendar Year	Allocated Table A Water⁽¹⁾	Table A Water Delivered to Contractors in Acre-Feet⁽²⁾	Total Water Delivered to Contractors in Acre-Feet⁽³⁾
2007	60%	2,181	3,284
2008	35	1,248	2,152
2009	40	1,485	2,222
2010	50	2,011	2,831
2011	80	2,848	3,662
2012	65	2,594	2,886
2013	35	1,620	2,213
2014	5	474	1,239
2015	20	852	1,499
2016	60	2,016	2,351

- (1) The allocation of annual Table A water for each calendar year is determined in the Spring of that year and based on hydrological conditions at the time of determination and other factors as described in the preceding paragraph. The Spring determination of annual water for a given calendar year is evaluated throughout the winter and may be revised in response to hydrologic conditions and regulatory mandates.
- (2) Historical deliveries reflect changes resulting from the reclassification of water to or from these water types; flexible withdrawal, Non-State Water Project local water rights, or Non-State Water Project water. Contractors also may choose to receive allocated Table A water in a later year subject to operational constraints (carryover). Water available as determined by the Department, on behalf of the State, not needed for fulfilling contractors' maximum annual Table A deliveries under the applicable Water Supply Contract or for meeting operational needs of the State Water Project, including water storage goals ("Article 21 water") is delivered along with Table A allocations.
- (3) All water delivered to Contractors, including but not limited to, Table A water for that year; Table A water allocated to a previous year (carryover); water surplus to operational needs, water quality, and Delta requirements; Article 21 water, transfer; purchased; and Non-State Water Project water.

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

According to the Final Appendices to the State Water Project Delivery Capability Report 2015, dated July 2015, the Department estimates that if annual precipitation conditions vary in the same manner as they have over the eighty-two year period of analysis (water years 1922-2003, a water year consists of twelve consecutive calendar months beginning with the month of October and is identified by the calendar year in which it ends), the State Water Project would be capable of delivering at least 1,910,000 acre-feet of water in approximately 75 percent of the water years, at least 2,650,000 acre-feet of water in approximately 50 percent of the water years, and at least 3,100,000 acre-feet of water in approximately 25 percent of the water years. Under the Water Supply Contracts presently in effect, the Contractors may request Table A water from the State Water Project in a maximum amount of 4,172,686 acre-feet. The maximum, contracted amount of Table A water each Contractor may request for delivery each year was established when the Water Supply Contracts were executed and delivered, prior to the final determination of the scope of the State Water Project.

Drought

From time to time California will be impacted by drought. For instance, the winter of 2016-17 brought record high precipitation amounts to many locations across California relieving drought conditions that had existed for approximately five years. California has experienced many droughts, recorded as far back as 1841, with the most recent occurring from late 2011 to early 2017. California has one of the most variable climates of any state in the United States, and often experiences very wet years followed by extremely dry ones. As the most populous state in the U.S. and a major agricultural producer, drought in California can have an economic as well as environmental impact. The annual water supply available for delivery by the State Water Project in any year will vary depending on various factors, including hydrologic conditions and regulatory mandates. The respective obligations of the Contractors to make payments in amounts sufficient to pay debt service on the Bonds are not conditioned on the amount of water delivered. (See “SECURITY FOR THE BONDS – Sources of Revenues” and “THE WATER SUPPLY CONTRACTS” and “STATE WATER PROJECT WATER SUPPLY – General.”)

State and Federal Regulations Affecting the State Water Project

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

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

The State Water Resources Control Board (the “SWRCB”) is responsible for regulating the State Water Project (along with the federal Central Valley Project operated by the Bureau) under the SWRCB’s water quality and water rights authorities to protect the reasonable needs of all beneficial uses of Delta waters. In this regard, in 1978, the SWRCB adopted a Water Quality Control Plan for the Bay-Delta estuary which has been amended periodically in 1995 and most recently in 2006. The Water Quality Control Plan for the Bay-Delta estuary as amended through 2006 is referred to herein as the “2006 Plan.” The SWRCB is currently in the process of updating the 2006 Plan. In March 2000, the SWRCB implemented the Water Quality Control Plan, as amended through 1995, through a water rights decision known as “D 1641.” D 1641 is still in effect and requires the State Water Project and the federal Central Valley Project to meet the Water Quality Control Plan’s objectives for maintaining Delta water quality.

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

addition, a June 2009 federal biological opinion for salmon, steelhead trout and green sturgeon states that the Department shall not implement the permanent operable gates because that project would adversely modify critical habitat. As a result, in January, 2010, the SWRCB issued an order that modified its February 2006 enforcement order by, among other things, allowing the Department and the Bureau to defer the construction of the permanent operable gates and requiring the Department and the Bureau to develop a plan (“South Delta Salinity Management Plan”) for studies and other measures to address water quality in the southern Delta until the SWRCB issues a new water quality control plan and related water rights decision for the Delta. The Department submitted an updated South Delta Salinity Management Plan to the SWRCB in June 2017.

In December 2007, the SWRCB adopted a resolution setting out a process for the review of beneficial uses in the Delta in response to scientific studies showing a decline in native species and in support of the current efforts of the Bay Delta Conservation Plan Steering Committee and Delta Vision Task Force to develop plans to improve the Delta ecosystem. (See “STATE WATER PROJECT WATER SUPPLY – Long Term Planning Efforts for the Delta,” “– *The Delta Vision*” and “–*Bay Delta Conservation Plan/California WaterFix*.”) In accordance with the resolution, in July 2008 the SWRCB adopted the Strategic Workplan for Activities in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (the “Strategic Workplan”) that describes a number of activities the SWRCB and Regional Water Quality Control Boards intend to pursue to address the water supply and environmental situation in the Bay-Delta. The Strategic Workplan activities are responsive to priorities identified by the Delta Vision Task Force, build on existing processes, such as the Bay Delta Conservation Plan, and identify a wide range of flow-related and water quality actions to better protect the Bay-Delta. The Strategic Workplan includes plans to review and update the 2006 Plan and to review the Bay Delta Conservation Plan, water rights, and other requirements to protect fish and wildlife beneficial uses. In February 2009, in furtherance of the Strategic Workplan, the SWRCB began the process to review and update the southern Delta salinity and San Joaquin River flow objectives, and their program of implementation. As part of this process, the SWRCB prepared an environmental document to evaluate the effects of potential modifications to the southern Delta salinity and San Joaquin River flow objectives and is considering adopting related amendments to the 2006 Plan. The initial environmental document received substantial public comment and a revised version was released by the SWRCB in September 2016. In January 2012, also in furtherance of the Strategic Workplan, the SWRCB began the process to review and update the other aspects of the 2006 Plan, which will include an environmental review of the effects of any proposed changes to the 2006 Plan. A draft scientific basis report was released by the SWRCB in October 2016 and is undergoing public and technical review.

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

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

In August 2017, the City of Antioch ("Antioch") filed a complaint against the Department seeking substantial damages and injunctive relief. Antioch claims the Department breached a 1968 agreement with Antioch, relating to water quality available to Antioch in the Delta, as well as a 2016 agreement with Contra Costa Water District ("CCWD") to which Antioch claims it is a third party beneficiary, also relating to water quality in the Delta. CCWD was named as real party in interest in the case. This case is in the pretrial stage. The Department believes that even if Antioch is successful in its claims, the outcome would not have a material adverse effect on its ability to continue to operate and maintain the State Water Project or on the security for, or the Department's ability to repay, the Bonds.

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

Federal Endangered Species Act: Delta Smelt. In December 2008, the USFWS issued a biological opinion for Delta smelt and related water projects operations ("2008 Biological Opinion"), which superseded a previously issued Delta smelt biological opinion. The issuance of the 2008 Biological Opinion is now the operation-criteria for the State Water Project and federal Central Valley Project. The 2008 Biological Opinion requires operational measures to protect Delta smelt and, in addition, includes a measure specifying outflow requirements in the Delta during the fall season in wet years. This fall measure requires the two water projects to control salinity incursion in the Delta through increased water releases from water storage and fewer water diversions during wet years. In August 2016, the Department and Bureau requested reinitiation of ESA Section 7 consultation with the USFWS because of the continued decline of Delta smelt, impacts from recent droughts and evolution of science in the area. The consultation is underway and anticipated to be completed in 2022 with the issuance of a new biological opinion.

Federal Endangered Species Act: Salmon, Steelhead Trout and Green Sturgeon. In June 2009, following consultation with the Department and Bureau, NOAA issued a new salmon, steelhead trout, green sturgeon and killer whale biological opinion ("2009 Biological Opinion"), which superseded a previously issued biological opinion for these fish species. The 2009 Biological Opinion imposes restrictions on the Department's pumping and operational activities in the Delta based upon the level of flows from the San Joaquin River and the presence of salmon and steelhead trout in the vicinity of the Delta pumping plant. In August 2016, the Department and Bureau requested reinitiation of ESA Section 7 consultation with the NOAA because of the

continued decline of salmon, steelhead trout and green sturgeon, impacts from recent droughts and evolution of science in the area. The consultation is underway and anticipated to be completed in 2022 with the issuance of a new biological opinion.

Federal Endangered Species Act: Longfin Smelt. In April 2012, the USFWS found that the longfin smelt warrants consideration for protection under the ESA, but that it is currently precluded from listing the species because of the need to address other higher priority species. As a result, the USFWS has added the longfin smelt to the list of candidates for ESA protection, where the status will be reviewed annually. In the meantime, there will be no specific restrictions regarding the longfin smelt imposed under the ESA. The longfin smelt is listed as threatened under the California Endangered Species Act (“CESA”) and the Department is already taking actions to protect the longfin smelt consistent with the take permit the Department received from the California Department of Fish and Wildlife (the “DFW”). DWR’s CESA take permit will expire in 2018. DWR is currently pursuing CESA coverage for longfin smelt past 2018 (See “STATE WATER PROJECT WATER SUPPLY – State and Federal Regulations Affecting the State Water Project – State Endangered Species Act.”)

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

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

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

Long-Term Planning Efforts for the Delta

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

The Delta Vision. In 2006 Governor Arnold Schwarzenegger established a task force to develop a long-term sustainable vision for the Delta. The task force issued a Delta Vision strategic plan in November 2008 and an implementation report for the strategic plan in January 2009, which included specific recommendations to the

Governor. Fundamental actions in the plan include developing a new system of dual water conveyance through and around the Delta, additional water storage projects, an emergency preparedness strategy and water conservation goals, restoring the ecosystem and establishing a Delta governance structure. The task force also created a non-profit organization, the Delta Vision Foundation, following the conclusion of their recommendations to the Governor. The new organization provides updates to the public on its view of the progress of the Delta Vision's implementation.

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

Bay Delta Conservation Plan/California WaterFix. In 2006, the Department, the Bureau, DFW, federal and state fish and wildlife agencies and the agencies that purchase water from the Department and the Bureau began a planning process to promote and improve the overall ecological health of the Delta and the species that inhabit the Delta. This resulted in the proposed Bay Delta Conservation Plan ("BDCP"), that eventually was transitioned to the California WaterFix, which was approved in July 2017. The consideration of the BDCP and California WaterFix included the analysis of water conveyance options, including conveyance through Delta channels and alternative conveyance, including a canal or tunnel. The BDCP project alternatives as described in the 2013 public draft EIR/EIS were aimed at promoting the recovery of endangered, threatened and sensitive fish and wildlife species and their habitats in the Delta in a way that would also protect and restore water supplies and address water conveyance through the Delta. A formal public review draft BDCP and related draft EIR/EIS were released in December 2013. The public comment period for these draft documents closed in July 2014 and the submitted comments were reviewed.

In April 2015, based in part on comments received through this comment period, the Department and State and federal agencies decided to consider additional alternatives to the BDCP and announced a change in the proposed project to accomplish the dual goals of improving the ecological health of the Delta and securing reliable water supplies. Under the new proposed project, referred to as California WaterFix, implementation of new water conveyance facilities would be authorized under the different provisions of the ESA and CESA, and not as part of a Habitat Conservation Plan or Natural Community Conservation Plan under federal and State law, and that large scale environmental restoration in the Delta would be implemented through a separate program designated as California EcoRestore (discussed below). California WaterFix, consists of an underground conveyance facility, three northern Delta intakes, and mitigation measures and environmental commitments to

meet the requirements of CEQA, NEPA, Section 7 of ESA, and Section 2081 of CESA and other environmental requirements. This modified alternative does not carry forward the habitat restoration measures of the BDCP except to the extent it mitigates potential impacts of the water conveyance facilities for California WaterFix.

In July 2015, a partially recirculated draft EIR/supplemental draft EIS was released for public review, with a comment period extending through October 2015. The recirculated draft document contained analysis of several new non-conservation plan alternatives in addition to those analyzed in the December 2013 draft EIR/EIS. Following completion of the public review and comment period, the Department and Bureau issued a final EIR/EIS in December 2016. On July 21, 2017, Cindy Messer, acting director of the Department, certified the Final EIR, adopted findings and a statement of overriding considerations, adopted the Mitigation, Monitoring and Reporting Program, and approved the California WaterFix. The Notice of Determination (NOD) was filed with the Office of Planning and Research on July 21, 2017, as well. Eighteen separate lawsuits were filed challenging the Department's decision under CEQA. The Department has conducted settlement meetings with these plaintiffs and is now addressing the preparation of the administrative record.

On the same day as the filing of the NOD, the Department filed a validation action in Sacramento County Superior Court to confirm the validity of a proposed financing approach for the California WaterFix. Numerous entities and organizations supporting and opposing the California WaterFix have filed answers to this action. Timing of the Bureau's issuance of the Record of Decision under NEPA will depend upon several factors and has yet to be determined.

In August 2015, the Department and Bureau filed a joint petition with the SWRCB to add three new points of diversion and rediversion under existing water right permits. Changes to the Department's water rights are required for the construction of new intakes for the proposed California WaterFix. The hearing is being conducted in two parts, the first addressing potential effects of the change on agricultural, municipal and industrial uses of water and the second focusing on fish and wildlife, recreational uses and the consideration of appropriate Delta flow criteria. The hearing on part one began in July 2016. Numerous entities/parties opposing the proposed project filed protests with the SWRCB and are participating in the hearing. The Department and the Bureau are discussing settlements with some of the entities/parties, which will reduce the number of issues in, and time expected for, the hearing. Part one was completed in July 2017, while part two is scheduled to begin January 18, 2018.

In June 2017, federal agencies responsible for the protection of species listed under the ESA provided biological opinions on the proposed construction and operation of California WaterFix. The USFWS prepared a biological opinion evaluating the effects of California WaterFix on Delta smelt and other listed species and the NOAAF prepared its biological opinion evaluating the effects on salmon, green sturgeon and steelhead. Both biological opinions found the construction and operations of California WaterFix as proposed would not jeopardize the continued existence of the subject species or destroy or adversely modify critical habitat for those species. The biological opinions recognize the uncertainty inherent in the ecology of the Delta and include an adaptive management component, where research, monitoring, and real-time tracking of fish populations and other factors will guide operation of the proposed intakes. In late June 2017, several environmental organizations filed two separate lawsuits in federal court against USFWS and NOAAF challenging the issuance of these biological opinions. The Department was granted intervenor status in these lawsuits in October 2017.

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

The costs of any conveyance system, if ultimately approved and constructed through the impending regulatory processes, could be substantial. Capital costs to construct a conveyance system as envisioned by California WaterFix are estimated to be \$14.9 billion (in discounted 2014 dollars). There would also be an estimated \$ 800 million required for mitigation and environmental commitments and all such costs would be paid by the Contractors and the federal water contractors benefiting from the project. Information about the BDCP, California WaterFix and EcoRestore can be found on the website of the California Natural Resources Agency. The information contained on such website is not part of this Official Statement and is not incorporated herein.

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

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

In October 2010, the Department entered into a Fish Restoration Program Agreement with DFW to coordinate efforts regarding the Department's expenditure of funds for fish benefits. To date the Department has spent approximately \$55 million and over the first 10 years of the agreement expects to spend in total approximately \$230 million for certain habitat restoration activities. These activities are intended to be credited towards CESA and ESA habitat restoration requirements.

Central Valley and Delta Levees

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

After Governor Arnold Schwarzenegger declared an emergency in 2006 for California's Central Valley levee system, including the Delta and Sacramento River flood control systems, and subsequent to the passage of Proposition 1E (the Disaster Preparedness and Flood Prevention Bond Act of 2006) and Proposition 84 (the Safe

Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), the Department, the United States Army Corps of Engineers and local flood control agencies have been working together to fund, design and construct levee improvements and repairs. The Department, through its Delta Levees Program, has funded significant repairs and improvements to the Delta levee system. In 2012, the Department, as required by statute with regard to its flood management responsibilities, completed, and the Central Valley Flood Protection Board adopted, a Central Valley Flood Protection Plan that analyzes flood risks and potential measures to address those risks in the Delta and in certain other areas of the California Central Valley. The Department has prepared an update to that plan and the Central Valley Flood Protection Board adopted the updated plan August 25, 2017.

Statewide Water Considerations

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

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

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

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

Invasive Species. Zebra and quagga mussels are established in many regions of the United States. In 2007, quagga mussels were discovered in the lower Colorado River and rapidly spread through the Colorado River Aqueduct into water distribution systems and reservoirs in Southern California. In 2016, quagga mussels were discovered in the West Branch of the SWP (Pyramid Lake and Angeles Tunnel). An isolated population of zebra mussels is established in San Justo Reservoir in Central California. The mussels can clog water intakes, trash racks and other protective screens. Once established, the mussels cannot be easily eradicated using current technologies. Mussel management will result in a significant increase in the cost of operation and maintenance of water delivery systems. In addition, there can also be adverse ecological impacts. To prevent the spread of the mussels into the State Water Project, the Delta and other bodies of water and water systems, the Department has joined with DFW, as the lead agency, and other state and federal agencies on a number of activities. These include boat inspections, monitoring of water bodies and water systems and education of the public, especially boat owners and operators. In addition, the Department has developed a Rapid Response Plan, Vector Management Plan, and Long-term Mussel Management and Control Plan, as mandated by the California Fish and Game Code. In 2016, DWR implemented containment measures in the West Branch of the SWP in an effort to prevent spread to uninfested waterbodies.

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

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

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

POWER OPERATIONS OF THE STATE WATER PROJECT

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

Historic Involvement of State Water Project in Power Markets

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

comparison, the total 2016 consumption for all electricity users in California was approximately 285,700 GWh, according to the California Energy Commission.

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

In addition to the seven power facilities it owns, the Department also has long-term contracts for the purchase of power from Pine Flat Powerplant, which is owned and operated by Kings River Conservation District, Lodi Energy Center, which is owned and operated by the Northern California Power Agency, five small hydroelectric power plants, which are owned and operated by Metropolitan, the 45 MW Camelot solar facility, which is owned and operated by Dominion Solar Holdings, Inc., and two newly executed long-term power purchase agreements, which began delivery in December 2016: the 9.5 MW Pearblossom Solar facility, which is owned and operated by Solar Star California XLIV, LLC, and the 85 MW Solverde 1 Solar facility, which is owned and operated by S-Power (Sustainable Power Group).

Power Generation

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

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

^(a) State Water Project share.

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

Power Sales and Purchases

Periodically, the Department enters into long-term and mid-term energy sales agreements and energy exchange agreements with municipal utilities, private utilities, and other entities that buy or sell energy in California and neighboring states. The Department also transacts with the California Independent System Operator (“CAISO”) in its markets for day-ahead and real-time energy purchases and sales. In addition, the Department sells ancillary services from its generating facilities to the CAISO and buys ancillary services from the CAISO to meet the requirements for its State Water Project pumping plants. These agreements and

arrangements with utilities, entities that buy or sell energy, and the CAISO allow the State Water Project to manage its power operations. The table below provides the Department’s historical revenues from power sales and costs of power purchases on an annual basis over the past five calendar years.

Year	Costs of Power Purchases (in millions)	Revenues from Power Sales (in millions)
2012	218	81
2013	231	108
2014	171	88
2015	197	78
2016	277	67

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

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

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

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

Historical Sources of Power for State Water Project Operations

The historical sources of power for operating the State Water Project on a calendar year basis for the calendar years 2012 through 2016 are set forth in the table below. The Department has satisfied its power load through its own resources, long-term purchase and exchange contracts and short-term and spot market purchases, as needed.

	Electrical Energy (millions of kilowatt hours)				
	2012	2013	2014	2015	2016
State Water Project Hydroelectric Plants					
Gianelli (San Luis)	143	86	49	158	87
Castaic	609	571	293	424	460
Devil Canyon	941	577	216	267	874
William E. Warne (Pyramid).....	355	346	175	264	283
Hyatt-Thermalito Complex (Oroville)	1,622	1,488	644	569	1,691
Alamo	30	25	19	24	66
Thermalito Diversion Dam.....	21	12	19	20	20
Mojave Siphon	58	34	10	15	53
Subtotal SWP Sources	<u>3,778</u>	<u>3,139</u>	<u>1,426</u>	<u>1,742</u>	<u>3,535</u>
State Water Project Thermal Plant (Reid Gardner Project) ^(a)	1,029	491	0	0	0
Power Purchases	2,320	2,825	1,842	2,589	2,359
Energy via Exchanges	0	0	0	0	0
Total Sources.....	<u>7,127</u>	<u>6,455</u>	<u>3,268</u>	<u>4,331</u>	<u>5,894</u>
Less Power Sales (Excess Sources)	533	967	473	567	705
Plus Net Transactions through CAISO	-808	-229	-11	-281	1,407
SWP Load	<u>7,402</u>	<u>5,717</u>	<u>2,784</u>	<u>3,483</u>	<u>6,597</u>

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

Power Transmission

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

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

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

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

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

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

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

Federal Energy Regulatory Commission Proceedings

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

Reid Gardner Termination, Groundwater Contamination Cleanup and Environmental Lawsuit

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

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

Oroville Facilities Relicensing Program

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

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

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

FERC published its Final Environmental Impact Statement (“FEIS”) in May 2007, which completed the federal environmental documentation process. The FEIS included the majority of the Settlement Agreement terms that come under FERC jurisdiction. The Department issued the final EIR in July 2008. Butte and Plumas Counties filed lawsuits challenging the adequacy of the final EIR. After holding a hearing on the merits, the court issued its decision in favor of the Department in 2012. The county plaintiffs have appealed the court’s decision but a hearing date has not yet been set. Notwithstanding the lawsuits, in January 2010 the SWRCB, using the Final EIR, issued the required Clean Water Act Section 401 Water Quality Certification for the Oroville Facilities. A final biological opinion for the project was issued by NOAAF in December 2016. The next step would be for FERC to issue a new license, which the Department expects would be for a term of 30 to 50 years. In the meantime, FERC is expected to continue issuing annual licenses for the Oroville Facilities.

Lodi Energy Center

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

Renewable Energy

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

The Department entered into a long-term Power Purchase Agreement for a 20 year delivery period with an option for an additional 10 year extension with Solar Star California XLIV, LLC. The plant has a capacity of 9.5 MW (ac) of solar photovoltaic energy generation and is located adjacent to the Department's Pearblossom Pumping Plant facility. The plant started contract delivery on December 29, 2016 and will deliver annually an estimated 27,400 MWh of generation.

The Department executed a long-term Power Purchase Agreement for procurement of renewable solar energy and RECs with Solverde 1, LLC. The 85 MW (ac) single axis tracking solar photovoltaic facility is a part of the Lancaster Energy Center, located 10 miles west of Lancaster, California and is near a portion of the East Branch of the California Aqueduct. The facility began commercial operations on December 20, 2016 and will deliver approximately 230,000 MWh of solar energy annually to the Department.

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

Thermalito Powerplant Fire

On November 22, 2012, a major fire occurred at the Thermalito Powerplant, which is part of the Hyatt-Thermalito hydroelectric generation facilities located on the Feather River near Oroville. The fire caused substantial damage to the plant rendering the plant inoperable. Until the plant is repaired and placed back in service, the electrical generation from the Hyatt-Thermalito facilities will be reduced. The cleaning, decontamination and structural repairs of the Thermalito Powerplant facility have been completed. The mechanical refurbishment and reassembly of the generating units continues and is on schedule and on budget. The Department expects the Thermalito Powerplant to return to full service by January 1, 2019. This event has not had, and will not have, a material adverse impact on the Department's ability to operate and maintain the State Water Project. The costs for rebuilding the Thermalito Powerplant will be financed with Bonds. (See APPENDIX I – "WATER SYSTEM PROJECTS – Project Descriptions – Thermalito Powerplant Cleanup and Reconstruction").

No Relationship to Power Supply Revenue Bonds

In response to the California energy crisis of 2000-01, the Department created the separate CERS Division to perform its function as supplier of energy to retail customers under its Power Supply Program, and to distinguish and keep that program separate and distinct from its power activities in connection with the State Water Project. The Department has issued Power Supply Revenue Bonds to finance and refinance a portion of the costs of the Power Supply Program. \$3.931 billion of Power Supply Revenue Bonds are currently outstanding.

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

FINANCIAL OPERATIONS

Financing of the State Water Project

In addition to the revenue bond obligations described under “FINANCIAL OPERATIONS- Outstanding Revenue Obligations of the Department for the State Water Project” below, a large portion of the State Water Project has been financed by the sale of general obligation bonds of the State pursuant to the provisions of the Burns-Porter Act, which authorized the issuance of \$1,750,000,000 in aggregate principal amount of such bonds for the construction of the State Water Project. The Burns-Porter Act was adopted by the voters at the State’s general election of November 8, 1960. Of that authorization, \$1,582,400,000 in aggregate principal amount (including the entire amount available for construction of the initial components of the State Water Project) has been issued, of which \$70,415,000 in aggregate principal amount are outstanding as of November 1. The unissued \$167,600,000 of the authorization is available only to provide funds for the construction of certain additional water conservation facilities. (See “FINANCIAL OPERATIONS – Allocation of State Water Project Revenues.”)

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

As of the date hereof, the Department anticipates issuing approximately \$1.762 billion of additional Bonds to finance completion of existing Water System Projects. (See APPENDIX I – “WATER SYSTEM PROJECT – Capital Expenditures for Water System Projects.”) In addition, the Department could issue additional Bonds to finance all or a portion of the settlement agreement costs of FERC relicensing of its power, water storage and associated facilities at Oroville. The FERC relicensing costs including the costs related to the settlement agreement could total \$90 million or more. The Department may also undertake additional capital projects in the future, which could result in the issuance of additional Bonds or other obligations in substantial amounts. (See “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds” for a description of certain limitations on the issuance of additional Bonds and “STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Bay Delta Conservation Plan/California WaterFix.*”).

Fish and Wildlife Enhancement and Recreation Costs

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

In 2006, California voters approved Proposition 84 (the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), which, among other things, authorized

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

Allocation of State Water Project Revenues

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

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

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

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

Outstanding Revenue Obligations of the Department for the State Water Project

The Department has previously issued forty-nine series of Bonds totaling \$9,426,025,000 in aggregate principal amount, of which \$2,508,665,000 in aggregate principal amount are outstanding under the Resolution. A portion of the outstanding Bonds in the aggregate principal amount of \$258,520,000 are variable rate bonds with the remaining being fixed rate bonds, all of the Bonds are secured equally and ratably with the Series AX and AY Bonds.

The Department has also issued \$1,526,155,000 in aggregate principal amount of revenue bonds secured by three separate bond resolutions to finance certain power facilities of which \$38,955,000 in aggregate principal amount are outstanding as of November 1, 2017. All bonds issued under two of these resolutions have been fully retired. The outstanding revenue bonds issued under the third resolution are referred to as Devil Canyon-Castaic Bonds. Funds to be available to pay interest on and principal of the Devil Canyon-Castaic Bonds will not constitute Revenues under the Resolution and will not be available to pay interest on or principal of the Bonds. At no time will Revenues be available to pay interest on or principal of the Devil Canyon-Castaic Bonds.

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

	When Issued	Final Maturity	No. of Series	Original Principal Amount in Millions	Outstanding Principal Amount in Millions⁽¹⁾
Devil Canyon-Castaic Bonds ⁽²⁾	1972	2022	1	\$ 139	\$ 39
Water System Revenue Bonds	1986-2016	2035	49	9,426	2,509
Total ⁽³⁾				<u>\$9,565</u>	<u>\$2,548</u>

(1) Previously refunded bonds.

(2) Not secured by the Revenues securing the Bonds.

(3) Totals may not sum due to rounding.

The Department has authorized the issuance of its Series 1 Notes in a principal amount outstanding at any one time not to exceed the lesser of \$300,000,000 or the principal amount of Series 1 Notes supported by the credit agreement then in effect (currently \$300,000,000). The Department has also authorized the issuance of its Water Revenue Commercial Paper Notes, Series 2 (the “Series 2 Notes” and together with the Series 1 Notes, the “Notes”) in a principal amount outstanding at any one time not to exceed the lesser of \$500,000,000 or the principal amount of Series 2 Notes supported by the credit agreement then in effect (currently \$500,000,000). Absent unusual circumstances, such as the Oroville Dam emergency, the Note program is designed to be an ongoing source of interim financing for Water System Projects prior to permanent financing from the sale of Bonds. The Department’s obligation to make debt service payments on the Notes is subordinate to its payment obligations with respect to the Bonds. The Department has approximately \$400 million in aggregate principal amount of Series 2 Notes outstanding, and expects a portion of those Series 2 Notes to be paid, including approximately \$50 million to be paid in December 2017, with proceeds of federal reimbursement for costs of the Oroville Dam Spillway Recovery and Restoration Project and other sources of emergency funds to the extent available and the remainder with one or more issues of Bonds. No Series 1 Notes are currently outstanding and based on projected capitalization and future expenditures on Water System Projects, the Department does not expect to issue Series 1 Notes until 2018. Pursuant to a Revolving Credit Agreement that is scheduled to expire on May 1, 2020, Bank of America, N.A. has agreed to make advances to the Department, if necessary and subject to certain conditions, to provide moneys for the payment of the Series 1 Notes when due. Pursuant to a Revolving Credit Agreement that is scheduled to expire on May 1, 2020, Wells Fargo Bank, National Association has agreed to make advances to the Department, if necessary and subject to certain conditions, to provide moneys for the payment of the Series 2 Notes when due.

The Department may replace either of the existing revolving credit agreements under the conditions provided by the resolution authorizing the applicable series of Notes and the related revolving credit agreement. The Notes are payable from the Central Valley Project Revenue Fund and from payments under the Water Supply Contracts. In the event that amounts received by the Department under the Water Supply Contracts are insufficient to pay all amounts due under the Notes, the Bonds and the State’s general obligation bonds issued for the State Water Project, such moneys are to be allocated first to the payment of amounts due under the Bonds and such general obligation bonds.

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

Estimated Annual Debt Service

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

Year Ending (December 1)	Outstanding Bonds Total Debt Service ⁽¹⁾	Series AX and AY Bonds			Grand Total ⁽²⁾
		Principal	Interest	Debt Service	
2018	\$188,617,005	\$24,480,000	\$20,310,358	\$44,790,358	\$233,407,363
2019	199,339,163	28,910,000	20,155,423	49,065,423	248,404,586
2020	191,915,263	32,760,000	18,891,815	51,651,815	243,567,078
2021	185,993,263	35,930,000	17,585,805	53,515,805	239,509,067
2022	182,890,763	39,685,000	16,053,557	55,738,557	238,629,320
2023	183,050,813	29,665,000	14,390,478	44,055,478	227,106,291
2024	174,531,375	36,395,000	13,279,673	49,674,673	224,206,048
2025	169,259,188	36,610,000	11,777,032	48,387,032	217,646,219
2026	150,204,538	35,475,000	10,219,461	45,694,461	195,898,998
2027	157,087,038	42,135,000	8,763,323	50,898,323	207,985,361
2028	157,931,538	26,095,000	6,851,489	32,946,489	190,878,027
2029	161,274,788	29,480,000	5,813,940	35,293,940	196,568,728
2030	104,891,038	24,390,000	4,693,750	29,083,750	133,974,788
2031	104,131,780	25,805,000	3,474,250	29,279,250	133,411,030
2032	113,047,060	18,960,000	2,184,000	21,144,000	134,191,060
2033	110,532,085	19,920,000	1,236,000	21,156,000	131,688,085
2034	130,364,458	2,335,000	240,000	2,575,000	132,939,458
2035	130,182,258	2,465,000	123,250	2,588,250	132,770,508
Total ⁽²⁾	\$2,795,243,408	\$491,495,000	\$176,043,605	\$667,538,605	\$3,462,782,013

(1) The interest accrued on the variable rate Bonds of Series AT and Series AU has been assumed at 3.00 percent per annum and 2.85 percent per annum, respectively. Includes capitalized interest on the Bonds of Series AW in the aggregate amount of \$11,811,500.

(2) Totals may not sum due to rounding. After the issuance of the Series AX and AY Bonds and the refunding of the Refunded Bonds the Department will have \$2,468,905,000 in aggregate principal amount of Bonds outstanding. (See “PLAN OF REFUNDING.”)

Article XIII B of the Constitution

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

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

THE WATER SUPPLY CONTRACTS

The Water Supply Contracts between the State, acting by and through the Department (references to the Department in this Section are to the Department acting in such capacity), and the 29 Contractors are substantially uniform with respect to basic terms except with respect to certain payments by Contractors for

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

Basic Contract

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

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

The Annual Table A Amounts of all 29 Contractors totals 4,172,686 acre-feet of water. (See “STATE WATER PROJECT WATER SUPPLY.”) Water delivered to a Contractor may not be disposed of by the Contractor for use outside the Contractor’s territory, subject to certain limited exceptions, without the Department’s consent. Restrictions are imposed on changes in the corporate organization of the Contractor.

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

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

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

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

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

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

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

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

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

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

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

The original Transportation Charge is computed so as to return to the Department during the term of the contract the “reimbursable” costs of the facilities necessary to deliver water to a Contractor, together with

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

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

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

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

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

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

approximately two-year delay in the reconciliation of estimated charges paid and actual costs reimbursed to the Department.

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

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

Revenues from Bond Financed Facilities

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

The components of the State Water Project financed with Bonds are described in APPENDIX I - "WATER SYSTEM PROJECTS."

Amendments Providing Certain Revenues to Pay Water System Revenue Bonds

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

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

Under the Off-Aqueduct Power Facilities portion of the amendment, the annual costs for such facilities financed by Bonds are allocated among the Contractors based upon power consumed in such year in delivering water under the Water Supply Contracts to each Contractor. Such costs include, but are not limited to, debt

service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times debt service on the Bonds), deposits to reserves (including the Debt Service Reserve Account) and operation and maintenance expenses, less any credits, interest earnings or other moneys received by the Department in connection with the facility. If the Department determines that the amount received from the Contractors in any year is less than the amount required for such Off-Aqueduct Power Facilities costs, the Department may allocate the deficiency among the Contractors in the same manner as costs are allocated using the original capital cost component of the Transportation Charge.

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

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

Under the East Branch Enlargement Amendment, the annual financing costs for such facilities financed by Bonds are allocated among the Participating Contractors based upon delivery capacity increase allocable to each Participating Contractor. Such costs include, but are not limited to, debt service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times debt service on the Bonds), deposits to reserves (including the Debt Service Reserve Account) and operation and maintenance expenses, less any credits, interest earnings or other moneys received by the Department in connection with the facility. If any Participating Contractor defaults on payment of its allocable charges under the East Branch Enlargement amendment, among other remedies available to the Department, the non-defaulting Participating Contractors may assume responsibility for such charges and receive delivery capacity that would otherwise be available to the defaulting Participating Contractor in proportion to the non-defaulting Participating Contractor's participation in the East Branch Enlargement. If Participating Contractors fail to cure the default, Metropolitan shall, in exchange for the delivery capacity that would otherwise be available to the defaulting Participating Contractor, assume responsibility for the capital charges of the defaulting Participating Contractor.

