

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 BD 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 BD and BE Bonds is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series BD Bonds is not a specific preference item for purposes of the federal alternative minimum tax. 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 BD and BE Bonds. (See “TAX MATTERS” herein.)

**\$533,800,000**

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

**\$217,640,000
SERIES BD**

**\$316,160,000
SERIES BE (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 \$217,640,000 Central Valley Project Water System Revenue Bonds, Series BD (the “Series BD Bonds”) to refund a portion of the Department’s outstanding commercial paper notes, fund a deposit to the Debt Service Reserve Account and pay costs of issuing the Series BD Bonds, and its \$316,160,000 Central Valley Project Water System Revenue Bonds, Series BE (Federally Taxable) (the “Series BE Bonds” and, together with the Series BD Bonds, the “Series BD and BE Bonds” and each, a “Series of Bonds”) to refund a portion of the Department’s outstanding Bonds, refund a portion of the Department’s outstanding commercial paper notes, fund interest on the Series BD Bonds and a portion of the interest on the Series BE Bonds through December 1, 2022, fund a deposit to the Debt Service Reserve Account and pay costs of issuing the Series BE Bonds. (See “INTRODUCTION – Purpose of the Series BD and BE Bonds,” “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS.”)

Each of the Series BD Bonds and the Series BE 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 BD and BE Bonds will not receive physical certificates representing their interests in the Series BD and BE Bonds. DTC will act as securities depository for the Series BD and BE Bonds. The principal of and interest on the Series BD and BE Bonds are payable directly to DTC by the Treasurer of the State of California. Interest is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2021. 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 BD and BE Bonds. (See APPENDIX G – “DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”)

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

Payment of the scheduled principal of and interest on the Series BD and BE Bonds is secured by a pledge of Revenues under the Resolution. (See “SECURITY FOR THE BONDS.”)

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

Each of the Series BD Bonds and the Series BE Bonds are offered when, as and if issued and received by the Underwriters subject to approval of validity by The Honorable Rob Bonta, 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 subject to the approval of Nixon Peabody LLP, counsel to the Underwriters. It is expected that the Series BD and BE Bonds in book-entry form will be available for delivery through the facilities of DTC on or about May 19, 2021.

**Honorable Fiona Ma
Treasurer of the State of California**

Morgan Stanley**Stern Brothers & Co.****Amerivet Securities Inc.****Great Pacific Securities****Stifel****BAIRD****J.P. Morgan****UMB Bank, N.A.**

**Academy Securities
Caldwell Sutter Capital, Inc.
Raymond James**

MATURITY SCHEDULE
relating to

\$533,800,000

**State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series BD and BE (Federally Taxable)**

(Base CUSIP[†] 13067W)

\$217,640,000
Series BD

Maturity Date (December 1)	Principal Amount	Interest Rate	Price	Yield	CUSIP[†] Suffix
2024	\$ 5,515,000	5.000%	116.891%	0.200%	SD5
2025	14,950,000	5.000	121.046	0.320	SE3
2026	15,695,000	5.000	124.962	0.430	SF0
2027	16,480,000	5.000	128.370	0.570	SG8
2028	17,305,000	5.000	131.500	0.700	SH6
2029	18,170,000	5.000	134.381	0.820	SJ2
2030	19,075,000	5.000	137.375	0.900	SK9
2031	20,030,000	5.000	138.439 ^C	0.970	SL7
2032	21,030,000	5.000	137.407 ^C	1.060	SM5
2033	22,085,000	5.000	136.724 ^C	1.120	SN3
2034	23,190,000	4.000	126.177 ^C	1.220	SP8
2035	24,115,000	4.000	125.962 ^C	1.240	SQ6

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^C Priced to par call on June 1, 2031.

\$316,160,000
Series BE
(Federally Taxable)

(Base CUSIP[†] 13067W)

Maturity Date (December 1)	Principal Amount	Interest Rate	Price	Yield	CUSIP[†] Suffix
2021	\$ 4,935,000	0.055%	100.000%	0.055%	SR4
2022	9,435,000	0.155	100.000	0.155	SS2
2023	41,960,000	0.255	100.000	0.255	ST0
2024	31,685,000	0.508	100.000	0.508	SU7
2025	3,950,000	0.751	100.000	0.751	SV5
2026	75,825,000	1.051	100.000	1.051	SW3
2027	2,280,000	1.352	100.000	1.352	SX1
2028	2,315,000	1.502	100.000	1.502	SY9
2029	2,345,000	1.732	100.000	1.732	SZ6
2030	2,390,000	1.882	100.000	1.882	TA0
2031	2,440,000	2.032	100.000	2.032	TB8
2032	36,810,000	2.082	100.000	2.082	TC6
2033	56,815,000	2.132	100.000	2.132	TD4
2034	3,015,000	2.182	100.000	2.182	TE2
2035	39,960,000	2.232	100.000	2.232	TF9

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

STATE
WATER
PROJECT



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 BD and BE 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 BD and BE 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 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 BD AND BE 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 BD AND BE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT YIELDS HIGHER THAN THOSE STATED ON THE MATURITY SCHEDULE 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 BD and BE 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 H to this Official Statement.

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

THE SERIES BD AND BE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES BD AND BE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE SERIES BD AND BE 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.

**INFORMATION CONCERNING OFFERING RESTRICTIONS
IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES**

REFERENCES IN THIS SECTION TO THE “ISSUER” MEAN THE CALIFORNIA DEPARTMENT OF WATER RESOURCES AND REFERENCES TO “BONDS” OR “SECURITIES” MEAN THE SERIES BE BONDS OFFERED HEREBY.

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF \$5,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 30 UNITS (BEING 30 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF \$150,000).

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

THIS OFFICIAL STATEMENT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE SECURITIES TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (“EEA”) WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) REGULATION (EU) 2017/1129 (THE “PROSPECTUS REGULATION”) FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER TO ANY PERSON LOCATED WITHIN A MEMBER STATE OF THE EEA OF THE SECURITIES SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PRODUCE A PROSPECTUS OR SUPPLEMENT FOR SUCH AN OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF SECURITIES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE SECURITIES CONTEMPLATED IN THIS OFFICIAL STATEMENT.

THE OFFER OF ANY SECURITIES WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFICIAL STATEMENT IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN ANY MEMBER STATE OF THE EEA, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS SUCH TERM IS DEFINED IN THE PROSPECTUS REGULATION) OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 1(4) OF THE PROSPECTUS REGULATION, SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER OR THE CORPORATION FOR ANY SUCH OFFER; PROVIDED THAT NO SUCH OFFER OF THE SECURITIES SHALL REQUIRE THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS REGULATION OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 23 OF THE PROSPECTUS REGULATION.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF SECURITIES TO THE PUBLIC” IN RELATION TO THE SECURITIES IN ANY MEMBER STATE OF THE EEA MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE SECURITIES.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A “QUALIFIED INVESTOR” AS DEFINED IN THE PROSPECTUS REGULATION. THE CORPORATION AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, “MIFID II”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE “INSURANCE DISTRIBUTION DIRECTIVE”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

THE BONDS (EXCEPT FOR BONDS WHICH ARE A “STRUCTURED PRODUCT” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE (CAP. 571 OF THE LAWS OF HONG KONG) (“SECURITIES AND FUTURES ORDINANCE”)) MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF ANY DOCUMENT OTHER THAN (I) IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CAP. 32 OF THE LAWS OF HONG KONG) (“COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE”) OR (II) TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE AND ANY RULES MADE THEREUNDER, OR (III) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THE DOCUMENT BEING A “PROSPECTUS” AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE, AND NO ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS MAY BE ISSUED OR MAY BE IN THE POSSESSION OF ANY PERSON FOR THE PURPOSE OF ISSUE (IN EACH CASE WHETHER IN HONG KONG OR ELSEWHERE), WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO “PROFESSIONAL INVESTORS” AS DEFINED IN THE SECURITIES AND FUTURES ORDINANCE AND ANY RULES MADE THEREUNDER.

NOTICE TO INVESTORS IN SWITZERLAND

THIS OFFICIAL STATEMENT IS NOT INTENDED TO CONSTITUTE AN OFFER OR SOLICITATION TO PURCHASE OR INVEST IN THE BONDS. THE BONDS MAY NOT BE PUBLICLY OFFERED, DIRECTLY OR INDIRECTLY, IN SWITZERLAND WITHIN THE MEANING OF THE SWISS FINANCIAL SERVICES ACT ("FINSA") AND NO APPLICATION HAS OR WILL BE MADE TO ADMIT THE BONDS TO TRADING ON ANY TRADING VENUE (EXCHANGE OR MULTILATERAL TRADING FACILITY) IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS CONSTITUTES A PROSPECTUS PURSUANT TO THE FINSA, AND NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NOTICE TO INVESTORS IN SINGAPORE

THIS OFFICIAL STATEMENT HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, THIS OFFICIAL STATEMENT AND ANY OTHER DOCUMENT OR MATERIAL USED IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF THE BONDS MAY NOT BE CIRCULATED OR DISTRIBUTED, NOR MAY THE BONDS BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR AS DEFINED IN THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) (THE "SFA") PURSUANT TO SECTION 274 OF THE SFA, (II) TO A RELEVANT PERSON PURSUANT TO SECTION 275(1), OR ANY OTHER PERSON PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275, OF THE SFA WHERE EACH SUCH PERSON IS (1) AN EXPERT INVESTOR (AS DEFINED THE SFA) OR (2) NOT AN INDIVIDUAL.

WHERE THE BONDS ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON THAT IS:

(A) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

(B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR,

SECURITIES OR SECURITIES-BASED DERIVATIVES CONTRACTS (EACH AS DEFINED IN THE SFA) OF THAT CORPORATION OR THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE BONDS PURSUANT TO AN OFFER MADE UNDER SECTION 275 OF THE SFA EXCEPT:

(1) TO AN INSTITUTIONAL INVESTOR OR TO A RELEVANT PERSON AS DEFINED IN THE SFA, OR TO ANY PERSON ARISING FROM AN OFFER REFERRED TO IN SECTION 275(1A) OR SECTION 276(4)(I)(B) OF THE SFA;

(2) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER;

(3) WHERE THE TRANSFER IS BY OPERATION OF LAW;

(4) AS SPECIFIED IN SECTION 276(7) OF THE SFA; OR

(5) AS SPECIFIED IN REGULATION 37A OF THE SECURITIES AND FUTURES (OFFERS OF INVESTMENTS) (SECURITIES AND SECURITIES-BASED DERIVATIVES CONTRACTS) REGULATIONS 2018 OF SINGAPORE.

IN CONNECTION WITH SECTION 309B OF THE SFA AND THE SECURITIES AND FUTURES (CAPITAL MARKETS PRODUCTS) REGULATIONS 2018 OF SINGAPORE (THE “CMP REGULATIONS 2018”), ALL RELEVANT PERSONS (AS DEFINED IN SECTION 309A(1) OF THE SFA) ARE HEREBY NOTIFIED THAT THE BONDS ARE ‘PRESCRIBED CAPITAL MARKETS PRODUCTS’(AS DEFINED IN THE CMP REGULATIONS 2018) AND ARE EXCLUDED INVESTMENT PRODUCTS (AS DEFINED IN MAS NOTICE SFA 04-N12: NOTICE ON THE SALE OF INVESTMENT PRODUCTS AND MAS NOTICE FAA-N16: NOTICE ON RECOMMENDATIONS ON INVESTMENT PRODUCTS).

NOTICE TO INVESTORS IN JAPAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (NO. 25 OF 1948, AS AMENDED, THE “FIEA”). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY “RESIDENT” OF JAPAN (AS DEFINED UNDER ITEM 5, PARAGRAPH 1, ARTICLE G OF THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT (ACT NO. 228 OF 1949, AS AMENDED)), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEA AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEA. AS IT IS A PRIMARY OFFERING, IN JAPAN, THE BONDS MAY ONLY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF CERTAIN QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED IN THE FIEA (“QIIS”). A QII WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

TABLE OF CONTENTS

	Page		Page
SUMMARY STATEMENT	i	Rate Covenant	10
The Department	i	Debt Service Reserve Account	10
Authorization of the Series BD and BE Bonds	i	Outstanding Bonds; Additional Bonds	11
Purpose of the Series BD and BE Bonds	i	THE DEPARTMENT	11
Description of the Series BD and BE Bonds	i	Introduction	11
Security for the Bonds; Limited Obligations.....	ii	Management	11
Rate Covenant.....	ii	Fund Accounting	13
Debt Service Reserve Account	ii	Employee Relations.....	13
The State Water Project	iii	Pension Obligations.....	13
Financing of the State Water Project	iii	Post-employment Benefits Other Than Pensions.....	14
Additional Bonds	iv	Investments of Department Moneys.....	14
The Contractors	iv	CALIFORNIA STATE WATER PROJECT	16
The Water Supply Contracts.....	iv	Introduction	16
Continuing Disclosure	v	Aqueduct System; Pumping Facilities.....	17
No Relationship to Power Supply Revenue Bonds or Wildfire Fund Revenue Bonds ...	v	Storage Facilities	17
INTRODUCTION	1	Inverse Condemnation and Certain Other Potential Liabilities.....	18
Purpose of the Series BD and BE Bonds ...	1	Oroville Dam Spillways Response, Recovery and Restoration Project	18
PLAN OF REFUNDING	2	Operational Control.....	20
ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS.....	3	Seismic Considerations	21
DESCRIPTION OF THE SERIES BD AND BE BONDS.....	4	Self-Insurance; Financing of Emergency Repairs.....	21
General.....	4	Security Efforts; Emergency Preparedness; Cyber Security	22
Book-Entry Only	5	Environmental Considerations	22
Redemption.....	5	Potential Effects of COVID-19	23
Defeasance.....	7	STATE WATER PROJECT WATER SUPPLY	24
SECURITY FOR THE BONDS	7	General	24
Sources of Revenues.....	7	Annual Water Deliveries	25
Pledge of Revenues.....	8	Drought.....	27
Flow of Funds	9	State and Federal Regulations Affecting the State Water Project.....	27

TABLE OF CONTENTS

(continued)

	Page		
Long-Term Planning Efforts for the Delta	32	Article XIII B of the Constitution.....	49
Central Valley and Delta Levees	34	THE WATER SUPPLY CONTRACTS.....	49
Statewide Water Considerations.....	35	Basic Contract	49
POWER OPERATIONS OF THE		Revenues from Bond Financed	
STATE WATER PROJECT.....	37	Facilities	52
Historic Involvement of State Water		Amendments Providing Certain Revenues	
Project in Power Markets.....	37	to Pay Water System Revenue Bonds	52
Power Generation	38	Monterey Amendment.....	55
Power Sales and Purchases	38	Contract Extension Amendment.....	56
Historical Sources of Power for State		Water Management Amendment.....	57
Water Project Operations.....	40	Obligation to Levy Taxes or Assessments	
Power Transmission.....	40	58
Federal Energy Regulatory Commission		WATER SUPPLY CONTRACT	
Proceedings.....	41	RELATED LITIGATION.....	59
Reid Gardner Termination, Groundwater		Monterey Amendment Litigation.....	59
Contamination Cleanup and Environmental		Contractor Claims and Tolling and Waiver	
Lawsuit	41	Agreement	60
Oroville Facilities Relicensing Program..	42	THE CONTRACTORS	61
Lodi Energy Center.....	42	Governing Bodies.....	61
Renewable Energy	43	Water Rates and Taxation	62
Thermalito Powerplant Fire.....	44	Selected Contractor Data.....	62
No Relationship to Power Supply Revenue		Water Deliveries and Contractor Payments	
Bonds	44	63
No Relationship to any Bonds Issued by the		Payment History	66
Department under the Wildfire Prevention		Selected Contractor Financial Information	
and Recovery Act of 2019	44	66
FINANCIAL OPERATIONS	44	CERTAIN LIMITATIONS ON	
Financing of the State Water Project	44	CONTRACTOR REVENUE	
Fish and Wildlife Enhancement and		SOURCES.....	67
Recreation Costs	45	Article XIII A of the Constitution	67
Allocation of State Water Project Revenues		Article XIII B of the Constitution.....	68
.....	46	Article XIII C and Article XIII D of the	
Outstanding Revenue Obligations of the		Constitution	68
Department for the State Water Project...	46	Other Initiative Measures and Related	
Estimated Annual Debt Service.....	48	Litigation	70

TABLE OF CONTENTS

(continued)

	Page		
Special Limitations Applicable to Metropolitan	70	APPENDIX F PROPOSED FORM OF OPINION OF BOND COUNSEL	F-1
TAX MATTERS.....	71	APPENDIX G DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.....	G-1
Series BD Bonds (Tax-Exempt)	71	APPENDIX H WATER SYSTEM PROJECTS.....	H-1
Series BE Bonds (Federally Taxable).....	72	APPENDIX I LETTERS FROM CERTAIN UNDERWRITERS	I-1
U.S. Holders.....	73		
Non-U.S. Holders	75		
RATINGS	76		
MUNICIPAL ADVISOR.....	76		
APPROVAL OF LEGAL PROCEEDINGS	76		
FINANCIAL STATEMENTS	76		
VERIFICATION.....	77		
UNDERWRITING	77		
CERTAIN RELATIONSHIPS	78		
LITIGATION.....	78		
CONTINUING DISCLOSURE	79		
MISCELLANEOUS	79		
APPENDIX A ESTIMATED DIRECT AND OVERLAPPING DEBT OF CERTAIN CONTRACTORS	A-1		
APPENDIX B AUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019)	B-1		
APPENDIX C SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION.....	C-1		
APPENDIX D SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE	D-1		
APPENDIX E PROPOSED FORM OF OPINION OF ATTORNEY GENERAL	E-1		

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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 BD Bonds and the supplemental resolution authorizing the Series BE Bonds.

The Department

The State of California Department of Water Resources is a department within the 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 BD and BE Bonds

The Department will issue the Series BD and BE 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 “CVP Act”) and the Resolution.

Each of the Series BD Bonds and the Series BE 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 BD and BE Bonds

The Series BD Bonds are being issued to (1) refund a portion of the Department’s outstanding Water Revenue Commercial Paper Notes, Series 2 (the “Series 2 Notes”), (2) fund a deposit to the Debt Service Reserve Account and (3) pay costs of issuing the Series BD Bonds. (See “ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS.”)

The Series BE Bonds are being issued to (1) refund certain of the Department’s outstanding Water System Revenue Bonds, (2) refund a portion of the Series 2 Notes (3) refund the Department’s outstanding Water Revenue Taxable Commercial Paper Notes, Series 3 (the “Series 3 Notes”), (4) fund interest on the Series BD Bonds and a portion of the interest on the Series BE Bonds through December 1, 2022, (5) fund a deposit to the Debt Service Reserve Account and (6) pay costs of issuing the Series BE Bonds. (See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS.”)

Description of the Series BD and BE Bonds

Interest. The Series BD and BE Bonds will bear interest payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2021, at the respective rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the Maturity Schedule immediately following the cover page of this Official Statement.

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

Security for the Bonds; Limited Obligations

The payment of the scheduled principal of and interest on all Bonds, including the Series BD and BE 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 BD and BE Bonds) that payments from The Metropolitan Water District of Southern California (“Metropolitan”) will account for approximately 40 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 BD AND BE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES. THE SERIES BD AND BE 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 BD AND BE 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 as of 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 BD and BE 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 fifty-five series of Bonds totaling \$11,491,765,000 in aggregate principal amount, of which \$2,956,940,000 in aggregate principal amount were outstanding under the Resolution as of March 1, 2021. The Series BD Bonds and the Series BE Bonds offered hereby will be the fifty-sixth and fifty-seventh series of Bonds, respectively, 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 BD and BE 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 Notes (the “Series 1 Notes”) in a principal amount outstanding at any one time not to exceed the lesser of \$600,000,000 or the principal amount of Series 1 Notes supported by the credit agreement then in effect (currently \$600,000,000). The Department has also authorized the issuance of the Series 2 Notes, the Series 3 Notes and its Water Revenue Commercial Paper Notes, Series 4 (the “Series 4 Notes” and, together with the Series 2 Notes and the Series 4 Notes, the “Series 2, 3 and 4 Notes”) in an aggregate principal amount outstanding at any one time not to exceed the lesser of \$800,000,000 or the aggregate principal amount of Series 2, 3 and 4 Notes supported by the credit agreement then in effect (currently \$800,000,000). The Series 1 Notes and the Series 2, 3 and 4 Notes are collectively referred to herein as the “Notes.” The Department’s Note program is designed to be an ongoing source of interim financing for Water System Projects prior to long-term financing from the sale of Bonds absent unusual circumstances (see “CALIFORNIA STATE WATER PROJECT – Oroville Dam Spillways Response, Recovery and Restoration Project”). 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 \$214.5 million, \$405.4 million, and \$1.3 million in aggregate principal amount of Series 1 Notes, Series 2 Notes, and Series 3 Notes outstanding as of April 22, 2021, respectively, and expects a portion of both the Series 1 Notes and the Series 2 Notes to be paid with proceeds of federal reimbursement for costs of the Oroville Dam Spillways Response, 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 4 Notes are currently outstanding. Approximately \$283 million of the Series 2 Notes and \$1.3 million of the Series 3 Notes are expected to be paid with proceeds of the Series BD and BE Bonds.

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 \$3,850,000 in aggregate principal amount were outstanding as of March 1, 2021 and which have a scheduled final maturity of November 1, 2024. 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 \$16,955,000 in aggregate principal amount were outstanding as of March 1, 2021 and which have a scheduled final maturity of July 1, 2022 (the Department's "Devil Canyon-Castaic Bonds"). 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, as of July 1, 2020, approximately 69 percent of the State's population and approximately 8 percent of the United States' entire population. Each Contractor has entered into a Water Supply Contract with the Department, acting on behalf of the State. Pursuant to each Water Supply Contract, if in any year a Contractor does not have sufficient funds to make the payments required under the applicable Water Supply Contract, the Contractor shall levy a tax or assessment on the taxable property in its service area in an amount sufficient to provide the required funds. The ability of Contractors to tax for general purposes and to appropriate tax revenue for general purposes is limited under State 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 75 years, until 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 Amendment.") As of the date of issuance of the Series BD and BE Bonds, the final maturity of the Bonds to be outstanding upon the issuance of the Series BD and BE 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, in accordance with a statutory requirement in the CVP Act, 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.”)

The Department is a party to several lawsuits relating to the Water Supply Contracts. (See “WATER SUPPLY CONTRACT RELATED LITIGATION.”)

Continuing Disclosure

The Department will covenant for the benefit of the holders and beneficial owners of the Series BD and BE Bonds to provide certain financial information and operating data relating to the Department not later than nine months following the end of each Department fiscal year (which shall be March 31 of each year, so long as the Department’s fiscal year ends on June 30) (the “Annual Report”), commencing with the report containing 2020-2021 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 or Wildfire Fund 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’s Power Supply Program (the “Power Supply Revenue Bonds”) or bonds issued by the Department under The Wildfire Prevention and Recovery Act of 2019 to fund, in part, a Wildfire Fund created under such legislation to pay eligible claims related to a covered wildfire (the “Wildfire Fund Revenue Bonds”). At this time, no Wildfire Fund Revenue Bonds have been or are expected to be issued.

The State Water Project, the Power Supply Program and the Wildfire Fund are all 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, the Wildfire Fund Revenue Bonds (if issued) or any other expenses of the Power Supply Program or the Wildfire Fund, and resources pledged to secure the payment of the Power Supply Revenue Bonds or the Wildfire Fund Revenue Bonds (if issued) may not be used to pay the Bonds or any other expenses of the State Water Project. (See “POWER OPERATIONS OF THE STATE WATER PROJECT – No Relationship to Power Supply Revenue Bonds” and “– No Relationship to Bonds Issued by the Department under the Wildfire Prevention and Recovery Act of 2019.”)

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

Relating to its

**\$217,640,000
Central Valley Project
Water System Revenue Bonds,
Series BD**

**\$316,160,000
Central Valley Project
Water System Revenue Bonds,
Series BE (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 \$217,640,000 Central Valley Project Water System Revenue Bonds, Series BD (the “Series BD Bonds”) and the \$316,160,000 Central Valley Project Water System Revenue Bonds, Series BE (Federally Taxable) (the “Series BE Bonds” and, together with the Series BD Bonds, the “Series BD and BE Bonds”).

The Department will issue the Series BD and BE 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 BD Bonds and the supplemental resolution authorizing the Series BE 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 (the “State”) 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 BD and BE Bonds.

Purpose of the Series BD and BE Bonds

The Series BD Bonds are being issued to (1) refund a portion of the Department’s outstanding Water Revenue Commercial Paper Notes, Series 2 (the “Series 2 Notes”), (2) fund a deposit to the Debt Service Reserve Account and (3) pay costs of issuing the Series BD Bonds. (See “ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS.”)

The Series BE Bonds are being issued to (1) refund certain of the Department’s outstanding Water System Revenue Bonds, (2) refund a portion of the Series 2 Notes (3) refund the Department’s outstanding Water Revenue Taxable Commercial Paper Notes, Series 3 (the “Series 3 Notes”), (4) fund interest on the Series BD Bonds and a portion of the interest on the Series BE Bonds through December 1, 2022, (5) fund a deposit to the Debt Service

Reserve Account and (6) pay costs of issuing the Series BE Bonds. (See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS.”)

PLAN OF REFUNDING

On the date of delivery of the Series BD and BE Bonds, the Department will apply a portion of the proceeds of the Series BE Bonds to provide for the defeasance of all or a portion of the outstanding Bonds of Series AK, Series AL, Series AM, Series AS, Series AW, Series AX, Series AZ and Series BA (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 BE 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 (%)
AK	2012	1,335,000	1,335,000	5.00	12/1/2022	06/1/2022	100
AL	2012	5,520,000	5,520,000	5.00	12/1/2023	12/1/2022	100
AM	2013	17,405,000	17,405,000	5.00	12/1/2023	06/1/2023	100
AM	2013	18,745,000	18,745,000	5.00	12/1/2024	06/1/2023	100
AS	2014	71,850,000	71,850,000	5.00	12/1/2026	12/1/2024	100
AW	2016	34,325,000	34,325,000	5.00	12/1/2032	12/1/2026	100
AW	2016	35,360,000	35,360,000	5.00	12/1/2033	12/1/2026	100
AX	2017	19,920,000	19,920,000	5.00	12/1/2033	12/1/2027	100
AX	2017	2,335,000	2,335,000	5.00	12/1/2034	12/1/2027	100
AX	2017	2,465,000	2,465,000	5.00	12/1/2035	12/1/2027	100
AZ	2018	10,540,000	10,540,000	5.00	12/1/2035	12/1/2028	100
BA	2019	26,330,000	26,330,000	5.00	12/1/2035	06/1/2029	100
Total:		246,130,000	246,130,000				

On the date of delivery of the Series BE Bonds, the Department will cause a portion of the proceeds of the Series BE 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 “Escrow Account”) to be held by the State Treasurer as security solely for the Refunded Bonds. The Government Obligations in the Escrow Account will mature at such times and in such amounts, and will bear interest payable at such times and in such amounts that, together with the uninvested cash on deposit in the Escrow Account, if any, sufficient moneys will be available to pay, when due or called for redemption, all principal of and interest on the Refunded Bonds. (See “VERIFICATION.”) Concurrently with the issuance of the Series BE Bonds, irrevocable instructions will be given to the State Treasurer, as Trustee for the Refunded Bonds, to mail timely notices of redemption with respect to the Refunded Bonds, in each case in accordance with the Escrow Agreement relating to the Refunded Bonds. Accordingly, upon issuance of the Series BE 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 Escrow Account. Once the deposit to the Escrow Account is made as described above, the Refunded Bonds will not be payable from Revenues as hereinafter defined nor from any other source of revenues.

ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS

The following table sets forth the estimated sources and uses of the proceeds of the Series BD Bonds:

Sources of Funds:

Principal Amount of Series BD Bonds	\$217,640,000.00
Plus Original Issue Premium	67,506,163.30
Total Sources for Series BD Bonds	<u>\$ 285,146,163.30</u>

Uses of Funds:

Payment of Principal of Series 2 Notes	\$277,693,000.00
Deposit to Debt Service Reserve Account	6,771,379.28
Costs of Issuance of Series BD Bonds ⁽¹⁾	681,784.02
Total Uses for Series BD Bonds	<u>\$285,146,163.30</u>

⁽¹⁾ Includes underwriters' discount, legal fees, municipal advisory fees, printing expenses and other costs.

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The following table sets forth the estimated sources and uses of the proceeds of the Series BE Bonds and certain funds relating to the Refunded Bonds:

Sources of Funds:

Principal Amount of Series BE Bonds	\$316,160,000.00
Debt Service Funds	5,150,422.53
Release of Debt Service Reserve Account Funds ⁽¹⁾	1,823,784.08
Total Sources for Series BE Bonds	<u>\$323,134,206.61</u>

Uses of Funds:

Payment of Interest on Series 2 Notes	\$ 5,745,718.15
Retirement of Series 3 Notes	1,254,281.85
Capitalized Interest – Series BD Bonds ⁽²⁾	15,960,390.00
Capitalized Interest – Series BE Bonds ⁽³⁾	128,046.67
Deposit to Debt Service Reserve Account	562,923.74
Deposit to Escrow Account for Defeasance of Refunded Bonds	298,573,283.54
Costs of Issuance of Series BE Bonds ⁽⁴⁾	909,562.66
Total Uses for Series BE Bonds	<u>\$323,134,206.61</u>

(1) Simultaneously with the delivery of the Series BE Bonds, \$1,823,784.08 will be released from the Debt Service Reserve Account, representing an amount associated with the Refunded Bonds. This amount will be deposited in the Escrow Account providing for the payment of the Refunded Bonds to and including their call date.

(2) Amount necessary to fund interest on the Series BD Bonds through December 1, 2022.

(3) Amount necessary to fund interest on a portion of the Series BE Bonds through December 1, 2022.

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

DESCRIPTION OF THE SERIES BD AND BE BONDS

General

Each of the Series BD Bonds and the Series BE Bonds will be dated the date of delivery thereof, expected to be on or about May 19, 2021, will be issued in fully registered form without coupons, will be in denominations of \$5,000 principal amount or any integral multiple thereof within a maturity, and will bear interest payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2021 (each, an "interest payment date"). The Series BD and BE Bonds will mature (subject to the right of prior redemption discussed below) on December 1 in each of the years and in the respective principal amounts, and will bear interest at the respective rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the Maturity Schedule immediately following the cover page of this Official Statement.

Interest on the Series BD and BE 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. Any payment due or other action required to be taken on a day which is not a Business Day shall occur on the next succeeding Business Day, with the same effect as if it had occurred on such day. No interest will accrue or be paid on the Series BD and BE Bonds with respect to any payment delayed as described in this paragraph. "Business Day" means any day other than a Saturday, a Sunday, a State holiday or any other day determined not to constitute a Business Day pursuant to the book-entry only system of The Depository Trust Company, New York, New York ("DTC"). Certain State holidays may fall on days that are not banking holidays and can vary from year to year.

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

Book-Entry Only

The Series BD and BE Bonds will be issued as fully registered bonds and registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series BD and BE Bonds. Purchasers will not receive certificates representing Series BD and BE Bonds purchased by them. The State Treasurer will pay principal of and interest on the Series BD and BE 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 BD and BE Bonds. (See APPENDIX G – “DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”)

Redemption

Optional Redemption.

The Series BD Bonds. The Series BD Bonds maturing on or after December 1, 2031 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 June 1, 2031, upon payment of a redemption price equal to the principal amount of the Series BD Bonds to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

The Series BE Bonds. The Series BE Bonds are subject to redemption prior to their stated maturity dates at the option of the Department, in whole or in part, in such order of maturity as may be designated by the Department and on a pro rata pass-through distribution of principal basis within any maturity, on any date, at a redemption price (the “Make-Whole Redemption Price”) equal to the greater of:

- (1) the issue price set forth on the Maturity Schedule following the cover page hereof (but not less than 100%) of the principal amount of the Series BE 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 BE Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series BE Bonds are to be redeemed, discounted to the date on which the Series BE 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) 0 basis points with respect to the Series BE Bonds maturing on December 1, 2021 and December 1, 2022; (ii) 5 basis points with respect to the Series BE Bonds maturing on December 1, 2023 through December 1, 2030, inclusive and (iii) 10 basis points with respect to the Series BE Bonds maturing on December 1, 2031, through December 1, 2035, inclusive;

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

“Treasury Rate” means, with respect to any redemption date for a particular Series BE 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 that is 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 BE 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.

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

Series BE Bonds and Pro Rata Pass-Through Distribution of Principal. If less than all of the Series BE Bonds of a maturity are to be redeemed prior to maturity, then

(a) If the Series BE Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Series BE Bonds, the particular Series BE Bonds shall be redeemed on a “pro-rata pass-through distribution of principal” basis in accordance with DTC procedures, provided further, that such redemption is made in accordance with the operational arrangements of DTC then in effect. The Underwriters have advised the Department that the Series BE Bonds, as of their date of issuance, will be eligible for partial redemption through DTC on a pro-rata pass-through distribution of principal basis in accordance with DTC’s rules and procedures, as in effect as of the date of issuance of the Series BE Bonds. The State Treasurer will send notice to DTC in accordance with such rules and procedures to effect a pro rata reduction of principal of the applicable Series BE Bonds to accomplish the optional redemptions described above through a pass-through distribution of principal. In connection with each such redemption, the Department will include in the notice of redemption described above the dollar amount per \$1,000 principal amount payable on account of principal and accrued interest to effect a pro rata reduction through a pass-through distribution of principal on the related redemption date. DTC will be responsible for distributing the principal and accrued interest among its Direct Participants, as applicable, pro rata in accordance with its rules and procedures for a pro rata pass-through distribution of principal based upon the beneficial interest in the Series BE Bonds being redeemed that DTC records list as owned by each DTC Direct Participant as of the record date for such payment. Any failure of the Department to make such selection or of DTC or its Participants or any other intermediary, to make such selection or proportional allocation, for whatever reason, will not affect the sufficiency or the validity of the redemption of the Series BE Bonds.