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

Water System Revenue Bond Amendment. As of 1987, the Department and the 29 Contractors entered into a Water Supply Contract amendment for the purpose of financing facilities, including presently all Water System Projects (as that term is defined under the Resolution) other than Off-Aqueduct Power Facilities, the Alamo Project, the Small Hydro Project, the Pyramid Hydroelectric Project, the East Branch Enlargement – First Stage, the Coastal Branch Extension – Phase II, the East Branch Extension – Phase I and the South Bay Aqueduct Enlargement. The amendment establishes a separate subcategory of Delta Water Charge and

Transportation Charge for projects financed with Bonds. This subcategory of charge provides the revenues required to pay the annual financing costs of the Bonds, and consists of two elements. The first element is an annual charge to each Contractor for repayment of capital costs of such projects under the original Water Supply Contract provisions for the Delta Water Charge and the Transportation Charge. The second element is a Bond surcharge to pay the difference between the total annual charges under the first element and the annual financing costs, including coverage and reserves, of the Bonds issued for such projects.

If any Contractor defaults on payment of its allocable charges under this Amendment, the Department must allocate a portion of the default to each of the non-defaulting Contractors, subject to certain limitations, including a provision that non-defaulting Contractors may not be charged more than 125 percent of the amount of its annual payment. Under certain circumstances the non-defaulting Contractors would be entitled to receive an allocation of the water supply of the defaulting Contractor.

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

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

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

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

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

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

Under the East Branch Extension Amendment, the annual financing costs for such facilities financed by bonds will be allocated between San Bernardino Valley Municipal Water District and San Geronio Pass Water

Agency based upon the delivery capacity allocable to each. Such costs include, but are not limited to, debt service, including coverage requirements (such as the requirement of the Resolution that Revenues receivable under the Water Supply Contracts after deduction of the costs of operation and maintenance be at least 1.25 times Bond Debt Service) and deposits to reserves (including the Debt Service Reserve Account), less any credits, interest earnings or other moneys received by the Department in connection with the facility.

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

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

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

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

Monterey Amendment

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

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

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

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

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

Contract Extension Negotiations

In May 2013, the Department and the Contractors began negotiations in a public forum to develop contract amendments to extend the term and change certain financial provisions of the Water Supply Contracts. In June 2014, the negotiators for the Department and the Contractors reached a general agreement on principles for such an amendment (the “Agreement in Principle”). The Department and 25 of the Contractors have signed the Agreement in Principle. The County of Butte, the Plumas County Flood Control and Water Conservation District, the San Luis Obispo Flood Control and Water Conservation District and the Santa Barbara Flood Control and Water Conservation District have not signed the Agreement in Principle.

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

Also under the Agreement in Principle, certain provisions that provide for charges to the Contractors for capital costs and certain other costs to be made on an amortized basis would be amended to provide for charges to the Contractors on an annual “pay as you go” basis to provide the revenues needed by the Department to make payments in each year. The current provisions authorizing the Department to charge the Contractors annually for the full amount of the required annual debt service and coverage on the Bonds will continue in any extended contract. Other provisions addressed in the Agreement in Principle would provide for, among other things, an increase in the Department’s operating reserves, a mechanism for financing capital projects with State Water Project funds and recovering those costs with interest from the Contractors, establishment of an account

to pay for certain State Water Resources Development System expenses not chargeable to the Contractors and the establishment of a Finance Committee consisting of Department and Contractor representatives to serve as a forum for discussions and to provide a channel for recommendations to the Director of Water Resources concerning financial policies of the State Water Project.

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

Obligation to Levy Taxes or Assessments

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

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

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

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

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

WATER SUPPLY CONTRACT RELATED LITIGATION

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

Monterey Amendment Litigation

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

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

In accordance with the Court of Appeal's determination, the Department prepared a new EIR and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit in Sacramento County Superior Court challenging the Department's CEQA compliance and the validity of the Monterey Amendment, including the Department's transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento County Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and the Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court, challenging primarily the Department's CEQA compliance with respect to the Kern Fan Element transfer from the Department to KCWA. The two lawsuits filed in Kern County Superior Court were transferred to the Sacramento County Superior Court. In December 2012, the Department prevailed on its challenge to the plaintiffs' validation causes of action (including the validity of Kern Fan Element transfer) on the grounds that they were not timely filed. This left only the plaintiffs' CEQA compliance challenges. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR was adequate under CEQA, but that the EIR's discussion of the impacts on continued use and operation of the Kern Water Bank was deficient. In October 2014, the trial court ordered the Department, as the remedy for the deficiency, to provide additional environmental analysis on the impacts of the continued use and operation of the Kern Water Bank and upon completion of the EIR process, to determine whether to continue the use and operation of the Kern Water Bank by the Kern Water Bank Authority. The court limited its decision to the Kern Water Bank by ruling that only those portions of the revised Monterey Plus EIR that are new or changed shall be subject to

challenge under CEQA by petitioners or other interested parties and that no other challenges that were raised or could have been raised with respect to the Monterey Plus EIR may be raised in any challenge to the revised Monterey Plus EIR. The trial court's decision, therefore, leaves all matters related to the State Water Project and the Monterey Amendment untouched. In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. These plaintiffs are appealing the trial court's final CEQA and validation decisions. In September 2016, the Department issued the revised EIR in compliance with the trial court's decision. Shortly thereafter, one set of plaintiffs, as well as a new party, filed a new action challenging the revised EIR. The new action challenged the Department's certification of the revised Monterey Plus EIR and approval of the "Kern Water Bank Development and Continued Use and Operation" project. In October 2017, the trial court ruled in favor of the Department. The plaintiffs could appeal the court's decision. The Department, however, does not expect that there would be any material adverse impact on the ability of the Department to meet its payment obligations, including those with respect to the Bonds, even if the appeal of the trial court's decisions or a potential appeal on the trial court's decision in the new challenge to the Department's revised EIR is successful.

Contractor Claims

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

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

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

In the course of its investigation of Metropolitan's claims, the Department determined that it had spent approximately \$26.3 million of Bond proceeds and \$2.7 million of commercial paper proceeds on capital costs allocated by the Department to the purposes of recreation and fish and wildlife enhancement, had charged the Contractors approximately \$9.5 million for Bond debt service allocated to recreation and fish and wildlife enhancement and had paid approximately \$15.1 million of such financing costs with other revenues. The Department has issued restated bills to the Contractors for the years 1988 through 2007. This restatement has, among other things, credited back the \$9.5 million, plus interest, and restated the amount of "reductions in charges" made and to be made available to the Contractors under the Monterey Amendment to reflect the use of other revenues that are permitted to be used to pay financing costs of the Bonds allocable to recreation and fish and wildlife enhancement. (See "THE WATER SUPPLY CONTRACTS – Monterey Amendment.") One of the effects of such credits and restatements was to reallocate aggregate Water Supply Contract charges for the years 1997 through 2006 in the amount of approximately \$5 million among the Contractors, with some Contractors' aggregate Water Supply Contract charges being increased and other Contractors' aggregate Water Supply Contract charges being decreased. The Department also filed with the State Treasurer, as trustee under

the Resolution, a supplemental resolution (and an amendment to such supplemental resolution) determining and designating that the other Department revenues used to pay Bond debt service were Revenues under the Resolution.

Tolling and Waiver Agreement with Contractors

In 2007 and 2008, the Department entered into a Tolling and Waiver Agreement with 28 of the 29 Contractors. The Contractors that have signed the Tolling and Waiver Agreement have more than 99 percent of the maximum Table A amounts and make more than 99 percent of the annual Water Supply Contract payments (including payments that constitute Revenues under the Resolution). The Tolling and Waiver Agreement, as amended, expires on December 31, 2017. However, the Department and the 28 Contractors are working on an amendment that will extend the Tolling and Waiver Agreement until December 31, 2019.

Under the Tolling and Waiver Agreement (as amended), each signing Contractor agreed, without establishing any precedent for interpretation of the Water Supply Contracts or the Davis-Dolwig Act, (California Water Code sections 11900-11925), to waive and release certain claims, including any claim that the Department was not in compliance with its Resolution covenants or that the Contractor had any right to recover anything of value from Bondholders arising out of certain specified issues relating to the past use of Bond proceeds for the development of public recreation and the enhancement of fish and wildlife.

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

In addition to the waiver and release provisions in the Tolling and Waiver Agreement, the Agreement, as amended, also tolls (i.e., suspends) until December 31, 2017, the running of the time period and statute of limitations for filing by the Contractors of (1) protests regarding the Department's bills to the Contractors for 2007 through 2018, (2) claims arising from the Department's revisions to prior year invoices that were made to adjust for improper charges to the Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims. The tolling period is expected to be extended to December 31, 2019, in a new amendment.

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

THE CONTRACTORS

The 29 Contractors are principally located in the San Francisco Bay area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 39,200 square miles, approximately 25 percent of the State's land area, with a population of approximately 27 million, or about 68 percent of the State's population.

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

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

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

Governing Bodies

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

Water Rates and Taxation

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

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

Selected Contractor Data

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

SELECTED DATA ON THE CONTRACTORS

Contractor	Year Established	Estimated December 31, 2016 Population	Principal Water Related Activities
Alameda County Flood Control and Water Conservation District, Zone 7	1967	238,600	Treats, distributes, and stores State water for municipal and agricultural purposes.
Alameda County Water District	1913	348,600	Treats and distributes State water for municipal purposes. Uses State water to replenish ground water basins for municipal and agricultural purposes as well as for salt water barrier protection for ground water basins.
Antelope Valley-East Kern Water Agency	1959	397,634	Distributes State water for agricultural purposes. Treats and distributes State water for municipal purposes.
Castaic Lake Water Agency	1962	275,820	Treats and distributes State water for municipal purposes.
City of Yuba City	1908	71,070	Treats and distributes State water for municipal purposes.
Coachella Valley Water District	1918	286,000	Exchanges State water for water from Metropolitan for storage in underground basins and for distribution for agricultural purposes.
County of Butte	1850	204,000	Distributes State water for municipal purposes.
County of Kings	1893	149,942	Exchanges State water for water from the Tulare Lake Basin Water Storage District for recreational purposes.
Crestline-Lake Arrowhead Water Agency	1962	29,000	Treats and distributes State water for municipal purposes.
Desert Water Agency	1961	106,000	Exchanges State water for water from Metropolitan for storage in underground basins and distribution for municipal purposes.
Dudley Ridge Water District	1963	36	Distributes State water for agricultural purposes.
Empire West Side Irrigation District	1931	12	Distributes State water for agricultural purposes. Exercises surface water rights.
Kern County Water Agency	1961	882,176	Distributes State water to 16 districts for agricultural and municipal use. Replenishes ground water basins with State water for municipal and agricultural use. Exercises flood control functions.
Littlerock Creek Irrigation District	1892	2,900	Distributes State water for agricultural purposes.
The Metropolitan Water District of Southern California	1928	18,800,000	Transmits and distributes State water and water from the Colorado River to 27 public agencies for municipal, agricultural and ground water replenishment purposes.
Mojave Water Agency	1960	476,799	Distributes State water for municipal purposes and uses State water to replenish ground water basins.
Napa County Flood Control and Water Conservation District	1951	139,099	Distributes water for municipal purposes. Exercises flood control functions.
Oak Flat Water District	1964	10	Distributes State water for agricultural purposes.
Palmdale Water District	1918	114,533	Treats and distributes State water for municipal purposes.
Plumas County Flood Control and Water Conservation District	1967	21,200	Distributes State water. Exercises flood control functions.
San Bernardino Valley Municipal Water District	1954	661,546	Uses State water to replenish ground water basins and for municipal purposes.
San Gabriel Valley Municipal Water District	1959	197,636	Uses State water to replenish ground water basins.
San Geronio Pass Water Agency	1961	78,268	Uses State water to replenish ground water basins and for municipal purposes.
San Luis Obispo County Flood Control and Water Conservation District	1945	279,083	Has contracted for State water. Exercises flood control functions.

Contractor	Year Established	Estimated December 31, 2016 Population	Principal Water Related Activities
Santa Barbara County Flood Control and Water Conservation District	1956	373,906	Has transferred its rights under its Water Supply Contract to the Central Coast Water Authority, which will distribute State water for municipal purposes. Exercises flood control functions.
Santa Clara Valley Water District	1951	1,903,974	Treats and distributes State water for municipal purposes. Distributes State water for agricultural purposes and for replenishment of ground water basins. Exercises flood control functions.
Solano County Water Agency	1958	440,207	Distributes State water for municipal purposes. Exercises flood control functions.
Tulare Lake Basin Water Storage District	1926	23	Distributes State water for agricultural purposes. Exercises surface water rights.
Ventura County Flood Control District	1944	472,776	Purchases State water and sub-contracts the entire amount to Casitas Municipal Water District. While Casitas manages the facility, Ventura County has primary responsibility for payment for State water. Exercises flood control functions.
Total		26,950,850	

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

Water Deliveries and Contractor Payments

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

Historical Deliveries of Water from the State Water Project to the Contractors ⁽¹⁾ (in acre-feet)

Contractor	2012	2013	2014	2015	2016	Maximum Table A Amount ⁽²⁾
Alameda County Flood Control and Water Conservation District, Zone 7.....	55,239	44,954	34,122	32,444	53,484	80,619
Alameda County Water District.....	20,831	23,640	30,066	27,259	27,357	42,000
Antelope Valley-East Kern Water Agency.....	111,207	51,003	18,532	14,308	41,356	141,400
Castaic Lake Water Agency.....	50,473	44,754	29,448	29,189	37,828	95,200
City of Yuba City.....	2,695	4,850	4,237	3,004	1,229	9,600
Coachella Valley Water District.....	117,587	66,539	12,750	37,596	69,422	138,350
County of Butte.....	1,374	908	1,652	2,763	2,518	27,500
County of Kings.....	7,405	4,645	1,386	1,229	3,660	9,305
Crestline-Lake Arrowhead Water Agency.....	624	1,368	1,260	1,253	1,084	5,800
Desert Water Agency.....	45,101	20,791	3,005	11,217	21,893	55,750
Dudley Ridge Water District.....	30,450	32,770	36,162	41,733	19,308	50,343
Empire West Side Irrigation District.....	2,242	1,567	516	624	1,822	3,000
Kern County Water Agency.....	810,029	744,317	518,021	520,758	638,926	982,730
Little Rock Creek Irrigation District.....	-	-	-	-	-	2,300
The Metropolitan Water District of Southern California.....	1,224,907	892,550	387,556	573,526	1,083,900	1,911,500
Mojave Water Agency.....	11,244	7,498	3,581	8,830	22,284	82,800
Napa County Flood Control and Water Conservation District.....	9,904	12,478	14,237	11,199	8,993	29,025
Oak Flat Water District.....	3,208	2,820	1,520	1,077	1,855	5,700
Palmdale Water District.....	18,897	10,567	8,406	5,836	10,516	21,300
Plumas Co. Flood Control and Water Conservation District.....	79	366	251	730	387	2,700
San Bernardino Valley Municipal Water District.....	112,972	32,085	11,182	24,380	62,676	102,600
San Gabriel Valley Municipal Water District.....	22,058	9,252	1,200	5,760	16,088	28,800
San Geronimo Pass Water Agency.....	11,010	9,445	5,044	3,481	10,816	17,300
San Luis Obispo Co. Flood Control and Water Conserv. Dist.....	3,944	3,681	3,206	3,473	4,199	25,000
Santa Barbara Co. Flood Control and Water Conserv. Dist. ⁽³⁾	19,474	18,018	16,757	11,638	34,085	45,486
Santa Clara Valley Water District.....	63,794	84,623	66,846	82,888	107,164	100,000
Solano County Water Agency.....	29,350	35,929	19,679	23,836	23,605	47,756
Tulare Lake Basin Water Storage District.....	95,717	48,361	8,316	17,336	42,387	88,922
Ventura County Flood Control District.....	4,353	2,890	93	1,000	3,000	20,000
TOTAL	2,886,168	2,212,669	1,239,031	1,498,367	2,351,842	4,172,786

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

⁽²⁾ Reflects permanent transfers of Table A amounts through December 31, 2016. For an explanation of Table A amounts see "THE WATER SUPPLY CONTRACTS- Basic Contract - Annual Table A Amounts."

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

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

Historical Payments to the Department from the Contractors⁽¹⁾
(in thousands)

Contractor	2012	2013	2014	2015	2016
Alameda County Flood Control and Water Conservation District, Zone 7	\$ 32,995	\$ 33,678	\$ 33,934	\$ 40,692	\$ 32,525
Alameda County Water District.....	8,981	7,476	7,152	9,437	9,908
Antelope Valley-East Kern Water Agency	31,090	34,158	34,793	39,627	39,678
Castaic Lake Water Agency.....	25,540	21,678	23,746	27,881	29,876
City of Yuba City.....	497	518	520	628	754
Coachella Valley Water District	56,834	55,089	48,417	56,783	57,495
County of Butte.....	1,423	1,484	1,491	1,800	2,161
County of Kings.....	829	834	782	954	1,079
Crestline-Lake Arrowhead Water Agency	1,718	1,975	1,898	2,259	2,056
Desert Water Agency	22,608	19,632	18,335	20,989	20,687
Dudley Ridge Water District.....	4,595	4,462	4,344	4,666	5,474
Empire West Side Irrigation District ⁽³⁾	259	241	224	276	326
Kern County Water Agency.....	112,068	111,440	101,792	116,916	132,429
Littlerock Creek Irrigation District	563	591	570	647	624
The Metropolitan Water District of Southern California	555,505	564,019	553,620	632,852	635,607
Mojave Water Agency	23,528	23,597	25,103	28,524	29,528
Napa County Flood Control and Water Conservation District	8,894	8,157	8,127	8,055	9,106
Oak Flat Water District.....	334	536	396	497	594
Palmdale Water District.....	5,425	4,777	5,190	5,274	6,710
Plumas County Flood Control and Water Conservation District ⁽³⁾	141	151	150	192	233
San Bernardino Valley Municipal Water District	43,642	42,481	39,805	54,952	53,362
San Gabriel Valley Municipal Water District	9,332	8,450	9,026	10,280	10,363
San Geronio Pass Water Agency	14,676	15,349	16,367	25,110	21,355
San Luis Obispo Co. Flood Control and Water Conservation District.	6,966	6,936	5,836	7,825	7,119
Santa Barbara Co. Flood Control and Water Conservation District ⁽²⁾	37,531	43,503	43,588	47,193	38,864
Santa Clara Valley Water District.....	23,489	20,154	21,568	28,836	33,913
Solano County Water Agency.....	10,328	14,052	9,891	9,073	12,167
Tulare Lake Basin Water Storage District.....	8,480	8,113	7,636	8,977	10,574
Ventura County Flood Control District.....	5,103	4,478	5,007	4,176	4,394
TOTAL⁽⁴⁾	\$1,053,374	\$1,058,009	\$1,029,308	\$1,195,371	\$1,208,961

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

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

⁽³⁾ Have not signed the Monterey Amendment.

⁽⁴⁾ Totals may not sum due to rounding.

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

Payment History

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

Selected Contractor Financial Information

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

Contractor	Projected Percentage Contribution of Revenues
The Metropolitan Water District of Southern California	35%
Santa Barbara County Flood Control and Water Conservation District/Central Coast Water Authority	19
Kern County Water Agency	9
Twenty-six other Contractors.....	37
Total	100%

Metropolitan. The audited financial statements of Metropolitan for the year ended June 30, 2016, can be obtained at <http://www.munios.com>, then searching for keyword "Series AX" and choosing the appropriate link.

Santa Barbara County FCWCD/Central Coast Water Authority. As of July 1, 1989, Santa Barbara County FCWCD transferred certain of its rights under its Water Supply Contract to certain local water purveyors and users within Santa Barbara County. On September 26, 1991, the local water purveyors and users transferred those rights to the Central Coast Water Authority in consideration for its agreement to provide for the delivery of water under the related Water Supply Contract to the local water purveyors and users. Although the Department did not object to these transfers, the Department considers Santa Barbara County FCWCD to be the party to which the Department is obligated under the Water Supply Contract, and the Department did not release Santa Barbara County FCWCD from its Water Supply Contract obligations. The audited financial statements of Santa Barbara County FCWCD for the year ended June 30, 2017, and the audited financial statements of Central Coast Water Authority for the year ended June 30, 2016, can be obtained at <http://www.munios.com>, then searching for keyword "Series AX" and choosing the appropriate link.

KCWA. The audited financial statements of KCWA for the year ended June 30, 2016, can be obtained at <http://www.munios.com>, then searching for keyword “Series AX” and choosing the appropriate link.

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

Contractor Official Statements and Continuing Disclosure Filings. Various contractors periodically file Official Statements and disclosure reports with the Municipal Securities Rulemaking Board (“MSRB”) in connection with their publicly offered debt. Such Official Statements and disclosure reports are available from the MSRB but are not incorporated by reference herein and neither the Department nor the Underwriters assume any responsibility for the completeness or accuracy thereof.

CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES

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

Article XIII A of the Constitution

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

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

Article XIII B of the Constitution

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

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

Article XIII C and Article XIII D of the Constitution

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

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

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

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

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

Article XIIC extends the people’s initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In Bighorn, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency’s water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate’s initiative power is subject to the public agency’s statutory obligation to set water service charges at a level that will “pay the operating expenses of the agency, ... provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.”

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

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

Other Initiative Measures

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

Special Limitations Applicable to Metropolitan

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

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

TAX MATTERS

Series AX Bonds (Tax-Exempt)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Department (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series AX Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series AX Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. As discussed further below, legislation has been introduced which, if enacted, would repeal the alternative minimum tax for tax years beginning after December 31, 2017. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

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

Series AX Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt

interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series AX Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation has been introduced in Congress which, if enacted, would significantly change the income tax rates for individuals and corporations and would repeal the alternative minimum tax for tax years beginning after December 31, 2017. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series AX Bonds. Prospective purchasers of the Series AX Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

Unless separately engaged, Bond Counsel is not obligated to defend the Department or the beneficial owners regarding the tax-exempt status of the Series AX Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Department and their appointed

counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Department legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series AX Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series AX Bonds, and may cause the Department or the beneficial owners to incur significant expense.

Series AY Bonds (Federally Taxable)

Bond Counsel observes that interest on the Series AY Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that interest on the Series AY Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series AY Bonds.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series AY Bonds that acquire their Series AY Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series AY Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Series AY Bonds pursuant to this offering for the issue price that is applicable to such Series AY Bonds (i.e., the price at which a substantial amount of the Series AY Bonds are sold to the public) and who will hold their Series AY Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Series AY Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series AY Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series AY Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series AY Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series AY Bonds (including their status as U.S. Holders or Non-U.S. Holders).

The Series AY Bonds are not expected to be treated as issued with original issue discount for U.S. federal income tax purposes because the stated redemption price at maturity of the Series AY Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a *de minimis* amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Series AY Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Series AY Bonds.

Disposition of the Series AY Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition of a Series AY Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series AY Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series AY Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Series AY Bond (generally, the purchase price paid by the U.S. Holder for the Series AY Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Series AY Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series AY Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

If the Department defeases any Series AY Bond, such Series AY Bond may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In that event, the Beneficial Owner of the Series AY Bond will recognize taxable gain or loss equal to the difference between the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Beneficial Owner's adjusted tax basis in the Series AY Bond. (See "DESCRIPTION OF THE SERIES AY AND AN BONDS – Defeasance.")

Internal Revenue Service Circular 230 Notice

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The discussion was written to support the promotion or marketing of the Series AY Bonds.

RATINGS

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

MUNICIPAL ADVISOR

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

APPROVAL OF LEGAL PROCEEDINGS

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

FINANCIAL STATEMENTS

The financial statements of the State Water Resources Development System at June 30, 2016, and June 30, 2015, and for the years then ended, appearing in APPENDIX B to this Official Statement have been audited by Gallina LLP, (the “Auditor”), independent auditors, as set forth in the report of Gallina LLP appearing in APPENDIX B. GALLINA LLP became part of CliftonLarsonAllen LLP as of January 1, 2017. The financial statements of the State Water Resources Development System at June 30, 2017, and June 30, 2016, and for the years then ended are expected to be available in late December 2017 or January 2018. The Department expects to post these financials statements through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

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

VERIFICATION

Grant Thornton LLP (the “Verification Agent”), a firm of independent public accountants, will deliver to the Department its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the amounts deposited or to be deposited with the State Treasurer in the respective Escrow Accounts for the Series AX Bonds and the Series AY Bonds to pay the redemption price of and interest on the Refunded Bonds, when due and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Series AX Bonds will be excluded from gross income for federal income tax purposes. (See “PLAN OF REFUNDING.”)

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

UNDERWRITING

The Series AX and AY Bonds are being purchased by an underwriting group, represented by Goldman Sachs & Co. LLC (referred to herein as the “Underwriters”), from the State Treasurer, who is authorized pursuant to the Act to sell the Series AX and AY Bonds on behalf of the Department. The

Underwriters have agreed to purchase the Series AX and AY Bonds at a price of \$561,770,108.10, representing the principal amount of the Series AX and AY Bonds, plus original issue premium of \$71,472,558.75, less an Underwriters' discount of \$1,197,450.65. The purchase contract pursuant to which the Series AX and AY Bonds are being sold provides that the Underwriters will purchase all of the Series AX and AY Bonds, if any Series AX and AY Bonds are purchased, the obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

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

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

CERTAIN RELATIONSHIPS

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

In addition, in the ordinary course of sales, trading, brokerage and financing activities, of the Underwriters may at any time hold long or short positions, and may trade or otherwise effect transactions, for their own accounts or the accounts of customers, in debt or equity securities or senior loans, as applicable, of the Department, the State, other governmental entities and utilities. In connection with these activities and the provision of other services, certain of the Underwriters may be or become creditors of such entities. In addition, many of the Underwriters, or their affiliates, currently serve as remarketing agents or providers of credit enhancement or liquidity facilities for variable rate obligations issued by, or as interest rate swap providers to, the Department, the State, other State agencies, other governmental entities and utilities.

LITIGATION

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

At any given time, including the present, there are a number of civil actions pending against the Department, which could, if determined adversely to the Department, affect the Department's expenditures and in some cases, its revenues. However, based in part upon discussions with the Attorney

General, the Department does not believe there are any pending actions that are likely to have a material adverse effect on the Department's ability to pay principal of, and premium, if any, and interest on the Bonds when due.

CONTINUING DISCLOSURE

The Department will covenant for the benefit of the Holders and Beneficial Owners (as defined in the Continuing Disclosure Certificate) of the Series AX and AY Bonds to provide certain financial information and operating data relating to the Department by not later than 270 days following the end of the Department's fiscal year (which fiscal year as of the date hereof ends June 30) (the "Annual Report"), commencing with the report containing 2016-2017 Fiscal Year financial information, and to provide notices of the occurrence of certain enumerated events ("Event Notices"). These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission. Unless otherwise directed by the MSRB or the Securities and Exchange Commission, the Annual Report and Event Notices will be filed by the Department with the MSRB through its Electronic Municipal Market Access website. The specific nature of the information to be contained in the Annual Report or the Event Notices and certain other terms of this continuing disclosure obligation is summarized in APPENDIX D – "Summary of Continuing Disclosure Certificate." Pursuant to the Resolution, failure of the Department to comply with its obligations under the Continuing Disclosure Certificate (as supplemented in connection with the issuance of the Series AX and AY Bonds, the "Continuing Disclosure Certificate") will not be considered an event of default under the Resolution. However, the State Treasurer, any Holder or Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under the Continuing Disclosure Certificate.

In the past five years, the Department has always filed each annual report on a timely basis as required by its continuing disclosure undertakings; however, the annual reports for fiscal years 2012 through 2014, solely with respect to KCWA, omitted the information for such Contractor described in Section 2(f) of APPENDIX D – "SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE – Annual Reports." In addition, over the last five years annual reports contained assessed valuation information for Santa Barbara County (instead of Santa Barbara County FCWCD), and certain information regarding Coachella Valley Water District tax rates was omitted. The Department intends to present the necessary information in a consistent format in future Annual Reports.

MISCELLANEOUS

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

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

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

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

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

DEPARTMENT OF WATER RESOURCES

By: /s/ Grant Davis
Director

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APPENDIX A

ESTIMATED DIRECT AND OVERLAPPING DEBT OF CERTAIN CONTRACTORS

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

Contractor	Projected Percentage Contribution of Revenues
The Metropolitan Water District of Southern California	35%
Santa Barbara County Flood Control and Water Conservation District/Central Coast Water Authority*	19
Kern County Water Agency	9
Twenty-six other Contractors.....	37
Total.....	100%

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

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

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT (unaudited)

Fiscal Year Ended 6/30	Assessed Valuation (1)	Tax on Secured Property (2)	Delinquencies at June 30		Tax Rate Per \$100 Assessed Valuation		
			Amount	Percent	Agency Total Rate (3)	Typical Total Rate (6)	
1996	\$ 802,593,757,003	\$56,452,511	\$3,837,697	6.80%	(5)	0.0089	1.053047
1997	804,045,644,470	(4)	(4)	(4)	(4)	0.0089	1.051802
1998	817,424,957,700	(4)	(4)	(4)	(4)	0.0089	1.055796
1999	851,898,186,329	(4)	(4)	(4)	(4)	0.0089	1.067214
2000	910,809,885,402	(4)	(4)	(4)	(4)	0.0089	1.074728
2001	980,279,077,736	(4)	(4)	(4)	(4)	0.0088	1.078822
2002	1,169,293,222,451	(4)	(4)	(4)	(4)	0.0077	1.114077
2003	1,258,093,521,782	(4)	(4)	(4)	(4)	0.0067	1.102497
2004	1,359,534,425,177	(4)	(4)	(4)	(4)	0.0061	1.155130
2005	1,478,635,379,913	(4)	(4)	(4)	(4)	0.0058	1.169638
2006	1,643,013,823,543	(4)	(4)	(4)	(4)	0.0052	1.155967
2007	1,839,880,963,698	(4)	(4)	(4)	(4)	0.0047	1.179045
2008	2,015,721,475,188	(4)	(4)	(4)	(4)	0.0045	1.174687
2009	2,120,944,531,740	(4)	(4)	(4)	(4)	0.0043	1.189738
2010	2,081,864,775,527	(4)	(4)	(4)	(4)	0.0043	1.220441
2011	2,049,887,037,949	(4)	(4)	(4)	(4)	0.0037	1.269859
2012	2,068,668,852,729	(4)	(4)	(4)	(4)	0.0037	1.245849
2013	2,097,369,921,305 (7)	(4)	(4)	(4)	(4)	0.0035	1.265550
2014	2,183,386,537,251	47,704,924.11	536,777.41	1.13	(5)	0.0035	1.224234
2015	2,314,948,470,714	48,035,283.02	521,310.97	1.09	(5)	0.0035	1.218651
2016	2,451,003,605,785	52,507,872.55	582,061.13	1.11	(5)	0.0035	1.191994
2017	2,583,386,184,090	56,623,896.43	507,550.17	0.90%	(5)	0.0035	1.191849
2018	2,739,625,782,568 (8)	not available until the end of the fiscal year				0.0035	1.193027

Direct and Overlapping Bonded Debt at November 1, 2017:

Total Gross Direct Debt	\$74,905,000
Less: Self-supporting Debt	<u>0</u>
Total Net Direct Debt	\$74,905,000
Total Overlapping Tax and Assessment Debt	\$51,681,845,905
Direct and Overlapping Tax and Assessment Debt	\$51,756,750,905
Total Gross Overlapping General Fund Obligation Debt	\$13,405,230,567
Less: Self-supporting Debt	<u>1,074,716,057</u>
Total Net Overlapping General Fund Obligation Debt	\$12,330,514,510
Overlapping Tax Increment Debt	\$7,615,606,840
Gross Direct and Overlapping Bonded Debt	\$72,777,588,312
Net Direct and Overlapping Bonded Debt	\$71,702,872,255

Ratios to Assessed Valuation at November 1, 2017:

Gross Direct Debt	0.003%
Net Direct Debt	0.003%
Direct and Overlapping Tax and Assessment Debt.....	1.89%
Total Gross Direct and Overlapping Bonded Debt	2.66%
Total Net Direct and Overlapping Bonded Debt.....	2.62%

- (1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.
- (2) Excludes tax levy on inventories and other unsecured property.
- (3) Base rate for all member areas. Some areas added after formation of the District pay higher rates.
- (4) Information unavailable.
- (5) Los Angeles County portion only.
- (6) Los Angeles County TRA 67.
- (7) Excludes Orange County November 2012 unsecured adjustments.
- (8) The 2017-18 Assessed Valuation is \$1,005,087,583 less than the 8/15/2017 reported certified assessed valuation. The reduction is due to the discovery of 28 tax rate areas in Los Angeles County with double-counted assessed valuations.