(b) If the Series BE Bonds are not then in book-entry form at the time of such redemption, on each redemption date, the Department may select the Series BE Bonds for redemption pro rata. The Department will select such portions of Series BE Bonds to be redeemed in such manner as the Department may deem to be fair and appropriate.

(c) Neither the Department nor the State Treasurer can provide any assurance that DTC, DTC Participants or other intermediaries will allocate the redemption payments on this basis. If DTC’s operational arrangements do not allow for allocation of such redemption on a pro rata pass-through distribution of principal basis, the portion of the Series BE Bonds to be redeemed on such dates will be selected in accordance with DTC’s then existing rules and procedures and may be by lot. (See APPENDIX G – “DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES.”)

Notice of Redemption. So long as DTC is acting as securities depository for the Series BD and BE Bonds, notice of redemption with respect to the applicable Series of the Series BD and BE Bonds will be given by delivering such notice to DTC, not to the beneficial owners (as defined in APPENDIX G – “DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES” herein) of any Series BD and BE 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 BD and BE Bonds called for redemption are held by the State Treasurer, then on the redemption date

designated in such notice the Series BD and BE Bonds so called for redemption will become due and payable, and from and after the redemption date, interest on the Series BD and BE Bonds so called for redemption will cease to accrue and the holders of such Series BD and BE 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 BD and BE 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 BD and BE 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 BD and BE 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 BD and BE 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 BD and BE Bonds or portions thereof after the date fixed for redemption, and, except as to the portion not designated for redemption of any such Series BD and BE Bond designated for redemption only in part, the redemption price of and accrued interest on such Series BD and BE Bonds shall be payable only from the moneys held by the State Treasurer for such Series BD and BE 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 BD and BE 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 BE Bond, the Series BE Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder’s adjusted tax basis in the Series BE Bond. (See “TAX MATTERS – Series BE Bonds (Federally Taxable).”)

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,” “STATE WATER PROJECT WATER SUPPLY – General” and “THE WATER SUPPLY CONTRACTS”)

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 BD and BE Bonds, payments from Metropolitan will account for approximately 40 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 BD AND BE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE DEPARTMENT. THE SERIES BD AND BE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE STATE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES BD AND BE BONDS.

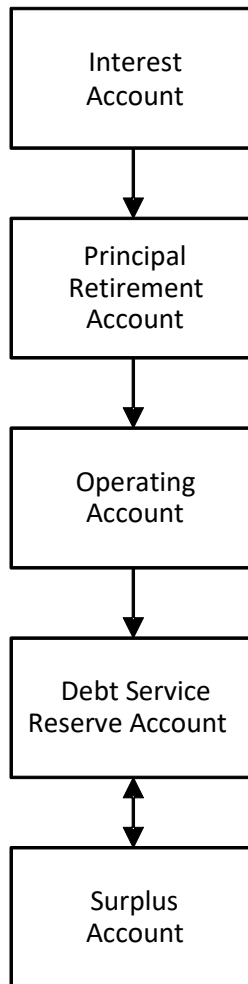
Flow of Funds

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.”)

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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 Water System Operating Expenses, 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 date 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 BD and BE 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 BD and BE Bonds, the amount of the Reserve Account Requirement for the outstanding Bonds will be approximately \$166,390,505. The Department anticipates that approximately 78 percent of the amount held in the Debt Service Reserve Account on the date of issuance of the Series BD and BE Bonds will be invested in the State Treasurer’s Pooled Money Investment Account (“PMIA”), 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 \$2,956,940,000 were outstanding as of March 1, 2021. All outstanding Bonds (including any additional Bonds) are secured equally and ratably with the Series BD and BE 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 of the principal amount thereof. 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 may also undertake additional capital projects in the future, which could result in the issuance of obligations secured by revenues under the Water Supply Contracts, other than Notes issued under the related resolution and Bonds issued under the Resolution. These obligations could be issued in substantial amounts. (See “STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Water Supply Reliability, Delta Conservation and Infrastructure.*”)

THE DEPARTMENT

Introduction

The Department is a department within the Natural Resources Agency of 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 March 15, 2021, the Department employed approximately 3,118 full-time staff throughout the State.

Management

The Director of the Department oversees the Department’s activities, with the assistance of a Chief Deputy Director and eight Deputy Directors. The Director, the Chief Deputy Director, the Deputy Director for the State Water Project, and the Chief Counsel 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.

Karla Nemeth was appointed Director of Water Resources by Governor Edmund G. Brown on January 10, 2018. Prior to her appointment as Director, Ms. Nemeth had worked at the California Natural Resources Agency as the Governor’s Deputy Secretary and Senior Advisor for Water Policy since 2014. Ms. Nemeth was Bay Delta

Conservation Plan Project Manager from 2009 to 2014. Prior to joining the California Natural Resources Agency, Ms. Nemeth was Environmental and Public Affairs Director for the Alameda County Flood Control and Water Conservation District from 2005 to 2009 and Community Affairs Manager at Jones and Stokes from 2003 to 2005. Ms. Nemeth has a Master of Public Administration from the University of Washington.

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 from the University of California, Davis, and a Master's Degree in Conservation Biology from California State University, Sacramento.

Ted Craddock was appointed State Water Project Deputy Director on May 18, 2020, after having served as the Acting State Water Project Deputy Director since July 5, 2019. Mr. Craddock has been with the Department for over 24 years. Prior to becoming the Acting State Water Project Deputy Director in July 2019, he served as Executive Manager of the Oroville emergency recovery effort and provided leadership for the State Water Project's dam safety and infrastructure initiatives. Prior to that appointment, Mr. Craddock held the positions of Chief of the Hydropower License Planning and Compliance Office, manager of the East Branch Extension program, and Advisor to the State Water Project Deputy Director. Mr. Craddock received a Bachelor of Science degree in Civil and Materials Engineering from the University of California, Davis and is a licensed Professional Engineer.

Spencer Kenner has served as Chief Counsel of the Department since February 2016. He oversees a staff of more than 40 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. Mr. Kenner has a Juris Doctor Degree from Brigham Young University.

Hong Lin was appointed Chief Financial Manager of the State Water Project (the "CFM"), a newly created position within the Department, in June 2020. The CFM reports to the State Water Project Deputy Director and provides high level policy advice to the Director and State Water Project senior management regarding the investment of resources to maintain and improve State Water Project operations. The CFM oversees the development and implementation of policies for comprehensive asset management and capital investment programs for the rehabilitation and refurbishment of State Water Project facilities in collaboration with State Water Project senior managers and senior managers of the Contractors. Prior to becoming the CFM, Dr. Lin served within the Department as an Advisor to the Executive Director of Delta Conveyance. Prior to joining the Department, Dr. Lin worked on various water, wastewater and stormwater projects in consulting, private industry and local government. Dr. Lin is a registered professional engineer in California and received her Ph.D. degree in Civil Engineering from Louisiana State University.

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 the United States Department of Health and Human Services from 2010 to 2015 and Vice President of Finance for multinational software companies from 1997 to 2010. Mr. Behl has a Master's Degree in International Financial Management and a Master's Degree in Business Administration from the University of California, Davis. Mr.

Behl is a licensed Certified Public Accountant in Delaware and California 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 California 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 charges collected from customers of certain of the State's investor owned utilities related to the Wildfire and Recovery Act (as hereinafter defined). (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 March 15, 2021, the Department had approximately 3,118 full-time employees of whom approximately 2,363 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 memorandum 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") with the bargaining units are current and in effect. If an MOU expires without a successor MOU in place, as provided by State law, the current 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, 2020 and June 30, 2019, the allocable share of annual pension contributions paid by the Department with respect to the State Water Project were approximately \$69.6 million and \$63.1 million, respectively. In addition, for the year ended June 30, 2018, the State Water Project recognized a \$60.9 million supplemental pension contribution to PERS. This was the State Water Project's allocation of a \$6.0 billion supplemental pension contribution made by the State to PERS in such fiscal year. This supplemental pension contribution was funded by an internal State loan. The Department will be required to repay its allocated amount of this loan over a period ending no later than June 30, 2030. For more information on this supplemental pension contribution, see Note 6 of the financial statements of the State Water Resources Development System appearing in APPENDIX B. 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. As a participant in the State's defined benefit pension plan, the State Water Resources Development System reports an allocated share of the total net pension liability reported by the State. The State Water Resources Development System's proportion of the State's total net pension liability was based on the State Water Resources Development System's pensionable compensation relative to the pensionable compensation of the State Miscellaneous plan members, as calculated by the State Controller's Office. The State Water Resources Development System's proportionate share of the State's total net pension liability as of the June 30, 2019 and June 30, 2018 measurement dates was 1.66 percent and 1.68 percent, respectively.

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. During the fiscal year ended June 30, 2018, the Department adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). GASB No. 75 requires that the Department recognize and measure a post-retirement health care benefits liability using actuarial methods and assumptions to project benefit payments, discount projected benefit payments to the actuarial present value, and attribute that present value to periods of employee service. These actuarially determined amounts are allocated by the State Controller using actuarial methods and assumptions adopted by the PERS Board of Administration. The State Water Project's allocated contributions made for post-retirement health care benefits were \$27.3 million and \$23.9 million for the years ended June 30, 2020 and June 30, 2019, respectively. The State Water Project recognized post-retirement health care benefit expenses of \$22.5 million and \$28.2 million for the fiscal years ended June 30, 2020 and June 30, 2019, respectively. 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.

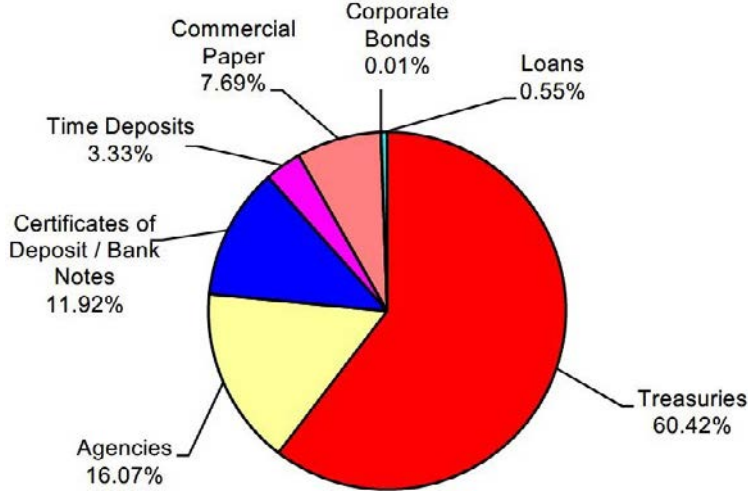
Investments of Department Moneys

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 PMIA. As of March 31, 2021, the PMIA held approximately \$92.2 billion of State moneys, and approximately \$34.51 billion invested for about 2,382 local governmental entities through the Local Agency Investment Fund (the "LAIF"). The assets of the PMIA as of March 31, 2021, are shown in the following chart:

Analysis of the Pooled Money Investment Account Portfolio

(as of March 31, 2021)

**PMIA Portfolio Composition--03/31/2021
\$126.7 billion**



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 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 PMIA 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 March 31, 2021, was 220 days.

As of March 31, 2021, the Department had approximately \$1,203,115,680 invested in the PMIA. Department moneys held in the PMIA consist of Contractor payments to the Department. Department moneys held in the PMIA 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 system 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 4,172,786 acre-feet. (See “THE WATER SUPPLY CONTRACTS.”) An acre-foot is the amount of water that will cover one acre of land to a depth of one foot and is equivalent to 325,900 gallons. However, the amount of water that may be made available for delivery by the State Water Project in any year will depend on various factors, and the Water Supply Contracts provide for reductions in Table A water deliveries if the total amount available for delivery is insufficient to satisfy all Contractor requests. (See “STATE WATER PROJECT WATER SUPPLY.”)

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

The State Water Project includes aqueducts, dams and reservoirs, 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.

On December 12, 2018, the Department and the Bureau executed an amendment to the COA that, among other things, revised the sharing responsibilities related to Delta water quality standards. Under the amended COA, in certain water year types the Department’s share of responsibility for meeting water quality standards for the Delta could be larger in dry years and smaller in wet years. (See “STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Water Supply Reliability, Delta Conservation and Infrastructure.*”) On January 16, 2019, several environmental groups filed a lawsuit challenging the approval of the amendment on public trust grounds and on the bases of alleged failures to comply with the California Environmental Quality Act (“CEQA”) and the Delta Reform Act of 2009 (the “Delta Reform Act”). This lawsuit is currently pending and in the pretrial stage.

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 starting at a point near Stockton southward 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 facilities, three pumping-generating plants, and five hydroelectric power plants.

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

Storage Facilities

State Water Project facilities include 36 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 map entitled “State Water Project Facilities” at the end of this Official Statement.

The Division of Safety of Dams (within the Department) routinely inspects state jurisdictional operating dams and may impose operating restrictions on dams and reservoirs that could adversely affect the operation of the State Water Project. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *Perris Dam Remediation Program*.”) In 2017, the State Legislature enacted legislation expressly authorizing the Department to impose administrative actions (civil penalties, property liens, and punitive reservoir restrictions) in cases where a dam owner fails to comply with provisions of the State’s dam safety program. In 2018, the State Legislature enacted legislation that directs inspection frequency and activities, requires the Division of Safety of Dams to update inspection and dam re-evaluation protocols. Dams that have a downstream hazard classification of “extremely high”, “high” or “significant” must be inspected at least once every fiscal year, and “low hazard” dams must be inspected at least once every two fiscal years. Even though recent legislation expressly provides for punitive reservoir restrictions, such restrictions have historically been used (through Division of Safety of Dams directive or voluntarily by the dam owner) to avoid or mitigate risk to life or property due to various deficiencies with dams.

In addition to the Department’s internal dam safety efforts, independent reviews and inspections by external dam safety experts of State Water Project dams are conducted on a five-year frequency in accordance with the California Code of Regulations, Title 23, Division 2, Chapter 1, Article 5. For FERC-licensed State Water Project dams, this five-year review is required under Title 18, Chapter 1, Subchapter B, Part 12 of the Code of Federal Regulations. These independent reviews and inspections commonly result in recommendations for updated seismic, hydrology, and stability studies to evaluate a dam’s safety and predicted performance. As the dam safety industry and regulatory requirements have advanced over time, these reviews have become increasingly detailed and led to a greater number of recommended studies. If a study finds that a dam or one of its components requires retrofitting or rehabilitation, the Department incorporates the project into its strategic

planning process for future design and construction. For example, following the Oroville Dam spillways emergency, the Department completed spillway inspections and condition assessments at a number of the dams it operates other than the Oroville Dam, the spillways of which were undergoing reconstruction (see “CALIFORNIA STATE WATER PROJECT – Oroville Dam Spillways Response, Recovery and Restoration Project”). These inspections and assessments identified the need for potentially significant capital outlays over the next ten years, which are expected to be initially financed with tax-exempt Notes and financed long-term with Bonds.

Inverse Condemnation and Certain Other Potential Liabilities

Under the doctrine of inverse condemnation (a legal concept that entitles property owners to just compensation if their property is damaged by a public use), State courts have imposed liability on public agencies in legal actions brought by property holders for damages caused by such public agencies’ infrastructure. Thus, if certain facilities of the Department, such as water storage or transportation facilities or its electric distribution and transmission lines, are determined to be the substantial cause of damage to property from flooding, fire or otherwise, and the doctrine of inverse condemnation applies, the Department could be liable for property damage, business interruption, interest, and attorneys’ fees without having been found negligent, which liability, in the aggregate, could be substantial. In addition to such claims for property damage, business interruption, interest, and attorneys’ fees, the Department could be liable for flood or fire suppression costs, evacuation costs, medical expenses, personal injury damages, punitive damages, and other damages under other theories of liability, including if the Department were found to have been negligent, which liability, in the aggregate, could be substantial. (See “CALIFORNIA STATE WATER PROJECT – Aqueduct System; Pumping Facilities” and “POWER OPERATIONS OF THE STATE WATER PROJECT – Power Transmission.”)

Oroville Dam Spillways Response, Recovery and Restoration Project

Description of Project and Related Financing. A steady barrage of storms in early 2017 led to the wettest January and February in 110 years of Feather River hydrologic records. While releases from the Oroville Dam were being made to accommodate these extraordinary conditions, a section of the main spillway chute was damaged. When the emergency spillway was activated, erosion occurred on the slope downstream of the emergency spillway crest structure. 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.

On February 12, 2017, concern regarding the potential risk to the emergency spillway crest structure prompted the Butte County Sheriff to issue an evacuation order for approximately 188,000 people living in Oroville and other downstream 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 concrete, remove eroded debris, construct or improve access roads, and begin the design for reconstruction efforts. The evacuation order was lifted on February 14, 2017.

Due to the magnitude of the project, repair of the main and emergency spillways was completed over multiple phases. To ensure public safety, the Department set and achieved a goal of November 1, 2017, to reconstruct the main spillway to handle flows of 100,000 cubic feet per second. In March 2018, the Department completed construction of a cut-off wall 750 feet downhill of the emergency spillway, which will prevent uphill erosion beyond the wall if the emergency spillway is ever used again. In spring of 2018, work on the main spillway ramped back up and the spillway was returned to operational status at its original design capacity in December 2018. At the emergency spillway, the Department constructed a splash pad that was completed in November 2018 and a buttress that was completed in March 2019. These two features are designed to bolster the integrity of the emergency spillway and the hillside downstream. In April 2019, the main spillway was successfully operated for the first time since its reconstruction. Major civil construction activities were completed in early 2020, and site rehabilitation and revegetation activities will continue through at least 2024.

Members of the U.S. Army Corps of Engineers, Federal Energy Regulatory Commission, the Division of Safety of Dams, as well as dam experts on a board of consultants were actively engaged with the Department throughout the major civil construction and design portion (through mid-2020) of this project.

On April 1, 2017, former President Trump 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. It was envisioned that costs associated with the recovery and restoration efforts at the Oroville Dam spillways would be approximately \$1.1 billion, with up to 75% expected to be reimbursed by the Federal Government. In March 2019, the Federal Emergency Management Agency (“FEMA”) informed the Department that it did not consider the following costs to be eligible for reimbursement through its public assistance program: (i) approximately \$214 million in recovery costs (with a \$161 million federal cost share) for the upper portion of the main spillway and (ii) approximately \$290 million in costs (with a \$218 million federal cost share) for the recovery of the emergency spillway. The Department appealed FEMA’s determination and provided additional information to support the Department’s assertion that these costs should be eligible for reimbursement. FEMA responded to the Department’s appeal in February 2020, finding that the costs associated with the upper portion of the main spillway are eligible for reimbursement, whereas the costs associated with the emergency spillway remain ineligible for reimbursement. In May 2020, the California Office of Emergency Services filed with FEMA, on behalf of the Department, an application for federal Hazard Mitigation Grant Program funding for these costs associated with the emergency spillway that are not being reimbursed through FEMA’s public assistance program.

In September 2020, the Department updated its cost estimate for work associated with the recovery and restoration efforts at the Oroville Dam spillways to \$1.186 billion. Through ongoing discussions with FEMA, it has been determined that \$168 million of this total will not be eligible for a FEMA cost share. As of February 2021, the Department had received \$234 million in federal reimbursement. Based on the Department’s discussions with FEMA, the Department expects FEMA to provide an additional \$377 million through its Public Assistance program. The amount of federal cost share for the work associated with the Oroville Dam’s emergency spillway applied for through the federal Hazard Mitigation Grant Program is more uncertain and was estimated at approximately \$100 million. On February 3, 2021, the Department was notified that FEMA had made an initial determination that the work at the emergency spillway would not be eligible for funding through the federal Hazard Mitigation Grant Program. The Department appealed that determination and FEMA notified the Department on April 23, 2021 that such determination remains unchanged. The Department is considering whether or not to appeal this most recent determination that such costs are ineligible for funding through the federal Hazard Mitigation Grant Program. These amounts are based on preliminary estimates and may be materially revised through the project close-out period.

The following table summarizes the current, approximate amounts and status of the costs and FEMA reimbursements for the Oroville Dam spillways restoration efforts described above. The table also shows the approximate portion of costs of such repair and replacement that is currently expected to be financed long-term with Bonds (assuming all FEMA reimbursements (other than funding under the federal Hazard Mitigation Grant Program) described above and in the following chart are received) and paid by the Contractors under the Water Supply Contracts.

Costs incurred through September 30, 2020	\$1.125 billion
Costs expected from October 1, 2020 through 2024	<u>\$ 61 million</u>
Total costs expected through 2024	\$1.186 billion
FEMA reimbursements to date	\$ 234 million
Expected future FEMA reimbursements (in years 2021-2024)	\$ 377 million
Amount expected to be financed with Water System Revenue Bonds	<u>\$ 575 million</u>
Total sources (preliminary) expected through 2024	\$1.186 billion

The costs for the repair and replacement work at Oroville Dam were and are being financed with the proceeds of Notes, such costs that are not reimbursed by FEMA are expected to be financed long-term with Bonds. 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 Bonds.

Litigation Related to the Project. A number of lawsuits seeking compensation from the Department for damages claimed to have been caused by the Oroville Dam emergency have been filed. Those lawsuits initially included two class actions filed on behalf of four classes consisting of persons who evacuated, persons who claimed business losses, persons who claimed property damage and persons who claimed reduction in property values. The Department prevailed in its challenge to the validity of those class actions, and only the class of evacuees appealed (*Bechtel et al. v DWR, 3rd District Court of Appeal Case No. C090941*). The appeal is pending. In addition to the class actions, the City of Oroville and the County of Butte have each filed separate lawsuits seeking damages to reimburse costs and losses they claim resulted from the incident and the response to it. The lawsuit filed by the County of Butte was settled in 2019 and has been dismissed. Other lawsuits have been filed by agricultural landowners and other landowners who claim their properties adjacent to the Feather River sustained flooding and other damages. These lawsuits allege, among other things, that the Department's design, maintenance and operation of the Oroville Dam facilities caused damages to their property and agricultural crops. In addition, Pacific Gas and Electric Company ("PG&E") filed a lawsuit seeking reimbursement for costs it incurred to relocate electrical transmission lines in the vicinity of Oroville Dam during the emergency (*Butte County Superior Court Case No. 18CV02014*).

All active lawsuits described above relating to the damages claimed to have been caused by the Oroville Dam emergency have been transferred to the Sacramento County Superior Court, coordinated for purposes of pretrial activities, and are being vigorously defended by the Department. Regular discovery closed at the end of October 2020 and expert witness discovery is ongoing. The first trial, a bench trial on inverse condemnation claims filed by eight of the plaintiffs, is set to begin on May 10, 2021. In addition, the Department has successfully obtained judgments and dismissals of several other cases. The Department believes that this litigation will 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, Bonds.

The Butte County District Attorney also filed a lawsuit on behalf of the People of the State asserting a claim for civil penalties under a State Fish & Game Code statute. In that action, the Butte County District Attorney sought up to \$51 billion in civil penalties for the release of materials into the Feather River that were allegedly deleterious to fish, plant life, birds and animals. The Department filed a motion for summary judgment contesting the Butte County District Attorney's allegations. On January 5, 2021, the court entered a final order granting the Department's motion for summary judgment on the grounds the relevant statute did not apply to the Department and dismissed the matter in its entirety. The notice of entry of judgment was filed on January 28, 2021. The Butte County District Attorney filed a notice of appeal on February 9, 2021. The Butte County District Attorney served the Attorney General of the State on March 12, 2021, indicating that Butte County believes this matter can be resolved through mediation. On March 30, 2021, the court ordered the case into mediation.

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. The SCADA systems upgrade associated with Centralized Control System Migration ("CCSM") Phase 4 – Pumping and Generating Plants (the "Phase 4 Upgrade") continues and is currently scheduled to be completed in 2026. The CCSM Phase 4 Upgrade for the Southern Field Division has completed five of the six plants, San Luis Field Division has completed one of two plants, and efforts have started on two Coastal plants in the San Joaquin

Field Division. The Phase 4 Upgrade is the final phase of the currently planned upgrades to the communications systems and the SCADA systems. 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, utilizing plant SCADA system.

Seismic Considerations

State Water Project facilities were designed to withstand earthquakes without incurring major damage. Dams, for example, were designed in accordance with the Division of Safety of Dams criteria in effect at the time of their construction 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 near the San Andreas Fault and other active faults. State Water Project conveyance facilities cross seismically active faults at multiple locations. Pipelines that cross active faults are generally located above ground or 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 pools to perform any needed fault-crossing repairs.

Since the Loma Prieta earthquake of October 1989, 20 earthquakes of magnitude 6.0 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, but the damage caused was minor. The Napa earthquake of August 2014 had a 6.0 magnitude and did not cause damage to State Water Project facilities. The Ridgecrest earthquake sequence in July 2019 consisted of a magnitude 6.4 earthquake followed by a magnitude 7.1 earthquake and did not cause damage to State Water Project Facilities due to their distance from the event. Large earthquakes will continue to occur in and near California for the foreseeable future. Their magnitude, location and time of occurrence cannot 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, which it periodically uses to replace certain equipment. As of April 1, 2021, the reserve was approximately \$38.2 million. The Department is authorized to cause the issuance of notes, payable from available revenues or federal reimbursements under the Robert T. Stafford Disaster Relief and Emergency Assistance 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; Cyber Security

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 other attack on the State Water Project, or significant natural disaster could materially impair system operations and water deliveries.

The Department's cyber security program leverages an in-depth defense approach to maintain the confidentiality, integrity, and availability of the Department's systems and data. The Department has adopted and maintains an active Cyber Security Program ("CSP") that is based on National Institute of Standards and Technology cybersecurity guidance and employs industry standard Center for Internet Security critical security controls. The CSP policies and controls are reviewed regularly by the internal Information Security Team, and State and independent third-party auditors. The Department has appointed a Chief Information Security Officer who oversees the internal Information Security Team. The Information Security Team is responsible for providing security guidance and reviews on the implementation of new technologies based on the Department's CSP as well as overseeing the monitoring of potential threats and vulnerabilities, utilizing and executing security controls to validate policy enforcement, protecting against cyber-attacks, and investigating any potential unauthorized activity or threats to the Department's information technology environment. The information systems and security controls are continuously tested with internal vulnerability assessments that include daily updates. Department staff are required to participate in the Department's information security education and awareness training.

While the Department's cyber security program is periodically reviewed, no assurances can be given by the Department that such measures will ensure the Department won't be subject to material cybersecurity threats and attacks. Cybersecurity breaches could damage the Department's systems and data and cause material disruption to the Department's operations. The costs of remedying any such damage or protecting against future attacks could be substantial. Further, cybersecurity breaches could expose the Department to material litigation and other legal risks, which could cause the Department to incur material costs related to such legal claims or proceedings. The Department does not purchase liability insurance covering cyber-losses and does not require its vendors to purchase technology errors and omissions insurance coverage.

Environmental Considerations

Projects undertaken by the Department are generally subject to 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.

Potential Effects of COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The pandemic is currently affecting many parts of the world, including California and the United States generally. Commerce, travel, and certain asset values have been negatively affected worldwide, financial markets have experienced heightened volatility and it is widely expected that global and local economies, including those within the State, will continue to be negatively affected, at least for some period of time. The Department continues to assess and monitor the effects that the ongoing COVID-19 outbreak and the measures taken by the State and local governments to slow the virus' spread have had and will have on the Department's and the Contractors' finances and operations. Additionally, the Department is utilizing financial tools to mitigate COVID-19 recessionary pressures, including pre-funding of future capital expenditures to bolster its financial flexibility. In December 2020, two vaccines were approved for emergency use in the United States and vaccinations began in California. A third vaccine was approved for emergency use in February 2021.

Reduced economic activity and its associated impacts, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any recession that may occur, may affect aggregate levels of retail water use throughout the State and reduce water demands in the Contractors' service areas. Further, declines in assessed valuations in the Contractors' service areas or increases in property tax delinquencies or non-payment resulting from the economic disruption may negatively affect property tax collections, which is a permitted source of income for the Contractors. On April 2, 2020, Governor Newsom issued Executive Order N-42-20, which, among other things, orders the restoration of water service to residential customers in occupied residences whose service was discontinued for nonpayment during the state of emergency, and suspends the authority of retail water service providers to discontinue water service to residential and qualifying small business customers for nonpayment. The Department cannot predict what effects Executive Order N-42-20 or other governmental actions has had or will have on the finances of the Contractors or their ability to make payments under the Water Supply Contracts. The Department is also unable to predict whether any Contractors will provide additional deferrals, forbearances, adjustments or other changes to their customers or their billing and collection procedures, any of which could affect the ability of the Contractors to make the payments required under the Water Supply Contracts.

To date, the Department has not been notified by any Contractor of any difficulties in making payments under the Water Supply Contracts due to the impact of the COVID-19 outbreak (or otherwise).

The COVID-19 outbreak may directly negatively affect the Department. A protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation of, the Department's State Water Project facilities and may increase the costs of such projects or the Department's operations.

To date, the COVID-19 outbreak has not had a significant impact on the Department's State Water Project operations. The State Water Project has been deemed critical infrastructure by the State and certain categories of its employees have been deemed essential workers. Accordingly, the Department has identified both critical activities and staff to ensure the continued, reliable and safe operation of the State Water Project. For those staff who are continuing to work on-site, as opposed to remotely, the Department has created a robust health and safety plan and implemented increased cleaning efforts. The Department has also coordinated with its contractors on State Water Project construction regarding health and safety plans for the workers at these project sites. The Department is not presently aware of any significant delays in the construction of State Water Project facilities due to the COVID-19 outbreak. Additionally, to date, the Department's receipt of expected payments from the Contractors has not been affected by the COVID-19 outbreak. However, the duration and severity of the outbreak, and the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the outbreak are uncertain, and no assurances can be given that the Department's operations and finances, or those of any Contractor, will not be negatively affected.

STATE WATER PROJECT WATER SUPPLY

General

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. 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," "STATE WATER PROJECT WATER SUPPLY – General" and "THE WATER SUPPLY CONTRACTS.")

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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 Amounts*.") If delivery capability was less than 100 percent of such requests, using the analysis 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 most recent ten calendar years for which data is available.

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**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⁾
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
2017	85	3,401	3,768
2018	35	1,570	2,047
2019	75	2,819	3,058
2020	20	996	1,587

- (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 paragraph preceding this table. 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 Technical Addendum to the Final State Water Project Delivery Capability Report 2019, dated August 26, 2020, 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 1,721,000 acre-feet of water in approximately 75 percent of the water years, at least 2,577,000 acre-feet of water in approximately 50 percent of the water years, and at least 3,097,000 acre-feet of water in approximately 25 percent of the water years. Under the Water Supply Contracts presently in effect, the Contractors may request Table A water from the State Water Project in a maximum amount of 4,172,786 acre-feet. The maximum, contracted amount of Table A water each Contractor may request for delivery each year was established when the Water Supply Contracts were executed and delivered, prior to the final determination of the scope of the State Water Project. Accordingly, the State Water Project's delivery capability in any given year may be significantly less than the Table A water amounts requested by the Contractors. The Department currently expects to deliver 5 percent of Table A water amounts requested by the Contractors for the 2021 water year.

Drought

California has experienced many droughts, recorded as far back as 1841, and has one of the most variable climates of any state in the United States, often experiencing very wet years followed by extremely dry ones. The 2020-21 water year has been very dry through March. 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. (See “STATE WATER PROJECT WATER SUPPLY – Statewide Water Considerations – Climate Change.”) The Department is considering possible plans for a drought response should the current dry conditions continue.

State and Federal Regulations Affecting the State Water Project

The following subsections describe certain state and federal regulations affecting 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,” “STATE WATER PROJECT WATER SUPPLY – General” and “THE WATER SUPPLY CONTRACTS.”)

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.

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 March 2000, the SWRCB implemented the Water Quality Control Plan, as amended through 1995, through a water rights decision known as “D 1641.” D 1641 is still in effect and requires the State Water Project and the federal Central Valley Project to meet the Water Quality Control Plan’s objectives for maintaining water quality. 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 updating the 2006 Plan through two separate plan amendment processes. In 2009, as part of these processes, the SWRCB issued a notice of preparation (“NOP”) and began scoping for environmental documentation to evaluate the effects of potential modifications to the southern Delta salinity and San Joaquin River flow objectives and adopted related amendments to these objectives in December 2018 (the “2018 Plan Amendments”). A future water rights proceeding will be required to modify D 1641 requirements consistent with the amendments. Various stakeholders have since filed suit against the SWRCB challenging these amendments, and these suits are in the pretrial stage. A framework document for the second plan amendment process concerning the Sacramento/Delta Flows and Cold Water, Delta Outflows, and Interior Delta Flows was released in July 2018. Also in July 2018, in response to potential conflicts with federal law, the Bureau submitted a comment letter on the Bay-Delta plan update for the Lower San Joaquin River and Southern Delta indicating that the Central Valley Project shall be operated in conformity with state standards and regulations unless doing so would be inconsistent with federal law. The Bureau and the Department currently share responsibility for achieving many of the standards in the 2006 Plan. The Department believes that should the SWRCB impose regulations that are preempted by federal law this would likely impact State Water Project yield but 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.