METROPOLITAN WATER DISTRICT

2017-18 Assessed Valuation: \$2,739,625,782,568 (1)

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 11/1/17</u>
Community College Districts	Various	\$10,634,008,206
Los Angeles Unified School District	99.594	9,365,276,973
San Diego Unified School District	99.954	3,428,939,969
Other Unified School Districts	Various	12,145,364,237
High School and School Districts	Various	5,597,320,695
City of Los Angeles	99.995	707,224,637
Other Cities	Various	256,011,740
Irvine Ranch Water District Improvement Districts	100.	572,500,000
Santa Margarita Water District Improvement Districts	100.	74,380,000
Other Water Districts	Various	38,699,359
Healthcare Districts	Various	678,630,437
Other Special Districts	Various	16,266,595
Community Facilities Districts	Various	7,034,660,421
1915 Act Bonds and Other Special Assessment District Bonds	Various	<u>1,132,562,636</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$51,681,845,905

METROPOLITAN WATER DISTRICT TOTAL DIRECT DEBT **\$74,905,000**

TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT **\$51,756,750,905**

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County Obligations	93.099%	\$ 1,835,506,231
Orange County Obligations	99.904	784,911,151
Riverside County Obligations	65.578	725,197,727
San Bernardino County Obligations	50.335	388,810,819
San Diego County Obligations	96.719	816,816,135
Ventura County Obligations	76.747	265,594,506
City of Anaheim General Fund Obligations	99.852	605,443,138
City of Long Beach General Fund Obligations and Pension Obligation Bonds	100.	175,325,000
City of Los Angeles General Fund and Judgment Obligations	99.995	1,469,212,372
City of Pasadena General Fund and Pension Obligation Bonds	100.	563,711,426
City of San Diego General Fund Obligations	99.948	557,749,819
Other City General Fund Obligations	Various	2,869,097,293
Water District General Fund Obligations	Various	72,249,102
Los Angeles Unified School District Certificates of Participation	99.594	217,951,510
Other School District General Fund Obligations	Various	1,935,971,480
Other Special District General Fund Obligations	Various	<u>121,682,858</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$13,405,230,567
Less: Obligations supported from other revenue sources		<u>1,074,716,057</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$12,330,514,510

OVERLAPPING TAX INCREMENT DEBT (Successor Agencies): **\$7,615,606,840**

GROSS COMBINED TOTAL DEBT **\$72,777,588,312**

NET COMBINED TOTAL DEBT **\$71,702,872,255**

- (1) The 2017-18 Assessed Valuation is \$1,005,087,583 less than the 8/15/2017 reported certified assessed valuation. The reduction is due to the discovery of 28 tax rate areas in Los Angeles County with double-counted assessed valuations.
- (2) Debt instruments included are general obligation bonds, lease revenue bonds and certificates of participation (when supported by the general fund), pension obligation bonds, 1915 Act special assessment bonds and Mello-Roos Act special assessment bonds. Excluded are enterprise revenue bonds, mortgage revenue bonds, tax and revenue anticipation notes and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2017-18 Assessed Valuation:

Direct Debt (\$74,905,000)	0.003%
Total Direct and Overlapping Tax and Assessment Debt	1.89%
Gross Combined Total Debt	2.66%
Net Combined Total Debt	2.62%

Ratios to Redevelopment Incremental Valuation (\$370,296,431,462):

Total Overlapping Tax Increment Debt	2.06%
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**SANTA BARBARA COUNTY FLOOD CONTROL AND WATER CONSERVATION
DISTRICT**

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

Fiscal Year Ended 6/30	Assessed Valuation (1)	Tax on Secured Property (2)	Delinquencies at June 30		Tax Rate Per \$100 Assessed Valuation	
			Amount	Percent	Agency Total Rate	Typical Total Rate
1995	\$23,261,622,373	\$247,611,391	\$6,653,174	2.69%	0.00000	1.00102
1996	23,727,401,813	254,306,422	5,249,677	2.06	0.00000	1.00761
1997	24,437,672,493	263,655,875	4,229,750	1.60	0.00000	1.01223
1998	25,413,740,531	272,955,441	3,252,689	1.19	0.00000	1.01106
1999	26,929,428,510	292,586,142	2,482,863	0.85	0.00000	1.02221
2000	28,506,012,483	312,186,449	4,545,263	1.46	0.00000	1.01919
2001	30,811,725,758	336,579,195	6,194,044	1.84	0.00000	1.02724
2002	33,470,431,216	325,958,442	4,097,562	1.26	0.00000	1.02799
2003	35,986,575,550	348,404,287	4,327,765	1.24	0.00000	1.02707
2004	38,619,690,313	378,733,525	3,827,763	1.01	0.00000	1.02530
2005	42,010,491,267	412,156,061	4,490,277	1.09	0.00000	1.02086
2006	46,430,715,568	459,630,599	5,978,796	1.30	0.00000	1.02586
2007	51,053,483,690	508,780,407	10,760,629	2.11	0.00000	1.02631
2008	54,591,882,970	547,037,318	13,322,133	2.44	0.00000	1.02633
2009	56,957,844,751	570,319,442	15,942,615	2.80	0.00000	1.03483
2010	57,102,686,939	573,825,003	13,723,941	2.39	0.00000	1.03496
2011	57,601,688,658	575,911,027	9,363,054	1.63	0.00000	1.03496
2012	58,359,033,685	582,738,827	7,131,251	1.22	0.00000	1.03619
2013	58,837,930,366	590,636,407	5,574,662	0.94	0.00000	1.03969
2014	61,284,526,961	617,343,477	4,463,837	0.72	0.00000	1.04840
2015	64,587,513,414	658,541,674	4,942,942	0.75	0.00000	1.04840
2016	67,794,437,086	684,498,184	1,674,439	0.24	0.00000	1.04515
2017	70,290,131,386	720,076,190	4,641,237	0.64	0.00000	1.04088
2018	74,174,960,316	(3)	(3)	(3)	0.00000	1.05136

Direct and Overlapping Bonded Debt at November 1, 2017:

Total Gross Direct Debt	\$0
Less: Supported Debt	0
Total Net Direct Debt	\$0
Total Gross Overlapping Tax and Assessment Debt	\$769,547,877
Less: Supported Debt	0
Total Net Overlapping Tax and Assessment Debt	\$769,547,877
Total Gross Overlapping General Fund Debt	\$146,403,511
Less: Supported Debt	53,000,235
Total Net Overlapping General Fund Debt	\$ 93,403,276
Total Gross Overlapping Tax Increment Debt	\$47,015,000
Less: Supported Debt	0
Total Net Overlapping Tax Increment Debt	\$47,015,000
Total Gross Direct and Overlapping Bonded Debt	\$962,966,388
Less: Self-supporting Debt	53,000,235
Total Net Direct and Overlapping Bonded Debt	\$909,966,153

Ratio to Assessed Valuation at November 1, 2017:

Gross Direct Debt	0.00%
Net Direct Debt	0.00%
Total Gross Overlapping Tax and Assessment Debt.....	1.04%
Total Net Overlapping Tax and Assessment Debt	1.04%
Gross Direct and Overlapping Bonded Debt.....	1.30%
Net Direct and Overlapping Bonded Debt	1.23%

- (1) The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.
- (2) Excludes tax levy on inventories and other unsecured property.
- (3) Information not available until fiscal year is completed.

KERN COUNTY WATER AGENCY

ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT (unaudited)

Fiscal Year Ended 6/30	Assessed Valuation (1)	Tax on Secured Property (2)	Delinquencies at June 30		Tax Rate Per \$100 Assessed Valuation		
			Amount	Percent	Agency Rate	City of Bakersfield Total Rate	Elk Hills School District
1994	\$32,986,554,039	\$12,246,716	\$364,041	2.97%	0.066719	1.171248	1.020210
1995	30,100,052,112	9,370,510	287,927	3.07	0.070116	1.135179	1.019195
1996	30,538,512,132	12,656,809	338,224	2.67	0.095807	1.173827	1.020669
1997	31,943,215,222	13,283,378	395,321	2.98	0.091633	1.179749	1.022585
1998	34,411,749,796	12,984,313	480,525	3.70	0.091601	1.172489	1.019745
1999	32,692,348,290	13,035,390	282,929	2.17	0.089041	1.139540	1.016470
2000	36,368,798,648	(3)	(3)	(3)	0.088270	1.162026	1.035082
2001	38,813,931,812	15,981,366	295,032	1.85	0.077322	1.157759	1.017135
2002	41,429,323,346	15,210,702	339,798	2.23	0.061936	1.117621	1.015612
2003	39,976,729,738	15,776,379	476,821	3.02	0.060665	1.160526	1.019332
2004	42,165,212,745	18,525,332	(3)	(3)	0.063662	1.146391	1.021406
2005	45,443,236,748	16,054,006	237,483	1.48	0.063200	1.156496	1.056077
2006	52,596,138,408	13,726,652	258,314	1.88	0.047579	1.133705	1.055929
2007	64,149,863,242	12,223,309	384,215	3.14	0.038184	1.122182	1.047846
2008	71,491,760,384	18,521,313	802,472	4.33	0.053401	1.157296	1.050210
2009	75,766,431,779	17,059,057	572,984	3.36	0.052517	1.151185	1.054710
2010	70,423,049,669	19,500,828	565,663	2.90	0.064063	1.180167	1.064484
2011	74,597,201,953	17,863,779	345,942	1.94	0.058402	1.176436	1.053897
2012	76,240,534,603	25,718,178	379,982	1.48	0.074783	1.191102	1.054265
2013	81,254,773,400	18,041,862	234,670	1.30	0.057330	1.174290	1.043923
2014	81,080,979,985	21,461,367	244,116	1.14	0.062029	1.144662	1.073345
2015	85,601,304,520	21,947,286	235,109	1.07	0.056660	1.117595	1.069056
2016	76,936,246,496	22,535,818	231,106	1.03	0.060768	1.133600	1.079475
2017	72,752,296,314	24,676,414	301,531	1.22	0.068450	1.118033	1.142412
2018	77,288,726,481		Not available until end of fiscal year		0.090374	1.220308	1.112009

Direct and Overlapping Bonded Debt at November 1, 2017:

Total Gross Direct Debt	\$0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$0
Total Gross Overlapping Tax and Assessment Debt	\$1,336,801,518
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$1,336,801,518
Total Gross Overlapping General Fund Debt	\$724,674,461
Less: Self-supporting Debt	<u>0</u>
Total Net Overlapping General Fund Debt	\$724,674,461
Total Gross Overlapping Tax Increment Debt	\$75,044,000
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$75,044,000
Gross Direct and Overlapping Bonded Debt	\$2,136,519,979
Net Direct and Overlapping Bonded Debt	\$2,136,519,979

Ratios to Assessed Valuation at November 1, 2017:

Gross Direct Debt	0.00%
Net Direct Debt	0.00%
Gross Direct and Overlapping Tax and Assessment Debt	1.73%
Net Direct and Overlapping Tax And Assessment Debt	1.73%
Gross Direct and Overlapping Bonded Debt	2.76%
Net Direct and Overlapping Bonded Debt	2.76%

- (1) Assessed Valuations are based on 100% of cash value beginning in 1981-82, rather than 25% as in previous years. The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations. Beginning in 1988-89, assessed valuations exclude unitary utility valuations.
- (2) Excludes tax levy on inventories and other unsecured property.
- (3) Information unavailable.

APPENDIX B

**AUDITED FINANCIAL STATEMENT
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

**STATE WATER RESOURCES
DEVELOPMENT SYSTEM**

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State Water Resources Development System

An Enterprise Fund of the State of California



State Water Resources Development System

An Enterprise Fund of the State of California

Comprehensive Annual Financial Report
For the years ended June 30, 2016 and 2015

STATE OF CALIFORNIA
Edmund G. Brown Jr., Governor

NATURAL RESOURCES AGENCY
John Laird, Secretary for Natural Resources

DEPARTMENT OF WATER RESOURCES
Mark W. Cowin, Director

Mark Anderson
Acting Deputy Director

Carl Torgersen
Chief Deputy Director

Kathie Kishaba
Deputy Director

John Pacheco
Acting Deputy Director

Cindy Messer
Assistant Chief Deputy Director

William Croyle
Deputy Director

Taryn Ravazzini
Deputy Director

Spencer Kenner
Chief Counsel

Gary Bardini
Deputy Director

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

This document was prepared under the direction of the Enterprise Branch of the Department's Fiscal Services Division:

Lisa Toms.....Accounting Administrator III

Enterprise Accounting Branch

Alicia Ramirez.....Accounting Administrator II
Rachel Corbett.....Accounting Administrator II
Lori Lay.....Accounting Administrator I
Antonio Perez.....Accounting Administrator I
Jeanet Uy.....Accounting Administrator I
Ted Lambert.....Accounting Administrator I
Eleanor De Anda.....Accounting Administrator I
Tina Nguyen.....Accounting Administrator I
Omid Torabian.....Accounting Administrator I
Thu Nguyen.....Associate Accounting Analyst
Bess Leung.....Associate Accounting Analyst
Jesus Parrilla.....Associate Accounting Analyst
Theresa Lee.....Associate Accounting Analyst
Sharon Chu.....Associate Accounting Analyst
Carla Elder.....Associate Accounting Analyst
Jesse Gonzalez-Perez.....Senior Accounting Officer
Nakithia Thomas.....Senior Accounting Officer
Martha Romaso.....Senior Accounting Officer
Alex Caputo.....Accounting Officer
Juana Hernandez.....Accountant Trainee
Ilesha Williams.....Executive Secretary
Kevin Lim.....Office Technician

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INTRODUCTORY SECTION





December 5, 2016

To the Citizens of the State of California:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the State Water Resources Development System (“the System”) for the fiscal years ended June 30, 2016 and 2015, along with the Independent Auditors’ Report. The CAFR has been prepared by the California Department of Water Resources (DWR) in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the DWR. We believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the System’s operations as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the System’s financial affairs.

This CAFR was prepared using the financial reporting requirements as prescribed by the GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a Management’s Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND ITS SERVICES

Reporting Entity

The System operates as an Enterprise fund administered by the California Department of Water Resources (DWR)¹. The DWR operates within the Natural Resources Agency of the State of California, and is responsible for the planning, construction, and operation of the System. DWR was established in 1956 by an act of the State Legislature that combined the functions of the Water Project Authority and certain responsibilities of the Department of Public Works' former Division of Water Resources. At present, DWR employs 3,294 full-time staff throughout the State, of which approximately 2,400 are allocated to the System.

The System includes the State Water Project (SWP), the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program.

DWR's operations, with respect to the SWP, are accounted for and conducted under Segments² consisting of special funds established by the California Water Code. These Segments are (a) the State Water Resources Development Bond Fund (Bond Fund), which was formed when the voters of the State of California passed the Burns-Porter Act in 1960; and (b) the Central Valley Project Construction Fund (Construction Fund) and the Central Valley Project Revenue Fund (Revenue Fund), which were enabled under California's Central Valley Project Act of 1933.

DWR's operations, with respect to the System, are separate and apart from DWR's operations that are primarily funded by State General Fund appropriations and from DWR's Power Supply Program.

Services

The System encompasses dams, reservoirs, pumping plants, power plants, aqueducts, and pipelines owned³ and operated by the State of California. The System was developed in order to deliver water to areas of need, throughout the State, for domestic, industrial, and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power, and other benefits. DWR is responsible for the planning, construction, and operation of the System. All 647 miles of the initially planned aqueduct system have been completed. The 444-mile main stem of the California Aqueduct runs from a point near Stockton southward to a terminus in Riverside County. The dependable annual water supply available for delivery by the existing System varies yearly depending on hydrologic conditions and regulatory mandates.

Joint-Use Facilities

Portions of the System consist of facilities developed and used jointly with the Federal Central Valley Water Project (FCVP) operated by the U.S. Bureau of Reclamation (USBR). In addition, both projects have primary sources of water north of the Sacramento-San Joaquin Delta (Delta), transport water across the Delta and draw water from the southern edge of the Delta. The FCVP, like the System, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Capital costs,

¹ See the accompanying MD&A for more on Enterprise Funds

² See the accompanying MD&A for more on the System's Segments

³ Certain assets are owned jointly by the State and the United States Bureau of Reclamation. See *Joint-Use Facilities*

for the jointly developed facilities, are shared approximately 55 percent State and 45 percent Federal.

In 1986, the System and USBR entered into a Coordinated Operation Agreement (COA) under which the System and the FCVP coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The COA permits increases operational efficiency of both projects, ensures that each project receives an equitable share of available surplus water and provides for sharing of responsibilities in meeting certain Delta water quality standards.

The Water Supply Contracts

DWR has entered into Water Supply Contracts with 29 local public agencies (Water Contractors), which provide for DWR to recover substantially all System costs. The Water Contractors are principally located in the San Francisco Bay Area, the Central Coast, the Central Valley, and Southern California, and their service areas encompass approximately 25 percent of the State's land area and approximately 69 percent of its population.

Payments by the Water Contractors under the Water Supply Contracts provide for the operation, maintenance, planning, and capital costs, including interest, of the SWP. The Water Contractors may request up to a maximum annual aggregate amount totaling 4,172,786 acre-feet of water from the System. This maximum does not assure delivery of that amount of water, but rather provides the basis for proportional allocation of available supplies and certain costs among the Water Contractors.

Generally, the existing Water Supply Contracts are to remain in effect until 2035 or until all bonds issued to finance construction costs of SWP facilities have been repaid (currently 2029), whichever period is longer. Under its Water Supply Contract, each Water Contractor may request water deliveries from the SWP up to a maximum specified annual amount, and agrees to pay its allocated share of the costs of gathering, storing, conveying, and delivering water. Generally, DWR's costs of providing the facilities of the SWP, including interest, are payable by the Water Contractors whether or not water is delivered. If a Water Contractor defaults under their Water Supply Contract, DWR may, upon six months' notice, suspend water deliveries to that Water Contractor. During such period, the Water Contractor remains obligated to make all payments required by the Water Supply Contract. If a Water Contractor fails or is unable to raise sufficient funds, by other means, to make Contract payments, the Water Contractor is required, by the Contract, to levy a tax or assessment sufficient for such purpose.

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

Aqueduct Enlargement Amendment, the shortfall may be collected from non-defaulting affected Water Contractors, subject to certain limitations.

In December 1994, representatives of DWR and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the Water Supply Contracts have since been negotiated. This amendment is known as the “Monterey Amendment.”

ECONOMIC OUTLOOK

The System recovers the majority of its construction and operating costs from the Water Contractors, who are obligated to pay for such costs whether or not water deliveries are made. If a Water Contractor fails or is unable to raise sufficient funds by other means to make Water Supply Contract payments, the Contractor is required, by the Contract, to levy a tax or assessment sufficient for such purpose. With such protections, the financial viability of the System remains strong even in times of drought or other significant events.

MAJOR INITIATIVES AND ACHIEVEMENTS

Water Supply Contract Extension

In May 2013, DWR and the Water Contractors began negotiations in a public forum to develop contract amendments to extend the term and change certain financial provisions of the Water Supply Contracts. In June 2014, the negotiators for DWR and the Water Contractors reached a general agreement on principles for such an amendment. DWR and 25 of the 29 Contractors have signed the Agreement in Principle (AIP). The County of Butte, Plumas County Flood Control and Water Conservation District, San Luis Obispo Flood Control and Water Conservation District, and the Santa Barbara Flood Control and Water Conservation District have not signed the AIP.

Currently, subject to individual elections for continued service by each Water Contractor, the Water Supply Contracts are to remain in effect for the longest of 75 years, December 31, 2035, or until all bonds issued to finance construction costs of SWP facilities have been repaid, whichever period is longest. No Bonds have been sold with a maturity date later than December 1, 2035. The 75-year term provision currently results in the Water Supply Contracts having varying termination dates that range between December 31, 2035 and 2042, subject to the aforementioned election. For each Water Contractor that signs an amendment under the AIP, the term of the Water Supply Contract would be extended until December 31, 2085.

Also under the AIP, certain provisions that provide for charges to the Water Contractors for capital costs and certain other costs, currently made on an amortized basis, would be amended to provide for charges to the Contractors on an annual “pay-as-you-go” basis to provide the revenues needed by DWR to make debt service payments each year. The current provisions authorizing DWR to charge the Water Contractors annually for the full amount of the required annual debt service and coverage on the Bonds will continue in any extended contract. Other provisions addressed in the AIP would provide for, among other things, an increase in DWR’s operating reserves; a mechanism for financing capital projects, using System funds, and recovering those costs with interest from the Water Contractors; establishment of an account to

pay for certain System expenses not chargeable to the Water Contractors; and the establishment of a Finance Committee consisting of DWR and Water Contractor representatives to serve as a forum for discussions and to provide a channel for recommendations to the Director of DWR concerning financial policies of the System.

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

Renewable Energy

The System plans to procure approximately 920 GW of renewable energy by 2025. Purchase agreements for such power include:

- An ongoing contract with Alameda Municipal Power, purchased under the counterparty Northern California Power Agency (NCPA), through December 31, 2016, for renewable geothermal and landfill gas energy bundled with Renewable Energy Credits.
- A 20-year contract with RE Camelot Solar Photovoltaic Project⁴ for the purchase of 45 MW of solar photovoltaic energy and associated capacity bundled with Renewable Energy Credits from their facility located in southeastern Kern County. The RE Camelot Plant is expected to deliver 125,000 MW of annual generation.
- A 20-year contract for 85 MW from Solverde 1, LLC whose facility, built near Lancaster in northern Los Angeles County, is expected to be operational by late December 2016 and from which the System will receive approximately 230,000 MW of annual generation.
- A 20-year contract for 9.5 MW with Sun Power Corporation, Systems for a facility built at the Pearblossom power plant. This Pearblossom facility is expected to be operational by December 2016 and includes an additional 10-year option to extend, and a forecasted annual generation of approximately 28,000 MW.

OTHER FINANCIAL INFORMATION

Internal Controls

In developing and evaluating the System's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. We believe

⁴ Owned and operated by Dominion Solar Holdings, Inc.

that the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Pension Fund Operations

The net pension liability represents the System's share of DWR's portion of the unfunded liability of the California Public Employees' Retirement System's (CalPERS) defined benefit plan.

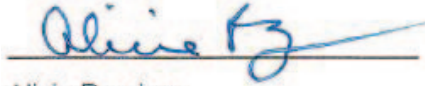

INDEPENDENT AUDIT

The System requires an annual audit of its financial records. These records, represented in the CAFR, have been audited with an unqualified opinion by a certified public accounting firm, Gallina LLP. The Independent Auditors' Report on our current financial statements is presented in the Financial Section.

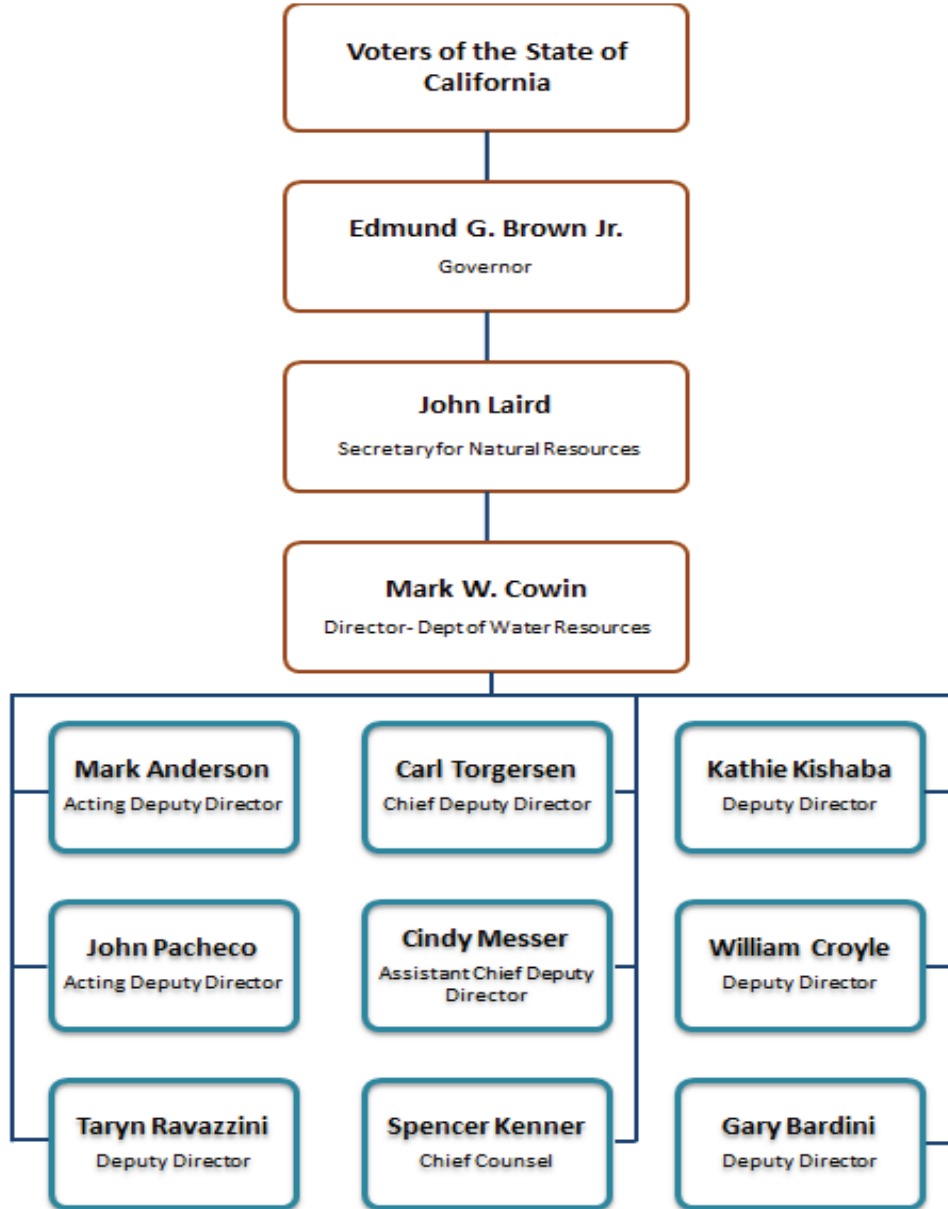
ACKNOWLEDGMENTS

We would like to express our appreciation to the entire staff of the Fiscal Services Division and the State Water Project Analysis Office, whose professionalism, dedication, and efficiency are responsible for the preparation of this report. We would also like to thank Gallina, LLP for their invaluable professional support in the preparation of the CAFR.

Respectfully submitted,

		
Alicia Ramirez	Lisa Toms	Pedro Villalobos
Accounting Admin II	Accounting Admin III	Prin HEP Engineer

ORGANIZATION CHART





FINANCIAL SECTION





INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State Water Resources Development System (System), as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of June 30, 2016 and 2015, and the respective changes in its financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 1, the financial statements present only the State Water Resources Development System, and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, statistical section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of the System'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Roseville, California
December 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

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

Financial Highlights

- During fiscal 2016, the System recorded an increase in total assets of \$90.9 million on total operating revenues of \$1,087 million. However, this did not cause an increase in net position because of the deferral of timing differences in revenues collected and expenses incurred.
- Deferred inflows of resources for capital costs increased by \$90.7 million to an ending balance of \$774.2 million in fiscal 2016 compared to \$683.5 million in fiscal 2015. The increase is primarily due to net revenues collected for principal payments of previous costs incurred to construct Utility Plant in Service (UPIS) assets.
- On August 25, 2015, the System issued \$109.3 million of Water System Revenue Bonds (Series AU) to redeem \$104.6 million of Water Revenue Commercial Paper Notes Series 1. Series AU was issued as index floating rate bonds using the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread to calculate monthly debt service payments. Series AU assumes a 2.07% variable rate for the life of the bonds.
- On May 24, 2016, the System issued Water System Revenue Bonds (Series AV) with a par amount of \$106.5 million and a \$22.2 million premium to redeem \$128.7 million of Water Revenue Commercial Paper Notes Series 1. Series AV was issued with fixed rates and an average yield of 1.84%.
- On June 24, 2016, the System defeased \$35.6 million of Water System Revenue Bonds relating to the System's Off-Aqueduct Projects, which included Reid Gardner Unit 4, Bottle Rock, and South Geysers. The System used proceeds from a settlement agreement received from the Nevada Power Company for the termination of participation in the Reid Gardner Unit 4 power-generating joint venture. The System deposited cash and certain investment securities in an irrevocable escrow with the Treasurer of the State of California, acting as Trustee and Escrow Agent.

- On December 1, 2015, the System paid off the Pooled Money Investment Account (PMIA) loan. The loan, which was scheduled to be fully paid and amortized in fiscal 2018, was paid off early from funds available in fiscal 2016. See Disclosure Note 6.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of three components: 1) Financial Statements, 2) Notes to the Financial Statements, and 3) Other Information.

Financial Statements

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

The Financial Statements can be found on pages 27 - 33 of this report.

Notes to the Financial Statements

The notes to the financial statements communicate certain information required by Generally Accepted Accounting Principles (GAAP). The notes to the financial statements can be found on pages 35 - 75 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the System's adequacy of debt service coverage. Supplementary information can be found on pages 81 - 82 of this report.

Financial Analysis

The SWP is considered a regulated entity, as such rates are permitted to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital. If revenues intended to cover some costs are provided before costs are incurred those revenues are reported as deferred inflows of resources and recognized as revenue when the associated costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, those costs are capitalized as receivables and recovered through future billings. As a result, net position does not change over time. The total net position of the System exceeded liabilities and deferred outflows at June 30, 2016 and 2015 by \$1,205.4 million each year.

Condensed Statements of Net Position

	2016	2015 (As restated)	2014	% Change 2016-2015	% Change 2015-2014
	(amounts in thousands)				
Other assets	\$ 2,268,741	\$ 2,344,435	\$ 2,035,702	-3.2%	15.2%
Total utility plant	<u>3,699,323</u>	<u>3,532,682</u>	<u>3,469,661</u>	<u>4.7%</u>	<u>1.8%</u>
Total assets	<u>5,968,064</u>	<u>5,877,117</u>	<u>5,505,363</u>	<u>1.5%</u>	<u>6.8%</u>
Total deferred outflows of resources	<u>230,231</u>	<u>219,326</u>	<u>116,741</u>	<u>5.0%</u>	<u>87.9%</u>
Total assets and deferred outflows of resources	<u>\$ 6,198,295</u>	<u>\$ 6,096,443</u>	<u>\$ 5,622,104</u>	<u>1.7%</u>	<u>8.4%</u>
Other liabilities	\$ 460,713	\$ 425,428	\$ 419,875	8.3%	1.3%
Long-term liabilities	<u>3,599,051</u>	<u>3,550,835</u>	<u>3,173,915</u>	<u>1.4%</u>	<u>11.9%</u>
Total liabilities	<u>4,059,764</u>	<u>3,976,263</u>	<u>3,593,790</u>	<u>2.1%</u>	<u>10.6%</u>
Total deferred inflows of resources	<u>933,103</u>	<u>914,752</u>	<u>822,886</u>	<u>2.0%</u>	<u>11.2%</u>
Net position:					
Net investment in capital assets	1,155,487	1,165,253	994,561	-0.8%	17.2%
Restricted	<u>49,941</u>	<u>40,175</u>	<u>210,867</u>	<u>24.3%</u>	<u>-80.9%</u>
Total net position	<u>1,205,428</u>	<u>1,205,428</u>	<u>1,205,428</u>	<u>0.0%</u>	<u>0.0%</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,198,295</u>	<u>\$ 6,096,443</u>	<u>\$ 5,622,104</u>	<u>1.7%</u>	<u>8.4%</u>

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

The largest portion of the System's current fiscal year net position is investments in capital assets, including but not limited to land, improvements, buildings, machinery, and equipment. Investments in capital assets are reflected net of accumulated depreciation less any outstanding related debt used to construct or acquire those assets. The main use of these capital assets is to provide water delivery and storage, flood control, recreation, fish and wildlife enhancement, and hydroelectric power. There was an increase in capital assets of \$166.6 million offset by a decrease of \$75.7 million primarily in amounts recoverable through future billings under the Water Supply Contracts, and an increase in debt and deferrals related to capital assets of \$100.7 million, causing an overall decrease in net investment in capital assets of \$9.8 million. Although the System's investments in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, mainly contractual billings to the Water Contractors, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of the System's current fiscal year net position represents restricted net position, which are resources subject to external restrictions on how they may be used. The System's restricted net position is for the support of the SWP, the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program.

The following table reflects how the System recognized revenues and expenses during the year:

Condensed Statements of Revenues, Expenses, and Changes in Net Position					
	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
	(amounts in thousands)				
Operating revenues:					
Water supply	\$ 948,105	\$ 883,538	\$ 789,370	7.3%	11.9%
Power sales	71,236	91,780	131,952	-22.4%	-30.4%
Federal and State reimbursements	67,309	44,060	52,186	52.8%	-15.6%
Total operating revenues	<u>1,086,650</u>	<u>1,019,378</u>	<u>973,508</u>	6.6%	4.7%
Operating expenses:					
Operations and maintenance expense	511,926	404,627	557,209	26.5%	-27.4%
Purchased power expense	219,661	202,780	241,444	8.3%	-16.0%
Depreciation expense	77,170	81,495	68,896	-5.3%	18.3%
Operating expenses recovered, net	65,004	-	-	0.0%	0.0%
Total operating expenses	<u>873,761</u>	<u>688,902</u>	<u>867,549</u>	26.8%	-20.6%
Income from operations	212,889	330,476	105,959	-35.6%	211.9%
Capital revenues recovered (deferred), net	(118,510)	(243,945)	(42,934)	-51.4%	468.2%
Interest expense	(106,978)	(96,082)	(115,499)	11.3%	-16.8%
Other revenues (expenses), net	12,599	9,551	52,474	31.9%	-81.8%
Change in net position	-	-	-	-	-
Net position, beginning of year	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Net position, end of year	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	0.0%	0.0%

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

Revenues

Operating Revenues

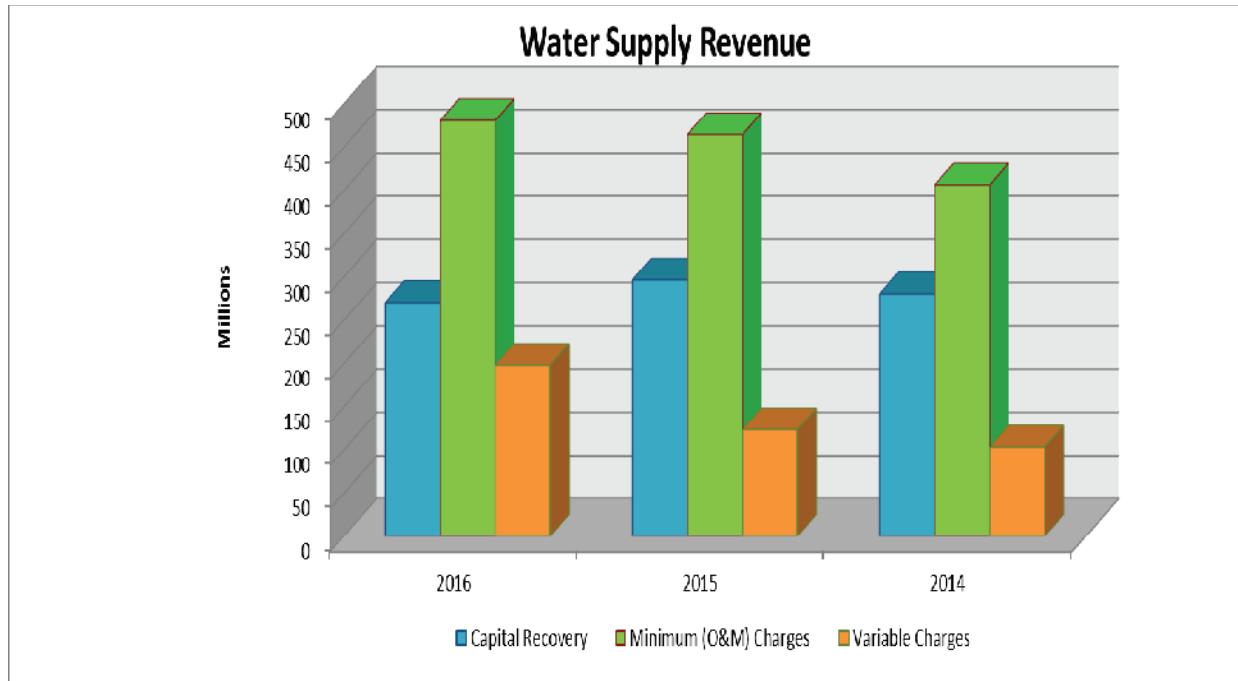
The increase in operating revenues for fiscal 2016 is attributable to an increase in water supply revenue billings due to increased Water Contractor allocations, which resulted in increased water deliveries, and an increase in federal and state reimbursements. These increases were offset by a 7.52% decrease in power sales of 547,144 MWh in fiscal 2016 compared to 591,615 MWh sold in fiscal 2015.

Increases in operating revenues for fiscal 2015 were primarily due to an increase in water supply revenue billings which were based on higher projected capital costs and an increase in the average mill rate. However, power sales decreased 37.11% from 591,615 MWh in fiscal 2015 compared to 940,679 MWh sold in fiscal 2014.

Water Supply Revenue

The largest portion of revenues, approximately 87.25%, comes from Water Supply Revenue. In fiscal 2016, the System generated \$948.1 million in water supply revenue, compared to \$883.5 million in fiscal 2015, and \$789.4 million in fiscal 2014.

The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2016, 2015, and 2014:

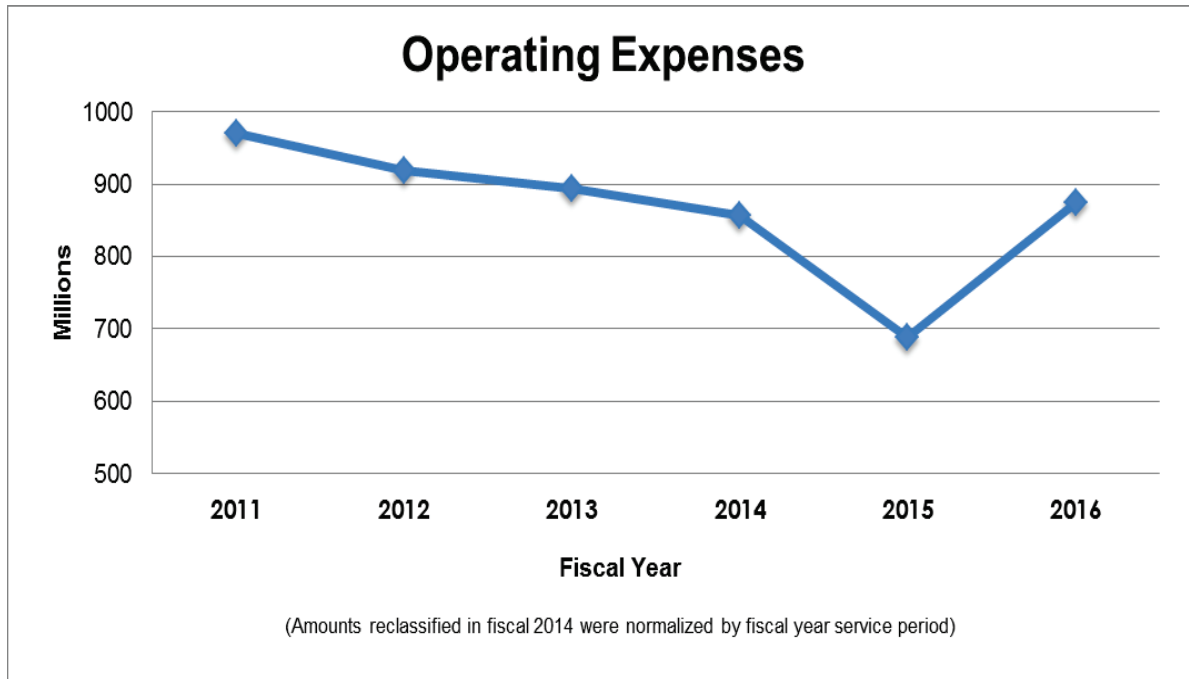


Expenses

Operating Expenses

Total operating expenses increased by \$184.9 million for fiscal 2016 to a total of \$873.8 million. The increase is due to an increment in operations and maintenance expenses, an increment in operating expenses recovered, and increased power purchases.

Total operating expenses decreased by \$178.6 million for fiscal 2015 to a total of \$688.9 million. The decrease is due to a reduction in operations and maintenance expenses and a decrease in power purchases.



Operations and Maintenance Expenses

Total operations and maintenance expenses increase of \$107.3 million in fiscal 2016 was mostly attributed to the following factors:

- \$43.4 million timing difference in the capitalization of construction related expenses for the Perris Dam Remediation Program and other extraordinary repair projects
- \$26.5 million net increase in expenses related to consultant and professional services and repair expenses, pollution remediation, general supplies, and miscellaneous expenses related to general operations and maintenance expenses
- \$28.6 million increase in wages, salaries and pension expense
- \$8.8 million increase in purchased water supply expenses due to the purchase of environmental pulse flow water from Goodwin Dam and the reimbursement to Contra Costa Water District

Total operations and maintenance expenses decrease of \$152.6 million in fiscal 2015 was most significantly attributed to the following factors: \$64.2 million timing difference in the capitalization of construction related expenses for the Hyatt-Thermalito Plant fire recovery and other extraordinary repair projects; \$55.7 million reduction in expenses related to pollution remediation, general supplies, and miscellaneous expenses, as the system deferred extraordinary repair projects and began cost reduction efforts to general operations and maintenance expenses; \$22.8 million reduction in purchased water supply expenses due to the absence of demand under the new multi-year Turnback Water Pool Program; and \$9.8 million reduction in Postemployment Benefits other than Pensions (OPEB).

Power Purchases

In fiscal 2016, power purchases increased by \$16.9 million. This was mainly due to incremental increases in Water Contractor allocations throughout fiscal 2016. The primary factor that contributed to increased water deliveries was attributed to several winter storms during January 2016 through April 2016, which created a run-off into DWR's reservoirs. The increased water allocations resulted in increased pumping demand.

In fiscal 2015, power purchases decreased by \$38.7 million. This is due mainly to a reduction in water deliveries during the year. Primary factors that contributed to decreased water deliveries were continued drought conditions, low reservoir storages and near zero percent snow pack throughout the Sierras.

Operating and Maintenance Expense Recovered

Operating and maintenance expense recovered increased by \$65 million in fiscal 2016. This increase was primarily due to the recognition of \$73 million in deferred operation and maintenance expenses offset by \$8 million decrease in net suspended costs.

In fiscal 2015, the System did not recognize any recovery of operations and maintenance expense.

Capital Revenues Deferred

Capital revenues deferred represents the timing difference between net capital revenue recovered and certain operating costs incurred. Capital revenues recovered decreased by \$125.4 million in fiscal 2016. This decrease was primarily due to the System's reclassification of amounts of Utility Plant Assets (net of accumulated depreciation) for assets co-owned by the System and the United States Bureau of Reclamation, and the defeasance of certain Water System Revenue Bonds related to unamortized capital projects.

Capital revenues recovered increased by \$201 million in fiscal 2015. This increase was primarily due to the System having recognized current year capital revenues of \$202.2 million in excess of annual amounts in depreciation related to the timing difference of capitalized construction expenses on extraordinary repair projects.

Interest Expense

Interest expense increased \$10.8 million in fiscal 2016. A total of \$6.5 million of this increase was attributable to payments related to the issuance of new Revenue Bonds, as well as interest of \$4.8 million related to the cash-defeasance of certain Revenue Bonds during fiscal 2016.

Interest expense for fiscal 2015 decreased \$19.4 million from fiscal 2014. This decrease was predominantly attributed to the lower interest rates achieved through Water System Revenue Bonds refunding.

Capital Assets and Debt Administration

Capital Assets

Investments in capital assets include utility plant and equipment, land, construction work in progress (CWIP), land use rights, computer software, and other intangible assets. The increase in the System's investment in capital assets for fiscal 2016 was \$167 million and for fiscal 2015 was \$63 million, an increase of 4.72% and 1.82%, respectively. Additional details of capital assets are in Note 4.

The System's investment in capital assets is presented below:

Capital Assets

	Balance (in thousands)		
	2016	2015 (As restated)	2014
Nondepreciable Utility Plant	\$ 1,029,435	\$ 868,849	\$ 690,600
Depreciable Utility Plant	4,754,564	4,678,487	4,773,756
Total Utility Plant	5,783,999	5,547,336	5,464,356
Less Accumulated depreciation / amortization	(2,084,676)	(2,014,654)	(1,994,695)
Utility Plant, Net	<u>\$ 3,699,323</u>	<u>\$ 3,532,682</u>	<u>\$ 3,469,661</u>

Long-Term Debt

The System's total debt decreased by \$56.3 million (1.87%) during fiscal 2016. This was comprised of the issuance of approximately \$137.7 million in new debt, net of refunding and defeasances, including financing costs related to construction projects, offset in part by bond principal payments of \$194 million. The change in debt included a cash-defeasance of \$35.6 million of certain Revenue bonds relating to the Off-Aqueduct power facilities. During fiscal 2015, the System's total debt increased by \$67.6 million. This was comprised of new debt of \$259.1 million, net of refunding, and principal payments of \$175.9 million.

The System's long-term debt is presented below:

Long-Term Debt

	Balance (in thousands)		
	2016	2015	2014
Revenue Bonds	\$ 2,770,888	\$ 2,724,008	\$ 2,647,814
General Obligation Bonds	135,045	184,960	241,835
Commercial Paper	42,776	87,901	36,136
PMIA Loan	-	8,094	11,579
Total	2,948,709	3,004,963	2,937,364
Less current portion	(180,930)	(189,479)	(175,941)
Long-term portion	<u>\$ 2,767,779</u>	<u>\$ 2,815,484</u>	<u>\$ 2,761,423</u>

Additional information on the System's long-term debt can be found in Notes 6 and 7 of this report.

Economic Factors

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

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

As a result of these new laws, California will require a higher percentage of the System's pumping load to be served by renewable energy sources. By 2050, approximately 50% of the System pump load will need to be supplied by renewable energy. During fiscal 2015, the System began purchasing renewable energy under a purchase contract with Dominion Solar-RE Camelot, a 45 MW solar plant. Future solar energy purchases are also forecasted under contracts with Solverde 1 and Pearblossom Solar, which are scheduled to come on line near the end of calendar year 2016 and will add an additional 95 MW of renewable power.

Every year, the SWP is confronted with factors that affect how the operation of the System is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuations in natural gas prices, transmission line outages, and wild fires.

Increased water allocations resulted in increased water deliveries and pumping through the SWP. Water deliveries increased from 1.41 million acre-feet in fiscal 2015 to 1.77 million acre-feet in fiscal 2016, an increase of 0.36 million acre-feet or 25.53%. The primary factor that contributed to increased water deliveries in fiscal 2016 was attributed to several winter storms occurring during January 2016 through April 2016, which resulted in an Oroville Lake storage increase from 1 million acre-feet to 3.3 million acre-feet or at 95% full capacity. This increase in the System reservoirs allowed incremental increases to the water allocations.

Since the State of California still remains in a drought condition and the System reservoirs still have not recovered to maintain consistent pre-drought allocations of approximately 60% to the Water Contractors, the priority throughout the State of California is to conserve the limited water that is available. All these factors indicate power sales may remain at lower levels.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief, Financial Reporting and Analysis Office, 1416 Ninth Street Room 804, Sacramento, CA 95814.



FINANCIAL STATEMENTS

Statements of Net Position

(amounts in thousands)

	2016	2015 (As restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 550,968	\$ 517,663
Receivables:		
Interest on investments	1,265	996
Water supply and power billings (net)	119,235	79,527
Due from federal and state governments	38,596	37,406
Due from others	466	408
Inventories	5,171	5,160
Total current assets	<u>715,701</u>	<u>641,160</u>
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	29,436	28,348
Cash and investments restricted for debt service	114,459	118,075
Cash and cash equivalents on deposit with revenue bond trustee	33,435	9,435
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	277,024	441,755
Capital credit due from water contractors	297,814	231,033
Unamortized project costs	313,045	347,858
Unbilled interest incurred on capital costs	382,848	419,663
Loans receivable from local water agencies	12,968	14,061
Advances to other state funds	92,011	93,047
Total long-term assets	<u>1,553,040</u>	<u>1,703,275</u>
Utility plant:		
Utility plant in service	5,014,128	4,935,436
Less accumulated depreciation	(2,084,676)	(2,014,654)
Net utility plant in service	<u>2,929,452</u>	<u>2,920,782</u>
Construction work in progress	769,871	611,900
Total utility plant	<u>3,699,323</u>	<u>3,532,682</u>
Total assets	<u>5,968,064</u>	<u>5,877,117</u>
Deferred outflows of resources:		
Deferral of loss on refunding	161,656	174,933
Deferral of employer pension contribution	47,978	44,393
Deferral of resources related to pensions	20,597	-
Total deferred outflows of resources	<u>230,231</u>	<u>219,326</u>
Total assets and deferred outflows of resources	<u>\$ 6,198,295</u>	<u>\$ 6,096,443</u>

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

Statements of Net Position (continued)

(amounts in thousands)

	2016	2015 (As restated)
Liabilities		
Current liabilities:		
Current maturities of bonds	\$ 180,930	\$ 185,815
Accounts payable	115,898	67,575
Accrued vacation	14,528	13,326
Pollution remediation	4,207	10,245
Accrued interest on long-term debt	11,229	11,900
Pooled Money Investment Account (PMIA) Loan	-	3,663
Due to other state funds	39,370	45,065
Proceeds due to water contractors	94,551	86,900
Other current liabilities	-	939
Total current liabilities	<u>460,713</u>	<u>425,428</u>
Long-term liabilities		
General obligation bonds	88,300	135,045
Revenue bonds	2,636,703	2,588,108
Commercial paper	42,776	87,901
Other postemployment benefits	230,198	203,219
Net pension liability	485,502	426,935
Pooled Money Investment Account (PMIA) Loan	-	4,431
Accrued vacation	25,888	29,392
Pollution remediation	44,854	33,579
Unearned revenue - State and Federal capital recovery	12,766	12,766
Advances for plant replacements	32,064	29,459
Total long-term liabilities	<u>3,599,051</u>	<u>3,550,835</u>
Total liabilities	<u>4,059,764</u>	<u>3,976,263</u>
Deferred inflows of resources:		
Operations and maintenance expense	1,929	1,989
Capital costs	774,159	683,469
Power sales credit due to Water Contractors	146,417	149,728
Deferral of resources related to pensions	10,598	79,566
Total deferred inflows of resources	<u>933,103</u>	<u>914,752</u>
Total liabilities and deferred inflows of resources	<u>4,992,867</u>	<u>4,891,015</u>
Net position:		
Net investment in capital assets	1,155,487	1,165,253
Restricted	49,941	40,175
Total net position	<u>1,205,428</u>	<u>1,205,428</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,198,295</u>	<u>\$ 6,096,443</u>

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

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

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Water supply	\$ 948,105	\$ 883,538
Power sales	71,236	91,780
Federal and State reimbursements	67,309	44,060
Total operating revenues	<u>1,086,650</u>	<u>1,019,378</u>
Operating expenses:		
Operations and maintenance	511,926	404,627
Purchased power	219,661	202,780
Depreciation and amortization expense	77,170	81,495
Operating expenses recovered, net	65,004	-
Total operating expenses	<u>873,761</u>	<u>688,902</u>
Income from operations	212,889	330,476
Nonoperating revenue (expenses):		
Capital revenues recovered (deferred), net	(118,510)	(243,945)
Interest expense	(106,978)	(96,082)
Other revenues (expenses), net	<u>12,599</u>	<u>9,551</u>
Change in net position	-	-
Net position, beginning of year	1,205,428	1,205,428
Net position, end of year	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>

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



Statements of Cash Flows
(amounts in thousands)

	2016	2015 (As restated)
Cash flows from operating activities:		
Receipts from customers	\$ 1,129,333	\$ 865,978
Payments to employees for services	(363,980)	(351,480)
Payments to suppliers	(319,699)	(283,286)
Other receipts	5,741	2,647
Net cash provided by operating activities	<u>451,395</u>	<u>233,859</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	215,805	246,873
Principal payments on long-term debt	(221,370)	(172,455)
Commercial paper notes issued	180,375	191,229
Principal payments on commercial paper notes	(225,500)	(139,465)
Principal payments on PMIA note	(8,094)	(3,486)
Interest payments on long-term debt	(91,841)	(210,661)
Change in long-term provision and net pension liability	(10,400)	30,797
Additions to utility plant and construction work in progress	(243,811)	(144,515)
Net cash used by capital and related financing activities	<u>(404,836)</u>	<u>(201,683)</u>
Cash flows from investing activities:		
Cash received from investment earnings	27,667	6,393
Proceeds of investments matured	100,870	100,865
Purchases of investments	(110,585)	(100,866)
Loan payments from local water agencies	1,094	1,170
Net cash provided by investing activities	<u>19,046</u>	<u>7,562</u>
Net increase (decrease) in cash and cash equivalents	65,605	39,738
Cash and cash equivalents, beginning of year	601,024	561,286
Cash and cash equivalents, end of year	<u>\$ 666,629</u>	<u>\$ 601,024</u>
Noncash capital and related financing activities:		
Amortization of bond premium/discount	\$ 19,637	\$ 15,614
Amortization of deferred loss on refunding	(10,902)	(10,000)
Principal retirements of long-term debt on proceeds received from issuance of Series AS Water System Revenue Bonds	-	689,780
Noncash capital and related financing activities:	<u>\$ 8,735</u>	<u>\$ 695,394</u>

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

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

	2016	2015
		(As restated)
Reconciliation to the statement of net position:		
Cash and cash equivalents	\$ 550,968	\$ 517,663
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	29,436	28,348
Cash and cash equivalents restricted for debt service (net of \$61,669 and \$72,496 of U.S. Agency securities for 2016 and 2015, respectively)	52,790	45,578
Cash and cash equivalents on deposit with revenue bond trustee	33,435	9,435
Cash and cash equivalents	\$ 666,629	\$ 601,024
	2016	2015
		(As restated)
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 212,889	\$ 330,475
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	77,170	81,494
Other receipts	5,741	2,647
(Increase) decrease in deferred charges and credits, net	116,809	(156,123)
Changes in assets and liabilities:		
(Increase) in receivables	(39,766)	(44,866)
(Increase) decrease in inventories	(12)	43
(Increase) decrease in due from federal government	(1,189)	2,023
Increase in accounts payable, accrued vacation, pollution remediation, and other postemployment benefits	77,797	19,607
(Decrease) in due to other state funds	(5,695)	(2,616)
Increase in proceeds due to Water Contractors	7,651	1,175
Total adjustments	238,506	(96,616)
Net cash provided by operating activities	\$ 451,395	\$ 233,859

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



NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

The State Water Resources Development System (System), administered by the Department of Water Resources (DWR), includes the State Water Project (SWP), the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program, was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s providing various financing mechanisms. The funds of the System are a part of the primary government of the State of California and are reported as a proprietary fund and business-type activity (non-governmental cost funds) within the State of California's financial statements. The SWP is a system of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities, which have been constructed for purposes of developing firm water supply and conveying water to areas of need within the State and providing flood control, recreation, fish and wildlife enhancement, and hydroelectric power. The System has entered into Water Supply Contracts with 29 customers (Water Contractors) in order to recover substantially all System costs. The 29 Water Contractors are principally located in the San Francisco Bay Area, the Central Coast, the Central Valley and Southern California and their service areas encompass approximately 25% of the State's land area and 69% of its population.

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

2. Summary of Significant Accounting Policies

DWR is a department within the California Natural Resources Agency of the State, and is responsible for the planning, construction, and operation of the System's SWP. The System's operating revenues include water supply, power sales, and Federal and State Reimbursements. Under the Water Supply Contracts, the Water Contractors are required to pay to the System amounts calculated and billed as operating revenues, thus returning to the System substantially all annual operating costs. These operating expenses are comprised of the costs of sales and services, depreciation and amortization of capital assets, power and transmission costs, and administrative expenses.

Revenues from the Water Contractors pledged to the payment of debt, and net investment income are related to capital and financing activities and are defined as non-operating revenues and expenses.

Utility Plant

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

Depreciation

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

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

The System's intangible assets, consisting of software, land use and legal rights, costs associated with the Federal Energy Regulatory Commission (FERC) licenses, and compliance instruments are included in Utility Plant in Service (UPIS). Software costs are amortized on a straight-line basis over a five-to-ten year useful life. Easements are land use rights and considered as either permanent or temporary. Permanent easements have an indefinite useful life and are non-depreciable while temporary easements are being amortized over a five year useful life, unless otherwise specified in the purchase agreement.

A central element of California's Global Warming Solutions Act (AB 32) requires the System to obtain and surrender emission credits and allowances. Currently, these compliance instruments consist of Green House Gas (GHG) emission allowances for the System's share of compliance cost for the Lodi Energy Center (LEC). Since the economic benefit is not diminished until the credits are consumed, they will not be amortized. The credits will be included in UPIS and charged to expense as they are surrendered.

Cash and Cash Equivalents

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

Restricted Cash and Investments

Cash and cash equivalents on deposit with revenue bond trustee consists of debt service reserve funds held with a major national bank for the Series 1973 Devil Canyon – Castaic Facilities bonds and amounts held for Reid Gardner Unit 4 contingencies under the termination agreement.

Cash and cash equivalents with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the Water Supply Contracts and bond resolutions. Restricted funds consist of investments of the same type as those described below.

Investments

Cash not required for current use, including restricted cash, is invested in SMIF, which is stated at fair value. SMIF is part of the State's PMIA, which as of June 30, 2016 and 2015 had a balance of \$77.7 billion and \$71.6 billion, respectively. The weighted average to maturity of PMIA investments was 167 days as of June 30, 2016 and 239 days as of June 30, 2015. The total amount of deposits in SMIF was \$38.0 billion as of June 30, 2016 and \$34.4 billion as of June 30, 2015. The Pooled Money Investment Board (PMIB) has oversight responsibility for SMIF. The Board consists of three members as designated by state statute which shall consist of the State Controller, State Treasurer and Director of Finance. The value of the pool shares in SMIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the System's portion of the pool. PMIA funds are on deposit with the State's Centralized Treasury System and are not SEC registered, but are managed in compliance with the California Government Code and State policy. The State's Investment Policy for the PMIA, which is managed by the State Treasurer's Office, sets forth the permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements subject to limits of no more than 10% of PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA's investment portfolio included deposits in structured notes totaling \$400 million as of June 30, 2016, whereas it did not have any deposits in structured notes as of June 30, 2015. The investment portfolio also included asset-backed securities totaling \$1.719 million as of June 30, 2016 and \$1.448 million as of June 30, 2015.

The System is authorized by statute to invest in the same types of investment vehicles permitted by the State's Centralized Treasury System. U.S. Treasury and agency debt securities are carried at fair value. Because investing is not a core part of the System's mission, the Systems determines that the disclosure related to these investments only need to be disaggregated by major type. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data (quoted prices) provided by the exchanges, computerized pricing sources, the National Association of Securities Dealers' National Market System, securities custodians and other authoritative sources. Investments made by the System during the year ended June 30, 2016 are of a similar nature as those held at June 30, 2015.

Advances to Other State Funds

Advances to Other State Funds represent the System's advances to DWR's internal service fund that functions as a revolving working capital account for the System.

Receivables

Receivables include amounts due from Water Contractors, organizations that purchase power from the System, Federal and State governments, accrued interest from financial institutions, and other miscellaneous customers.

Inventories

The System carries two types of inventories, operating supplies and fuel. The method of accounting used for operating supplies is first-in, first-out inventory valuation. Fuel station tanks are located throughout the System, and fuel inventory is accounted for using the moving average cost method. Components of inventories at June 30, 2016 and 2015 were as follows:

Inventories		
	2016	2015
Operating supplies	\$ 4,915	\$ 4,967
Fuel	256	193
Total	\$ 5,171	\$ 5,160

Amounts Recoverable through Future Billings

The System records unbilled costs as assets recoverable through future billings under the Water Supply Contracts. These costs include operations and maintenance costs and capital costs.

Unamortized project costs represent abandoned utility plant costs and certain research and development expenses that are recoverable through future billings to the Water Contractors under the terms of the Water Supply Contracts.

Unbilled interest incurred on unrecovered capital costs are classified as other long-term assets until billed under the terms of the Water Supply Contracts. Unbilled interest incurred represents the System's unrecovered interest since inception, recalculated annually at the System's cumulative weighted average cost of borrowing (Project Interest Rate). The System's Project Interest Rate was 4.61% for the years ended June 30, 2016 and 2015.

Deferred Outflows and Inflows

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

Deferred Outflows of Resources

Deferral of loss on refunding represents the difference between the reacquisition price and the net carrying amount of the refunded debt. The unamortized balance of deferred loss on refunding was \$161.6 million as of June 30, 2016 and \$174.9 million as of June 30, 2015. The \$13.3 million decrease is due to the scheduled annual amortization of \$10.9 million on loss of refunding and the write-off of unamortized loss relating to the defeasance of the Off-Aqueduct Power Facilities revenue bonds of \$2.4 million.

The System implemented GASB Statement No. 68 during fiscal 2015. Amounts reported as deferral of employer pension contributions represent the pension contributions made subsequent to the measurement date of the net pension liability. The System paid \$48 million in employer pension contributions during fiscal 2016. Additionally, differences between expected and actual experience are required to be recognized in pension expense in a systematic and a rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees), beginning with the current period. The System is also required to report its share of the deferred unamortized net loss reported by the CalPERS and the change in proportionate share of net pension liability. The System's allocated share of the deferred outflows of resources related to pensions was \$20.6 million as of June 30, 2016.

Deferred Inflows of Resources

Deferred operations and maintenance expenses represent operations and maintenance revenues collected in excess of operations and maintenance expenses incurred resulting from specific terms of the Water Supply Contracts and timing differences. The System had an ending balance of \$1.9 million and \$2 million in deferred inflows of operations and maintenance expenses as of June 30, 2016 and 2015, respectively.

Since the capital component of revenue allows for the recovery of capital costs plus interest related to the construction of the System's facilities, these revenues are presented as deferred inflows of resources. As these facilities are depreciated over time, the deferred capital costs are recovered.

The power sales credit due to Water Contractors arises from revenue collected for the power generated by the Hyatt-Thermalito Power Plant (HTPP). The power sales credit is amortized over time by a credit issued to the Water Contractors through the Delta Water Charge. The power sales credit decreased by \$3.3 million to an ending balance of \$146.4 million in fiscal 2016 compared to \$149.7 million in fiscal 2015.

The System's allocated share of the deferral of net difference between projected and actual earnings was \$10.6 million during fiscal 2016.

Unearned Revenue – State and Federal Capital Recovery

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

Advances for Plant Replacements

Advances for plant replacements represent billings under the terms of the Water Supply Contracts for future replacement of certain System assets. Receipts from such billings are restricted. Costs of plant replacements are charged to this reserve, as incurred.

Bond Issuance Discounts and Premiums

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

Net Position

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

Revenues

The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the Water Supply Contracts, the System granted the Water Contractors rate management reductions of approximately \$40.5 million for the years ended June 30, 2016 and 2015. Rate management reductions are reductions in capital related billings to the Water Contractors.

Revenues under the Water Supply Contracts are recognized when billings are due and payable. The billings cover debt service requirements, an additional 25% of revenue bond debt service to satisfy certain bond covenants, current operations and maintenance costs, and past unrecovered costs. The Water Supply Contracts provide that the 25% portion of the billings collected for the purpose of satisfying certain bond covenants be refunded in the subsequent year. These billings, which totaled \$57.8 million and \$54.3 million for the years ended June 30, 2016 and 2015, respectively, are included as Proceeds Due to Water Contractors as presented in the Supplementary Information Debt Service Coverage. The System refunded \$55.1 million and \$53.3 million for the years ended June 30, 2016 and 2015, respectively, to the Water Contractors for the 25% bond cover requirement.

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

The Federal government reimburses the System for certain operating and capital costs incurred by the System for flood control purposes. In addition, the Federal government reimburses the System for the Federal government's 39.72% share of the operating costs of the San Luis joint use facilities and other water facilities. The State of California also reimburses the System for certain operating and capital costs incurred by the System for facilities located within the SWP. Revenue from the State and Federal government in excess of their share of the related depreciation expense is deferred until the related depreciation expense is recognized.

Segments

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

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

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

Restatements

Certain amounts presented in the prior year have been restated in order to conform to the current year's presentation. These restatements were necessary in order to more accurately present amounts of Utility Plant Assets, net of accumulated depreciation, for assets co-owned by the System and the United States Bureau of Reclamation.

Statements of Net Position

	Balance Previously reported at June 30, 2015	Restatement	June 30, 2015 (After Restatement)
Assets			
Utility plant:			
Utility plant in service	\$ 5,064,102	(128,666)	\$ 4,935,436
Less accumulated depreciation	(2,074,899)	60,245	(2,014,654)
Construction work in progress	626,600	(14,700)	611,900
Long-term liabilities			
Unearned revenue - State and Federal capital recovery	155,448	(142,682)	12,766
Deferred inflows of resources:			
Capital costs	623,908	59,561	683,469
Net position:			
Net investment in capital assets	\$ 1,105,692	59,561	\$ 1,165,253
Restricted	99,736	(59,561)	40,175

3. Interests in Jointly Owned Facilities

At June 30, 2016 and 2015, the System owned the following undivided interests in jointly-owned facilities:

Interests in Joint-Use Facilities			System's Portion Based on % Owned			
	Joint Party	% Owned by System	UPIS/CWIP		Accum Depreciation	
			<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
San Luis Joint-Use Facilities	USBR	55%	\$ 244,741	\$ 230,020	\$ 80,392	\$ 75,281
SWP Hydropower Facilities License	LADWP	50%	\$ 1,499	\$ 215	\$ -	\$ -

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

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

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

4. Utility Plant

The summarized activity of the System's utility plant during 2016 is presented below:

Utility Plant June 30, 2016

	Beginning Balance (As restated)	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	\$ 141,874	\$ 5,807	\$ -	\$ 147,681
Construction work in progress (CWIP)	611,900	232,017	(74,046)	769,871
Land use rights	11,630	130	-	11,760
Other intangible assets	103,445	3,551	(6,873)	100,123
Total nondepreciable utility plant	<u>868,849</u>	<u>241,505</u>	<u>(80,919)</u>	<u>1,029,435</u>
Depreciable Utility Plant:				
Aqueducts	2,169,352	2,629	-	2,171,981
Dams & reservoirs	708,303	-	-	708,303
Power plants	441,202	29,616	-	470,818
Pumping plants	826,704	12,176	-	838,880
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	1,610	-	35,544
Facilities	254,741	17,224	-	271,965
Equipment and other depreciable assets	77,384	9,001	(7,156)	79,229
Computer software	24,531	186	-	24,717
Land use rights	272	-	-	272
Other intangible assets	12,005	-	-	12,005
General	62,262	10,791	-	73,053
	<u>4,678,487</u>	<u>83,233</u>	<u>(7,156)</u>	<u>4,754,564</u>
Less: accumulated depreciation	(1,990,485)	(73,406)	7,148	(2,056,743)
Less: accumulated amortization	(24,169)	(3,764)	-	(27,933)
	<u>(2,014,654)</u>	<u>(77,170)</u>	<u>7,148</u>	<u>(2,084,676)</u>
Total depreciable plant	<u>2,663,833</u>	<u>6,063</u>	<u>(8)</u>	<u>2,669,888</u>
Total Utility Plant - net	<u>\$ 3,532,682</u>	<u>\$ 247,568</u>	<u>\$ (80,927)</u>	<u>\$ 3,699,323</u>

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

Utility Plant June 30, 2015				
	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance (As restated)
Nondepreciable Utility Plant:				
Land	\$ 137,033	\$ 4,841	\$ -	\$ 141,874
Construction work in progress (CWIP)	438,244	222,089	(48,433)	611,900
Land use rights	11,583	47	-	11,630
Other intangible assets	103,740	3,815	(4,110)	103,445
Total nondepreciable utility plant	690,600	230,792	(52,543)	868,849
Depreciable Utility Plant:				
Aqueducts	2,167,237	22,266	(20,151)	2,169,352
Dams & reservoirs	781,408	-	(73,105)	708,303
Power plants	466,358	-	(25,156)	441,202
Pumping plants	836,814	-	(10,110)	826,704
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	246,397	10,515	(2,171)	254,741
Equipment and other depreciable assets	75,705	3,138	(1,459)	77,384
Computer software	24,529	12	(10)	24,531
Land use rights	272	-	-	272
Other intangible assets	11,995	10	-	12,005
General	61,310	952	-	62,262
	4,773,756	36,893	(132,162)	4,678,487
Less: accumulated depreciation	(1,974,282)	(77,739)	61,536	(1,990,485)
Less: accumulated amortization	(20,413)	(3,756)	-	(24,169)
	(1,994,695)	(81,495)	61,536	(2,014,654)
Total depreciable plant	2,779,061	(44,602)	(70,626)	2,663,833
Total Utility Plant - net	\$ 3,469,661	\$ 186,190	\$ (123,169)	\$ 3,532,682

5. Investments

The following is a summary of the System's investments by percentage of total and their related credit ratings as of June 30, 2016:

Investments 2016							
	% of Total Inv	Credit Rating (S&P)	Maturities				Investment Value
			Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
Investments:							
PMA	87%	Not Rated	\$ -	\$ -	\$ 633,193	\$ -	\$ 633,193
US Federal Agency Notes							
Federal National Mortgage Association	1%	AA+	-	-	-	9,913	9,913
Federal Home Loan Bank	7%	AA+	-	51,756	-	-	51,756
							<u>694,862</u>
Investment with Fiscal Agent							
US Bank Money Market Funds	5%	AAA	33,435	-	-	-	33,435
Total Investments							<u>\$ 728,297</u>

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

Investments 2015							
	% of Total	Credit Rating (S&P)	Maturities				Investment Value
			Under 30 Days	31-180 Days	181-365 Days	1-5 Years	
Investments:							
Money Market Mutual Funds	0%	Not Rated	\$ 3	\$ -	\$ -	\$ -	\$ 3
PMA	88%	Not Rated	-	-	591,586	-	591,586
US Federal Agency Notes							
Federal National Mortgage Association	3%	AA+	-	-	10,211	10,472	20,683
Federal Home Loan Bank	8%	AA+	-	51,814	-	-	51,814
							<u>664,086</u>
Investment with Fiscal Agent							
US Bank Money Market Funds	1%	AAA	9,435	-	-	-	9,435
Total Investments							<u>\$ 673,521</u>

Interest Rate Risk: In accordance with its investment policy, the State of California manages its exposure to declines in fair value by spreading investments over the various maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; collateralized time deposits, 5 years; commercial paper, 270 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year; negotiable order of withdrawal, open ended.

Custodial Credit Risk: For deposits, custodial credit risk is that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

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

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

Concentration of Credit Risk: The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. The System's PMIA investments totaled \$633,193 and \$591,586 for the fiscal years ended June 30, 2016 and 2015, respectively. Investments outside the State's Centralized Treasury System totaled \$95,104 and \$81,132 for the fiscal years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, 8% and 11%, respectively, of the System's investments were in U.S. Agency Securities. There is no limitation on amounts invested in these quoted market price Level 1 types of issues. The remaining investments, \$33,435 and \$9,435 for the years ended are comprised of cash on deposit with Fiscal Agents in short term money market instruments (cash and cash equivalents).

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.434% and 0.269% for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, interest earned on the deposits with PMIA approximated \$ 2.9 million and \$1.6 million, respectively. Interest earned is included in the other revenues (expenses) line item on the statement of revenues, expenses, and changes in net position.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP) and in accordance with GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The U.S. Federal Agency Securities of \$61.7 million are valued using quoted market prices (Level 1 input). Income is comprised of interest, dividends, realized gains and losses, and unrealized gains and losses due to changes in the fair value of investments held at year-end. The change in recurring fair value of the System's Level 1 investments, U.S. Federal Agency Securities, is calculated as follows:

Change in Fair Value Level 1 Investments

	<u>2016</u>	<u>2015</u>
Fair Value of investments at the beginning of the fiscal year	\$ 72,497	\$ 72,388
Less: Proceeds of investments matured in fiscal year	(110,585)	(100,865)
Add: Purchase of investments in fiscal year	100,870	100,866
Add: Amortization of discounts	47	1,440
Change in fair value of investments during fiscal year	<u>(1,160)</u>	<u>(1,332)</u>
Fair value of investments at the end of the fiscal year	<u>\$ 61,669</u>	<u>\$ 72,497</u>

6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2016 and 2015:

Long-Term Debt

	Revenue Bonds				General	Commercial	PMA	Total Long
					Obligation	Paper	Loan	Term Debt
	Par Amount	Unamortized Discount	Unamortized Premium	Revenue Bonds	Par Amount	Par Amount	Loan Amount	
Balance at June 30, 2014	\$2,455,645	\$ (10)	\$ 192,179	\$ 2,647,814	\$241,835	\$ 36,136	\$11,579	\$ 2,937,364
Additions	795,040	-	141,613	936,653	-	191,230	-	1,127,883
Retirements	(689,780)	-	(39,485)	(729,265)	-	(139,465)	-	(868,730)
Amortization	-	1	(15,615)	(15,614)	-	-	-	(15,614)
Payments	<u>(115,580)</u>	<u>-</u>	<u>-</u>	<u>(115,580)</u>	<u>(56,875)</u>	<u>-</u>	<u>(3,485)</u>	<u>(175,940)</u>
Balance at June 30, 2015	2,445,325	(9)	278,692	2,724,008	184,960	87,901	8,094	3,004,963
Additions	215,805	-	22,167	237,972	-	180,375	-	418,347
Retirements	(35,555)	1	(3,012)	(38,566)	-	(225,500)	-	(264,066)
Amortization	-	1	(16,627)	(16,626)	-	-	-	(16,626)
Payments	<u>(135,900)</u>	<u>-</u>	<u>-</u>	<u>(135,900)</u>	<u>(49,915)</u>	<u>-</u>	<u>(8,094)</u>	<u>(193,909)</u>
Balance at June 30, 2016	2,489,675	(7)	281,220	2,770,888	135,045	42,776	-	2,948,709
Less current portion	<u>(134,185)</u>	<u>-</u>	<u>-</u>	<u>(134,185)</u>	<u>(46,745)</u>	<u>-</u>	<u>-</u>	<u>(180,930)</u>
Total Long-term Debt	<u>\$2,355,490</u>	<u>\$ (7)</u>	<u>\$ 281,220</u>	<u>\$ 2,636,703</u>	<u>\$ 88,300</u>	<u>\$ 42,776</u>	<u>\$ -</u>	<u>\$ 2,767,779</u>

General Obligation Bonds

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

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

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

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

As of June 30, 2016, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service is \$148.9 million with payments through 2025. Principal and interest paid for the current year was \$57.7 million and Burns-Porter Act water supply operating revenues were \$693 million. As of June 30, 2015, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service was \$206.6 million. Principal and interest paid for 2015 was \$66.9 million and Burns-Porter Act SWRDS water supply operating revenues were \$657.6 million.