As an alternative to the 2006 Plan update process, the Department, the California Department of Fish and Wildlife (“DFW”) and many stakeholders, including water users, public water agencies and non-governmental organizations, have been engaged over the last several years in a process to negotiate Voluntary Agreements (each a “VA”). The VA process is intended to result in negotiated contributions of water, funding, and other measures that would be submitted to the SWRCB for consideration as an alternative to the 2006 Plan update process to implement the Water Quality Control Plan. The Contractors have supported contributions in the form of commitments to forego exports and collect fees on water diversions to fund environmental water acquisition, restoration, and research activities over the proposed 15-year VA term. The specific intended VA contributions and proposed terms of agreement have neither been finalized nor submitted to, or adopted by, the SWRCB and further discussion will be required.

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 the 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 extended to April 30, 2020. The tolling agreement was extended in spring 2020 until the litigation challenging the 2018 Plan Amendments is resolved. 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. Based upon results from these studies, the Department submitted an updated South Delta Salinity Management Plan to the SWRCB in June 2017, which the Department is still operating under. The 2018 Plan Amendments require the Department and the Bureau to develop a Comprehensive Operations Plan (“COP”) to mitigate impacts of the State Water Project and the Central Valley Project on salinity in the southern Delta and to conduct associated studies. A draft COP was submitted to the SWRCB in August 2019 and circulated for public comment by the SWRCB in February 2020. Comments received on the draft COP will be considered prior to a final COP being submitted to the SWRCB. A future SWRCB water right proceeding will be required to impose revised operational requirements relating to the southern Delta water quality objectives on the State Water Project and the Central Valley Project in connection with the COP. Until then, compliance is required with southern Delta water under D 1641 and the SWRCB orders described above.

Federal Endangered Species Act: The Department joins the Bureau in consultations with the U.S. Fish and Wildlife Service (the “USFWS”) and the National Oceanic and Atmospheric Administration-Fisheries (the “NOAAF”) 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 prior opinions and authorize the incidental taking of the following federally listed aquatic species by the two projects: Delta smelt, winter-run Chinook salmon, spring-run Chinook salmon, Central Valley steelhead, Green Sturgeon and Southern resident killer whale. Biological opinions are generally valid until changed conditions or new listings of species would require re-initiation of consultation. In August 2016, the Department and the Bureau requested reinitiation of ESA Section 7 consultation with the USFWS and the NOAAF because of updated data demonstrating low Delta smelt populations and extremely low population levels for the winter-run Chinook salmon, impacts from recent droughts, and evolution of science in the area.

On October 21, 2019, the NOAAF and the USFWS issued biological opinions under Section 7 of the ESA for the Reinitiation of Consultation on the Long-Term Operation of the Central Valley Project and State Water Project (the “2019 Biological Opinions”). The Bureau issued a Record of Decision on February 18, 2020 adopting the 2019 Biological Opinions following completion of an Environmental Impact Statement pursuant to NEPA. The 2019 Biological Opinions effectively replaced the 2008 United States Fish and Wildlife Biological Opinion (the “2008 Biological Opinion”) and the 2009 National Marine Fisheries Service Biological Opinion (the “2009 Biological Opinion”) as the ESA authorizations for the Central Valley Project and the State Water Project.

Under the 2019 Biological Opinions, State Water Project and Central Valley Project operations are to be carried out to maximize exports while supporting listed aquatic species and protecting critical habitats. Operations are based on real-time monitoring. Fishery agencies and water users may make recommendations to the Department and the Bureau regarding the scheduling of water deliveries, and the Bureau and the Department will annually report on water operations as well as seasonal fish performance. Protective criteria apply to reduce the risk of listed species becoming entrained at pumping facilities. Operations personnel also incorporate structured decision-making to implement summer and fall habitat actions to benefit Delta smelt, including but not limited to the use of Suisun Marsh Salinity Control Gates.

On December 2, 2019, a coalition of six environmental organizations, Pacific Coast Federation of Fishermen’s Associations, Institute for Fisheries Resources, Golden State Salmon Association, Natural Resources Defense Council, Defenders of Wildlife, and Bay.org d/b/a The Bay Institute, filed suit challenging the 2019 Biological Opinions in *Pacific Coast Federation of Fishermen’s Associations, et al. v. Raimondo, et al.*, Eastern District of California Case No. 1:20-cv-00431-DAD-EPG (“*PCFFA v. Raimondo*”). As set forth in an amended complaint, the lawsuit brings claims against the NOAAF, the USFWS, the Bureau, and various officials of those federal agencies. The plaintiffs allege that the NOAAF and the USFWS violated the Administrative Procedure Act by concluding in the 2019 Biological Opinions that the Central Valley Project and State Water Project operations described therein would not result in jeopardy to, or adversely modify critical habitat of, listed species. The plaintiffs also allege that the Bureau violated the ESA by adopting and relying on the 2019 Biological Opinions and failed to adequately analyze the operations under NEPA. The case is before Judge Dale A. Drozd of the United States District Court for the Eastern District of California.

On February 20, 2020, the California Natural Resources Agency, the California Environmental Protection Agency and The People of the State of California, by and through the Attorney General of the State, filed litigation challenging the legal adequacy of the 2019 Biological Opinions and the operations authorized thereunder. The lawsuit names the following defendants: the United States Secretary of Commerce; the Assistant Administrator for Fisheries at the National Oceanic and Atmospheric Administration; the National Marine Fisheries Service; the United States Secretary of the Interior; the Director of the USFWS; the USFWS; the Commissioner of the Bureau; and the Bureau. The case, *California Natural Resources Agency, et al. v. Raimondo, et al.*, Eastern District of California Case No. 1:20-CV-00426-DAD-EPG (“*CNRA v. Raimondo*”), is closely related to *PCFFA v. Raimondo* and is also before Judge Drozd.

The plaintiffs in *CNRA v. Raimondo* filed an amended complaint on April 21, 2020 expanding their arguments that water operations under the 2019 Biological Opinions are not adequately protective of listed species. The amended complaint alleges that the conclusions in, and the Bureau’s adoption of, the 2019 Biological Opinions violated the ESA and the Administrative Procedures Act. The complaint also asserts that the Bureau was required to, but did not, secure an incidental take permit under the California Endangered Species Act (the “CESA”). In addition, the complaint alleges that the Bureau violated NEPA.

The parties have argued motions in both *PCFFA v. Raimondo* and *CNRA v. Raimondo*. On May 11, 2020, Judge Drozd issued a ruling that granted, in part, Motions for Preliminary Injunction that were separately filed by the plaintiffs in *PCFFA v. Raimondo* and *CNRA v. Raimondo*. The court’s order, which expired on May 31, 2020, enjoined export operations in the South Delta under the 2019 Biological Opinions, temporarily reinstating required

operations in the 2009 Biological Opinion that restrict pumping by imposing an import-to-export ratio based upon San Joaquin River flow measured at Vernalis, California.

Judge Drodz's May 11, 2020 order did not fully address the Motion for Preliminary Injunction in *PCFFA v. Raimondo*, holding certain issues related to Shasta Reservoir operations in abeyance for further consideration. Following additional briefing, the court ultimately denied the remainder of the *PCFFA* plaintiffs' Motion for Preliminary Injunction on June 24, 2020.

On June 2, 2020, some defendants in *CNRA v. Raimondo* filed motions to dismiss the CESA cause of action asserting that, as a state law, CESA does not apply to Central Valley Project operations. If the court denies the motions to dismiss and the holding is upheld following any appeals, the Bureau may need to seek a permit under CESA from DFW. On March 25, 2021, following the recommendation of all parties, Judge Drodz issued an order holding the motion to dismiss in abeyance to allow officials from the new federal administration to review the case in its entirety. The parties will file a joint status report on May 10, 2021, informing the court of their positions on continuing the abeyance.

The Department believes that should one or more of the aforementioned claims and actions relating to the 2019 Biological Opinions and the operations authorized thereunder result in the invalidation of the 2019 Biological Opinions, such an invalidation could affect State Water Project yield and the Department cannot predict what effect, if any invalidation would have on the Department's ability to continue to operate and maintain the State Water Project. The Department does not expect any such invalidation to have a material adverse effect on the security for, or the Department's ability to repay, the Bonds.

On January 20, 2021, President Biden issued an Executive Order titled "Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis," which, among other things, requested the heads of certain federal agencies to review actions, including the 2019 Biological Opinions to determine whether they are inconsistent with, or present obstacles to, the policy and objectives of the Biden Administration. Under the Executive Order, if the 2019 Biological Opinions are deemed incompatible with the Biden Administration's policy and objectives, the heads of such federal agencies "shall, as appropriate and consistent with applicable law, consider suspending, revising, or rescinding" them. The Department cannot predict what the result of this review will be or what effect, if any, a determination of incompatibility would have on the 2019 Biological Opinions or on the Central Valley Project and State Water Project operations authorized thereunder.

State Endangered Species Act. Delta smelt and winter-run and spring-run Chinook salmon are dual-listed species, meaning they are afforded protections under both the federal ESA and CESA, whereas longfin smelt is listed under CESA but not listed under the federal ESA. Prior to 2020, to obtain the authority under the CESA to "take" the dual-listed species, the Department requested a "consistency determination" from DFW for the recently superseded 2008 Biological Opinion and for the 2009 Biological Opinion. In July 2009, DFW issued its determination that both biological opinions were consistent with CESA. In the absence of a federal listing and an applicable biological opinion, authority to take longfin smelt was provided by an incidental take permit issued by DFW pursuant to CESA.

In 2019, the Department applied for a new incidental take permit covering the dual-listed species – Delta smelt and salmon, the State listed longfin smelt, and the Department began environmental analysis for the long-term operations of the State Water Project in support of its application.

On March 27, 2020, the Department certified a final EIR for the long-term operations of the State Water Project and, on March 31, 2020, DFW issued an incidental take permit for all three species covering the operations under CESA. The incidental take permit replaced the Department's prior CESA authorizations. Operations under the incidental take permit use real-time decision-making based on updated modeling, monitoring, and quantitative analyses. The Department and DFW jointly assess risks and, in some circumstances, DFW may make real-time

operational decisions when the Department and DFW do not agree. Operations under the incidental take permit provide for a limited amount of increased pumping during storm events when protective criteria are met. The operations incorporate seasonal and daily loss thresholds for salmon, one or more barriers to reduce straying of migrating salmon, more restrictive criteria for longfin smelt, and greater reliance on the Suisun Marsh Salinity Control Gates to improve habitat conditions for Delta smelt. In addition, the State Water Project is responsible for providing dedicated water for summer or fall Delta outflow as well as spring maintenance flows to benefit listed species.

Multiple lawsuits have been filed challenging the Department's and DFW's authorizations related to the incidental take permit. The rest of this section describes the lawsuits the Department has received to date, all of which were originally filed in May or June of 2020.

The Central Delta Water Agency and South Delta Water Agency filed a complaint in *Central Delta Water Agency et al. v. California Department of Fish & Wildlife et al.*, in which the Department is a defendant. The complaint alleges that the Department's approval of long-term State Water Project operations violated CEQA, the Delta Reform Act, the 1959 Delta Protection Act, the 1992 Delta Protection Act, the Watershed Protection Act and the Public Trust Doctrine.

The North Coast Rivers Alliance, Institute for Fishery Resources, Pacific Coast Federation of Fishermen's Associations, San Francisco Crab Boat Owners' Association, and the Winnemum Wintu Tribe filed a complaint in *North Coast Rivers Alliance et al. v. Department of Water Resources et al.* The complaint alleges that the Department's actions in approving the long-term State Water Project operations violated CEQA, the Delta Reform Act, the Public Trust Doctrine, and sections 1085 and 1094.5 of the California Code of Civil Procedure. The complaint also identifies the Bureau as a real party in interest.

The State Water Contractors, Inc. ("SWC") and Kern County Water Agency ("KCWA") filed a complaint in *State Water Contractors et al. v. California Department of Fish and Wildlife et al.*, in which the Department is a defendant. The petitioners allege that the Department failed to comply with CEQA's procedural requirements and that there is no substantial evidence to support the Department's certification of the final EIR or approval of the selected project alternative. The lawsuit also brings causes of action against DFW, including alleged violations of CESA and CEQA. The petitioners filed a First Amended Petition and Complaint on August 7, 2020, adding causes of action against the Department alleging breach of contract and breach of good faith and fair dealing. The First Amended Petition and Complaint also added the following petitioners: Antelope Valley-East Kern Water Agency, Central Coast Water Authority, Dudley Ridge Water District, County of Kings, Oak Flat Water District, Palmdale Water District, Santa Clarita Valley Water Agency, San Gabriel Valley Municipal Water District, and Tulare Lake Basin Water Storage District.

Metropolitan and the Mojave Water Agency ("MWA") filed a complaint in *Metropolitan Water District of Southern California et al. v. California Department of Fish and Wildlife et al.*, in which the Department is a defendant. The complaint alleges that the Department failed to adequately analyze the environmental impact of long-term operations of the State Water Project pursuant to CEQA. In addition, the lawsuit alleges that the incidental take permit includes excessive mitigation and, by accepting the incidental take permit, the Department, and the California Natural Resources Agency as a real party in interest, breached the Water Supply Contracts with Metropolitan and MWA. Similar to the SWC lawsuit, this lawsuit also alleges that DFW violated CESA and CEQA. A First Amended Petition and Complaint, filed on August 5, 2020, added Coachella Valley Water District, San Geronio Pass Water Agency, and Municipal Water District of Orange County as petitioners.

Petitioners filed a complaint in *Tehama-Colusa Canal Authority et al. v. California Department of Water Resources et al.* alleging that the Department failed to comply with CEQA when analyzing and approving long-term operations of the State Water Project.

Petitioners filed a complaint in *San Bernardino Valley Municipal Water District v. California Department of Water Resources, et al.* with claims that are similar to those in the above described Metropolitan and SWC cases. This complaint alleges that the Department's actions do not comply with CEQA and resulted in breach of contract, and that DFW violated CEQA and CESA. This lawsuit also includes a cause of action against the Department under the takings provisions of the United States and California Constitutions.

Petitioners filed a complaint in *San Francisco Baykeeper v. California Department of Water Resources, et al.* alleging that the Department's actions in approving the long-term State Water Project operations violated CEQA. The petitioners also claim that DFW violated CESA and CEQA.

Petitioners filed a complaint in *Sierra Club et al. v. California Department of Water Resources* alleging that the Department's actions in approving the long-term State Water Project operations violated CEQA, the Delta Reform Act, and the Public Trust Doctrine.

The eight lawsuits identified above have been coordinated in the Sacramento County Superior Court, CDWR Water Operations Cases, Judicial Council Coordination Proceeding No. 5117, and assigned to Judge Steven M. Gevercer. At a case management conference on March 19, 2021, Judge Gevercer directed the parties to brief the issue of whether the CEQA and CESA causes of action should be bifurcated from and resolved before proceeding with the remainder of the claims. The court scheduled a hearing on the bifurcation motion and a subsequent case management conference on May 7, 2021. The Department has not yet filed responsive pleadings in any of these eight lawsuits.

The Department cannot predict what effect, if any, an adverse determination in this litigation would have on the Department's ability to continue to operate and maintain the State Water Project. The Department does not expect any such determination to have a material adverse effect on the security for, or the Department's ability to repay, the Bonds.

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.

Delta Stewardship Council and Related Legislation. The Delta Stewardship Council was created pursuant to the Delta Reform Act, part of a legislative package enacted in November 2009. The legislative package attempted to address key aspects of the State's water situation, with 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 Delta Stewardship 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 would be able to remedy three Delta Plan deficiencies. The Delta Stewardship Council and all but one of the other parties filed appeals with the Court of Appeal challenging the judgments in their respective cases. The Court of Appeal issued its ruling on April 10, 2020 affirming the validity of the Delta Plan, taking into account certain of the amendments described in the next paragraph. Appellants State Water Contractors et al. submitted a petition for rehearing on June 2, 2020, which was denied. Appellants then, on June 22, 2020, filed a petition for review with the California Supreme Court, which was denied on August 12, 2020.

Between the trial court decision and the Court of Appeal decision, the Delta Stewardship Council approved Delta Plan amendments on April 26, 2018, and in May 2018, several groups filed four lawsuits against the Delta Stewardship Council in State court, seeking a writ of mandate and relief directing the Delta Stewardship Council to vacate its approval of the Delta Plan amendments. These four lawsuits were consolidated and are currently pending.

Water Supply Reliability, Delta Conservation and Infrastructure. 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 and ensure water supply reliability for the Contractors.

This resulted in the proposed Bay Delta Conservation Plan (“BDCP”). In 2015, a change in permitting approach resulted in the BDCP transitioning to the California WaterFix, a proposed two-tunnel water conveyance facility authorized under different provisions of the ESA and CESA, not as part of a Habitat Conservation Plan or Natural Community Conservation Plan under federal and State law. A component of the large-scale environmental restoration in the Delta originally proposed in the BDCP would be implemented through a separate program designated as California EcoRestore (described in part below). In 2017, the Department approved California WaterFix, filed a validation action and worked towards obtaining relevant permits and authorizations necessary for construction and implementation. Several lawsuits ensued as a result of the California WaterFix approval and validation action and were consolidated in the Sacramento Superior Court (Sacramento County Superior Court Case No. 34-2017-80002666).