SWRDS GO Bonds of \$168 million are authorized but un-issued as of June 30, 2016 and 2015, and may only be used for additional facilities, meeting certain requirements of the Burns-Porter Act.

Outstanding SWRDS GO Bonds include Series F through Series S, which may be called at any time for early redemption. SWRDS GO Bonds Series X and Y do not have early redemption provisions.

SWRDS GO Bonds consist of the following at June 30, 2016:

General Obligation Bonds				Amounts Outstanding	
Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	2016	2015
1966	E	3.0%	2016	\$ -	\$ 4,500
1967	F	3.5%	2017	4,500	8,900
1967	G	3.5%	2017	4,500	8,900
1967	H	3.0%	2017	4,500	8,900
1968	J	3.5%	2018	8,900	13,200
1968	K	4.0%	2018	8,900	13,200
1969	L	4.5%	2019	13,200	17,300
1969	M	4.0-4.9%	2019	13,200	17,300
1970	N	5.0%	2020	17,300	21,300
1970	P	5.0-5.8%	2020	17,300	21,300
1971	Q	4.8-5.0%	2021	21,300	25,200
1971	R	4.8-5.0%	2021	10,650	12,600
1972	S	5.3-5.5%	2022	10,080	11,560
1994	X	4.8%	2024	400	450
1995	Y	7.0-7.1%	2025	315	350
Total General Obligation bond debt outstanding at par				135,045	184,960
Less current maturities				(46,745)	(49,915)
Total Long-term General Obligation bond debt outstanding				\$ 88,300	\$ 135,045

Revenue Bonds

The Water System Revenue Bonds have been issued for the acquisition or construction of projects to provide water and power for the SWP. Under the statute pursuant to which Water System Revenue Bonds are issued, principal and interest on the bonds are secured by and payable solely from revenues attributable to the facilities financed by the bonds. These are primarily payments under the Water Supply Contracts between the System and Water Contractors.

As of June 30, 2016, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service is \$3,457 million with payments through Fiscal 2036. Principal and interest paid for the current year was \$237.2 million and CVP water supply operating revenues were \$255.1 million. As of June 30, 2015, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service were \$3,429 million with payments through 2036. Principal and interest paid for the year was \$208 million and CVP water supply operating revenues were \$225.9 million.

On September 2, 2015, the System issued \$109.3 million of Water System Revenue bonds (Series AU) to redeem \$104.6 million of Commercial Paper Notes Series 1. The Series AU was issued as index floating rate notes using the weekly SIFMA Index, plus a 0.62% spread to calculate monthly debt service payments, with a rate not to exceed 8.0% per annum. The Series AU bonds have a mandatory tender date of September 1, 2017 and can be called on or after March 1, 2017, at a purchase price of 100% of the principal amount. The Series AU bonds are not subject to optional tender by the holders of the bonds. The interest rates for Series AU bonds ranged from 0.63% to 1.05% and averaged 0.76% in fiscal year 2016.

On May 24, 2016, the System issued tax-exempt Water System Revenue bonds (Series AV) with a par amount of \$106.5 million and a Premium of \$22.2 million to redeem \$120.9 million of Commercial Paper Notes Series 1. The Series AV was issued with fixed coupon rates of 4.0% and 5.0%, and maturities ranging from 2018 to 2035. The Series AV bonds maturing on or after December 1, 2026 will be subject to redemption prior to their stated maturities, at a redemption price equal to the bonds being redeemed, plus accrued interest, without premium.

On November 6, 2014, the System issued \$149.2 million of Water System Revenue bonds (Series AT) to redeem \$139.5 million of Commercial Paper Notes Series 1. The Series AT was issued as index floating rate notes using the weekly SIFMA Index, plus a 0.30% spread to calculate monthly debt service payments, with a rate not to exceed 8.0% per annum. The Series AT bonds have a mandatory tender date of December 1, 2017 and can be called on or after June 1, 2017, at a purchase price of 100% of the principal amount. The Series AT bonds are not subject to optional tender by the holders of the bonds. The interest rates for the Series AT bonds ranged from 0.31% to 0.73% and averaged 0.42% in fiscal year 2016.

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

Water System Revenue Bonds consist of the following at June 30, 2016:

CVP Revenue Bonds						Amounts Outstanding	
Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	2016	2015	
Devil Canyon-Castaic Facilities:							
1973	A&B	5.3-5.4%	2023	1983	\$ 51,625	\$ 57,430	
CVP Water System:							
1999	V	6.3%	2025	None	18,050	20,235	
2002	X	5.5%	2018	2013	29,975	51,465	
2008	AE	3.4-5.0%	2030	2018	74,365	96,080	
2009	AF	3.0-5.0%	2030	2019	98,765	103,445	
2010	AG	3.0-5.0%	2033	2020	26,980	27,330	
2011	AH	3.3-5.3%	2036	2021	58,640	63,985	
2012	AI	5.0%	2030	2022	74,910	92,275	
2012	AJ	4.0-5.0%	2036	2022	161,960	185,985	
2012	AK	3.0-5.0%	2036	2022	27,415	29,695	
2013	AL	5.0%	2030	2023	67,750	78,855	
2013	AM	5.0%	2026	2023	156,045	157,570	
2013	AN	4.0-5.0%	2036	2023	41,330	42,855	
2013	AO	1.0-3.5%	2030	None	278,240	317,505	
2013	AP	3.0-5.0%	2036	2023	42,460	43,925	
2013	AQ	4.0-5.0%	2036	2023	117,855	120,205	
2014	AR	4.0-5.0%	2036	2024	156,400	161,445	
2015	AS	2.0-5.0%	2033	2025	641,860	645,795	
2015	AT	Variable	2036	2017	149,245	149,245	
2016	AU	Variable	2036	2017	109,275	-	
2016	AV	4.0-5.0%	2029	2026	106,530	-	
Total CVP Water System Revenue Bonds					2,438,050	2,387,895	
Total revenue bond debt outstanding at par					2,489,675	2,445,325	
Unamortized bond issuance premiums					281,220	278,692	
Unamortized bond issuance discounts					(7)	(9)	
Current fiscal maturities					(134,185)	(135,900)	
Total long-term bond debt outstanding					\$ 2,636,703	\$ 2,588,108	

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2016:

Future Debt Service Requirements							
Year	Revenue Bonds			General Obligation Bonds			All Bonds
	Principal	Interest*	Total	Principal	Interest	Total	Total
2017	\$ 134,185	\$ 104,649	\$ 238,834	\$ 46,745	\$ 5,660	\$ 52,405	\$ 291,239
2018	138,570	98,710	237,280	34,235	3,792	38,027	275,307
2019	131,360	93,178	224,538	25,975	2,414	28,389	252,927
2020	140,945	87,471	228,416	17,405	1,386	18,791	247,207
2021	141,200	81,282	222,482	8,595	527	9,122	231,604
2022-2026	704,690	309,332	1,014,022	2,090	125	2,215	1,016,237
2027-2031	622,850	150,015	772,865	-	-	-	772,865
2032-2036	475,875	42,724	518,599	-	-	-	518,599
	<u>\$2,489,675</u>	<u>\$967,361</u>	<u>\$3,457,036</u>	<u>\$135,045</u>	<u>\$13,904</u>	<u>\$148,949</u>	<u>\$3,605,985</u>

* Includes variable rate bonds for Series AT and Series AU, which bear interest at a weekly rate.

An assumed rate of 3.0% for Series AT and 2.07% for Series AU was used to project the variable portion of the interest payments in this table. The interest rate still in effect was determined at issuance date using the Securities Industry and Financial Markets Association (SIFMA) Swap 10 year average Index plus an applicable basis point spread.

Pooled Money Investment Loan (PMIA)

On March 26, 2008, the System received a loan of \$29.6 million from the Pooled Money Investment Account (PMIA) pursuant to California Government Code section 16313. The proceeds of the loan were used to establish escrow accounts that facilitated defeasance of certain Water System Revenue Bonds that financed recreation, and fish and wildlife enhancement related costs of the acquisition and construction of the System. The loan, which was scheduled to be repaid in fiscal year 2018, was paid in full on December 1, 2015.

The loan was repaid with surplus revenues of the System made available under California Water Code section 12937(b)(4). The loan agreement required minimum quarterly payments of \$1 million on the first day of every March, June, September, and December, which included principal and interest, beginning on September 1, 2008. Principal and interest paid during fiscal years 2016 and 2015 were \$8.3 million and \$4 million, respectively. Interest was computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed.

The Variable Rate means:

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

Commercial Paper Notes

The System has a commercial paper borrowing program of up to \$139.7 million. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. Under the credit agreement dated October 1, 2011 and the first amendment dated May 28, 2014, the bank has agreed to make advances to the System, if necessary, to provide monies for the payment of the Commercial Paper Notes Series 1. The bank is obligated to provide \$150 million, with the principal amount of Commercial Paper Notes Series 1 limited to \$139.7 million and \$10.3 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of \$139.7 million. The Line of Credit was extended on May 11, 2014 and is scheduled to expire on October 24, 2017, but can be extended for up to three years upon the System's written request and approval from the bank. The credit agreement requires quarterly payments on the first day of July and October and on the last day of December and March. As of June 30, 2016, there were no borrowings with the bank under the revolving credit agreement; however, the amounts of Commercial Paper Notes Series 1 outstanding under this program were \$42.8 million on June 30, 2016 and \$87.9 million on June 30, 2015. The weighted average rate for interest expense approximated 0.12% for the year ended June 30, 2016 and 0.07% for the year ended June 30, 2015. The proceeds from the issuance of Commercial Paper Notes Series 1 are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the Commercial Paper Notes Series 1. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of Water System Revenue Bonds. The System's obligation to make debt service payments on the Commercial Paper Notes Series 1 is subordinate to its payment obligations under the resolutions for the Water System Revenue Bonds and SWRDS GO Bonds.

The Water Supply Contracts, in their original form, provide for two charges to the Water Contractors: (a) a Delta Water Charge and (b) a Transportation Charge. These charges are computed to return to the State the costs of the facilities necessary to deliver water to the Water Contractors, including capital costs (with interest) and operation and maintenance costs, and expressly including in the case of the facilities to be financed with commercial paper and the related Water System Revenue Bonds, debt service and 1.25 debt service coverage requirements to be satisfied from revenues. DWR expects to redeem its commercial paper liability with proceeds of the additional commercial paper draws until DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with Commercial Paper Notes Series 1.

7. Bond Refundings and Defeasances

During fiscal 2016, the System defeased certain Water System Revenue Bonds relating to the Off-Aqueduct Power Facilities. The System did not have any refunding transactions during fiscal 2016. However, in prior years, the System has issued refunding bonds to refund various previous issues. The net proceeds from refunding sales or cash defeasances are used to purchase State and Local Government Series Securities (SLGS) and U.S. Treasury securities, and are deposited in irrevocable escrow trust accounts with an escrow agent as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered to be defeased, and the related liabilities have been excluded from the System's basic financial statements. At June 30, 2016 and 2015, outstanding Water System Revenue Bonds of \$726.2 million and \$690.8 million, respectively, are considered to be defeased.

On June 24, 2016, the System cash-defeased \$35.6 million of Water System Revenue bonds relating to the Off-Aqueduct Power Facilities, which included Reid Gardner, Bottle Rock, and South Geysers, using proceeds from a termination settlement agreement with the Nevada Power Company. This defeasance resulted in a cash flow savings of \$2 million. The System deposited cash and certain investment securities in an irrevocable escrow with the Treasurer of the State of California, acting as Trustee and Escrow Agent. The par amounts of the defeased bonds are as follows:

Summary of Off-Aqueduct Defeased Bonds	
Bond Series	Amount
Series AE	\$ 2,005
Series AH	3,075
Series AI	2,775
Series AJ	790
Series AK	60
Series AL	6,395
Series AN	385
Series AO	6,175
Series AS	3,935
Series V	2,185
Series X	7,775
Total	<u>\$ 35,555</u>

Amortization of all deferred refunding costs was approximately \$13.3 million in fiscal 2016 and \$10 million in fiscal 2015.

8. Retirement Plan

The State is a member of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan. As an enterprise fund, the System is required under GASB 68 to report results pertaining to liability and asset information as of specific dates and within certain time frames. For this report, the following time frames apply:

- Valuation Date June 30, 2014
- Measurement Date June 30, 2015
- Measurement Period July 1, 2014 to June 30, 2015

Plan Description

The State of California is the employer, the Department of Water Resources is the participating Department of the State, and the System reports an allocated share. Departments and agencies within the State of California, including the System, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. The System, for the most part has all its employees enrolled in the State Miscellaneous Plan (Tier 1 and Tier 2). CalPERS functions as a common investment and administrative agent for participating public agencies within the State of California using the accrual basis of accounting. All state agencies are considered collectively to be a single employer, and the actuarial present value of vested and non-vested accumulated plan benefits attributable to the System's employees is determined as the System's percentage of the State as a single employer. Net assets available for benefits of the System's employees are also determined as the Systems percentage of the State.

CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. CalPERS also issues the GASB 68 Accounting Valuation Report. Copies of these reports may be obtained by logging onto the CalPERS website at www.calpers.ca.gov.

Benefits Provided and Employees Covered

CalPERS provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age, and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require ten years of credited service. Most employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit. New members with service credit beginning on or after January 1, 2013 must be at least age 52. Benefits are payable monthly for the remainder of their lives. Health care and dental benefits, described in Note 10, may be provided to members depending on the date hired and the years of credited service of a member. Several survivor benefit options that reduce a retiree's unmodified benefit are available. Benefit provisions and all other requirements are established by State statute.

Contributions

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Section 20814(c) of the California Public Employees' Retirement Law (PERF) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation

process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of the plan members or employees. These rates reflect section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer toward the unfunded liability. The following table shows the average active employee and the employer contribution rates for two PERF plans applicable to the System as a percentage of annual pay for the measurement period ended June 30, 2015.

Contribution Rates

June 30, 2015	State Miscellaneous	State Safety
Average active employee rate	6.525%	10.421%
Employer rate of annual payroll	21.137%	17.905%
Total	<u>27.662%</u>	<u>28.326%</u>

Actuarial Methods and Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% net of Pension Plan Investment Expenses, Includes Inflation
Mortality Rate Table	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public

Employees Retirement Fund. The stress test results are presented in a detailed report (GASB Crossover Testing Report) that can be obtained at the CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected PERF fund's cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the fund's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest $\frac{1}{4}$ of 1%.

The table below reflects long-term expected real rate of return by asset class for PERF. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Long-Term Expected Real Rate of Return by Asset Class

Asset Class	Current Target Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Pensionable Compensation

The System's allocated share of DWR's annual pensionable compensation as a calculated percentage of the State Employer total for the measurement periods ended June 30, 2015 and 2014 is illustrated in the following tables:

Compensation Amounts and Calculated Percentages

Defined Benefit Retirement Plans	Measurement period July 1, 2014 to June 30, 2015			
	Burns Porter (0502) ¹	Central Valley (0506) ²	System	State Pensionable Compensation
Misc. Tier 1 & 2 Combined	\$ 155,827	\$ 27,099	\$ 182,926	\$ 10,640,884
State Peace Officers & Firefighters	-	-	-	3,115,287
California Highway Patrol	-	-	-	809,610
State Safety	-	-	-	2,003,777
State Industrial	-	-	-	577,711
Judges	-	-	-	28,770
Judges II	-	-	-	180,230
Legislators	-	-	-	1,397
Total	\$ 155,827	\$ 27,099	\$ 182,926	\$ 17,357,665

¹Calculated share of total State pensionable compensation issued by the Office of State Controller at 1.4644% of total miscellaneous plan.

²Calculated share of total State pensionable compensation issued by the Office of State Controller at 0.2547% of total miscellaneous plan.

Compensation Amounts and Calculated Percentages

Defined Benefit Retirement Plans	Measurement period July 1, 2013 to June 30, 2014			
	Burns Porter (0502) ¹	Central Valley (0506) ²	System	State Pensionable Compensation
Misc. Tier 1 & 2 Combined	\$ 142,898	\$ 23,843	\$ 166,742	\$ 9,850,666
State Peace Officers & Firefighters	-	-	-	3,028,235
California Highway Patrol	-	-	-	765,283
State Safety	-	-	-	1,901,180
State Industrial	-	-	-	532,489
Judges	-	-	-	199,245
Judges II	-	-	-	4,805
Legislators	-	-	-	1,471
Total	\$ 142,898	\$ 23,843	\$ 166,742	\$ 16,283,375

¹Calculated share of total State pensionable compensation issued by the Office of State Controller at 1.4506% of total miscellaneous plan.

²Calculated share of total State pensionable compensation issued by the Office of State Controller at 0.2420% of total miscellaneous plan.

Discount Rate Sensitivity

The discount rate used to measure the total pension liability was 7.65% for the System's allocated share of the Plan. In preparation of the GASB 68 Accounting Valuation Report, CalPERS stress tested plans and determined that the 7.65% is adequate. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of pension plan investment expenses for GASB Statement No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

The following presents the net pension liability of the System's proportionate share of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

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

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
Net Pension Liability	\$ 685,705	\$ 485,502	\$ 317,532

Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period, July 1, 2014, the net pension liability was \$426.9 million.

For the measurement period ending June 30, 2015 (the measurement date), the System incurred a pension expense of \$45.5 million in fiscal 2016.

As of June 30, 2015, the System had deferred outflows and deferred inflows of resources related to pensions as follows:

- Pension contributions made subsequent to the measurement date of \$48 million
- Deferred outflows related to the differences between expected and actual experiences of \$8.9 million and the change in the proportionate share of the net pension liability of \$11.7 million
- Deferred inflows related to the net difference between projected and actual earnings on pension plan investments of \$10.6 million

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

Amortization of Deferred Outflows/(Inflows)			
<u>Measurement Period Ended June 30:</u>	<u>Miscellaneous Plan (Inflows)</u>	<u>Miscellaneous Plan Outflows</u>	<u>Miscellaneous Plan Net Deferred</u>
2016	\$ (2,649)	\$ 5,149	\$ 2,500
2017	(2,649)	5,149	2,500
2018	(2,650)	5,149	2,499
2019	(2,650)	5,150	2,500
2020	-	-	-
Thereafter	-	-	-
Total	<u>\$ (10,598)</u>	<u>\$ 20,597</u>	<u>\$ 9,999</u>

9. Postemployment Benefits Other Than Pensions

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

During fiscal 2016, State paid 100% of the health insurance premium for annuitants, and 90% of the additional premium required for the retiree's dependents according to the California Government Code. The maximum monthly State contribution amounts were \$655 for single, \$1,246 for two parties, and \$1,605 for family plan tiers. Dental care insurance premium varies by plan and number of dependents. The contribution requirements of retirees and the State are established and may be amended by the State legislature.

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

Net OPEB Obligations		
	2016	2015
Annual required contribution (ARC)	\$ 41,174	\$ 42,008
Interest on net OPEB obligation	7,010	6,824
Adjustment to the ARC	<u>(6,513)</u>	<u>(6,340)</u>
Annual OPEB cost	41,671	42,492
Contributions made	<u>(14,692)</u>	<u>(16,042)</u>
Increase in net OPEB obligation	26,979	26,450
Net OPEB obligation - beginning of year	<u>203,219</u>	<u>176,769</u>
Net OPEB obligation - end of year	<u>\$ 230,198</u>	<u>\$ 203,219</u>

The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the years ended June 30, 2016, 2015 and 2014, were as follows:

Annual Required Contribution			
Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/14	\$ 55,239	35%	\$ 176,769
6/30/15	42,008	38%	203,219
6/30/16	41,174	35%	230,198

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

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

10. Commitments and Contingencies

Commitments

Construction

The System has entered into long-term construction contract commitments for the State Water Project facilities. The remaining value of contracts in process as of June 30, 2016 and 2015, approximated \$51.1 million and \$61.7 million, respectively.

Power Transmission and Purchase

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

The System has long-term transmission service contracts with anticipated future payments of approximately \$101.6 million over periods ranging from one to 26 years. Payments made under these contracts approximated \$4.5 million and \$6.2 million for the years ended June 30, 2016 and 2015, respectively.

The System has long-term power purchase contracts with anticipated future payments of approximately \$662.6 million over periods ranging from one to 26 years. The remaining amounts of fixed obligations under the long-term power contracts as of June 30, 2016, are as follows:

Fixed Obligations			
Year	Transmission	Power	Total
2017	\$ 4,741	\$ 35,726	\$ 40,467
2018	4,741	35,726	40,467
2019	4,741	35,726	40,467
2020	4,741	29,497	34,238
2021	4,741	28,128	32,869
2022-2042	77,935	497,791	575,726
Total	<u>\$ 101,640</u>	<u>\$ 662,594</u>	<u>\$ 764,234</u>

The System has a contract with the Kings River Conservation District, which provides that the System receive all power generated by the Pine Flat Power Plant Project (the Project). Under the contract, the System is obligated to pay fixed amounts each year to cover the debt service on bonds issued by the District to build the Project, operations and maintenance expenses, and a charge for power supplied. Such payments are to be made until all of the bonds issued by the District to finance the Project have been retired in fiscal 2019. Payments to the District totaled approximately \$9.4 million and \$8.8 million during the years ended June 30, 2016, and 2015, respectively.

The amounts of the System's fixed obligations related to future principal and interest payments of the District's bonds as of June 30, 2016 are as follows:

Fixed Obligations	
Year	Total
2017	\$ 4,253
2018	4,239
2019	4,257
	\$ 12,749

DWR entered into a Power Agreement with the Northern California Power Agency (NCPA) and other project participants in fiscal 2014 to participate in the Lodi Energy Center Project (LEC Project). The terms of the agreement provide that DWR pay for 33.5 percent of the construction costs, as well as 33.5 percent of operating costs to receive 33.5 percent of the power output of the LEC Project on a long-term basis. Participation in the LEC Project assists DWR in meeting SWP energy requirements, including the replacement of a portion of the energy previously provided by the Reid Gardner Project. NCPA issued revenue bonds for DWR's share of the costs to construct the power plant in Lodi, California in fiscal 2011. The Lodi Energy Center is one of the most efficient thermal-generating units in California, and will be economically dispatched before other older gas-fired units, resulting in power revenues that are sufficient to cover the operational costs and a portion of DWR's debt service on the bonds.

The amounts of the System's fixed obligations related to future principal and interest payments of the LEC Project's bonds as of June 30, 2016 are as follows:

LEC Bonds Fixed Obligations	
Year	Total
2017	\$ 9,206
2018	9,208
2019	9,207
2020	9,209
2021	9,207
2022-2026	46,044
2027-2031	46,038
2032-2035	36,833
	\$ 174,952

Market value information for certain power purchases, sales and exchange contracts are disclosed at June 30, 2016, using forward market prices discounted at the prevailing risk-free interest rate. All ten sales contracts extending beyond June 30, 2016 expire in fiscal 2017. There are nineteen purchase contracts expiring in fiscal 2017, twelve purchase contracts will expire in fiscal 2018, and six purchase contracts will expire in fiscal 2019. The long-term energy purchase contracts involving energy delivered from the Pine Flat Power Plants and Solverde Solar will expire in fiscal 2037; Dominion Solar Holdings purchase contract will expire in fiscal 2035; two purchase contracts with the Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, will expire in fiscal 2020 and 2021; and a purchase contract with Alameda Municipal Power will expire in fiscal 2017. An exchange agreement with the NCPA, operator of the Lodi Energy Center Project which commits DWR to purchase power on a long-term basis subject to the agreement, has no explicit termination date. Fair value of power purchase and sales commitments extending beyond June 30, 2016 are as follows:

Energy Commitments' Market Values

	<u>Number of Contracts</u>	<u>Total Capacity (MWh)</u>	<u>Fair Value at June 30, 2016</u>
Energy sales	10	325	\$ 308
Energy purchases	37	1,050	(21,142)
Long-term energy purchases	7	467	<u>(103,718)</u>
Total			<u>\$ (124,552)</u>

Contingencies

Litigation and Claims

Monterey Amendment

In 1994, the System and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the Water Supply Contracts have since been negotiated (Monterey Amendment). The Monterey Amendment includes provisions related to the transfer of land and related assets, known as the Kern Water Bank, to the Kern County Water Agency (KCWA) (one of the Water Contractors), the operation of certain System reservoirs, transfers of water allocations between Water Contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenues. Certain parties have disputed the Monterey Amendment by challenging the validity of the related Environmental Impact Report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System was required to prepare a new EIR. DWR completed the new Final EIR in February 2010 and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals

filed a lawsuit in Sacramento Superior Court challenging DWR's California Environmental Quality Act (CEQA) compliance and the validity of the Monterey Amendment, including DWR's transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court, primarily challenging DWR's CEQA compliance with respect to the Kern Fan Element transfer from DWR to KCWA. The two lawsuits filed in Kern County Superior Court were transferred to the Sacramento Superior Court. In December 2012, DWR prevailed on its challenge to the plaintiffs' validation causes of action (including the validity of the Kern Fan Element transfer) on the grounds that they were not filed timely. This left only the plaintiffs' CEQA compliance challenge. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR was adequate under CEQA, but that the EIR's discussion of impacts on continued use and operation of the Kern Water Bank was insufficient. The court therefore issued a decision in favor of the plaintiffs in the two cases finding that the EIR failed to analyze impacts associated with the use and operation of the Kern Water Bank, particularly as to potential groundwater and water quality impacts. In October 2014, the Court ordered DWR, as the remedy for the deficiency, to provide additional environmental analysis on the future impacts of the continued use and operation of the Kern Water Bank and upon completion of the EIR process, to determine whether to continue the use and operation of the Kern Water Bank. DWR released the Draft Revised EIR on the Kern Water Bank for public comment in April 2016 and expects to release the Final Revised EIR in the fall of 2016. In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. The plaintiffs are appealing the lower court's final CEQA and validation decisions. The System; however, does not believe that there will be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

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

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

One item that has been determined to have merit, contested the System's practice of charging the Water Contractors for certain financing costs of the recreation and fish and wildlife enhancement portion of facilities financed with Water System Revenue Bonds. The System rectified the situation by restating past bills to provide appropriate credits back to the Water Contractors for the contested charges and taking other actions to pay for the costs of the recreation and fish and wildlife enhancement portion of System facilities with sources other than charges to the Water Contractors. Such actions included DWR entering into Tolling and Waiver Agreements in 2007 and 2008 with the 27 Water Contractors that signed the Monterey Amendment, which included certain waivers allowing DWR to resume issuing revenue bonds in May 2008. The sale of System Revenue Bonds had been suspended pending the resolution of the recreation and fish and wildlife enhancement issue.

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

General

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

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

Federal Energy Regulatory Commission Proceedings

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

Pollution Remediation

Pollution remediation obligations are recorded by the System when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the engineering estimated contract costs. The remediation obligation estimates that appear in this report are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the System's obligation.

The System recognized Pollution Remediation Liabilities of \$4.2 million in current portion and \$44.8 million in long-term portion totaling \$49 million at June 30, 2016. This liability is comprised of two components. There are two identified locations of required pollution remediation, previously owned, Reid Gardner Unit 4 in Nevada and the Methyl Mercury Control programs in the Delta. In addition, the total liability for pollution remediation includes the GHG emissions credits to be surrendered to California Air Resources Board (CARB). The following table shows pollution remediation liability for the years ended June 30, 2016 and 2015:

Pollution Remediation Liabilities		
	2016	2015
Current liabilities:		
Reid Gardner Power Plant	\$ 2,000	\$ 3,500
Delta Mercury Control Program	1,285	1,288
Green House Gas Emissions Credits	922	5,457
Total current liabilities	\$ 4,207	\$ 10,245
Long-term liabilities:		
Reid Gardner Power Plant	\$ 24,300	\$ 25,600
Delta Mercury Control Program	5,025	5,120
Green House Gas Emissions Credits	15,529	2,859
Total Long-term liabilities	\$ 44,854	\$ 33,579

Reid Gardner Power Plant

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

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

During calendar year 2014, NVE provided DWR their projected schedule and budget by source area based on ongoing and planned investigations and overall AOC planning activities. Using NVE's projections and applying DWR's agreed upon cost sharing

percentages in the Environmental Agreement, DWR's estimated equitable share of the current value of outlays is \$26.3 million. The System expended approximately \$2.8 million in fiscal 2016 and DWR expects to pay \$2 million of the total estimated financial liability during fiscal 2017. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information becomes available.

Delta Mercury Control Program

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

DWR's mercury program was created to address its obligations under the Delta Mercury Control Program. The System's estimated value of remediation outlays remaining for this program is \$6.3 million. The System has expended approximately \$4.1 million through June 30, 2016. DWR estimates that the System will incur costs of approximately \$1.3 million in fiscal 2017 and estimates remaining long-term costs through 2020 at approximately \$5 million.

The State Water Resources Control Board (SWRCB) is currently developing a statewide mercury regulation applicable to inland waters, including reservoirs. Draft regulatory language and associated environmental analysis is currently expected to be released in 2016, with adoption by the SWRCB in 2017. Once promulgated, DWR will be responsible for meeting fish tissue and or water quality objectives statewide in DWR reservoirs identified by the regulation. Currently, nine DWR reservoirs have been identified by the SWRCB for regulation. These include Oroville, San Luis, Castaic, and Pyramid. There is insufficient information available to enable DWR to estimate the timing, magnitude or the System's share of potential compliance costs, if any, at this time.

Green House Gas Emissions Credits

The System is required to report and recognize the liability related to certain vintage years of the LEC Project under AB32. Each year the GHG allowances held in UPIS as an Intangible Asset, are evaluated and reported by the Power and Risk Analysis Office to CARB to be charged as pollution remediation expenses and a liability is recognized. The System's market analysis value of total compliance instruments to be surrendered is \$16.4 million. The System surrendered \$6.9 million of compliance instruments during fiscal 2016 under this program. The System expects to surrender approximately \$922 thousand due in November of fiscal 2017 and estimates remaining long-term portion at approximately \$15.5 million.

11. Self-Insurance

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

DWR has purchased automobile insurance for its fleet of vehicles through the California Department of General Services, Office of Risk & Insurance Management, and certain amounts are assessed to the System while some amounts may be directly charged for those vehicles owned specifically by the System.

12. Economic Dependency

The System's water supply revenue is generally derived from the 29 Water Contractors. The highest percentage of water supply revenues came from the Metropolitan Water District of Southern California. The following table shows total water supply revenues billed to Water Contractors including cover, refunds, and adjustments that exceeded 5% of the total water supply revenues sold by the System.

Water Supply Revenues				
	2016	% Total	2015	% Total
The Metropolitan Water District	\$ 586,992	53.72%	\$ 493,380	53.49%
Kern County Water Agency	110,799	10.14%	95,398	10.34%
Coachella Valley Water District	54,676	5.01%	-	-

The System sold power to 9 power companies for both fiscal years ended June 30, 2016 and 2015. The highest percentage of power revenues came from the CAISO. The following table shows power sales to companies which exceeded 5% of the total power sold by the System excluding power sold to the Water Contractors in the amount of \$520 and \$2.7 million, for the years ended June 30, 2016 and 2015, respectively.

Power Sales				
	2016	% Total	2015	% Total
California Independent System Operator	\$ 52,597	73.83%	\$ 61,759	69.59%
Northern California Power Agency	13,143	18.45%	24,502	27.61%

Similarly, the System purchased power from 16 and 17 power suppliers during the years ended June 30, 2016 and 2015, respectively. The highest percentage of power provided to the System came from the CAISO. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

Power Purchases				
	<u>2016</u>	<u>% Total</u>	<u>2015</u>	<u>% Total</u>
California Independent System Operator	\$ 105,356	47.89%	\$ 95,827	47.70%
Northern California Power Agency	32,724	14.88%	42,178	20.99%
Morgan Stanley Capital Group Inc.	31,748	14.43%	34,907	17.38%

13. Segment Information

The table below presents the condensed statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows for the System's two segments, as of and for the years ended June 30, 2016 and 2015.

Segment	2016			2015 (As restated)		
	Activities Allowed Under			Activities Allowed Under		
	Burns-Porter Act	Central Valley Project Act	Total	Burns-Porter Act	Central Valley Project Act	Total
Condensed Statements of Net Position:						
Assets						
Current assets	\$ 386,990	\$ 328,711	\$ 715,701	\$ 274,012	\$ 367,148	\$ 641,160
Other assets	1,187,719	365,321	1,553,040	1,308,557	394,718	1,703,275
Capital assets	803,230	2,896,093	3,699,323	821,616	2,711,066	3,532,682
Total assets	2,377,939	3,590,125	5,968,064	2,404,185	3,472,932	5,877,117
Deferred outflows of resources	56,533	173,698	230,231	38,045	181,281	219,326
Total assets and deferred outflows of resources	\$ 2,434,472	\$ 3,763,823	\$ 6,198,295	\$ 2,442,230	\$ 3,654,213	\$ 6,096,443
Liabilities						
Current liabilities	\$ 153,042	\$ 307,671	\$ 460,713	\$ 148,904	\$ 276,524	\$ 425,428
Long-term liabilities	788,039	2,811,012	3,599,051	752,867	2,797,968	3,550,835
Total liabilities	941,081	3,118,683	4,059,764	901,771	3,074,492	3,976,263
Deferred inflows of resources	284,135	648,968	933,103	331,203	583,549	914,752
Total liabilities and deferred inflows of resources	1,225,216	3,767,651	4,992,867	1,232,974	3,658,041	4,891,015
Net position:						
Net investment in capital assets	831,288	324,199	1,155,487	929,050	236,203	1,165,253
Restricted	377,968	(328,027)	49,941	280,206	(240,031)	40,175
Total net position	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Total liabilities, deferred inflows of resources, and net position	\$ 2,434,472	\$ 3,763,823	\$ 6,198,295	\$ 2,442,230	\$ 3,654,213	\$ 6,096,443
Condensed Statements of Revenues, Expenses and Changes in Net Position:						
Operating revenues:						
Water supply	\$ 692,999	\$ 255,106	\$ 948,105	\$ 657,639	\$ 225,899	\$ 883,538
Power sales	71,163	73	71,236	92,066	(286)	91,780
Federal and State reimbursements	29,396	37,913	67,309	16,669	27,391	44,060
	793,558	293,092	1,086,650	766,374	253,004	1,019,378
Depreciation expense	(21,939)	(55,231)	(77,170)	(21,680)	(59,815)	(81,495)
Other operating expense	(744,200)	(52,391)	(796,591)	(581,987)	(25,420)	(607,407)
Income from operations	27,419	185,470	212,889	162,707	167,769	330,476
Capital revenues recovered (deferred), net	(8,471)	(110,039)	(118,510)	(164,868)	(79,077)	(243,945)
Interest expense	(7,376)	(99,602)	(106,978)	(9,945)	(86,137)	(96,082)
Transfers In/(Out)	(13,241)	13,241	-	10,855	(10,855)	-
Other revenues (expenses), net	1,669	10,930	12,599	1,251	8,300	9,551
Increase (decrease) in net position	-	-	-	-	-	-
Net position, beginning of year	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Net position, end of year	\$ 1,209,256	\$ (3,828)	\$ 1,205,428	\$ 1,209,256	\$ (3,828)	\$ 1,205,428
Condensed Statements of Cash Flows:						
Net cash provided by (used in):						
Operating activities	\$ 173,755	\$ 277,640	\$ 451,395	\$ 60,676	\$ 173,183	\$ 233,859
Capital and related financing activities	(94,170)	(310,666)	(404,836)	13,107	(214,790)	(201,683)
Investing activities	2,212	16,834	19,046	1,689	5,873	7,562
Net (decrease) increase in cash and cash equivalents	81,797	(16,192)	65,605	75,472	(35,734)	39,738
Cash and equivalents, beginning of year	230,925	370,099	601,024	155,453	405,833	561,286
Cash and equivalents, end of year	\$ 312,722	\$ 353,907	\$ 666,629	\$ 230,925	\$ 370,099	\$ 601,024

14. New Governmental Accounting Standards

GASB Statement No. 68

In January 2016, after the California State Auditor issued their unmodified opinion on the reports related to the GASB Statement No 68, the State Controller communicated to State Departments that the original allocations and GASB 68 accounting elements that were provided to each entity on August 5, 2015 had been adjusted. Each entity was given the option of either restating their fiscal year 2014-15 financial statements or to account for those adjustments to the allocation in the current 2015-16 fiscal year. The System chose to incorporate the allocation adjustments in the current fiscal year.

GASB Statement No. 72

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The requirements of GASB No. 72 are effective for fiscal year 2016 and thereafter. The System holds investments that are measured at fair value on a recurring basis. The financial statement items in connection with GASB No. 72 are presented in this fiscal year financial statements.

GASB Statement No. 73

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of GASB No. 73 are effective for fiscal year 2016 and thereafter. It has been determined that GASB No. 73 did not impact the System.

GASB Statement No. 74

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OBEP plans for making decisions and assessing accountability. The requirements of GASB No. 74 are effective for fiscal year 2017 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of GASB No. 75 are effective for fiscal year 2018 and thereafter.

GASB Statement No. 76

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The requirements of GASB No. 76 are effective for fiscal year 2016 and thereafter. It has been determined that GASB No. 76 did not have a material effect on the System’s financial statement.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. The requirements of GASB No. 77 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 77 did not impact the System.

GASB Statement No. 78

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions. The requirements of GASB No. 78 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 78 did not impact the System.

GASB Statement No. 79

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of GASB No. 79 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 79 did not impact the System.

GASB Statement No. 80

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of GASB No. 80 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 80 did not impact the System.

GASB Statement No. 81

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of GASB No. 81 are effective for fiscal year 2017 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 82

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of GASB No. 82 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 82 did not impact the System.

15. Subsequent Events

On October 20, 2016, the System issued tax-exempt CVP Revenue Bonds, Series AW, with a par amount of \$428.1 million and \$93.5 million premium. The average yield on the bonds is 2.71%. The bond proceeds of \$521.2, combined with the System's cash contribution of \$1.3 million will be used to redeem \$96 million of Commercial Paper Notes Series 1, refund \$97.4 million of outstanding bonds, and deposit \$267 million in the construction account to fund new projects. Bond proceeds will also be used to fund the debt service reserve account, pay capitalized interest, and cover costs of issuance. The System expects to achieve a net present value savings of \$7 million representing 7.15% of the refunded bonds.



REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the System's Proportionate Share of the Net Pension Liability

Last 10 Years* (in thousands)

	2016	2015
The System's proportion of the net pension liability	1.7191%	1.6927%
The System's proportionate share of the net pension liability	\$ 485,502	\$ 426,935
The System's covered-employee payroll	\$ 181,151	\$ 164,571
The System's proportionate share of the net pension liability as a percentage of their covered-employee payroll	268.01%	259.42%
Plan fiduciary net position as a percentage of the total pension liability	70.68%	73.05%

Notes to Schedule:

Changes of benefit terms:

In 2016, the figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

* - Fiscal year 2016 was the 2nd year of implementation, therefore only two years are shown.

Schedule of the System's Contributions

Last 10 Years* (in thousands)

	2016	2015
Contractually required contribution	\$ 47,978	\$ 44,393
Contributions in relation to the contractually required contribution	47,978	44,393
Contribution deficiency (excess)	\$ -	\$ -
Fund's covered-employee payroll	\$ 181,151	\$ 164,571
Contributions as a percentage of covered-employee payroll	26.49%	26.97%

Notes to Schedule:

The actuarial methods and assumptions used to determine contribution rates for year ended June 30, 2016 was from the June 30, 2014 Valuation Date.

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality rates are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* - Fiscal year 2016 was the 2nd year of implementation, therefore only two years are shown.



SUPPLEMENTARY INFORMATION

Calculation of Adequacy of Debt Service Coverage for the Central Valley Project Revenue Bonds

Debt Service Coverage	<i>(amounts in thousands)</i>	
	2016	2015
Water supply revenues, Central Valley Project Act	\$ 255,106	\$ 225,899
Add: Cover Collected as Proceeds Due To Water Contractors	57,779	54,316
Less: Devil Canyon Castaic Revenues	(19,646)	(18,171)
Revenues not available for Debt Service	(8,679)	(8,234)
Net CVP revenues available for debt service	284,560	253,810
Principal and interest for revenue bonds	\$ 227,350	\$ 192,924
Debt service coverage	125.2%	131.6%

Note: Section 805 of the general bond resolution for the Central Valley Project (CVP) Water System Revenue Bonds states, "The total amount of Revenues receivable under all Water Supply Contracts in any Year shall be the sum of (A) 1.25 times the Annual Debt Service for such Year to be paid from the Revenue Fund, plus (B) the amount estimated by DWR, pursuant to Section 605, to be required from the Revenue Fund in such Year to provide for Water System Operating Expenses..."

The Supplementary Information, Calculation of Adequacy of Debt Service Coverage, for the Central Valley Project (CVP) Revenue Bonds is based on \$255.1 million in fiscal 2016 and \$225.9 million in fiscal 2015, respectively in Water Supply Revenues of the System's (CVP) segment.

In fiscal 2016, the revenues include: an increase of \$57.8 million in refundable proceeds, a decrease of \$19.6 million for principal and interest payments for the Devil Canyon Castaic Facilities Bonds (DCC) since the DCC General Bond resolution does not require cover to be collected for these bonds, and a decrease of \$8.7 million in miscellaneous revenue not available for debt service.

In fiscal 2015, the revenues include: an increase of \$54.3 million in refundable proceeds, a decrease of \$18.2 million for principal and interest payments for the DCC Facilities bonds, and a decrease of \$8.2 million in revenue not available for debt service of which \$5.4 million are amounts to be refunded to the Water Contractors and \$2.8 million related to operations and maintenance.

STATISTICAL SECTION



STATISTICAL SECTION

This part of the California State Water Resources Development System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures say about the government's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	86
<i>These schedules contain trend information to help the reader understand how the System's financial performance and well-being have changed over time.</i>	
Revenue Capacity	89
<i>These schedules contain information to help the reader access the System's two most significant local revenue sources, water supply and power sales.</i>	
Debt Capacity	93
<i>These schedules present information to help the reader access the affordability of the System's current levels of outstanding debt and the System's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	95
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the System's financial activities take place.</i>	
Operating Information	97
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the System's financial report relates to the services the System provides and the activities it performs.</i>	

Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

	2007	2008	2009	2010
OPERATING REVENUES:				
Water supply	\$ 704,921	\$ 752,853	\$ 721,253	\$ 853,158
Power sales	222,206	215,430	175,318	165,664
Federal and State reimbursements	24,463	20,992	18,266	24,021
Total operating revenues	951,590	989,275	914,837	1,042,843
OPERATING EXPENSES:				
Operations and maintenance	344,464	409,150	466,708	435,801
Purchased power	374,568	323,236	206,632	212,658
Depreciation and amortization expense	78,065	79,136	79,632	80,813
Operating expenses recovered (deferred), net	(24,972)	40,976	21,257	189,000
Total operating expense	772,125	852,498	774,229	918,272
NET OPERATING INCOME (LOSS)	179,465	136,777	140,608	124,571
NONOPERATING REVENUES (EXPENSES):				
Capital revenues recovered (deferred), net	4,377	(20,595)	44,344	19,823
Interest expense	(151,746)	(156,716)	(131,481)	(151,390)
Other revenues (expenses), net	(32,096)	40,534	(53,471)	6,996
Total nonoperating revenues (expenses)	(179,465)	(136,777)	(140,608)	(124,571)
CHANGE IN NET POSITION	\$ -	\$ -	\$ -	\$ -

Source: State Water Resources Development System

Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

2011	2012	2013	2014	2015	2016
\$ 874,748	\$ 860,891	\$ 931,808	\$ 789,370	\$ 883,538	\$ 948,105
193,154	148,360	146,277	131,952	91,780	71,236
28,294	36,561	52,397	52,186	44,060	67,309
1,096,196	1,045,812	1,130,482	973,508	1,019,378	1,086,650
428,559	526,402	545,413	557,209	404,627	511,926
342,446	271,377	258,899	241,444	202,780	219,661
100,257	87,400	85,236	68,896	81,495	77,170
118,325	67,063	22,261	-	-	65,004
989,587	952,242	911,809	867,549	688,902	873,761
106,609	93,570	218,673	105,959	330,476	212,889
22,812	43,834	(174,356)	(42,934)	(243,945)	(118,510)
(134,996)	(107,770)	(53,492)	(115,499)	(96,082)	(106,978)
5,575	(29,634)	9,175	52,474	9,551	12,599
(106,609)	(93,570)	(218,673)	(105,959)	(330,476)	(212,889)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Source: State Water Resources Development System

Net Position by Component (Unaudited)

Last Ten Fiscal Years (in thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
NET POSITION										
Net investment in capital assets	\$ 98,490	\$ 127,858	\$ 381,106	\$ 486,347	\$ 554,854	\$ 684,025	\$ 832,147	\$ 994,561	\$ 1,165,253	\$ 1,155,487
Restricted	1,106,941	1,077,573	824,325	719,084	650,574	521,403	373,281	210,867	40,175	49,941
TOTAL NET POSITION	<u>\$ 1,205,431</u>	<u>\$ 1,205,431</u>	<u>\$ 1,205,431</u>	<u>\$ 1,205,431</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>	<u>\$ 1,205,428</u>

Source: State Water Resources Development System

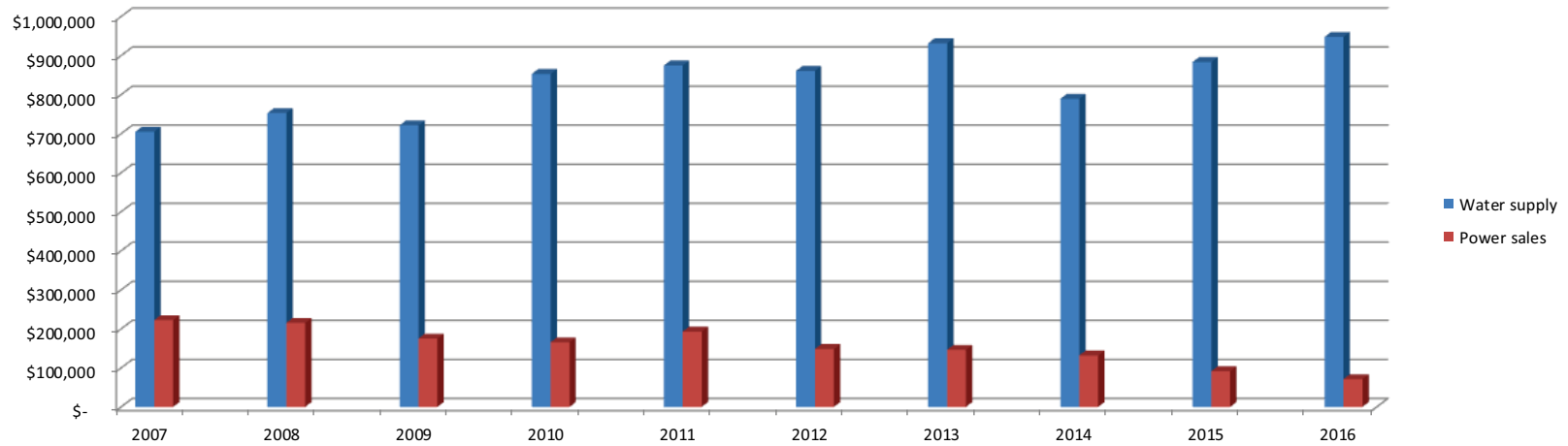
Significant Revenues By Source (Unaudited)

Last Ten Fiscal Years (in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues by Source										
Water supply	\$ 704,921	\$ 752,853	\$ 721,253	\$ 853,158	\$ 874,748	\$ 860,891	\$ 931,808	\$ 789,370	\$ 883,538	\$ 948,105
Power sales	222,206	215,430	175,318	165,664	193,154	148,360	146,277	131,952	91,780	71,236
TOTAL	\$ 927,127	\$ 968,283	\$ 896,571	\$ 1,018,822	\$ 1,067,902	\$ 1,009,251	\$ 1,078,085	\$ 921,322	\$ 975,318	\$ 1,019,341

Source: State Water Resources Development System

Operating Revenues by Source



Summary of Schedule of Water and Power Sales Rates (Unaudited)

Last Ten Years

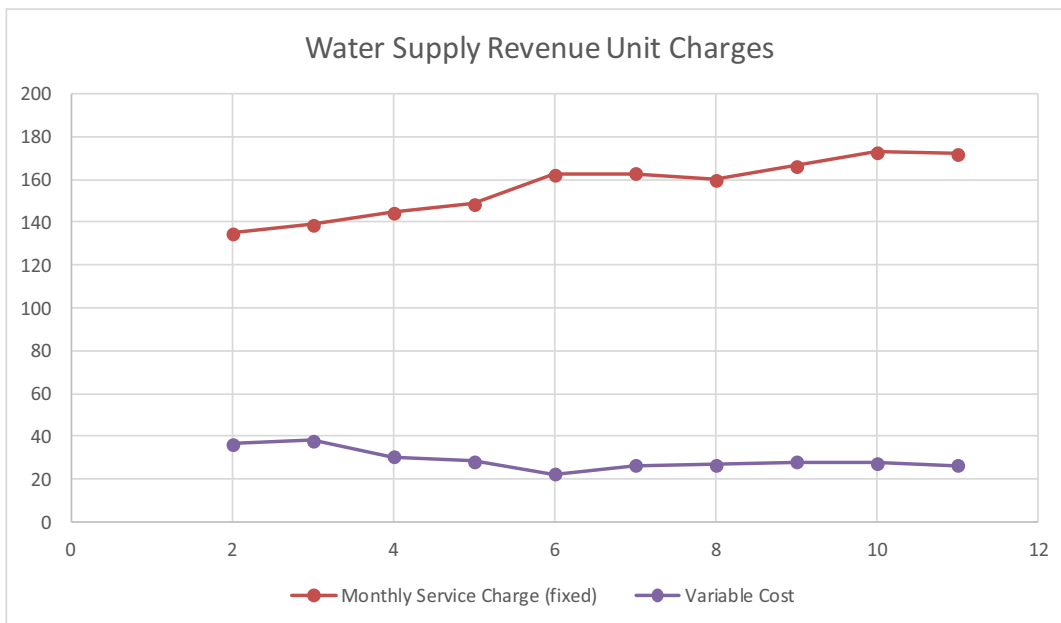
Financial Statement Year	Calendar Year	Water Supply ^a	
		Monthly Service Charge (fixed)	Variable Cost
2007	2006	\$ 134.82	\$ 36.43
2008	2007	138.71	38.19
2009	2008	144.41	30.53
2010	2009	148.49	28.33
2011	2010	162.20	22.45
2012	2011	162.64	26.36
2013	2012	159.89	26.79
2014	2013	166.37	28.21
2015	2014 ^c	172.81	27.52
2016	2015 ^c	171.99	26.34

Source: State Water Project Analysis Office Bulletin 132-xx Table B-24

a) Hypothetical charges, which, if assessed on all Table A of Bulletin 132 water delivered to date, all surplus water delivered prior to May 1, 1973, and all Table A water estimated to be delivered during the remainder of the project repayment period (Table B-5B of Bulletin 132), would provide a sum at the end of the period financially equivalent to all Transportation Charge and Delta Water Charge payments required under a water supply contract, considering interest at the Project Interest Rate, 4.610 percent per annum.

b) Numbers reflect amounts on a Calendar Year basis

c) Amounts for these years are preliminary and subject to change



Largest Distribution Water Revenue Accounts (Unaudited)

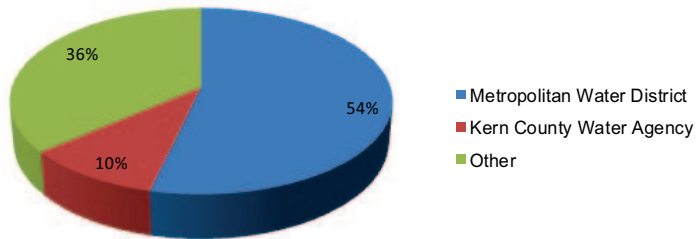
Current Year and Nine Years Prior

Customer	FY 2016			Customer	FY 2007		
	Annual Water Sales	Rank	Percentage of Total ^a		Annual Water Sales	Rank	Percentage of Total ^a
THE METROPOLITAN WATER DISTRICT	\$ 511,976,442	1	54%	THE METROPOLITAN WATER DISTRICT	\$ 430,001,810	1	61%
KERN COUNTY WA - AG	94,810,452	2	10%	KERN COUNTY WA - AG	56,393,680	2	8%
Subtotal	<u>\$ 606,786,894</u>		<u>64%</u>	Subtotal	<u>\$ 486,395,490</u>		<u>69%</u>
Total Water Consumption	<u>\$ 948,104,522</u>				<u>\$ 704,921,000</u>		

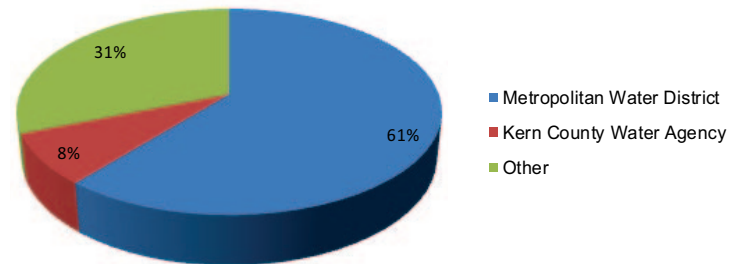
Source: State Water Resources Development System

a) Percentage of total is based on total revenues billed under the water supply contracts

FY 2016



FY 2007



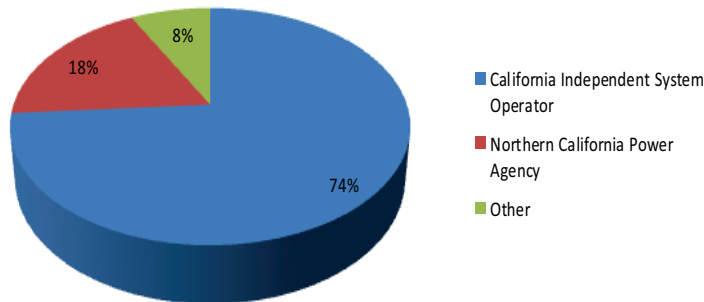
Largest Distribution Power Sales Revenue Accounts (Unaudited)

Current Year and Nine Years Prior

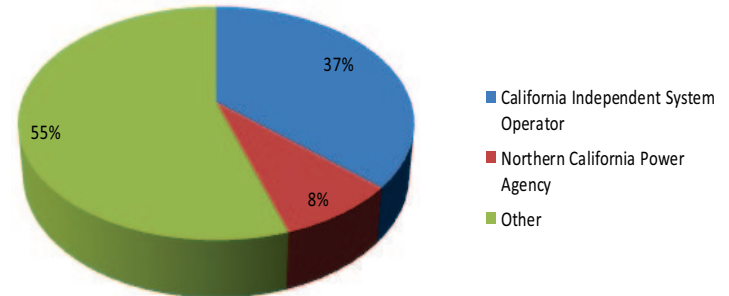
Customer	FY 2016			Customer	FY 2007		
	Annual Revenues	Rank	Percentage of Total		Annual Revenues	Rank	Percentage of Total
CALIFORNIA INDEPENDENT SYSTEM OPERATOR	\$ 52,597,411	1	74%	CALIFORNIA INDEPENDENT SYSTEM OPERATOR	\$ 81,403,067	1	37%
NORTHERN CALIFORNIA POWER AGENCY	13,143,096	2	18%	NV ENERGY	18,684,041	2	8%
Subtotal	<u>\$ 65,740,507</u>		<u>92%</u>	Subtotal	<u>\$100,087,108</u>		<u>45%</u>
Total Power Sales	<u>\$ 71,236,463</u>			Total Power Sales	<u>\$222,205,762</u>		

Source: State Water Resources Development System

FY 2016



FY 2007



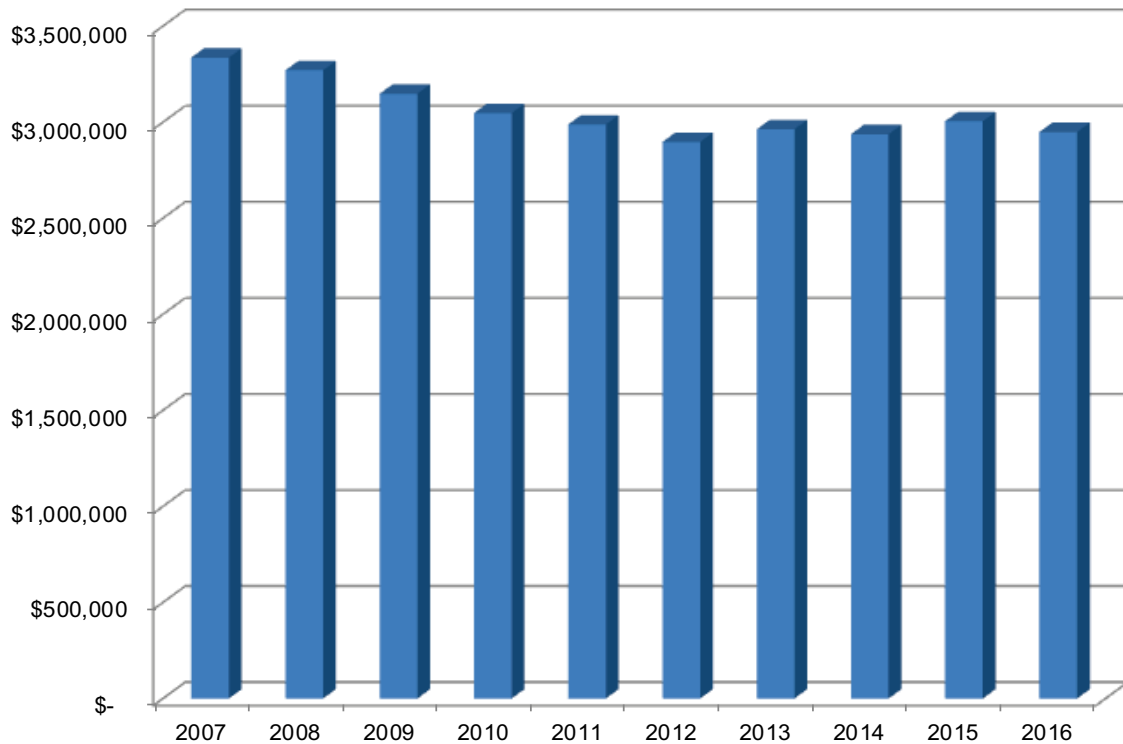
Ratios of Outstanding Debt by Type (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Revenue Bonds	General Obligation Bonds	Commercial Paper	PMIA Loan	Total
2007	\$ 2,568,083	\$ 634,750	\$ 133,362	\$ -	\$ 3,336,195
2008	2,636,769	584,395	19,352	29,600	3,270,116
2009	2,579,158	531,700	9,897	27,288	3,148,043
2010	2,500,049	476,915	46,473	23,912	3,047,349
2011	2,491,854	420,540	54,578	21,055	2,988,027
2012	2,487,737	362,375	28,783	18,052	2,896,947
2013	2,594,459	302,920	50,505	14,896	2,962,780
2014	2,647,814	241,835	36,136	11,579	2,937,364
2015	2,724,008	184,960	87,900	8,094	3,004,962
2016	2,770,888	135,045	42,776	-	2,948,709

Source: State Water Resources Development System

Outstanding Debt



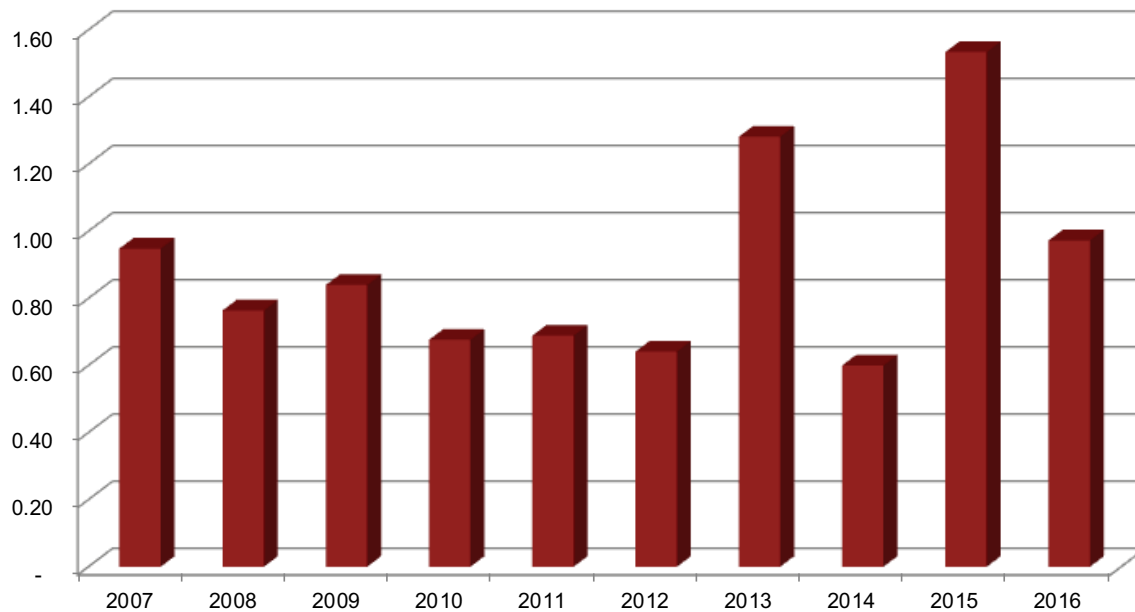
Pledged Revenue Coverage (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Gross Revenue	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2007	\$ 951,590	\$ 694,060	\$ 257,530	\$ 119,825	\$ 151,746	\$ 271,571	0.95
2008	989,275	773,362	215,913	125,890	156,716	282,606	0.76
2009	914,837	694,597	220,240	130,730	131,481	262,211	0.84
2010	1,042,843	837,459	205,384	152,144	151,390	303,534	0.68
2011	1,096,196	889,330	206,866	165,245	134,996	300,241	0.69
2012	1,045,812	864,842	180,970	174,315	107,770	282,085	0.64
2013	1,130,482	826,573	303,909	183,610	53,492	237,102	1.28
2014	973,508	798,653	174,855	175,860	115,499	291,359	0.60
2015	1,019,378	607,407	411,971	172,455	96,082	268,537	1.53
2016	1,086,650	796,591	290,059	185,815	112,345	298,160	0.97

Source: State Water Resources Development System

Debt Coverage Ratio



Demographic and Economic Information (Unaudited)

Last Ten Years

Year	Population (in thousands)	Personal Income (in millions)	Per Capita Personal Income	Unemployment Rate
2006	36,247	\$ 1,501,831	\$ 41,693	4.9%
2007	36,553	1,565,343	43,182	5.3%
2008	36,856	1,602,749	43,786	7.2%
2009	37,077	1,537,136	41,588	11.3%
2010	37,339	1,583,447	42,399	12.1%
2011	37,679	1,691,003	44,844	11.7%
2012	38,044	1,812,315	47,600	10.4%
2013	38,375	1,849,505	48,115	8.9%
2014	38,737	1,939,528	49,976	7.5%
2015	39,093	2,061,149	52,644	6.2%

1 - Source: Economic Research Unit, California Department of Finance

2 - Note: 2016 information is not available and therefore not presented

California Number of Employees By Industry (Unaudited)

	2006	2007	2008	2009	2010
Agriculture, Forestry, Fishing, Hunting	437,617	444,478	459,723	434,275	440,265
Mining	24,723	25,282	26,698	23,244	25,011
Utilities	56,978	58,276	58,575	60,288	57,175
Construction	957,256	900,386	782,432	601,982	562,922
Manufacturing	1,512,772	1,464,136	1,425,225	1,261,582	1,250,589
Wholesale Trade	706,834	719,608	705,036	636,330	647,193
Retail Trade	1,672,636	1,673,198	1,615,574	1,495,711	1,496,821
Transportation and Warehousing	425,350	434,105	432,622	396,512	397,932
Information	467,757	476,419	472,152	436,865	429,065
Finance and Insurance	641,764	607,118	563,136	528,813	509,852
Real Estate and Rental and Leasing	291,700	282,800	274,778	250,908	248,452
Services	6,077,509	6,200,250	6,232,695	5,947,240	6,063,638
Nonclassifiable Establishments (3)	29,514	56,682	73,151	72,563	44,336
Federal, State and Local Government	2,336,653	2,404,511	2,405,547	2,352,014	2,302,160
Total for all Industries	15,639,063	15,747,249	15,527,344	14,498,327	14,475,411

	2011	2012	2013	2014	2015
Agriculture, Forestry, Fishing, Hunting	449,614	463,476	463,169	467,923	471,566
Mining	27,016	28,475	27,986	29,142	25,668
Utilities	58,199	59,160	58,240	57,829	57,577
Construction	580,550	609,365	656,000	691,811	748,872
Manufacturing	1,257,097	1,264,017	1,265,860	1,283,779	1,303,651
Wholesale Trade	661,757	679,339	702,319	713,642	719,576
Retail Trade	1,522,619	1,553,812	1,587,467	1,615,557	1,645,332
Transportation and Warehousing	404,582	415,488	433,112	455,070	488,428
Information	425,193	426,056	445,121	459,781	486,838
Finance and Insurance	512,160	522,529	520,579	514,826	523,933
Real Estate and Rental and Leasing	247,476	253,154	260,584	265,335	271,617
Services	6,216,242	6,519,084	6,809,757	7,056,066	7,247,138
Nonclassifiable Establishments (3)	58,663	59,443	36,808	63,478	102,851
Federal, State and Local Government	2,276,153	2,260,320	2,276,164	2,317,813	2,388,336
Total for all Industries	14,697,321	15,113,718	15,543,166	15,992,052	16,481,383

(1) Source: California Employment Development Department

(2) The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California Economy. Due to confidentiality issues, the names of the top individual employers are not available.

(3) Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification.

(4) Note: 2016 information is not available and therefore not presented

Definitions of Terms and Source Notes: www.labormarketinfo.edd.ca.gov

Number of Employees (Unaudited)

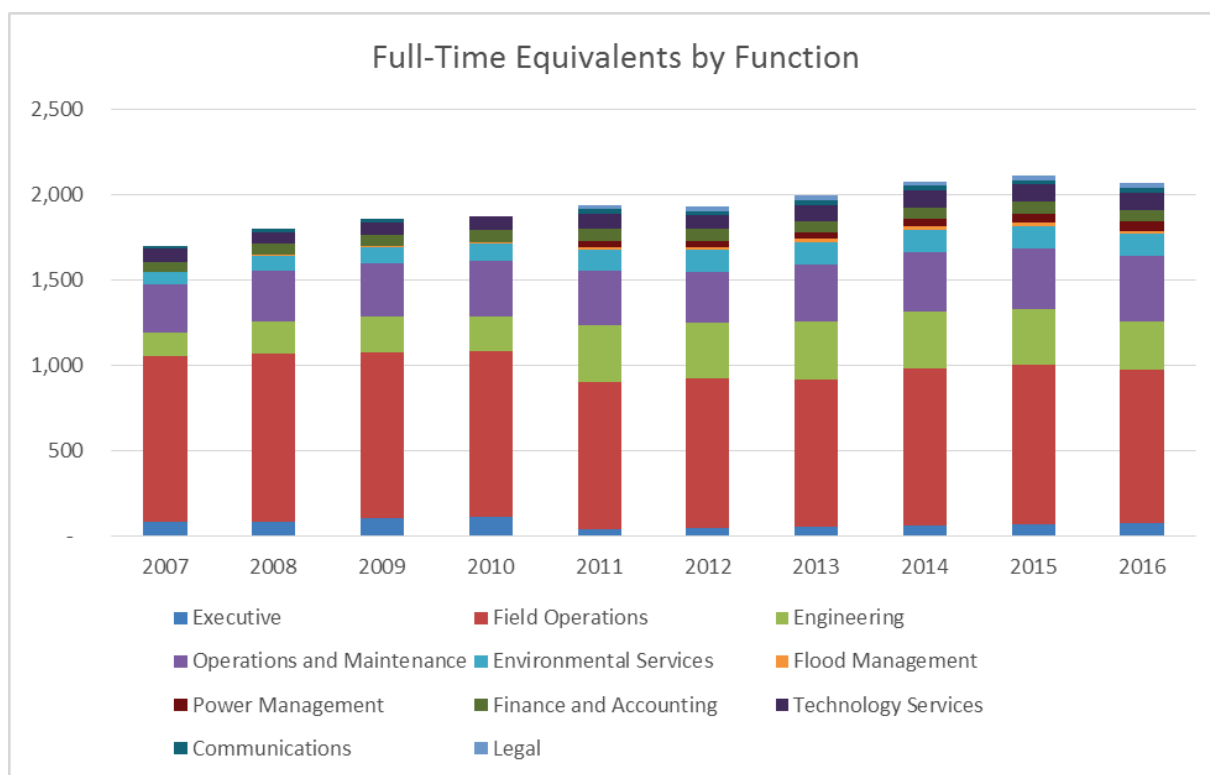
Last Ten Fiscal Years

Full-Time Equivalents

Function	Full-Time Equivalents as of June 30, ¹									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Executive	83	88	109	117	42	49	55	61	69	75
Field Operations	972	983	965	964	863	872	864	920	935	899
Engineering	140	189	210	207	330	331	338	332	326	281
Operations and Maintenance	277	293	312	321	318	294	337	346	354	386
Environmental Services	75	87	95	103	124	129	130	137	133	130
Flood Management	3	7	8	8	16	18	17	17	17	16
Power Management					38	38	35	47	52	53
Finance and Accounting	58	64	66	71	66	69	69	66	72	66
Technology Services	74	70	74	78	91	76	96	101	102	104
Communications	17	17	17		27	25	26	23	26	27
Legal					25	28	27	27	29	29
Grand Total	1,699	1,798	1,856	1,869	1,940	1,929	1,993	2,078	2,113	2,066

1 - Excludes Retired Annuitants; FTEs calculated using the most recently available allocation factors

Source: California Department of Water Resources



Operating and Capital Indicators (Unaudited)

Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014 ^a	2015 ^a
Water										
Water Deliveries (AF)	4,837,034	4,300,681	3,174,228	3,164,327	3,695,808	4,711,558	4,009,663	3,371,000	1,992,157	2,104,264
Percentage of Requested Water Delivered	65%	60%	35%	40%	50%	80%	65%	35%	5%	20%
Gross Area Served (Acres)	25,024,175	25,063,045	25,063,586	25,091,434	25,091,780	25,091,780	23,509,885	23,847,530	23,527,540	23,514,148
Estimated Population Served ³	25,967,312	26,041,804	26,314,962	26,216,435	21,462,843	26,324,019	26,201,400	26,267,499	26,520,624	26,876,859
Statewide Precipitation (% of Avg) ¹	136%	65%	78%	81%	108%	135%	77%	79%	56	74
Statewide Snowpack (% of Apr 1 Avg)	161%	58%	100+%	88%	n/a	165%	54%	47%	33	5
Statewide River Runoff (% of Avg) ¹	170%	53%	60%	65%	91%	146%	62%	60%	35	45
Total Storage (% of Maximum) ²	82%	50%	38%	39%	52%	85%	56%	41%	43	30
Total Miles of Aqueducts	705	705	705	705	705	705	705	705	705	705
Number of Storage Facilities	20	20	20	20	20	20	20	20	20	20
Gross Storage Capacity (AF)	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600
Number of Pumping Plants	23	23	23	23	23	23	23	23	23	23
Number of Pumps	162	162	162	162	162	162	162	162	162	162
Power										
Energy Generated (Mwh)	7,056,000	5,577,000	3,541,000	3,650,000	3,920,000	4,846,000	4,198,000	3,068,539	1,132,659	1,274,706
Energy Purchased (Mwh)	5,811,000	6,642,000	4,603,000	3,970,000	5,081,000	4,895,000	3,741,000	3,604,135	1,691,424	2,780,643
Energy Sold (Mwh)	3,709,000	2,446,000	2,399,000	1,530,000	1,814,000	1,192,000	533,000	936,975	33,000	566,891
Net Power Consumption (Mwh)	9,158,000	9,773,000	5,745,000	6,090,000	7,187,000	8,549,000	7,406,000	5,735,699	2,791,083	3,488,458
Number of Power Plants	10	10	10	10	10	10	10	10	9	9
Number of Power Generating Units	37	37	37	37	37	37	37	37	36	36

Note: Unless otherwise noted, amounts are reported on a calendar year basis.