In his first State of the State Address, delivered on February 12, 2019, Governor Gavin Newsom announced that he did not support California WaterFix and laid out a new direction for Delta conveyance and expressed his support for a revised project consisting of a single tunnel. On April 29, 2019, Governor Newsom issued Executive Order N-10-19, which detailed his new policy direction regarding water issues in the state, including Delta conveyance, and directed several state agencies to take action implementing his policies. The Department assessed the nature and extent of the actions necessary as a result of the Governor’s statements and, beginning on May 2, 2019, took several actions in response.

The Department’s actions included rescinding all project approvals for California WaterFix and withdrawing its Petition for Change in Points of Diversion and Rediversion and Application for Section 401 Certification of the Clean Water Act. This withdrawal ended the water rights hearing before the SWRCB. In July 2019, the Department and all plaintiffs filed requests for dismissal in the numerous lawsuits that had been filed regarding the California Waterfix following its approval. Plaintiffs and petitioners in these actions moved for fees and costs totaling over \$13 million, which the trial court denied. Plaintiffs and petitioners have appealed, and briefing is currently expected to be completed in summer of 2021.

The Department has begun the environmental review, planning, design and engineering of a proposed single tunnel, smaller capacity project, consistent with Governor Newsom’s direction. The Department issued a NOP of an EIR for the proposed project on January 15, 2020. As described in the NOP, the proposed Delta conveyance project includes constructing and operating new facilities in the Delta that would add to the existing State Water Project infrastructure. The new facilities would include intake structures on the Sacramento River and a tunnel to convey water to the existing pumping plants in the south Delta. The proposed Delta conveyance project would be operated in coordination with the existing south Delta pumping facilities, resulting in a system known as “dual conveyance” because there would be two complementary methods to divert and convey water.

Under the direction and authority of the Department, the Delta Conveyance Design and Construction Authority (the “DCA”) is providing design and engineering support for the environmental review process. The DCA is also continuing to conduct a stakeholder engagement process with Delta communities to find ways to avoid or minimize local land use concerns and impacts through design and engineering.

On July 24, 2019, the Department and the Contractors began a public negotiation with the goal of reaching an agreement in principle on a conceptual approach to cost allocation and water management matters related to this Delta conveyance facility. The negotiations concluded on April 30, 2020 with the announcement of such an agreement in principle that, if approved by the Department and the Contractors, would be the basis for amendment of the Water Supply Contracts. As of the date hereof, 18 Contractors have approved the agreement in principle. An additional public negotiation session was held on March 29, 2021 for the purpose of considering non-substantive revisions to the AIP. In August 2020, the DCA prepared and presented an assessment of the possible cost of a Delta conveyance facility as then contemplated of approximately \$16 billion.

Whether and/or the extent to which a conveyance system will be implemented, the final form of any implementation, the process and cost of any implementation and who would pay such costs of any conveyance system are all still under discussion with relevant stakeholders and could vary significantly from past projections, estimates and/or assessments.

Fish and Habitat Restoration Programs. 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 \$149 million and expects to spend in total approximately \$321 million for certain habitat restoration activities. These activities are intended to be credited towards CESA and ESA habitat restoration requirements.

Separate from the BDCP and any Delta conveyance facility, the State intends to pursue more than 30,000 acres of Delta habitat restoration. This new approach to improving the ecological health of the Delta, independent from any Delta conveyance facility, 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 approximately \$750 million to \$950 million to complete all efforts, of which approximately \$500 million is expected to be financed long-term with Bonds for the costs of habitat restoration required to mitigate State and federal water project impacts pursuant to the biological opinions. The remaining \$250 million to \$450 million is expected to be funded from other non-State Water Project sources in connection with flood and multi-benefit projects.

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 possible 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 a possible 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 prepared an update to that plan and the Central Valley Flood Protection Board adopted the updated plan in August 2017.

Statewide Water Considerations

Climate Change. Climate change caused by human activities is having, and is likely to continue to have, an effect on State 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 the State'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 the State. 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, which could impact the ability of the Department to deliver water through the Delta.

The Department considers the potential effects of climate change in both its project-level and long-term planning. The Department's Climate Action Plan ("CAP") covers both mitigation and adaptation planning and is available on the Department's website. Phase I: Greenhouse Gas Emissions Reduction Plan, originally released in 2012 and updated in July 2020, presents the Department's historical, current and projected future greenhouse gas emissions and establishes the Department's emissions reduction goals and measures. In September 2018, the Department released Phase II: Climate Change Analysis, which provides guidance for the Department's decision making and assists Department project managers in incorporating climate change analysis into their planning for Department activities. Phase III: Climate Change Vulnerability Assessment was released in February 2019, and the accompanying CAP Phase III Adaptation Plan was approved in July 2020. 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.

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. More 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. In June 2018, voters approved Proposition 68 (the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access For All Act of 2018). Proposition 68 allocated approximately \$870 million to the Department for multi-benefit projects that achieve public safety improvements and fish and wildlife enhancement, the Salton Sea, urban streams, groundwater support, groundwater grants, the Delta, and floodplain management.

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, groundwater storage, and conservation. Alternatives under consideration include (1) new reservoir storage north and south of the Sacramento-San Joaquin Delta, (2) a Delta conveyance facility, (3) conjunctive use of surface water with groundwater in State Water Project service areas, (4) purchase of water from federal or local sources, 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 – *Water Supply Reliability, Delta Conservation and Infrastructure.*”)

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. The Department can give no assurances that future legislation or regulation in this area will not result in reductions in the water supply available to the State Water Project. (See “STATE WATER PROJECT WATER SUPPLY – 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 State Water Project (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, the Department implemented containment measures in the West Branch of the State Water Project in an effort to prevent spread to uninfested waterbodies. The small mussel population (two individual mussels) remains isolated and contained in Pyramid Lake.

In March 2017, nutria were discovered in the State. Nutria are large semi-aquatic rodents native to South America. Nutria create burrows in river banks and feed on wetland vegetation, activities that have the potential to damage levees, create risks to the water supply and compromise flood control measures. As of February 17, 2021, over 2,200 individual nutria had been captured in the State, 108 of which were captured in the southern Sacramento-San Joaquin Delta. The Department is part of a multi-agency nutria eradication project being led by DFW. As part of its effort to assess and manage risk, the Department has prepared an infrastructure protection plan to identify and protect potentially at-risk infrastructure that could be affected by nutria.

Land Subsidence. The loss of surface elevation due to removal of subsurface support has occurred across the State. Subsidence is one of the most diverse forms of ground failure, ranging from small or local collapses to broad regional loss of surface elevation. The causes of subsidence are mostly due to human activities. According to the U.S. Geological Survey, the compaction of susceptible aquifer systems caused by excessive groundwater pumping is the single largest cause of subsidence in the State.

Land subsidence caused by groundwater pumping or other causes has decreased aqueduct capacity and operational flexibility in some areas, which has resulted in increased operating costs to maintain water deliveries. The Department has taken a series of actions to minimize the impact of subsidence, such as raising the California Aqueduct concrete liner and installing additional instrumentation. The Department is currently in the design stage of actions to be completed within the next five years to restore the design capacity and operational flexibility of the California Aqueduct. These actions are estimated to cost approximately \$400 to \$500 million.

In addition, the Department is performing a planning study to identify long-term solutions to address the impacts of subsidence for the next 50 years. This planning study will explore alternatives to the traditional California Aqueduct embankment raises that have been performed over the prior 50 years to address subsidence. The planning study is expected to be completed in 2024.

Two-thirds of the roughly 100-miles comprising the most damaged reaches of the California Aqueduct are state/federal joint use facilities, and a substantial portion of the estimated \$400 million to \$500 million costs for restoring the design capacity and operational flexibility is within the joint use facilities. Absent other specific state or federal funding, remediation of the California Aqueduct will be funded by the Contractors, with the repairs to joint use facilities cost-shared by the Bureau, pending congressional appropriation.

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 the State 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 facilities and three 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 3,000 and 10,000 GWh. By way of comparison, the total

2019 consumption for all electricity users in the State was approximately 279,402 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 time of day when electricity prices are lowest 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 principally during the time of day when electricity prices are highest. This flexibility in the scheduling of the Department’s generation and load enables the Department to sell energy from its generation at a higher price than the price of energy the Department must purchase for its pump load.

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; nine 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.; the 9.5 MW Pearblossom Solar facility, which is owned and operated by Solar Star California XLIV, LLC; the 85 MW Solverde 1 Solar facility, which is owned and operated by S-Power (Sustainable Power Group); and a 3 MW share of the Boulder Canyon Project, owned and operated by the Bureau and marketed through the U.S. Western Area Power Administration.

In addition, the Department recently entered into three new long-term power purchase agreements for solar energy with a combined capacity of 184 MW. These facilities will be located in California and will begin generating by the end of 2022. These facilities consist of the 100 MW Big Rock solar facility, to be owned and operated by 92JT 8me, LLC (8minute Solar Energy), the 48 MW Edwards Solar 1B and the 36 MW Sanborn Solar 1B solar facilities, to be owned and operated by Terra-Gen, LLC.

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 the current estimates of capacity, the originally expected megawatt hour (“MWh”) generation, the construction costs and the 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.....	276	1,770,000	198.4	1993
Mojave Siphon Powerplant	30	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 “POWER OPERATIONS OF THE STATE WATER PROJECT – Historical Sources of Power for State Water Project Operations” herein for actual power generation amounts for calendar years 2016 through 2020. See also the map 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 the State 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)
2016	\$277	\$67
2017	368	67
2018	257	74
2019	258	38
2020	125	30

The power costs in 2017 were higher than in the other years in the preceding table primarily because of the significantly higher volume of water delivered than in previous years. (See “STATE WATER PROJECT WATER SUPPLY – Annual Water Deliveries.”) The power costs in 2020 were lower than previous years primarily due to the significantly lower volume of water delivered in 2020.

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 periods on the daily energy consumption cycle when the demand for and the cost of energy is 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 bills sent to Contractors, 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 2016 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 or unpredictability in the State 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 2016 through 2020 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)				
	2016	2017	2018	2019	2020
State Water Project Hydroelectric Plants					
Gianelli (San Luis)	87	170	124	182	80
Castaic	460	494	382	335	401
Devil Canyon	874	1,494	787	1,245	383
William E. Warne (Pyramid).....	283	294	230	205	240
Hyatt-Thermalito Complex (Oroville)	1,691	2,362	1,315	2,683	1,308
Alamo	66	103	52	63	41
Thermalito Diversion Dam.....	20	11	16	16	13
Mojave Siphon	53	98	43	77	23
Subtotal SWP Sources ¹	<u>3,535</u>	<u>5,026</u>	<u>2,950</u>	<u>4,806</u>	<u>2,489</u>
Power Purchases	2,359	2,783	2,116	1,591	936
Energy via Exchanges	0	0	0	0	0
Total Sources.....	<u>5,894</u>	<u>7,809</u>	<u>5,066</u>	<u>6,397</u>	<u>3,425</u>
Less Power Sales (Excess Sources)	705	1,883	1,771	872	690
Plus Net Transactions through CAISO	<u>-1,407</u>	<u>-3,729</u>	<u>-2,436</u>	<u>-2,185</u>	<u>-1,139</u>
SWP Load ¹	<u>6,597</u>	<u>9,655</u>	<u>5,731</u>	<u>7,711</u>	<u>3,874</u>

⁽¹⁾ Totals may not foot due to rounding

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. The Department also has several transmission agreements with Southern California Edison and 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 11-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. Vegetation management activities to limit wildfire risk and to meet compliance requirements issued by the North American Electric Reliability Corporation, a not-for-profit international regulatory authority, are performed by PG&E in accordance with an agreement with the Department.

The approximately one-mile Pine Flat 230 kilovolt transmission line is solely owned by the Department. This transmission line, which the Department conducts vegetation management for, emanates from the Pine Flat Powerplant and interconnects with PG&E's system. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *FERC Relicensing – State Water Project – Pine Flat.*”)

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

Co-Tenancy of Castle Rock-Lakeville Transmission Line: The Department terminated a contract with PG&E, the Northern California Power Agency (“NCPA”) and the City of Santa Clara, in which it was a co-tenant in the 38-mile Castle Rock-Lakeville 230 kilovolt transmission line. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *Castle Rock-Lakeville Transmission Line.*”) The Department's termination was effective August 1, 2019. The remaining co-tenants claim the Department has some remaining financial liabilities related to the cost of the potential future removal of the line. The Department maintains its position that its termination of the agreement was legally executed and that it does not retain any liability for the cost of removing the line. It is possible that if the line were involved in a wildfire, the Department would be named in the suit for damages. PG&E is responsible for the operation and maintenance, including vegetation management, of the line.

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 the State. The Department is participating in these proceedings because the outcome of these proceedings has the potential to increase the Department's annual power costs. However, the Department does not believe that any increased charges arising from these proceedings will materially impact the Department's operations or ability to pay debt service on the Bonds. Any increased charges will be passed through to the Contractors under the Water Supply Contracts in the form of higher operating charges.

Reid Gardner Termination, Groundwater Contamination Cleanup and Environmental Lawsuit

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

In February 2008, NVE entered into an Administrative Order on Consent with the Nevada Division of Environmental Protection, pursuant to which NVE agreed to undertake investigatory activities and remediate any 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 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 appealed the court’s decision. On December 20, 2018, the appellate court issued its ruling in the case, which held that the plaintiffs could not bring an action under CEQA because the Federal Power Act preempts state law with regard to the FERC relicensing process. The plaintiffs appealed. On appeal, the California Supreme Court remanded the case to the appellate court for reconsideration in light of *Eel River v. North Coast Railroad Authority* (2017) 3 Cal. 5th 677. The appellate court again found the challenge to the EIR to be preempted by the Federal Power Act. Plaintiffs appealed again, and the California Supreme Court accepted the case. Briefing on the case is completed and the case awaits decision. 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. The new license has not yet been issued. 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 NCPA in May 2010 to purchase a portion of the output of the Lodi Energy Center (“LEC”), which is a 280 MW natural gas-fired combined cycle power plant located in Lodi, California and which is owned, operated, and maintained by NCPA. The LEC began operation in November 2012. Under the Power Sales Agreement, the Department receives 33.5

percent of the output of the LEC and pays NCPA for a proportionate share of the construction, operation, and maintenance costs of the LEC. The Department uses its share of the LEC to meet State Water Project energy requirements, including replacing a portion of the energy previously provided by the Reid Gardner Project. (See APPENDIX H – “WATER SYSTEM PROJECTS – Project Descriptions – *Reid Gardner Project.*”)

Renewable Energy

The Department currently manages seven renewable energy qualified contracts as noted below.

The Department has a long-term contract for renewable energy and renewable energy credits (“RECs”) from the RE Camelot Solar Photovoltaic Project, which is owned and operated by Dominion Solar Holdings, Inc. and is located near Mojave, California 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 alternating current plant is expected to deliver 124,000 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 and RECs.

The Department executed a 20-year 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 September 9, 2019, the Department executed a Power Purchase Agreement for the energy output and RECs of four small hydroelectric plants totaling 29 MW owned and operated by Metropolitan. This Power Purchase Agreement is effective October 1, 2019 through September 30, 2022 with an estimated annual delivery output of 93,000 MWh.

The Department recently executed three Power Purchase Agreements to procure renewable energy generation and related RECs from three new solar photovoltaic facilities to be built in California. All three facilities are due to be built and achieve commercial operation by January 2023. 92JT 8me, LLC with a capacity of 100 MW (ac), owned by 8minute Solar Energy, will provide 300,000 MWh annually for 25 years and will be located in Imperial County, California. Edwards Solar 1B with a capacity of 48 MW (ac) and Sanborn Solar 1B with a capacity of 36 MW (ac), both owned by Terra-Gen, LLC, will provide a combined 250,000 MWh annually for 20 years and will be located in Kern County, California.

The Department regularly examines additional renewable opportunities to meet greenhouse gas targets as set out in the CAP. (See “STATE WATER PROJECT WATER SUPPLY – Statewide Water Considerations – *Climate Change.*”)

According to the Office of Senate Floor Analyses, Senate Bill 100, signed by Governor Edmund G. Brown on September 10, 2018, has the potential fiscal effect of increasing Department costs for compliance by up to \$15 million per year until 2045 to meet the 100 percent renewable or zero-carbon standard.

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. The powerplant was repaired and has returned to full service as of September 2020. 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 were financed with Bonds. (See APPENDIX H – "WATER SYSTEM PROJECTS – Project Descriptions – *Thermalito Powerplant Cleanup and Reconstruction*").

No Relationship to Power Supply Revenue Bonds

In response to the State energy crisis of 2000-01, the Department created the separate California Energy Resources Scheduling 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 issued Power Supply Revenue Bonds to finance and refinance a portion of the costs of the Power Supply Program. As of October 2020, there were sufficient funds being held in irrevocable escrow accounts to pay in full all outstanding Power Supply Revenue Bonds through maturity. Accordingly, revenues to pay such bonds are no longer being remitted to the Department and the Department has no remaining liability with respect to the Power Supply Revenue Bonds other than to pay them from the escrow accounts.