Source: State Water Project Analysis Office Annual Bulletin 132

1 - Measured in Water Years, which run from October of the prior year to September of the reported year

2 - Measured at the end of the Water Year

3 - Contains duplicate values. Some areas that are in two or more Contractor areas are included in each Contractor's total.

a - Amounts for these years are preliminary and subject to change

Legend

AF- Acre Feet

Mwh- Megawatt Hours

Capital Assets, Net (in thousands) (Unaudited)

	Last Ten Fiscal Years				
	2007	2008	2009	2010	2011
Nondepreciable Utility Plant					
Land	\$ 137,353	\$ 137,353	\$ 138,156	\$ 136,129	\$ 136,129
Construction work in progress	253,152	365,297	461,208	400,229	366,975
Land use rights	-	-	10,925	10,925	11,005
Other intangible assets	-	-	80,659	81,976	81,976
Total Nondepreciable Utility Plant	390,504	502,649	690,948	629,259	596,085
Depreciable Utility Plant					
Aqueducts	1,949,071	1,949,071	1,949,071	2,029,898	2,057,437
Dams & reservoirs	765,246	765,246	765,246	765,246	781,110
Power plants	845,977	845,977	845,977	909,904	910,100
Pumping plants	784,247	784,247	784,247	784,247	787,008
Environmental preservation and mitigation	67,797	67,797	67,797	67,797	67,797
Fish protection	33,934	33,934	33,934	33,934	33,934
Facilities	-	-	-	-	64,810
Equipment	55,427	58,246	62,487	65,580	67,996
Computer software	-	-	23,629	23,629	23,629
Land use rights	-	-	-	-	-
Other intangible assets	-	-	-	-	-
General	-	-	-	-	5,964
Total Depreciable Utility Plant	4,501,699	4,504,517	4,532,388	4,680,235	4,799,785
Less Accumulated Depreciation/Amortization	(1,854,541)	(1,932,412)	(2,015,610)	(2,094,306)	(2,194,406)
Total Utility Plant, Net	\$ 3,037,662	\$ 3,074,755	\$ 3,207,726	\$ 3,215,188	\$ 3,201,464

Source: State Water Resources Development System

Capital Assets, Net (in thousands) (Unaudited)

	Last Ten Fiscal Years				
	2012	2013	2014	2015	2016
Nondepreciable Utility Plant					
Land	\$ 136,129	\$ 136,797	\$ 137,033	\$ 141,874	\$ 147,681
Construction work in progress	408,072	528,836	438,244	611,900	769,871
Land use rights	11,250	11,549	11,583	11,630	11,760
Other intangible assets	88,930	100,064	103,740	103,445	100,123
Total Nondepreciable Utility Plant	644,381	777,246	690,600	868,849	1,029,435
Depreciable Utility Plant					
Aqueducts	2,064,208	2,071,255	2,167,237	2,169,352	2,171,981
Dams & reservoirs	781,202	781,408	781,408	708,303	708,303
Power plants	906,554	911,703	466,358	441,202	470,818
Pumping plants	829,344	836,655	836,814	826,704	838,880
Environmental preservation and mitigation	67,797	67,797	67,797	67,797	67,797
Fish protection	33,934	33,934	33,934	33,934	35,544
Facilities	65,820	66,230	246,397	254,741	271,965
Equipment	70,593	71,819	75,705	77,384	79,229
Computer software	24,162	24,501	24,529	24,531	24,717
Land use rights	272	272	272	272	272
Other intangible assets	-	11,995	11,995	12,005	12,005
General	6,491	39,579	61,310	62,262	73,053
Total Depreciable Utility Plant	4,850,377	4,917,148	4,773,756	4,678,487	4,754,564
Less Accumulated Depreciation/Amortization	(2,281,806)	(2,366,429)	(1,994,695)	(2,014,654)	(2,084,676)
Total Utility Plant, Net	\$ 3,212,952	\$ 3,327,965	\$ 3,469,661	\$ 3,532,682	\$ 3,699,323

Source: State Water Resources Development System



Edmund G. Brown Jr.
Governor,
State of California

John Laird
Secretary of Resources,
Natural Resources Agency

Mark Cowin
Director,
Department of Water Resources



APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

General Authority

The Bonds are authorized by the provisions of the CVP Act. The Department's authority to issue bonds under the CVP Act was confirmed by a decision of the Supreme Court of California in *Warne v. Harkness*, 60 Cal.2d 579 (1963). The CVP Act and such decision authorize the Department to pledge revenues for the security of CVP Act bonds, free and clear of the pledge of revenues of the State Water Project to the general obligation bonds of the State issued pursuant to the Burns-Porter Act. Under the CVP Act the payment of bond debt service has priority over the payment of operating expenses.

Issuance of Bonds

Additional Bonds may be issued on a parity with outstanding Bonds and secured by an equal lien on the Revenues, to finance or refinance the costs of construction or acquisition of facilities for water conservation or transportation, including facilities to generate or transmit electric power, for the State Water Project ("Water System Projects"), the costs of study or planning of any potential Water System Project ("Project Planning Costs"), and to make deposits to the Debt Service Reserve Account. The issuance of additional Bonds is authorized by the adoption of a supplemental resolution and is subject to certain requirements, including the following:

General Requirements for Additional Bonds. In order to issue a series of additional Bonds, the Department must certify that (a) after the issuance of such series, estimated Revenues in each year will not be less than the sum of 1.25 times debt service to be paid from the Revenue Fund plus estimated Water System Operating Expenses and (b) the Debt Service Reserve Account is projected to contain on the first interest payment date on which interest for such series is payable from Revenues, an amount equal to, for any date of calculation, for all series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation. In addition, the Treasurer must have received evidence that the issuance of the additional Bonds will not result in the lowering of any rating then assigned to any then outstanding Bonds by any nationally recognized rating agency.

Additional Requirements for New Money Bonds. In order to issue a series of Bonds for new money purposes, the Department must (in addition to the foregoing general requirements) also certify that the Water System Project for which such series is being issued can be beneficially used by the Department to assist in the conservation or transportation of water under Water Supply Contracts, that the Water System Project is technically and economically feasible and that moneys, if any, for Project Planning Costs are then required (including an estimate of the amount of moneys required for Project Planning Costs).

Disposition of Revenues

Revenues as defined under the Resolution include:

(a) moneys to be received under the Water Supply Contracts resulting from the construction, acquisition or operation of Water System Projects (but only in the amounts required to meet the rate covenant of the Resolution);

(b) moneys received from any other legally available source that the Department in its discretion determines to be Revenues and so designates in a certificate filed with the Treasurer; and

(c) income from the investment of moneys held in the Revenue Fund pursuant to the Resolution.

Revenues do not include any other income or receipts resulting from the construction, acquisition or operation of a Water System Project other than the income and receipts specified in the immediately preceding clauses (a), (b) and (c).

The Resolution requires the State Controller to establish and maintain the following accounts in the Revenue Fund: the Interest Account, the Principal Retirement Account, the Operating Account, the Debt Service Reserve Account, and the Surplus Account. The State Controller is to allocate to the Operating Account during each Year an amount equal to the amount previously estimated by the Department to be required in such Year for Water System Operating Expenses.

The Resolution requires the State Controller to allocate all Revenues, when received, to these accounts. The allocation is required to be in the following priority: Interest Account, Principal Retirement Account, Operating Account, Debt Service Reserve Account and Surplus Account. The State Controller is to allocate to the Interest Account on or before each interest payment date an amount equal to the interest due on such interest payment date (less amounts then in the Interest Account or the Construction Fund available to pay such interest). The State Controller is to allocate to the Principal Retirement Account on or before each maturity date and sinking fund installment date the sum of (a) the principal amount of any serial Bonds becoming due on such date, plus (b) any sinking fund installments that become due on such date. The State Controller is to maintain separate subaccounts in the Principal Retirement Account for the serial Bonds of each series and for the sinking fund installments of each series of Bonds.

Moneys in the Surplus Account may be applied to any lawful purpose, including transfer to funds not subject to the lien of the Resolution.

Debt Service Reserve Account

A Debt Service Reserve Account is required to be maintained in the State Treasury. On the issuance of each series of Bonds, provision must be made for placing moneys in the Debt Service Reserve Account so that on the first interest payment date when interest on the Bonds of that series is to be paid from Revenues, the Debt Service Reserve Account will contain an amount at least equal to, for any date of calculation, for all series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation (the "Reserve Account Requirement"). Revenues will be allocated to the Debt Service Reserve Account to the extent necessary, under the priority described under "Disposition of Revenues," so that the amount in the Debt Service Reserve Account will be at least equal to such amount.

The Department, at its option and notwithstanding any contrary provision in the Resolution, may withdraw, in whole or in part, amounts required to be held in the Debt Service Reserve Account upon the deposit of a Reserve Fund Instrument with the Treasurer, as trustee, in a stated amount equal to the amounts so withdrawn. Upon request of the Department or as may be provided in a supplemental resolution, Revenues deposited in the Debt Service Reserve Account shall be used to reimburse draws on any Reserve Fund Instruments therein, but only to the extent that such reimbursement results in a commensurate increase in the amount of available coverage provided under the respective Reserve Fund Instrument. The amount available to be drawn under any Reserve Fund Instrument on deposit in the Debt

Service Reserve Account shall be included in calculating the amount credited to such Account. A Reserve Fund Instrument is a letter of credit, surety bond or other credit facility issued by a provider the unsecured obligations of which, at the time of initial deposit of such facility, are rated not lower than “Aa” by Moody’s and “AA” by S&P, and the deposit of which does result in a withdrawal or downgrading of any rating of the Bonds then in effect.

Moneys in the Debt Service Reserve Account are to be applied, upon the claim of the Treasurer, to make good any deficiency in the Interest Account or the Principal Retirement Account, in that priority.

Any amount in the Debt Service Reserve Account in excess of its requirement may be transferred to any legally permissible fund or account designated by the Department.

Security for Payment of Bonds

Payment of the principal and redemption price of, and interest on, the Bonds is secured by a first and direct charge and lien upon the Revenues and all moneys and securities held and accounts established (except amounts, if any, in any Rebate Account) under the Resolution, by the Department, the State Controller, the Treasurer, or the Paying Agent, subject only to the provisions of the Resolution permitting the payment or the use thereof for the purpose, in the manner, and upon the terms and conditions set forth in the Resolution.

The Department must perform and observe all the obligations and conditions required to be performed and observed by it under the Water Supply Contracts at the times, and in the manner therein prescribed. The Department must diligently enforce its rights under the Water Supply Contracts and must not agree to any amendment to the Water Supply Contracts that would materially adversely affect the security of the Bonds.

The Department must at all times use its best efforts to maintain the Revenues in each year at an amount at least equal to 1.25 times the annual debt service for such year to be paid from the Revenue Fund plus the amount required from the Revenue Fund for Water System Operating Expenses in such year, plus certain amounts required to fund initially the Debt Service Reserve Account.

Investment of Moneys Held Under the Resolution

Moneys held in all accounts other than the Debt Service Reserve Account will be invested under the laws governing the investment of moneys in the State Treasury. Moneys held in the Debt Service Reserve Account shall be invested in obligations of the United States (including trust receipts or certificates evidencing ownership of payments on such obligations), in obligations for which the faith and credit of the United States are pledged for the payment of principal and interest, in certain federal agency securities, in certain state or local government obligations secured by obligations of or guaranteed by the United States or in the Surplus Money Investment Fund operated by the Treasurer.

Certain Covenants

The covenants of the Department contained in the Resolution include the following:

Punctual Payment. The Department will pay or cause to be paid the principal or redemption price of and interest to become due in respect of all Bonds, in strict conformity with the terms of the Bonds and of the Resolution, and it will faithfully observe and perform all of the conditions, covenants, and requirements of the Resolution and all supplemental resolutions and of the Bonds.

Covenant Against Encumbrances, Sale, or Disposition. The Department shall not create, or permit to be created, any mortgage, lien, or pledge on the Revenues equal or prior to the charge or lien of the Resolution, nor sell or otherwise dispose of all or any part of a Water System Project essential to the maintenance of the Revenues, nor enter into any lease or agreement that would materially adversely affect the rights or security of the Bondholders under the Resolution.

Tax Covenants. The Department may include in any supplemental resolution authorizing the issuance of a series of Bonds covenants designed to preserve the tax-exempt status of such series of Bonds, including covenants concerning the rebate of excess investment earnings on moneys held under the Resolution.

Events of Default; Remedies of Bondholders

The Bondholders and the Treasurer, as trustee, acting for the Bondholders shall be entitled to all of the rights and remedies provided in the CVP Act and to all of the rights and remedies otherwise provided or permitted by law.

In the event the Department shall default in the payment of principal or redemption price of any Bond, or in the payment of interest on any Bond, or in the event the Department shall not comply with any of the covenants or agreements contained in the Resolution or the Bonds and such defaults shall have continued for a period of 60 days after written notice thereof shall have been given to the Department by the Treasurer, or to the Department and the Treasurer by the holders of at least 25 percent in principal amount of the outstanding Bonds; then the Treasurer or the holders of at least a majority in principal amount of the outstanding Bonds shall be entitled to declare the principal of all of the outstanding Bonds, and the interest accrued thereon, to be due and payable immediately.

Under any default or other occurrence creating a right in the Treasurer to represent the holders of Bonds, the Treasurer may take such action as he or she may deem appropriate, and shall take such action as shall be specified in a written request of the holders of at least 25 percent in principal amount of the outstanding Bonds and upon the furnishing to the Treasurer of indemnity satisfactory to him or her.

Amendment of the Resolution

The Resolution and the rights and obligations of the Department and the Bondholders may be changed at any time by a supplemental resolution when approved by the holders of 60 percent of the principal amount of the Bonds then outstanding and affected by such change at a meeting of the Bondholders or by the written consent of the Bondholders. Any such consent shall be binding upon the Bondholder giving such consent and on any subsequent Bondholder (whether or not such subsequent Bondholder has notice thereof) unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Bondholder by filing such revocation with the Treasurer prior to the date the Department mails notice that the consents of the holders of the requisite percentage of Bonds have been obtained.

No change shall be made, without the consent of all Bondholders, (a) in the principal amount or the redemption price of any Bond, the rate of interest thereon, the maturity of the principal thereof or of any installment of interest thereon or (b) in the percentage of the principal amount of Bonds the vote or consent of the holders of which is required to effect any change.

A change may also be made at any time by supplemental resolution, without the consent of any Bondholders, for any one or more of the following:

(a) To add to the covenants of the Department, other covenants, or to surrender any right reserved to the Department;

To cure any ambiguity, defect or inconsistent provision in the Resolution or to make provisions in regard to questions arising under the Resolution as the Department deems necessary and not inconsistent with the Resolution, and which shall not materially adversely affect the interests of the Bondholders;

To provide for the issuance of an additional series of Bonds;

To provide for the issuance of Bonds in coupon form rather than or in addition to registered form. No such change may be materially adverse to the interests of the holders of outstanding Bonds; or

To add such provisions as may be necessary to accommodate such banking, insurance, remarketing and other financial arrangements as may be necessary or desirable to provide additional security for the payment of principal and interest on any one or more series of Bonds or to provide the holders of any one or more series of Bonds the right to tender such Bonds to the Department or to another party for purchase at the times, on the notice and on such other terms as the Department may determine. These arrangements may provide for the reimbursement by the Department, with interest, of moneys advanced by the provider of additional security, the provider of a tender right, the provider of moneys to fund a tender right or anyone performing a related function from the sources available for the payment of Bonds. No such change may be materially adverse to the interests of the holders of outstanding Bonds.

Discharge of Obligations Under the Resolution

The obligations of the Department and the pledge, lien, covenants and agreements of the Department made or provided for in the Resolution will be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder, when payments of the principal of and the applicable redemption price, if any, on such Bond, plus interest thereon to the due date thereof, (i) has been made or caused to be made in accordance with the terms thereof or (ii) has been provided for by depositing with the Treasurer in trust for such payment (a) moneys sufficient to make such payments or (b) specified governmental obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and, except for the purposes of such payment, such Bond will no longer be secured by or entitled to the benefits of the Resolution; provided that, with respect to Bonds that are to be redeemed or otherwise prepaid prior to the stated maturities thereof, no such deposit will constitute such discharge and satisfaction unless such Bonds have been called or designated for redemption or prepayment in accordance with the provisions thereof and notice of such redemption or prepayment has been given or irrevocable provision has been made for the giving of such notice.

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APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE

The Department has executed a Continuing Disclosure Certificate, dated September 27, 2012, and will execute a Supplemental Continuing Disclosure Certificate with respect to the Series AX and AY Bonds at the time of delivery of the Series AX and AY Bonds whereby the terms of the Continuing Disclosure Certificate will be made applicable to such Bonds (the Continuing Disclosure Certificate, as supplemented being referred to as the “Disclosure Certificate”). The following is a summary of the provisions of the Disclosure Certificate. Such summary is qualified by reference to the complete Disclosure Certificate, which is available from the Department.

Definitions

“Annual Report” shall mean the Annual Report filed by the Department as described below under the heading “Annual Reports.”

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds to which the Disclosure Certificate is applicable (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean any Dissemination Agent designated in writing by the Department.

“Listed Event” shall mean any of the events listed under the heading “Reporting of Significant Events.”

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Obligated Person” shall mean any person, including the Department, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the Bonds to which the Disclosure Certificate is applicable (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

“Official Statement” shall mean the respective Official Statements related to the Bonds to which the Disclosure Certificate is applicable.

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

“SEC” means the Securities Exchange Commission.

“State” shall mean the State of California.

Annual Reports

The Department shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the Department's fiscal year (which fiscal year as of the date of the Disclosure Certificate ends June 30), provide an Annual Report consistent with the requirements of the Disclosure Certificate to the MSRB in such form as is required by the MSRB; provided that the audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

If in any year the Department does not provide, or cause the Dissemination Agent to provide, the Annual Report to the MSRB by the date required under the Disclosure Certificate, the Department shall file notice with the MSRB stating that the Annual Report has not been filed, and if known, the date by which the Department expects to file, or cause to be filed, the Annual Report.

The Department's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to the Disclosure Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. An update of the following information contained in the Official Statement:

- a. The amount on deposit in the Debt Service Reserve Account.
- b. The information under the heading "THE DEPARTMENT – Investments of Department Moneys."
- c. The information relating to the prior year's water deliveries under the heading "STATE WATER PROJECT WATER SUPPLY– Annual Water Deliveries."
- d. The information relating to the current year's water requests under the heading "STATE WATER PROJECT WATER SUPPLY– Annual Water Deliveries."
- e. The information relating to sources of power for the prior year in the table under the heading "POWER OPERATIONS OF THE STATE WATER PROJECT – Historical Sources of Power for State Water Project Operations."
- f. The information relating to water deliveries for the prior year in the table under the heading "THE CONTRACTORS – Water Deliveries and Contractor Payments – Historical Deliveries of Water From the State Water Project to the Contractors."
- g. The information relating to payments for the prior year in the table under the heading "THE CONTRACTORS – Water Deliveries and Contractor Payments – Historical Deliveries of Water From the State Water Project to the Contractors."

- h. The information relating to the Contractors in APPENDIX A for any Contractor whose payments are expected to be five percent (5%) or more of Revenues attributable to the bonds outstanding under the Resolution.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Department is an “obligated person” (as defined by the Rule), which have been filed with the MSRB or the SEC. If the document included by reference is a final Official Statement, it must be available from the MSRB. The Department shall clearly identify each such other document so included by reference.

Reporting of Significant Events

(a) Pursuant to the provisions of the Disclosure Certificate, the Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Outstanding Bonds to which the Disclosure Certificate is applicable:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on the debt service reserves reflecting financial difficulties;
4. unscheduled draws on the credit enhancements reflecting financial difficulties;
5. substitution of the credit or liquidity providers or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds to which the Disclosure Certificate is applicable;
7. modifications to rights of Bondholders, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership, or similar event of the Department;
13. the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of an Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. the appointment of a successor or additional trustee, or the change in the name of a trustee, if material.

Whenever the Department obtains knowledge of the occurrence of a Listed Event, the Department shall as soon as possible, if such Listed Event requires such a determination as set forth in the preceding clause (a), determine if such event would be material under applicable federal securities laws.

The Department shall promptly file a notice electronically to the MSRB in a timely manner, but not in excess of 10 Business Days after the occurrence of a Listed Event, subject to a determination of its materiality, as applicable. Reference is made to the Rule for a discussion of when the Listed Event enumerated in subsection (a)(12) is deemed to have “occurred.”

Termination of Reporting Obligation

The Department’s obligations under the Disclosure Certificate shall terminate upon the legal defeasance (or in the event a portion of the Bonds is legally defeased, with respect to such defeased Bonds), prior redemption or payment in full of all of the Bonds. If the Department’s obligations under the Resolution are assumed in full by some other entity, such person shall be responsible for compliance with the Disclosure Certificate in the same manner as if it were the Department and the Department shall have no further responsibility under the Disclosure Certificate. If such termination or substitution occurs prior to the final maturity of the Bonds, the Department shall give notice of such termination or substitution in the same manner as for a Listed Event.

Dissemination Agent

The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Amendment; Waiver

The Department may amend or waive any provision of the Disclosure Certificate, provided that the following conditions are satisfied:

(b) If the amendment or waiver relates to the provisions of the Disclosure Certificate dealing with the timing and content of the Annual Report or the giving of notice of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an Obligated Person with respect to the Bonds to which the Disclosure Certificate is applicable, or the type of business conducted;

The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds to which the Disclosure Certificate is applicable, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

The amendment or waiver either (i) is approved by the Bondholders of the Bonds to which the Disclosure Certificate is applicable in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners of the Bonds to which the Disclosure Certificate is applicable.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information

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

Beneficiaries

The Disclosure Certificate shall inure solely to the benefit of the Bondholders and Beneficial Owners from time to time of the Bonds to which the Disclosure Certificate is applicable, and shall create no rights in any other person or entity (except the right of the Treasurer of the State of California, as trustee for the Bonds, or any Bondholder or Beneficial Owner to enforce the provisions of the Disclosure Certificate on behalf of the Bondholders). The Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

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APPENDIX E

PROPOSED FORM OF OPINION OF ATTORNEY GENERAL

The following form of opinion is expected to be delivered with respect to the Series AX and AY Bonds on the date of issue thereof.

[Issue Date]

State of California Department of Water Resources
Sacramento, California

\$491,495,000
State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series AX and
Series AY (Federally Taxable)

Ladies and Gentlemen:

We have acted as the Attorney General of the State of California in connection with the issuance by the State of California Department of Water Resources (the “Department”) of its Central Valley Project Water System Revenue Bonds, Series AX (the “Series AX Bonds”) in the aggregate principal amount of \$350,670,000 and Central Valley Project Water System Revenue Bonds, Series AY (Federally Taxable) (the “Series AY Bonds”) in the aggregate principal amount of \$140,825,000. The Series AX Bonds and the Series AY Bonds are issued pursuant to Part 3 of Division 6 of the Water Code of the State of California, and under a general bond resolution of the Department, adopted as of July 1, 1986, and supplemental resolutions of the Department, including the supplemental resolution authorizing the Series AX Bonds and the supplemental resolution authorizing the Series AY Bonds, each adopted as of December 6, 2017 (the general bond resolution and all resolutions supplemental thereto are herein collectively called the “Resolution”). The Series AX Bonds and the Series AY Bonds constitute the fiftieth and fifty-first series of bonds issued under the Resolution (all bonds at any time outstanding under the Resolution being herein collectively called the “Bonds”) and are issued for one or more of the purposes set forth in the Resolution. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, certifications of the Department, the Treasurer of the State of California and others as to certain factual matters, the opinion of counsel to the Department, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed, without undertaking to verify, the genuineness of all documents, certifications, opinions and signatures presented to us (whether as originals or as copies); the due and legal execution and delivery thereof by, and validity against, any parties other than the Department; the accuracy of the factual matters represented, warranted or certified in such documents, certificates and opinions; and compliance with all covenants and agreements contained in the Resolution.

Certain agreements, requirements and procedures contained or referred to in the Resolution, the Tax Certificate and other relevant documents may be changed and certain actions (including without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

This opinion is issued as of the date hereof. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof and we disclaim any obligation to update this letter. We assume no obligation to update, revise or supplement this opinion to reflect any such action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may arise or occur, or for any other reason. We call attention to the fact that the rights and obligations under the Series AX Bonds and the Series AY Bonds and the Resolution and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum, choice of venue or waiver or severability provisions contained in the foregoing documents. Finally, we express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information that has been or will be supplied to the purchasers of the Series AX Bonds and the Series AY Bonds and we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated December 6, 2017, or other offering material relating to the Series AX Bonds and the Series AY Bonds and express herein no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series AX Bonds and the Series AY Bonds constitute valid and binding limited obligations of the Department, payable only out of the Revenues and moneys and securities held, and accounts established, under the Resolution.

2. The Resolution has been duly and lawfully adopted and is a valid resolution of the Department, enforceable against the Department in accordance with the terms of the Resolution.

3. The Series AX Bonds and the Series AY Bonds are secured by a first and direct charge and lien upon the Revenues and all moneys and securities held, and accounts established, under the Resolution (except amounts held in any Rebate Account established under the Resolution), subject only to the provisions of the Resolution permitting the payment or use of such Revenues, moneys, securities and accounts for the purposes, in the manner and upon the terms and conditions set forth in the Resolution. The Series AX Bonds and the Series AY Bonds are not secured by any other property or moneys of the Department.

4. The Series AX Bonds and the Series AY Bonds do not constitute a debt, liability or obligation of the State of California or of any political subdivision thereof, or a general obligation of the Department. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, or premium, if any, or interest on the Series AX Bonds and the Series AY Bonds. The Department has no taxing power.

Sincerely,

Deputy Attorney General

For XAVIER BECERRA
Attorney General

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

The following form of opinion is expected to be delivered with respect to the Series AX and AY Bonds on the date of issue thereof.

[Issue Date]

**State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series AX and Series AY (Federally Taxable)**

(Final Opinion)

We have acted as bond counsel to the State of California Department of Water Resources in connection with the issuance by the State of California Department of Water Resources (the “Department”) of its Central Valley Project Water System Revenue Bonds, Series AX (the “Series AX Bonds”), in the aggregate principal amount of \$350,670,000 and its Central Valley Project Water System Revenue Bonds, Series AY (Federally Taxable) (the “Series AY Bonds”), in the aggregate principal amount of \$140,825,000. The Series AX and AY Bonds are issued pursuant to Part 3 of Division 6 of the Water Code of the State of California, and under a general bond resolution of the Department, adopted as of July 1, 1986, as amended, and supplemental resolutions of the Department, including the supplemental resolution authorizing the Series AX Bonds and the supplemental resolution authorizing the Series AY Bonds, each adopted as of December 6, 2017 (the general bond resolution and all resolutions supplemental thereto are herein collectively called the “Resolution”). The Series AX Bond and the Series AY Bonds constitute the fiftieth and fifty-first series of bonds issued under the Resolution (all bonds at any time outstanding under the Resolution being herein collectively called the “Bonds”) and are issued for one or more of the purposes set forth in the Resolution. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the Department dated the date hereof and executed in connection with the Series AX Bonds (the “Tax Certificate”), certifications of the Department, the Treasurer of the State of California and others as to certain factual matters and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Department. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in this paragraph.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters and we disclaim any obligation to update this letter. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and, with respect to the Series AX Bonds in the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause

interest on the Series AX Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series AX Bonds and the Series AY Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated December 6, 2017, or other offering material relating to the Series AW Bonds and express herein no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. Each of the Series AX Bonds and the Series AY Bonds constitute valid and binding limited obligations of the Department, payable only out of the Revenues and moneys and securities held, and accounts established, under the Resolution.

2. The Resolution has been duly and lawfully adopted, is a valid resolution of the Department and is binding upon the Department in accordance with the terms of the Resolution.

3. Each of the Series AX Bonds and the Series AY Bonds are secured by a first and direct charge and lien upon the Revenues and all moneys and securities held, and accounts established, under the Resolution (except amounts held in any rebate account established under the Resolution), subject only to the provisions of the Resolution permitting the payment or use of such Revenues, moneys, securities and accounts for the purposes, in the manner and upon the terms and conditions set forth in the Resolution. Each of the Series AX Bonds and the Series AY Bonds are not secured by any other property or moneys of the Department.

4. Neither the principal of nor the interest on the Series AX Bonds and the Series AY Bonds constitutes a debt, liability or obligation of the State of California or, except as expressly provided in the Resolution, of the Department.

5. Interest on the Series AX Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and interest on the Series AX Bonds and the Series AY Bonds is exempt from State of California personal income taxes. Interest on the Series AX Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series AX Bonds and the Series AY Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

DTC AND BOOK-ENTRY

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series AX and AY Bonds. Each series of the Series AX Bonds and the Series AY Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series AX Bond and Series AY Bond certificate will be issued for each maturity of Series AX Bonds and Series AY Bonds, respectively, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

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

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

To facilitate subsequent transfers, all Series AX and AY Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series AX and AY Bonds with

DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series AX and AY Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series AX and AY Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series AX Bonds and Series AY Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series AX and AY Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series AX and AY Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Series AX Bonds and/or the Series AY Bonds at any time by giving reasonable notice to the Department or the State Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Series AX Bonds and Series AY Bond certificates, as applicable, are required to be printed and delivered.

The Department and the State Treasurer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series AX and AY Bond certificates will be printed and delivered to DTC.

The information preceding this paragraph in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Department and the State Treasurer believe to be reliable, but the Department and the State Treasurer take no responsibility for the accuracy thereof.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES AX AND AY BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES AX AND AY BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The Department and the State Treasurer cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Department nor the State Treasurer is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series AX and AY Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Series AX and AY Bonds, payment of principal of and interest and other payments with respect to the Series AX and AY Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES AX BONDS OR THE SERIES AY BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE HOLDERS OF SUCH SERIES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES AX BONDS AND SERIES AY BONDS. AS APPLICABLE.

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APPENDIX H

LETTERS FROM CERTAIN UNDERWRITERS

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Backstrom McCarley Berry & Co., LLC

November 22, 2017

Mr. Blake Fowler
State Treasurer's Office
915 Capitol Mall
Public Finance Division
Sacramento, CA 95814

Re: Distribution Agreement
State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds, Series AX and Series AY (Federally Taxable)

Dear Mr. Fowler,

Backstrom McCarley Berry & Co., LLC ("**BMcB**") has entered into separate distribution agreements (each a "**Distribution Agreement**") with TD Ameritrade ("**Ameritrade**") and Hilltop Securities ("**Hilltop**") that enables each distributor to distribute certain new issue municipal securities underwritten by or allocated to BMcB, which could include the 2017 Bonds. Under these Distribution Agreements, BMcB may share with, Ameritrade and Hilltop a portion of the fee or commission paid to BMcB.

A handwritten signature in black ink that reads "Don Backstrom". The signature is written in a cursive, flowing style.

Don Backstrom
Managing Director & Principal
Co-Manager

CC: Vinay Behl, CA Department of Water Resources
Melissa Warr, Orrick, Herrington & Sutcliffe LLP



A Service Disabled Veteran Business Enterprise
MEMBERS FINRA, MSRB & SIPC



November 27, 2017

Mr. Blake Fowler
Director
Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

Re: State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series AX and Series AY (Federally Taxable)

Mischler Financial Group, Inc. (“Mischler”), one of the underwriters of the above referenced bonds (the “Bonds”), has entered into separate distribution agreements (each a “Distribution Agreement”) with Herbert J. Sims & Co., Inc. (“HJS”), Higgins Capital Management, Inc. (“Higgins”), IFS Securities Inc. (“IFS”), Newbridge Securities Corporation (“NSC”), Rockfleet Financial Services, Inc. (“RFS”), R. Seelaus & Co., Inc. (“RSC”), TD Ameritrade (“TDA”) and World First Financial Services, Inc. (“WFFS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, HJS, Higgins, IFS, NSC, RFS, RSC, TDA and WFFS may purchase Bonds from Mischler at the original issue prices less a negotiated portion of the takedown applicable to any Bonds such firm sells.

Sincerely,

Mischler Financial Group, Inc.

Cc: Vinay Behl – Department of Water Resources

Main Trading Desk Tel: 800.993.3553 | 949.720.0640 | FAX: 949.720.0229

Capital Markets Desk Tel: 203.276.6646

Corporate Headquarters: 1111 Bayside Drive | Corona del Mar, California 92625

www.mischlerfinancial.com

Corona del Mar | Stamford, CT | Oahu, HI | Chicago, IL | Boston, MA | Detroit, MI | Las Vegas, NV | Red Bank, NJ | New York, NY | Dallas, TX | Seattle, WA

November 27, 2017

Mr. Blake Fowler
Director of Public Finance
Office of the Treasurer of the State of California
Public Finance Division
915 Capital Mall, Room 261
Sacramento, CA 95814

**RE: STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES
CENTRAL VALLEY PROJECT WATER SYSTEM REVENUE BONDS,
SERIES AX & SERIES AY (FEDERALLY TAXABLE)**

Dear Mr. Fowler,

Piper Jaffray & Co. (“Piper Jaffray”) is providing the following language for inclusion in the Official Statement.

Piper Jaffray and UnionBanc Investment Securities LLC (“UnionBanc”) entered into an agreement (the “Agreement”) which enables UnionBanc to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray, including the State of California Department of Water Resources Central Valley Project Water System Revenue Bonds, Series AX & Series AY (Federally Taxable) (the “Bonds”). Under the Agreement, Piper Jaffray will share with UnionBanc a portion of the fee or commission paid to Piper Jaffray.

Sincerely,

Piper Jaffray & Co.

cc: Vinay Behl, State of California Department of Water Resources.

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APPENDIX I

WATER SYSTEM PROJECTS

Water System Projects consist of the portion of certain State Water Project facilities financed or expected to be financed with Bonds. The Water System Projects are described below. In each case, sources other than Bond Proceeds may have been used to pay certain costs of the facility, particularly those costs allocable to purposes other than water conservation and water transportation.

Capital Expenditures for Water System Projects

The following table summarizes the capital costs financed by Bonds for the Water System Projects described below, and sets forth the capital costs expected to be financed for such projects from the issuance of additional Bonds as of October 31, 2017.

**ESTIMATED CAPITAL FINANCING FROM
WATER SYSTEM REVENUE BONDS FOR EXISTING WATER SYSTEM PROJECTS
(in Millions)**

Water System Project	Capital Expenditures Series A through AY	Estimated Future Capital Expenditures ⁽¹⁾	Total Capital Expenditures ⁽⁵⁾
Power plants:			
Small Hydro Project	\$ 46.6	\$ 0.0	\$ 46.6
Pyramid Hydroelectric Project	74.4	0.0	74.4
Alamo Project	30.4	0.0	30.4
Bottle Rock Facilities ⁽²⁾	80.2	0.0	80.2
South Geysers Project ⁽³⁾	40.9	0.0	40.9
Reid Gardner Project ⁽⁴⁾	176.2	0.0	176.2
East Branch Enlargement – Phase I	453.0	0.0	453.0
Additional East Branch Improvements	124.1	0.0	124.1
East Branch Enlargement – Phase II	7.9	0.2	8.1
Delta Pumping Plant Completion	73.6	0.0	73.6
Suisun Marsh Environmental Facilities	37.2	0.0	37.2
San Bernardino Tunnel Intake Structure	29.3	0.0	29.3
San Luis Rock Quarry	4.5	0.0	4.5
Castle Rock–Lakeville Transmission Line	6.9	0.0	6.9
Midway-Wheeler Ridge Transmission Line	10.1	0.0	10.1
Kern Water Bank	37.0	0.0	37.0
Vista del Lago Visitor Center	9.0	0.0	9.0
North Bay Aqueduct–Phase II	87.1	0.0	87.1
North Bay Aqueduct Improvements – Terminal Tanks	7.4	6.1 ⁽⁶⁾	13.5
North Bay Aqueduct Alternate Intake	0.0	545.0	545.0
Project Monitor and Control System	71.5	0.0	71.5
SWP Communications System Replacement ⁽⁵⁾	35.4	0.9	36.4
Arroyo Pasajero Program	5.0	0.0	5.0
Hyatt Pump-Turbine Refurbishment	17.9	4.6 ⁽⁶⁾	22.5
Edmonston Pump Replacement ⁽⁵⁾	24.2	14.9 ⁽⁶⁾	39.1
Delta Facilities Program	270.2	372.9	643.1
Tehachapi East Afterbay ⁽⁵⁾	69.1	12.9	82.0
Perris Dam Remediation ⁽⁵⁾	116.2	97.2	213.5
Thermalito Powerplant Cleanup and Reconstruction ⁽⁷⁾	52.4	74.1	233.1
FERC Relicensing – State Water Project ⁽⁷⁾	18.0	82.0	100.0
Facilities Reconstruction and Improvement Project	486.8	510.0	996.8
Project Planning Costs	112.8	36.2	149.0
Coastal Branch – Phase II	491.3	0.0	491.3
East Branch Extension – Phase I	126.0	0.0	126.0
East Branch Extension – Phase I Improvements ⁽⁵⁾	40.5	0.8 ⁽⁶⁾	41.2
East Branch Extension – Phase II ⁽⁵⁾	254.4	2.3	256.7
South Bay Aqueduct Enlargement and Improvement ⁽⁵⁾	267.2	1.6	268.7
Total Water System Projects ⁽⁸⁾	\$3,901.3	\$1,761.6	\$5,662.9

⁽¹⁾ The projections contained in this table have been prepared by the Department's management for management purposes on the basis of certain assumptions, and consistent with certain requirements of the Water Supply Contracts. The projections are the responsibility of the Department. CliftonLarsonAllen LLP (as successor to GALLINA LLP) has neither examined nor compiled such projections and, accordingly, CliftonLarsonAllen LLP does not express an opinion or provide any other form of assurance with respect thereto. The audit report included in APPENDIX B of this Official Statement relates to the State Water Project's historical financial information. The report does not extend to the projections set forth above and should not be read to do so. These projections were not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

⁽²⁾ Sold by the Department in 2001. (See "WATER SYSTEM PROJECTS – Project Descriptions – *Bottle Rock Facilities*.")

⁽³⁾ Sold by the Department in 2004. (See "WATER SYSTEM PROJECTS – Project Descriptions – *South Geysers Project*.")

⁽⁴⁾ The Department's ownership interest terminated in 2013. (See "WATER SYSTEM PROJECTS – Project Descriptions – *Reid Gardner Project*.")

- (5) The original Bond Anticipation Bonds (“BABs”) for East Branch Extension – Phase I Improvements and East Branch Extension – Phase II exceeded the projected expenditures. \$44.5 million of the proceeds of the Series AE refunding of the BABs was redistributed from East Branch Extension – Phase I Improvements and East Branch Extension – Phase II to Communications System Replacement, Edmonston Pump Replacement, Tehachapi East Afterbay, Perris Dam Remediation, and South Bay Aqueduct Enlargement.
- (6) Projects are completed. Amounts are treated as “Estimated Future Capital Expenditures” pending reallocation.
- (7) These projects are each a project authorized under the Resolution as part of the Facilities Reconstruction and Improvement Project, the Department has decided to show these projects individually due to the estimated aggregate principal amount.
- (8) Totals may not sum due to rounding.

The Department may issue additional Bonds in amounts substantially greater than the amounts described in this subsection of APPENDIX I to finance capital costs allocated to existing Water System Projects or to Water System Projects defined by supplemental resolutions to be adopted in the future. (See “SECURITY FOR THE BONDS – Outstanding Bonds: Additional Bonds” and “STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Bay Delta Conservation Plan/California WaterFix*”.)

Project Descriptions

The following Water System Projects have been completed:

Small Hydro Project. The Small Hydro Project consists of two small hydroelectric power plants, the three 11 megawatt units of Mojave Siphon Powerplant and the 3 megawatt Thermalito Diversion Dam Powerplant. The Mojave Siphon Powerplant is located at the downstream end of the Mojave Siphon of the California Aqueduct, at Silverwood Lake, ten miles north of the City of San Bernardino. The Thermalito Diversion Dam Powerplant is located at the left abutment of the Thermalito Diversion Dam on the Feather River one mile north of the City of Oroville.

Pyramid Hydroelectric Project. The Pyramid Hydroelectric Project consists of a portion of the first stage of the William E. Warne Powerplant, formerly known as the Pyramid Powerplant, designated by the Department for electric power generation and transmission, and conveyance facilities between the 75 megawatt William E. Warne Powerplant and Quail Lake, including Lower Quail Canal and the first stage of Peace Valley Pipeline. These facilities are on the West Branch of the California Aqueduct in the vicinity of the town of Gorman in Los Angeles County.

Alamo Project. The Alamo Project consists of the portion of the 17 megawatt Unit 1 of the Alamo Powerplant located on the East Branch of the California Aqueduct, approximately one mile below the Tehachapi Afterbay.

Bottle Rock Facilities. The Bottle Rock Facilities are located in Lake County, California, about 70 miles north of San Francisco. The Bottle Rock Facilities consist of a geothermal power plant with a 55 megawatt turbine-generator unit, associated electrical, mechanical and control facilities, a heat dissipation system, and a 1.1 mile transmission line. The Department suspended operation of and mothballed the power plant in 1990 because of the lack of an adequate geothermal steam supply and sold the power plant in 2001 for \$1.8 million.

South Geysers Project. The South Geysers Project is located in Sonoma County, California, about 70 miles north of San Francisco. The South Geysers Project design included a geothermal generating station with a 55 megawatt turbine-generator unit, associated electrical, mechanical and control facilities, a heat dissipation system, and a 1.8-mile transmission line. The Department suspended construction of the South Geysers Project because of the lack of an adequate geothermal steam supply. In 1990, the Department sold the major equipment components for \$5.5 million and in 2004, the Department sold the plant building and the surrounding property for \$755,000.

Reid Gardner Project. The Reid Gardner Power Plant (“RGPP”), located near Moapa, Nevada, is operated by NV Energy (“NVE”) and consists of four coal-powered generators- Units 1 through 4. The Reid Gardner Project consisted of the Department’s ownership interest in Unit 4 of the RGPP. Prior to termination of the Department’s ownership interest in Unit 4 in 2013, capital ownership of Unit 4 was shared between the Department and NVE at 67.8 percent and 32.2 percent, respectively. The Department also had a 29.2 percent share of the RGPP facilities necessary for and common to all four units. The Participation Agreement between the Department and NVE terminated in 2013. In October 2013, NVE paid the Department approximately \$47.6 million for the Department’s share of undepreciated capital improvement costs of Unit 4 as required after termination of the Participation Agreement.

The Department anticipates having a continuing obligation for a yet to be determined share of environmental remediation costs related to past soil and groundwater contamination at the site. (See “POWER OPERATIONS OF THE STATE WATER PROJECT – Reid Gardner Termination, Groundwater Contamination Cleanup and Environmental Lawsuit.”)

East Branch Enlargement – Phase I. The East Branch of the California Aqueduct transports water from the aqueduct bifurcation downstream of the A. D. Edmonston Pumping Plant located about 10 miles east of the town of Gorman, across the Antelope Valley and the Mojave Desert, through the San Bernardino Mountains and the cities of San Bernardino and Riverside, to Lake Perris located about 14 miles south of Riverside. The existing facilities along the East Branch include 93 miles of canal, 6.7 miles of inverted siphons, Alamo Powerplant Unit 1, Pearblossom Pumping Plant, Silverwood Lake, San Bernardino Tunnel, Devil Canyon Powerplant Units 1 and 2, Santa Ana Valley Pipeline, and Lake Perris. In 1986, Metropolitan Water District of Southern California and many of the other East Branch contractors agreed to have the Department enlarge the East Branch to an ultimate capacity of 3,149 cubic feet per second at the Alamo Powerplant/Cottonwood Chute Bypass and 2,876 cubic feet per second at Pearblossom Pumping Plant. The Department and the Contractors agreed that the enlargement of the East Branch would be done in two phases, each providing approximately half (750 cubic feet per second) of the planned capacity increase based on a 1,500 cubic feet per second enlargement. This work included an increase to the height of the canal lining, additional siphon conduits, additional pumps at the Pearblossom Pumping Plant, portions of Units 2 and 3 at the Mojave Siphon Powerplant, Units 3 and 4 at the Devil Canyon Powerplant. Construction of Phase I was completed in 1996.

Additional East Branch Improvements. Several additional improvements to the East Branch were constructed concurrently with Phase I of the enlargement. The improvements were needed to bring the existing East Branch up to its originally intended design capacity and to improve the reliability of the system. The major improvements include a portion of a four-foot increase in the height of the canal lining between the Alamo Powerplant and the Pearblossom Pumping Plant, and the addition of a spare pump and modification of the forebay at the Pearblossom Pumping Plant. Construction of these additional improvements was completed in 1993.

Delta Pumping Plant Completion. This project includes the Harvey O. Banks Delta Pumping Plant and the John E. Skinner Delta Fish Protective Facility. Originally the pumping plant was designed for 11 units, but only seven were installed initially. In 1986, the Department signed an agreement with DFW to mitigate or offset direct fishery losses caused by State Water Project pumping under which the Department provides funds for projects inside and outside of the Delta. With this agreement in place, the Department has completed the Delta pumping plant by installing an additional four pumps. The fish protective facility was also enlarged to accommodate the increased capacity. Installation of the four units and the enlargement of the fish protective facility was completed in 1992.

Suisun Marsh Environmental Facilities. The Suisun Marsh Environmental Facilities are designed to protect the quality of water in the Suisun Marsh on the west side of the Delta. These facilities are designed to mitigate the effects of the CVP, the State Water Project, and a portion of other upstream diversion projects. The work to construct these facilities was completed in 1988.

San Bernardino Tunnel Intake Structure. A new intake tower was constructed near the southeastern shore of Silverwood Lake to replace the existing tower, which did not meet current seismic standards. Construction was completed in 1997.

San Luis Rock Quarry. The Department and the Bureau have acquired 689 acres of property adjacent to San Luis Dam. The property includes a rock quarry as a source of material for repair and maintenance purposes.

Castle Rock-Lakeville Transmission Line. Jointly owned with the Pacific Gas and Electric Company (“PG&E”) and two other utilities, the 38-mile Castle-Rock-Lakeville 230 kv transmission line provides transmission from the Geysers geothermal area where the Bottle Rock and South Geysers Projects are located. The Department has sold the South Geysers Project and the Bottle Rock Project. Currently, neither project is operational. (See “WATER SYSTEM PROJECTS – Project Descriptions – *South Geysers Project*” and “– *Bottle Rock Facilities.*”)

Midway-Wheeler Ridge Transmission Line. Jointly owned with PG&E, this 608 megawatt, 230 kilovolt transmission line extends 47 miles from Midway Substation to the Wheeler Ridge Substation and serves the Buena Vista, Wind Gap and Wheeler Ridge pumping plants.

Kern Water Bank. The Kern Water Bank was the land acquisition phase of the development of a ground water recharge and extraction facility in Kern County on the alluvial fan of the Kern River. The Department acquired approximately 20,500 acres of land for the Kern Water Bank. Under the Monterey Amendment, the land and related assets of the Kern Fan Element of the Kern Water Bank have been transferred by the Department to Kern County Water Agency, which in turn transferred such land and related assets to a joint powers authority formed by Kern County Water Agency and other local water suppliers. (See “WATER SUPPLY CONTRACT RELATED LITIGATION – Monterey Amendment Litigation” for a description of certain litigation regarding the validity of the Monterey Amendment and the agreement to transfer the land and related assets of the Kern Fan Element of the Kern Water Bank). The Department will continue to charge Contractors under the Water System Revenue Bond amendment the amounts related to the Water System Revenue Bonds issued to finance the Kern Water Bank.

Vista del Lago Visitor Center. The Vista del Lago Visitor Center is located on an overlook above Pyramid Lake along Interstate 5 approximately 60 miles north of Los Angeles. The center includes educational exhibits on the importance of water supply and the development, distribution, conservation and treatment of water.

North Bay Aqueduct – Phase II. The North Bay Aqueduct – Phase II project completed the construction of the 27 mile North Bay Aqueduct from the Delta to Napa and Solano Counties at the northern edge of the San Francisco Bay. The project consists of 23 miles of pipeline and two pumping plants between Barker Slough on the Delta and the existing Phase I facilities at Cordelia. The project became operational in 1988.

North Bay Aqueduct Improvements – Terminal Tanks. The 7.2 million gallon Napa Turnout Reservoir was constructed by the Department in 1968 to deliver raw water to the Jamieson Canyon Water Treatment Plant and also served the American Canyon Water Treatment Plant. The Department replaced the then existing tank with two new five million gallon tanks in 2010.

Project Monitor and Control System. In July 1990, the Department installed a fiber optics communication system. This system replaced the Department's obsolete copper wire system. This system reduced costs and increased the reliability, efficiency and capacity of the communication system. A major element of the fiber optics system was the installation of a fiber optics cable adjacent to the California Aqueduct for both commercial and State Water Project use. In 1994, the Department upgraded the backup computer for the Project Operations Control Center. The Department relocated the Control Center in 1995. In 1997, the Department installed additional electronic control, instrumentation and communication equipment.

Hyatt Pump-Turbine Refurbishment. The Hyatt Powerplant is located on the Feather River near the town of Oroville, in Butte County, California. The power plant is located within Oroville Dam. It is an underground facility with three reversible pump-turbine units and three turbine units. This refurbishment work improved unit availability and reliability, and increased efficiencies to the highest extent possible while reducing potential environmental concerns. The major refurbishment work was completed in September 2007 and consisted of replacing the runners, wicket gates, bushings, shaft sleeves, guide bearings, and refurbishing water passages.

Edmonston Pump Replacement. The A.D. Edmonston Pumping Plant has 14 pump units used to pump California Aqueduct water over the Tehachapi Mountains into Southern California. The plant was designed with the capacity to convey 2.5 million acre-feet of Annual Table A Amounts (defined below) to Southern California. In recent years, the plant has been pumping near its maximum capacity; therefore, the units' reliability and availability have become extremely critical to the objectives of the State Water Project. The main objectives of the replacement project are to increase pump reliability, availability, and efficiency while reducing maintenance needs. In August 2001, the design was started to replace the four defective pumps. The first pump was completed in June 2007. The installation and testing of the remaining three pumps was completed in 2012.

Coastal Branch – Phase II. The Coastal Branch – Phase II consists of approximately 100 miles of pipeline between the existing Phase I terminus in Kern County near Devil's Den and a terminus located approximately 3.2 miles south of the town of Casmalia, California, on Vandenberg Air Force Base, and includes three pumping plants and related facilities and three water storage tanks. Construction was completed in 1997. This Water System Project is currently operated and maintained for the Department by the Central Coast Water Authority.

East Branch Extension – Phase I. The East Branch Extension facilities are being constructed in two phases. Phase I consists of new pipelines, three pump stations, a reservoir, and other appurtenant facilities between the existing Foothill Feeder downstream of Devil Canyon Powerplant and the terminus at the Noble Creek Spreading Grounds near the City of Beaumont in Riverside County. The new facilities join existing conveyance facilities constructed by the San Bernardino Valley Municipal Water District and allow the San Geronio Pass Water Agency to receive deliveries of water. Construction of Phase I facilities was completed in 2003.

Reserve pump units were also added to Greenspot, Crafton Hills and Cherry Valley pump stations to provide increased pumping reliability. The preliminary work for installation of these units began in 2005 and the installation was completed in June 2008.

East Branch Extension – Phase I Improvements. The East Branch Extension – Phase I Improvements project includes the enlargement of the Crafton Hills Reservoir and construction of the Yucaipa Connector Pipeline. The existing reservoir will be enlarged from 85 acre-feet to approximately 220 acre-feet to provide operational flexibility, system reliability, and a reduction in energy impacts and costs. Enlargement of the reservoir will allow the Department to fill the reservoir during off-peak periods

of the day. Construction of the connector pipeline will allow continued deliveries of water in the East Branch Extension while the reservoir is being enlarged and during future outages of the reservoir. Construction of the pipeline and reservoir began in 2010 and was completed in 2014.

South Bay Aqueduct Rehabilitation. The South Bay Aqueduct was constructed in the early 1960's. After nearly 30 years of operation, it was in need of numerous repairs and rehabilitation work. It was also necessary to make improvements to the original system to accommodate environmental and operational requirements. The repairs consisted of work items such as replacement of old, deteriorating valves, repairs to pipe linings at numerous locations, complete replacement of the lining of the two steel discharge lines at South Bay Pumping Plant, and repairs to access structures that had been flooded numerous times due to their proximity to existing drainages. The improvements included adding a guard valve at all blow off structures (to allow for future valve repairs/replacements without dewatering the pipeline), adding a second air valve at all high points in the pipelines, constructing access structures at numerous locations where access manholes were buried (prior to environmental considerations related to access), and raising the tops of access structures to prevent future overtopping during high flows in drainages. The project was completed in 2004.

South Bay Aqueduct Enlargement and Improvement. The South Bay Aqueduct Enlargement will provide the additional capacity required to meet projected increases in water demand in the service area of Alameda County Flood Control and Water Conservation District, Zone 7. The South Bay Aqueduct Improvement will increase the existing capacity to provide the original design capacity of the South Bay Aqueduct. The South Bay Aqueduct Enlargement and Improvement work is being incorporated into a combined project to minimize overall costs and impacts. Major features include enlargement of the South Bay Pumping Plant; construction of a third discharge line and surge tank; construction of the 500 acre-foot Dyer Reservoir; seismic improvements to surge tanks 1 and 2, and modifications to the canal. Construction on the pumping plant and the discharge line began August 2006 and in 2007, respectively. Construction of Dyer Reservoir, the canal modifications and a 69 kv transmission line from Banks Pumping Plant to South Bay Pumping Plant began in 2010. Overall project work was completed in 2016.

Arroyo Pasajero Program. The Arroyo Pasajero Program consists of facilities and measures designed to protect the California Aqueduct from flood waters, sedimentation, and asbestos contamination carried by ephemeral streams such as the Arroyo Pasajero Creek. The projects in the program, which are located near the town of Coalinga in Fresno County, California, were completed in 2017.

The following Water System Projects have not yet been completed:

East Branch Enlargement – Phase II. The Phase II enlargement, which will increase the capacity of Pearblossom Pumping Plant from 2010 cfs to 2876 cfs, has been indefinitely suspended at the request of the related Water Contractors. The Phase II enlargement consists of canal embankment and concrete lining; constructing additional siphon barrels; adding bays to check structures; adding two pump/motor units and a discharge line at Pearblossom Pumping Plant; raising overcrossing structures such as bridges, pipelines, and overchutes and extending underdrains.

North Bay Aqueduct Alternate Intake Project. The North Bay Aqueduct Alternate Intake Project will include the construction of a new point of diversion along the Sacramento River or its tributaries, a new pumping plant, an inline storage tank, and up to 30 miles of underground pipeline that will connect to the existing North Bay Aqueduct. The estimated capacity of the new facilities is 240 cfs. The purpose for this project is to enhance the quality, reliability and quantity of water deliveries to State Water Project Contractors while reducing impacts to endangered aquatic species. Solano County Water Agency and Napa County Flood Control and Water Conservation District receive water from the North Bay Aqueduct.

Phase I of this project included work by the Department and environmental consultants to develop required State and federal environmental documentation, acquire temporary entry permits and conduct environmental surveys leading to a Notice of Determination (“NOD”) and Record of Decision (“ROD”), to acquire project environmental permits. Work on Phase I is scheduled to be completed in 2018. Phase II of this project is expected to begin once the NOD and ROD are filed and includes acquisition of the necessary land and right of way, required permits, and the design and construction of this project. Phase II is expected to be completed by December 2021.

SWP Communications System Replacement. In 2004, the Department began replacing the existing communications system for the State Water Project. The new communications system equipment will be installed at the various area control centers, plants, and check structures along the aqueduct and at other various operation, administration and headquarters facilities. Leased back-up facilities will also be upgraded. This project is anticipated to be completed in 2018.

Delta Facilities Program. The Delta Facilities Program consists of projects and measures in the Sacramento-San Joaquin Delta area, and in the vicinity of rivers and tributaries to rivers that flow into the Sacramento-San Joaquin Delta, that are designed to (1) increase water supply by increasing the efficiency of water transfer through the Delta, (2) improve water quality, and (3) reduce or mitigate for fish losses caused by pumping. The projects and measures include dredging, channel improvements, flow control structures, seismic studies and environmental mitigation measures.

Tehachapi East Afterbay. The Tehachapi East Afterbay Project (“TEA”) provides additional afterbay storage for the Valley String Pumping Plants (Buena Vista, Teerink, Chrisman, Edmonston). The previous Tehachapi Afterbay (Pool 42) consisted of the canal section from Porter Tunnel, which bifurcates to the West Branch to Oso Pumping Plant and to the East Branch to Alamo Powerplant and Cottonwood Chutes. The TEA located adjacent to the existing Tehachapi Afterbay, provides storage accessible to both the East Branch and to a lesser extent, the West Branch. The additional storage provided by the TEA reduces power costs by shifting on-peak power consumption to off-peak, increasing ancillary services capability, and providing other benefits of increased operational flexibility. Operation of the TEA began in 2006 and construction was completed in 2007. The original Antelope Valley – East Kern Water Agency turnout was removed during construction and the replacement turnout was completed in 2014. The construction of the TEA required a Habitat Conservation Plan to be completed as part of the integration. Completion of the mitigation components is anticipated in 2018.

Perris Dam Remediation Program. Perris Dam Remediation Program contains three main project components: dam foundation remediation, outlet tower retrofit/replacement, and an emergency release conveyance facility. Each project component requires examining numerous operational and remedial alternatives, cost analyses, scheduling, cost estimating, selecting the preferred alternative, required environmental permitting and CEQA documentation, preliminary to the final design, construction, and program closeout. This program is required due to a 2005 Department study that concluded that roughly 2,300-feet of the left reach of Perris Dam’s foundation was potentially liquefiable when subjected to a maximum credible earthquake. In late 2005, the Department implemented a reservoir restriction lowering the water level in the reservoir by about 25 feet which reduced the amount of water stored in the reservoir to about 75,000 acre-feet. This restriction will remain in place as the Department evaluates alternatives for repair of the dam. An initial 2006 Department study concluded that the latest seismic loading would also potentially subject the outlet tower to shear failure. Subsequent non-linear analyses performed by a DWR consultant, and supported by an independent Division of Safety of Dams’ study, concluded that the tower will indeed sustain damage, but will maintain a level of operational reliability following the current maximum credible earthquake loading; therefore, the scope of the outlet tower retrofit/replacement project is reduced to a tower and outlet works retrofit. Lastly, the construction of thousands of new homes immediately downstream of the Perris Dam requires facility improvements to

channel an emergency reservoir release to the Perris Valley Drain in the event of a potential catastrophic dam failure. In December 2006, the Department completed a study identifying various repair options, began additional geologic exploration along the base of Perris Dam and started preliminary design. The dam foundation remediation is has been completed with only a few items remaining. A final review of the construction by the Division of Safety of Dams and the Director’s Independent Consulting Board is scheduled in December 2017. Their approval of this project is required to return the dam’s operational capacity to its full original level. The final design for the tower retrofit project began in fall of 2017, with construction expected to be completed by the end of 2019. The EIR for the Emergency Release Facility (ERF) was released in the fall of 2017. Design for the ERF is expected to begin in January 2018, with construction expected to be completed in March 2022. Water stored in Lake Perris is used primarily by Metropolitan. Accordingly, Metropolitan is the majority contributor toward the cost of these project components under its State Water Contract.

Facilities Reconstruction and Improvement Project. The Facilities Reconstruction and Improvement Project consists of reconstructions, additions and betterments to water conservation or transportation facilities existing as of January 1, 1987, and to all other facilities described in the Water System Revenue Bond Amendment of the Water Supply Contracts. (See “THE WATER SUPPLY CONTRACTS – Amendments Providing Certain Revenues to Pay Water System Revenue Bonds.”)

Thermalito Powerplant Clean-up and Reconstruction. The project includes stabilizing the plant structure, providing interim power back into the plant, returning essential plant systems back into service, clean-up of the plant, and decontamination of the plant. The project also includes completing an assessment of plant systems to determine equipment disposition, developing a strategic recovery plan with associated costs, and completing a value engineering study to evaluate alternatives associated with the partial or total rebuild of the Thermalito Powerplant. The preceding described work has all been completed under the Clean-up and Recovery phases. The mechanical refurbishment and reassembly of the generating units continues with the refurbishment and reassembly of Units 2 and 4 is completed, and the refurbishment and reassembly of and reassembly of Unit 1 is at approximately 85 percent, and the refurbishment and assembly of Unit 3 is at 75 percent. The design of the new fire protection and life safety improvements has been completed, as well as the design for the new electrical, protection, controls, and communication systems. The construction contracts for these projects were executed in February and April of 2017. The Department expects the Thermalito Powerplant to return to full service by the end of 2018. This event has not had, and will not have, a material adverse impact on the Department’s ability to operate and maintain the State Water Project. The costs for rebuilding the Thermalito Powerplant will be financed with Bonds. The second phase of this project is to restore and modernize the facility and has an anticipated completion date of 2019. (See “POWER OPERATIONS OF THE STATE WATER PROJECT – Thermalito Powerplant Fire.”)

FERC Relicensing - State Water Project

(a) Oroville Facilities

The Oroville Facilities are operated by the Department under a license issued by FERC. The project’s original license was for 50 years and it expired on January 31, 2007. Since the license expired, the Department has been operating the facilities under an annual license while it works to secure a long term license. The Department anticipates it will receive a new license having a term of 30 to 50 years. (See “POWER OPERATIONS OF THE STATE WATER PROJECT –Oroville Facilities Relicensing Program.”)

(b) South State Water Project Hydropower

Hydroelectric facilities along the East Branch and West Branch of the State Water Project are operated under a separate FERC license (Project No. 2426). The term of the original license was 50 years and the license will expire on January 31, 2022. The expenses related to the initial license were considered part of the original facilities development costs.

The Department has initiated efforts to relicense the facilities and will be seeking new licenses having 30 to 50 year terms. Castaic Powerplant, located at the south end of the West Branch, is owned and operated by the Los Angeles Department of Water and Power (“LADWP”) under a cooperative development agreement with the Department. As such, the Department and LADWP are joint-licensees for this facility under the existing license. Energy generated by this facility, and certain operations and maintenance costs, are shared by the Department and LADWP in accordance with the terms of the cooperative agreement.

The Department and LADWP have executed a relicensing agreement that defines how the cost of relicensing will be divided. The new license will also include new conditions and mitigation measures that the Department and LADWP will be required to comply with, in order to maintain the license in good standing. The magnitude of these mitigation costs will not be known until after the application is filed with FERC in 2020.

Project Planning Costs. The Department will be reimbursed for the costs of study or planning of potential Water System Projects. Among the facilities that have been or may be studied are the Coastal Branch of the California Aqueduct; the Arroyo Pasajero Program; the Delta Facilities Program; and additional conservation facilities. When the Department determines the actual facility to be acquired and constructed in any given case and that such facility will be financed with Bonds, such facility is designated as a Water System Project.

East Branch Extension – Phase II. Current East Branch Extension Phase I pumping capacity is limited to less than one-half of its total pumping capacity due to the size of the San Bernardino Valley Municipal Water District pipeline. East Branch Extension Phase II will allow 100 percent pumping capacity and will consist of approximately six miles of a new Mentone pipeline, a new Citrus pump station, a new Citrus Reservoir, an enlargement of the Crafton Hills Pump Station, and an additional pump unit for the Cherry Valley Pump Station. East Branch Extension Phase II reconnaissance level planning began in 2002. Work on the EIR and preliminary design started in 2006, final design began in 2008 and construction began in 2012. Completion of the Phase II facilities is anticipated in 2019.

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State Water Project Facilities

PUMPING PLANTS

Name	Number of Units	Normal Static Head (feet) (a)	Total Flow at Design Head (cfs)	Total Motor Rating (hp)
Hyatt	3	465-694	5,610	519,000
Thermalito	3	85-102	9,120	120,000
North Bay Aqueduct				
Barker Slough	9	95-120	228	4,800
Cordelia	11	110-376	138	
South Bay Aqueduct				
South Bay	9	543-563	510	27,750
Del Valle	4	0-38	120	1,000
California Aqueduct				
Banks	11	236-252	10,670	333,000
Gianelli (SWP SHARE)	8	99-327	11,000	504,000
Dos Amigos (SWP SHARE)	6	107-125	15,450	240,000
Buena Vista	10 (b)	205	5,405	144,500
Teerink	9 (b)	233	5,445	150,000
Chrisman	9 (b)	518	4,995	330,000
Edmonston	14 (b)	1,926	4,480	1,120,000
Pearblossom	9	540	2,575	203,200
West Branch				
Oso	8	231	3,252	93,800
Coastal Branch				
Las Perillas	6	55	461	4,050
Badger Hill	6	151	454	11,750
Devil's Den	6 (b)	521	134	10,500
Bluestone	6 (b)	484	134	10,500
Polonio Pass	6 (b)	533	134	10,500
East Branch Extension				
Greenspot	4	382	70	3,900
Crafton Hills	3	613	60	4,000
Cherry Valley	2	75	32	300

(a) Amount is for plant in pumping mode.
(b) Includes spare unit.

PRIMARY RESERVOIRS and DAMS

Name	Reservoirs (a)		Dams	
	Capacity (acre-feet)	Surface Area (acres)	Structural Height (feet)	Crest Length (feet)
Antelope Lake	22,564	930	120	1,320
Frenchman Lake	55,475	1,580	139	720
Lake Davis/ Grizzly Valley Dam	84,371	4,030	132	800
Lake Oroville	3,537,577	15,805	770	6,920
Thermalito Forebay	11,768	630	91	15,900
Thermalito Afterbay	57,042	4,300	39	42,000
Thermalito Diversion Pool	13,353	320	143	1,300
Clifton Court Forebay	31,258	2,180	30	36,500
Bethany	5,070	180	121	3,940
Lake Del Valle	77,100	1,060	235	880
San Luis Reservoir/Sisk Dam SWP Storage (b)	2,089,780	13,000	382	18,600
SWP Storage (c)	1,062,183			
O'Neill Forebay SWP Storage (c)	56,500	2,250	87	14,300
SWP Storage (c)	29,500			
Los Banos	34,562	620	167	1,370
Little Panoche	5,580	190	152	1,440
Quail Lake (d)	7,580	290		
Pyramid Lake	171,200	1,300	400	1,090
Elderberry Forebay	32,480	500	200	1,990
Castaic Lake	323,700	2,240	425	4,900
Silverwood Lake/ Cedar Springs Dam	74,970	995	249	2,230
Lake Perris	131,450	2,320	128	11,600
Crafton Hills (e)			95	500

(a) Reservoir data represent design elevation, generally spillway crest level. In most cases, maximum operational levels are set 1 or 2 feet lower.
(b) SWP share of total storage of 2,027,835 acre-feet.
(c) SWP share of total storage of 56,433 acre-feet.
(d) Primary reservoir only.
(e) Primary dam only.

POWERPLANTS

Name	Number of Units	Normal Static Head (feet) (a)	Total Flow at Design Head (cfs)	Net Dependable Capacity (MW)	Nameplate Capacity (MW)
Hyatt	6	435-694	16,950	645	645
Thermalito	4	85-102	17,400	114	114
Thermalito Diversion Dam	1	63-77	615	3	3
Gianelli					
Total	8	99-327	16,960	363	424
SWP Share				190	222
Alamo	1	115-141	1,740	15	17
Mojave Siphon	3	81-136	2,880	29	30
Devil Canyon	4	1,406	2,940	235	276
Warne	2	719-739	1,564	67	74
Castaic					
Total	7	900-1,050	20,820	1,128	1,254
SWP Share				192	214

(a) Amount is for plant in generating mode.

AQUEDUCTS

Name	Length (miles)
Grizzly Valley Pipeline	6.0
Thermalito Power Canal and Tail Channel	3.4
North Bay Aqueduct	27.6
South Bay Aqueduct	44.6
Subtotal	81.6
Edmund G. Brown California Aqueduct (main line):	
Delta to O'Neill Forebay	66.7
O'Neill Forebay to Kettleman City (joint use)	105.7
Kettleman City to Edmonston Pumping Plant	121.0
Edmonston Pumping Plant to Tehachapi Afterbay	10.0
Tehachapi Afterbay to Lake Perris	140.0
Subtotal, main line	443.4
California Aqueduct (branches):	
West Branch	31.9
Coastal Branch	115.5
East Branch Extension	
Devil Canyon Powerplant to Greenspot	16.2
Greenspot to Noble Creek Terminus	16.4
Subtotal, branches	180.0
Total	705.0

State Water Project Facilities

WATER SUPPLY CONTRACTORS

- Plumas Co. Flood Control & Water Conservation District
- County of Butte
- City of Yuba City
- Napa Co. Flood Control & Water Conservation District
- Solano Co. Water Agency
- Alameda Co. Flood Control & Water Conservation District Zone 7
- Alameda Co. Water District
- Santa Clara Valley Water District
- Oak Flat Water District
- Dudley Ridge Water District
- County of Kings
- Empire West Side Irrigation District
- Tulare Lake Basin Water Storage District
- San Luis Obispo Co. Flood Control & Water Conservation District
- Kern Co. Water Agency
- Santa Barbara Co. Flood Control & Water Conservation District
- Ventura Co. Watershed Protection District
- Castaic Lake Water Agency
- Antelope Valley - East Kern Water Agency
- Palmdale Water District
- Little Rock Creek Irrigation District
- Mojave Water Agency
- Crestline - Lake Arrowhead Water Agency
- San Bernardino Valley Municipal Water District
- San Gabriel Valley Municipal Water District
- The Metropolitan Water District of Southern California
- San Geronio Pass Water Agency
- Desert Water Agency
- Coachella Valley Water District



indicates SWP/CVP joint use



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