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.

No Relationship to any Bonds Issued by the Department under the Wildfire Prevention and Recovery Act of 2019

The Wildfire Prevention and Recovery Act of 2019 became effective in July 2019 (the "Wildfire and Recovery Act"). The Wildfire and Recovery Act was part of a legislative package designed, among other reasons, as a response to the increased utility wildfire risk to the communities and properties in the State. Under the Wildfire and Recovery Act the Department is authorized to issue bonds in an aggregate principal amount of up to \$10.5 billion (the "Wildfire Fund Revenue Bonds") to fund, in part, a Wildfire Fund created under such legislation, to pay eligible claims related to a covered wildfire. At this time, no Wildfire Fund Revenue Bonds have been or are expected to be issued.

The State Water Project and the Wildfire Fund have separate and distinct sources and uses of funds. Revenues pledged to secure payment of the Bonds may not be used to pay Wildfire Fund Revenue Bonds (if issued) or any other expenses of the related program, and resources pledged to secure the payment of the Wildfire Fund Revenue Bonds (if issued) 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 \$3,850,000 in aggregate principal amount were outstanding as of March 1, 2021 and which have a scheduled final maturity of November 1, 2024. 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 \$3.005 billion of additional Bonds to finance completion of existing Water System Projects. (See "THE WATER SUPPLY CONTRACTS – Contract Extension Amendment" and APPENDIX H – "WATER SYSTEM PROJECT – Capital Expenditures for Water System Projects.") In addition, the Department could issue additional Bonds to finance all or a portion of the settlement agreement costs associated with 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 undertake additional capital projects in the future that are financed long-term with Bonds. The Department may also undertake additional capital projects in the future and these future projects could result in the issuance of obligations secured by revenues under the Water Supply Contracts, other than Notes issued under the related resolution and Bonds issued under the Resolution. These obligations could be issued 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 – *Water Supply Reliability, Delta Conservation and Infrastructure*.").

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.

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.

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. 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 paid by the Department on an on-going basis with available State Water Resources Development System revenues . If additional funding is required for these purposes, the Department may be required to seek additional appropriations.

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 – Contractor Claims and Tolling and Waiver Agreement.”)

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 fifty-five series of Bonds totaling \$11,491,765,000 in aggregate principal amount, of which \$2,956,940,000 in aggregate principal amount were outstanding under the Resolution as of March 1, 2021. A portion of the outstanding Bonds in the aggregate principal amount of \$149,245,000 are variable rate bonds. The remaining outstanding Bonds are fixed rate bonds. All of the Bonds are secured equally and ratably with the Series BD and BE 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. 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, of which \$16,955,000 in aggregate principal amount were outstanding as of March 1, 2021. 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 after giving effect to the issuance of the Series BD and BE Bonds and the application of the proceeds thereof as described herein.

	When Issued	Final Maturity	No. of Series	Original Principal Amount in Millions	Outstanding Principal Amount in Millions
Devil Canyon-Castaic Bonds ⁽¹⁾	1972	2022	1	\$ 139	\$ 17
Water System Revenue Bonds	1986-2021	2035	57	12,026	3,245 ⁽²⁾
Total ⁽³⁾				<u>\$12,165</u>	<u>\$3,262</u>

⁽¹⁾ Not secured by the Revenues securing the Bonds.

⁽²⁾ \$183,275,000 in principal amount is expected to be paid on December 1, 2021.

⁽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 \$600,000,000 or the principal amount of Series 1 Notes supported by the credit agreement then in effect (currently \$600,000,000). The Department has also authorized the issuance of its Series 2 Notes, Series 3 Notes and Series 4 Notes in an aggregate principal amount outstanding at any one time not to exceed the lesser of \$800,000,000 or the aggregate principal amount of Series 2, 3 and 4 Notes supported by the credit agreement(s) then in effect (currently \$800,000,000). The Department’s Note program is designed to be an ongoing source of interim financing for Water System Projects prior to long-term financing from the sale of Bonds absent unusual circumstances (see “CALIFORNIA STATE WATER PROJECT – Oroville Dam Spillways Response, Recovery and Restoration Project”). The Department’s obligation to make debt service payments on the Notes is subordinate to its payment obligations with respect to the Bonds. Proceeds from the Series 1 Notes have been used to provide funds for costs related to the Oroville Dam Spillways Response, Recovery and Restoration Project as well as costs related to other Water System Projects. Proceeds from the Series 2 Notes have also been used to provide funds for costs related to the Oroville Dam Spillways Response, Recovery and Restoration Project. (See “CALIFORNIA STATE WATER PROJECT – Oroville Dam Spillway Response, Recovery and Restoration Project” and APPENDIX H – “WATER SYSTEM PROJECTS.”) The Department has approximately \$214.5 million, \$405.4 million, and \$1.3 million in aggregate principal amount of Series 1 Notes, Series 2 Notes, and Series 3 Notes outstanding as of April 22, 2021, respectively, and expects a portion of both the Series 1 Notes and the Series 2 Notes to be paid with proceeds of federal reimbursement for costs of the Oroville Dam Spillways Response, 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 4 Notes are currently outstanding. To date, approximately \$227.4 million of the Series 2 Notes have been paid from federal reimbursements. Approximately \$283 million of the Series 2 Notes and \$1.3 million of the Series 3 Notes are expected to be paid with proceeds of the Series BD and BE Bonds.

Pursuant to a Revolving Credit Agreement that is scheduled to expire on October 15, 2021 (the “Series 1 Notes Credit Agreement”), 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 February 9, 2024, JPMorgan Chase 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, 3 and 4 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, from payments under the Water Supply Contracts and other available funds, including federal reimbursement. In the event that amounts received by the

Department under the Water Supply Contracts, after accounting for any other available funds (e.g. federal reimbursement), 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 BD and BE 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 BD and BE Bonds		Total Debt Service	Grand Total ⁽³⁾
		Principal	Interest ⁽²⁾		
2021	\$288,521,981	\$ 4,935,000	\$ 7,817,055	\$ 12,752,055	\$301,274,037
2022	308,670,679	9,435,000	14,654,265	24,089,265	332,759,944
2023	276,733,577	41,960,000	14,639,640	56,599,640	333,333,217
2024	279,187,252	37,200,000	14,532,642	51,732,642	330,919,894
2025	292,299,213	18,900,000	14,095,933	32,995,933	325,295,146
2026	199,827,974	91,520,000	13,318,768	104,838,768	304,666,742
2027	287,448,957	18,760,000	11,737,097	30,497,097	317,946,054
2028	270,343,362	19,620,000	10,882,272	30,502,272	300,845,634
2029	276,000,201	20,515,000	9,982,251	30,497,251	306,497,452
2030	196,689,454	21,465,000	9,033,135	30,498,135	227,187,589
2031	197,508,307	22,470,000	8,034,405	30,504,405	228,012,712
2032	163,950,065	57,840,000	6,983,325	64,823,325	228,773,390
2033	144,031,589	78,900,000	5,165,440	84,065,440	228,097,029
2034	201,130,518	26,205,000	2,849,895	29,054,895	230,185,412
2035	164,216,845	64,075,000	1,856,507	65,931,507	230,148,352
Total⁽²⁾	\$3,546,559,973	\$533,800,000	\$145,582,631	\$679,382,631	\$4,225,942,603

(1) Reflects the actual accrued interest on the Bonds of Series AT through April 1, 2021. Thereafter, the interest accrued on the variable rate Bonds of Series AT has been assumed at 3.00 percent per annum. Includes capitalized interest on the Department's Water System Revenue Bonds Series BB and Series BC in the aggregate amount of \$23,057,729 for calendar year 2021.

(2) Includes capitalized interest on the Series BD and BE Bonds in the aggregate amount of \$16,088,437 (See "ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES BD AND BE BONDS").

(3) Totals may not sum due to rounding. After the issuance of the Series BD and BE Bonds and the application of the proceeds thereof, the Department will have \$3,244,610,000 in aggregate principal amount of Bonds outstanding. (See "PLAN OF REFUNDING").

The Department does not anticipate issuing any additional Bonds with a final maturity date later than December 1, 2035 until the contract extension amendment to the Water Supply Contracts becomes effective. (See "THE WATER SUPPLY CONTRACTS – Contract Extension Amendment.") As of the date hereof, the Department anticipates issuing approximately \$3.005 billion of additional Bonds to finance the completion of existing Water System Projects as described in APPENDIX H – "WATER SYSTEM PROJECT – Capital Expenditures for Water System Projects." The Department may also undertake additional capital projects in the future that are financed with Bonds. Accordingly, without extension of the Water Supply Contracts or other

remedial action, annual debt service for outstanding Bonds could increase significantly from the amounts shown in the above table.

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. 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. (See also “CERTAIN LIMITATIONS ON CONTRACTOR REVENUE SOURCES – Article XIII B of the Constitution.”)

Article XIII B was adopted pursuant to the State’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, which could have a substantial impact on the operation and finances of the State Water Project.

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 available on request from the Department and are on file at the State Treasurer’s Office in Sacramento. 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. 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.

Basic Contract

Term. The Water Supply Contracts are to remain in effect for 75 years, until 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 Amendment.”) The final maturity of Bonds outstanding on the date of issuance of the Series BD and BE Bonds will be in 2035. (See “SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds.”)

Annual Table A Amounts. 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”). The Annual Table A Amounts schedule may be changed upon request by the Contractor and approval by the Department, but no such change may be made if it would impair the financial feasibility of the State Water Project.

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

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

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

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

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

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

The Water Supply Contracts also contain provisions for the allocation of water in the event of shortages in water supply. For Contractors that have accepted the Monterey Amendment, the available supply is to be allocated in proportion to Annual Table A Amounts, with reductions for agricultural Contractors and urban Contractors being made on the same basis. (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 and the 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 PMIA 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 or expected to be financed with Bonds are described in APPENDIX H – “WATER SYSTEM PROJECTS.”

Amendments Providing Certain Revenues to Pay Water System Revenue Bonds

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

Off-Aqueduct Power Facilities Amendment. In 1982, the Department and the 29 Contractors entered into a Water Supply Contract amendment, which (a) established a separate subcategory of Transportation Charge for Off-Aqueduct Power Facilities, such as the Bottle Rock Project, the South Geysers Project and the Reid Gardner Project, and changes the method of allocation and payment of costs of such power facilities; (b) authorizes the Department, subject to certain conditions, to include “local water projects” such as groundwater 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 PMIA; and (d) specifies that the Department may, subject to certain conditions, charge the Contractors under the Delta Water Charge for water purchased by the Department for delivery through the State Water Project.

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

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

East Branch Enlargement Amendment. In 1986, the Department entered into a Water Supply Contract amendment with Metropolitan, Antelope Valley-East Kern Water Agency, Coachella Valley Water District, Desert Water Agency, MWA, 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 were 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 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 (including payments that constitute Revenues under the Resolution). 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 Amendment

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 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 75 years, until 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.

A proposed contract extension amendment was prepared based on the Agreement in Principle. Under the proposed amendment, the term of the Water Supply Contract for each Contractor that signs an amendment would be extended until December 31, 2085. Also under the proposed amendment, 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 pay operating and maintenance expenses and debt service in each year as well as to comply with the rate covenant contained in the Resolution and the Reserve Account Requirement thereunder. (See “SECURITY FOR THE BONDS – Rate Covenant” and “– Debt Service Reserve Account.”)

Other provisions in the proposed amendment would provide for, among other things, an increase in the Department’s operating reserves, the establishment of a State Water Resources Development System Reinvestment Account for financing capital projects with accumulated revenues, the establishment of a State Water Resources Development System Support 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.

In August 2016, pursuant to CEQA, the Department released for public comment a draft EIR for the proposed amendment. The public comment period on the draft EIR closed in October 2016. As required by statute, on September 11, 2018 the Department presented the terms of the proposed amendment in an informational hearing to the Legislature’s Joint Legislative Budget Committee. Thereafter, on November 13, 2018, the Director of Water Resources certified and released the final EIR.

On December 11, 2018, the Director of Water Resources approved the contract extension amendment project under CEQA and executed the amendment with Metropolitan. As of March 15, 2021, twenty-two Contractors, comprising an aggregate maximum Table A amount of 4,053,800 acre-feet, have executed their extension amendment with the Department. Copies of these amendments are available on the Department’s website. Under the terms of the extension amendment, the amendment will only take effect as to all signing Contractors when (1) 24 Contractors, with an aggregate maximum Table A amount exceeding 3,950,000-acre feet, have executed the amendment and (2) all pending litigation addressing the amendment has been resolved, unless either of these conditions is waived by the Department and the Contractors that have signed the amendment.

On December 11, 2018, the Department filed an action in Sacramento County Superior Court seeking to validate the contract extension amendment. In February 2019, four groups filed answers in the validation action in opposition to the Department’s request to validate the amendment. One answer was filed by several environmental organizations; the second answer was filed by several other environmental organizations and an Indian Tribe; the third answer was filed by a number of counties and public water agencies, including the County of Butte and the Plumas County Flood Control and Water Conservation District, both of which are Contractors; and the fourth answer was filed by the South Delta Water Agency. Eight Contractors have filed answers in support of the extension amendment. The validation action is in the pre-trial stage.

In January 2019, four environmental organizations in one case and four environmental organizations and an Indian Tribe in another case filed separate actions against the Department claiming that the contract extension amendment is invalid for failure to comply with CEQA and certain other statutes. These same groups also filed opposition answers in the validation action described in the above paragraph. These two lawsuits are also in the pre-trial stage.

The amendment that ultimately takes effect 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.

Water Management Amendment

On May 20, 2019, the Department and the Contractors reached a general agreement on the terms of an agreement in principle concerning the amendment of the Water Supply Contracts related to water management. Subsequently, a form of amendment was agreed upon (the “Water Management Amendment”) and as of April 1,

2021, twenty-six Contractors have executed the Water Management Amendment with the Department. Copies of these amendments are available by request from the Department. Under the terms of the Water Management Amendment, the amendment took effect on February 28, 2021 after 24 Contractors had executed the amendment.

The Water Management Amendment allows Contractors to transfer and exchange water with other Contractors within the State Water Project subject to certain provisions. The Water Management Amendment does not change the terms of the Water Supply Contracts related to the construction of new, or modification of existing State Water Project facilities or impact any of the Contractors' annual Table A amounts. The result allows Contractors greater flexibility to manage their water supplies to put water to use where it is needed most.

In September 2020, two non-profit organizations in one case and five non-profit organizations and an Indian Tribe in another case filed separate actions against the Department claiming that the Water Management Amendment is invalid for failure to comply with CEQA and certain other statutes. These two lawsuits are in the pre-trial stage.

The Water Management 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.

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 was 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 related to the trial court's final CEQA and validation decisions with the Court of Appeal. 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, and in December 2017, the plaintiffs appealed that ruling. 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 appeals of the trial court's decisions are successful.

Contractor Claims and Tolling and Waiver Agreement

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, 2021.

The Tolling and Waiver Agreement was prompted by a "Notice of Contest" and Victim Compensation and Government Claims Board claim filed by Metropolitan in December 2005. 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 a portion of Bond proceeds and commercial paper proceeds on capital costs allocated by the Department to the purposes of recreation and fish and wildlife enhancement and had charged the Contractors for a portion of Bond debt service allocated to recreation and fish and wildlife enhancement. As a result, the Department has issued restated bills to the Contractors for the years 1988 through 2007 to address this situation. 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.

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 commercial paper and 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 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, the Tolling and Waiver Agreement, as amended, also tolls (i.e., suspends) until December 31, 2021, 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 2022, (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. In the meantime, the Department and the Contractors are continuing their efforts to resolve issues that are covered by the Tolling and Waiver Agreement. One such issue was raised in an October 2019 letter the Department received from Metropolitan that asserted, among other items, that a provision in the Water Supply Contracts precludes the Department from seeking reimbursement from the Contractors for their allocated share of claims and damages related to the control, carriage, handling, use, disposal or distribution of State Water Project water prior to delivery of the water to the Contractors. In the opinions of the Department's management and legal counsel, such allocated amounts have been properly included in past bills to the Contractors and will continue to be recoverable from the Contractors in the future under the long-term water supply contracts.

However, no assurance can be given that Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to the issues under discussion, or that the Department's positions on the issues will prevail, once the Tolling and Waiver Agreement expires.

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, as of July 1, 2020, approximately 69 percent of the State's population and approximately 8 percent of the United States' entire 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, groundwater replenishment, sewage collection and disposal, solid waste and trash collection and disposal, hydroelectric power generation and first aid, ambulance and paramedical services.

A new State law (SB 634), effective January 1, 2018, reorganizes the Castaic Lake Water Agency (one of the Contractors) and the Newhall County Water District into a new agency to be named the Santa Clarita Valley Water Agency (the "SCVWA"). The SCVWA's initial service area shall be the same as the Castaic Lake Water Agency's service area. The SCVWA shall be the successor in interest to the Castaic Lake Water Agency's Water Supply Contract, including all of the rights, responsibilities and obligations contained therein, and the agency shall succeed to the legal authority held by the Castaic Lake Water Agency for the performance and enforcement of that contract. This reorganization was approved by the Local Agency Formation Commission for the County of Los Angeles and, accordingly, the Department has amended the related Water Supply Contract to reflect SCVWA as the new counterparty.

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.

Pursuant to each Water Supply Contract, if in any year a Contractor does not have sufficient funds to make the payments required under the applicable Water Supply Contract, the Contractor shall levy a tax or assessment on the taxable property in its service area in an amount sufficient to provide the required funds. (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 State 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 as of December 31, 2019, and principal water-related activities.

SELECTED DATA ON THE CONTRACTORS

<u>Contractor</u>	<u>Year Established</u>	<u>Estimated December 31, 2019 Population</u>	<u>Principal Water Related Activities</u>
Alameda County Flood Control and Water Conservation District, Zone 7	1967	261,261	Treats, distributes, and stores State water for municipal and agricultural purposes.
Alameda County Water District	1913	356,160	Treats and distributes State water for municipal purposes. Uses State water to replenish groundwater basins for municipal and agricultural purposes as well as for salt water barrier protection for groundwater basins.
Antelope Valley-East Kern Water Agency	1959	470,543	Distributes State water for agricultural purposes. 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	290,000	Exchanges State water for water from Metropolitan for storage in underground basins and for distribution for agricultural purposes.
County of Butte	1850	231,256	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	89,317	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	893,119	Distributes State water to 16 districts for agricultural and municipal use. Replenishes groundwater 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	18,963,000	Transmits and distributes State water and water from the Colorado River to 27 public agencies for municipal, agricultural and groundwater replenishment purposes.

Contractor	Year Established	Estimated December 31, 2019 Population	Principal Water Related Activities
Mojave Water Agency	1960	480,941	Distributes State water for municipal purposes and uses State water to replenish groundwater 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	19,517	Distributes State water. Exercises flood control functions.
San Bernardino Valley Municipal Water District	1954	661,546	Uses State water to replenish groundwater basins and for municipal purposes.
San Gabriel Valley Municipal Water District	1959	197,636	Uses State water to replenish groundwater basins.
San Geronio Pass Water Agency	1961	91,260	Uses State water to replenish groundwater 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.
Santa Barbara County Flood Control and Water Conservation District	1956	390,066	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	1,954,286	Treats and distributes State water for municipal purposes. Distributes State water for agricultural purposes and for replenishment of groundwater basins. Exercises flood control functions.
Santa Clarita Valley Water Agency ^(a)	1962	282,460	Treats and distributes State water for municipal purposes.
Solano County Water Agency	1958	445,458	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 Watershed Protection 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		27,336,310	

^(a) See "THE CONTRACTORS."

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.

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

Contractor	Calendar Year					Maximum Table A Amount ⁽²⁾
	2016	2017	2018	2019	2020	
Alameda County Flood Control and Water Conservation District, Zone 7	53,484	62,109	39,523	52,296	26,117	80,619
Alameda County Water District.....	27,357	29,036	18,161	21,731	23,462	42,000
Antelope Valley-East Kern Water Agency	41,356	130,071	72,341	78,057	43,720	141,400
City of Yuba City.....	1,229	1,746	1,715	1,655	1,812	9,600
Coachella Valley Water District	69,422	83,908	139,089	34,588	116,818	138,350
County of Butte.....	2,518	2,320	3,029	2,955	3,186	27,500
County of Kings.....	3,660	6,645	3,714	4,929	3,169	9,305
Crestline-Lake Arrowhead Water Agency.....	1,084	294	1,207	75	299	5,800
Desert Water Agency.....	21,893	31,636	47,746	13,938	39,192	55,750
Dudley Ridge Water District.....	19,308	64,309	41,006	33,030	34,093	50,343
Empire West Side Irrigation District.....	1,822	1,698	1,591	1,938	1,248	3,000
Kern County Water Agency.....	638,926	1,190,228	613,612	980,684	601,366	982,730
Little Rock Creek Irrigation District	-	-	-	226	1,525	2,300
The Metropolitan Water District of Southern California	1,083,900	1,624,548	679,544	1,347,162	431,759	1,911,500
Mojave Water Agency	22,284	34,815	5,471	21,930	3,352	82,800
Napa County Flood Control and Water Conservation District.....	8,993	8,225	11,682	11,285	12,089	29,025
Oak Flat Water District.....	1,855	2,893	2,289	2,184	2,140	5,700
Palmdale Water District.....	10,516	13,858	10,210	12,066	7,016	21,300
Plumas Co. Flood Control and Water Conservation District	387	363	508	436	406	2,700
San Bernardino Valley Municipal Water District	62,676	78,496	43,970	78,478	23,504	102,600
San Gabriel Valley Municipal Water District	16,088	22,056	17,055	23,220	7,893	28,800
San Geronio Pass Water Agency	10,816	14,946	12,622	14,329	11,459	17,300
San Luis Obispo Co. Flood Control and Water Conserv. Dist.....	4,199	2,845	2,427	2,642	2,684	25,000
Santa Barbara Co. Flood Control and Water Conserv. Dist. ⁽³⁾	34,085	45,324	28,348	20,557	12,175	45,486
Santa Clara Valley Water District.....	107,164	127,155	119,736	104,985	55,715	100,000
Santa Clarita Water Agency ⁽⁴⁾	37,828	83,622	42,897	48,345	50,542	95,200
Solano County Water Agency.....	23,605	28,265	35,072	31,482	37,614	47,756
Tulare Lake Basin Water Storage District	42,387	61,920	51,450	93,273	26,050	88,922
Ventura County Watershed Protection District.....	3,000	14,251	648	19,538	6,995	20,000
TOTAL.....	2,351,842	3,767,582	2,046,663	3,058,014	1,587,400	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, 2019. 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.

⁽⁴⁾ See "THE CONTRACTORS."

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

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

Contractor	Calendar Year				
	2016	2017	2018	2019	2020
Alameda County Flood Control and Water Conservation District, Zone 7	\$ 32,525	\$ 41,231	\$ 35,875	\$ 43,284	\$ 41,438
Alameda County Water District	9,908	8,677	6,387	10,288	10,077
Antelope Valley-East Kern Water Agency	39,678	38,346	36,395	38,781	40,859
City of Yuba City	754	781	745	786	861
Coachella Valley Water District	57,495	56,001	54,704	56,091	62,294
County of Butte	2,161	2,236	2,133	2,251	2,466
County of Kings	1,079	1,134	1,061	1,020	1,218
Crestline-Lake Arrowhead Water Agency	2,056	2,060	1,978	1,979	2,342
Desert Water Agency	20,687	20,056	19,518	18,342	22,371
Dudley Ridge Water District	5,474	5,949	5,321	5,334	5,924
Empire West Side Irrigation District ⁽²⁾	326	350	310	309	382
Kern County Water Agency	132,429	139,496	128,028	126,815	155,266
Littlerock Creek Irrigation District	624	350	604	572	411
The Metropolitan Water District of Southern California	635,607	615,093	608,850	570,450	678,846
Mojave Water Agency	29,528	27,072	27,292	28,626	28,408
Napa County Flood Control and Water Conservation District	9,106	10,215	8,836	10,167	9,936
Oak Flat Water District	594	594	559	559	674
Palmdale Water District	6,710	6,560	6,604	6,464	7,438
Plumas County Flood Control and Water Conservation District ⁽²⁾	233	240	236	242	304
San Bernardino Valley Municipal Water District	53,362	56,696	56,262	69,562	67,935
San Gabriel Valley Municipal Water District	10,363	10,111	9,810	9,944	11,225
San Geronio Pass Water Agency	21,355	22,617	20,497	25,790	26,418
San Luis Obispo Co. Flood Control and Water Conservation District	7,119	7,835	6,878	9,152	8,951
Santa Barbara Co. Flood Control and Water Conservation District ⁽³⁾	38,864	43,514	44,733	59,231	52,880
Santa Clara Valley Water District	33,913	28,340	17,684	26,690	30,122
Santa Clarita Water Agency ⁽⁴⁾	29,876	26,087	27,656	26,661	30,432
Solano County Water Agency	12,167	11,881	11,280	12,961	11,954
Tulare Lake Basin Water Storage District	10,574	11,114	10,105	10,180	12,369
Ventura County Watershed Protection District	4,39439	4,044	4,095	3,743	6,102
TOTAL⁽⁵⁾	\$1,208,961	\$1,198,680	\$1,154,436	\$1,176,273	\$1,329,903

⁽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⁾ Have not signed the Monterey Amendment.

⁽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.

⁽⁴⁾ See "THE CONTRACTORS."

⁽⁵⁾ 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 Contractors whose payments are expected (accounting for projected capital expenditures on Water System Projects after the issuance of the Series BD and BE Bonds) to contribute at least five percent (5%) 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	40%
Kern County Water Agency	11
San Bernardino Valley Municipal Water District	10
Santa Barbara County Flood Control and Water Conservation District/Central Coast Water Authority	8
Alameda County Flood Control and Water Conservation District, Zone 7	7
San Geronio Pass Water Agency	6
Twenty-three other Contractors.....	18
Total.....	100%

Metropolitan. The audited financial statements of Metropolitan for the year ended June 30, 2020 can be obtained at <http://www.munios.com>, then searching for keyword "Series BD and BE" 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, 2020, and the audited financial statements of Central Coast Water Authority for the year ended

June 30, 2020, can be obtained at <http://www.munios.com>, then searching for keyword “Series BD and BE” and choosing the appropriate link.

San Bernardino Valley Municipal Water District. The audited financial statements of the San Bernardino Valley Municipal Water District for the year ended June 30, 2020, can be obtained at <http://www.munios.com>, then searching for keyword “Series BD and BE” and choosing the appropriate link.

KCWA. The audited financial statements of KCWA for the year ended June 30, 2020, can be obtained at <http://www.munios.com>, then searching for keyword “Series BD and BE” and choosing the appropriate link.

Alameda County Flood Control and Water Conservation District, Zone 7. The audited financial statements of the Alameda County Flood Control and Water Conservation District, Zone 7 for the year ended June 30, 2020, can be obtained at <http://www.munios.com>, then searching for keyword “Series BD and BE” and choosing the appropriate link.

San Geronio Pass Water Agency. The audited financial statements of the San Geronio Pass Water Agency for the year ended June 30, 2020, can be obtained at <http://www.munios.com>, then searching for keyword “Series BD and BE” 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. The information contained on the website referenced above relating to the audited financial statements for certain Contractors is not part of this Official Statement and is not incorporated herein.**

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 XIID 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 XIID 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 XIID, 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 XIID also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIID 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 and Related Litigation

Articles XIII A, XIII B, XIII C and XIII D 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 and/or collect revenues.

From time to time other initiatives could be adopted by California voters, placing additional limitations upon the State or the Department, which could have a substantial impact on the operation and finances of the State Water Project.

In November 2018, a property owner filed a class action lawsuit against the Coachella Valley Water District ("Coachella") challenging Coachella's assessment of property taxes to collect the monies to pay its Water Supply Contract charges to the Department. The complaint alleges violations of, among other things, Constitutional Articles XIII A (Proposition 13), XIII C and XIII D (Propositions 218 and 26) and Coachella's Water Supply Contract with the Department. Coachella demurred arguing that the lawsuit was barred by the 60-day statute of limitations applicable to validation proceedings in the State. The demurrer was overruled, and Coachella appealed. The appellate court determined that the trial court had erred and that the demurrer was improperly overruled. The trial court was ordered to sustain the demurrer and dismiss the lawsuit. In 2019, the same property owner timely filed a subsequent lawsuit that raises the same challenges that were raised by the 2018 lawsuit. The 2019 lawsuit is currently pending. If the plaintiffs are successful, Coachella may be required to raise the amounts necessary to pay the Water Supply Contract charges through other means, such as through charges to water users.

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 BD 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 BD 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 BD Bonds is not a specific preference item for purposes of the federal alternative minimum tax. 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 BD Bonds is less than the amount to be paid at maturity of such Series BD Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series BD 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 BD 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 BD Bonds is the first price at which a substantial amount of such maturity of the Series BD 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 BD Bonds accrues daily over the term to maturity of such Series BD 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 BD Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series BD Bonds. Beneficial Owners of the Series BD Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series BD Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series BD Bonds in the original offering to the public at the first price at which a substantial amount of such Series BD Bonds is sold to the public.

Series BD 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 BD 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 BD 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 BD Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series BD 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 BD Bonds may adversely affect the value of, or the tax status of interest on, the Series BD 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 BD Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series BD 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 BD 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. 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 BD Bonds. Prospective purchasers of the Series BD 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 BD 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 BD 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 BD 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 BD Bonds, and may cause the Department or the beneficial owners to incur significant expense.

Series BE Bonds (Federally Taxable)

In the opinion of 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 BE Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Series BE Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Series BE Bonds. The proposed form of opinion of Bond Counsel is contained in APPENDIX F hereto.

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to holders of the Series BE Bonds that acquire their Series BE 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 IRS with respect to any of the U.S. federal 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 U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors 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 BE Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Series BE Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Series BE Bonds pursuant to this offering for the issue price that is applicable to such Series BE Bonds (i.e., the price at which a substantial amount of the Series BE Bonds are sold to the public) and who will hold their Series BE 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 BE 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). If a partnership holds Series BE 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 BE Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series BE Bonds (including their status as U.S. Holders).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Series BE Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the Series BE Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Series BE Bonds is less than the amount to be paid at maturity of such Series BE Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series BE Bonds) by more than a de minimis amount, the difference may constitute original issue discount (“OID”). U.S. Holders of Series BE Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield

method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Series BE Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Series BE Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series BE Bond.

Sale or Other Taxable Disposition of the Series BE Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the Corporation) or other disposition of a Series BE 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 BE 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 BE Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Series BE Bond (generally, the purchase price paid by the U.S. Holder for the Series BE Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Series BE Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series BE 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 BE Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the Series BE Bonds. If the Department defeases any Series BE Bond, the Series BE Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted U.S. federal income tax basis in the Series BE Bond.

Information Reporting and Backup Withholding. Payments on the Series BE Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series BE Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Series BE Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series BE Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders,” payments of principal of, and interest on, any Series BE Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation described in Section 881(c)(3)(C) of the Code, and (2) a bank which acquires such Series BE Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Series BE Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Series BE Bonds. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act (“FATCA,”)—U.S. Holders and Non-U.S. Holders,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Department or a deemed retirement due to defeasance of the Series BE Bond) or other disposition of a Series BE Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Department) or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading “Foreign Account Tax Compliance Act (“FATCA,”)—U.S. Holders and Non-U.S. Holders,” under current U.S. Treasury Regulations, payments of principal and interest on any Series BE Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series BE Bond or a financial institution holding the Series BE Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders.

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Series BE Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign

passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Series BE Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series BE Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

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 BD and BE 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 BD and BE 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. Those circumstances may include, among other things, changes in or unavailability of information relating to the Department and the Series BD and BE Bonds. Any such downward revision or withdrawal of any rating may have an adverse effect on the marketability or market price of the Series BD and BE 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 BD and BE Bonds.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Series BD Bonds and the Series BE Bonds is subject to the delivery on the issuance date of the approving opinions of The Honorable Rob Bonta, 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 Nixon Peabody LLP, counsel to the Underwriters.

FINANCIAL STATEMENTS

The financial statements of the State Water Resources Development System as of and for the year ended June 30, 2020 (with comparative amounts for the year ended June 30, 2019) (the “2020 Audited Financial Statements”), appearing in APPENDIX B to this Official Statement have been audited by Eide Bailly LLP (the “Auditor”), independent auditors, as set forth in the report of the Auditor appearing in APPENDIX B. Vavrinek, Trine, Day & Co., who joined with the Auditor as of July 22, 2019, audited the financial statements of the State Water Resources Development System as of and for the year ended June 30, 2018.

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

The financial statements of the State Water Resources Development System as of and for the year ended June 30, 2019 (with comparative amounts for the year ended June 30, 2018) (the “2019 Audited Financial Statements”) were completed and filed with the MSRB through its Electronic Municipal Market Access website in early May 2020, which is later than the Department has typically finalized its audited financial statements for previous years (generally, in prior years, the Department had finalized its audited financial statements for each fiscal year by the end of the next November). Several factors contributed to the additional time needed to finalize the 2019 Audited Financial Statements. First, Department management was in the process of completing a detailed review of processes and procedures for the Department’s accounting and financial systems. In addition, recently designed internal checks and balances helped identify inconsistencies in the application of technical pronouncements from the Governmental Accounting Standards Board Statement and generally accepted accounting principles. Lastly, the Department relies on many different legacy systems for cost recovery, bond accounting and general ledger accounting for which a detailed reconciliation of various systems has been implemented.

The factors described in the preceding paragraph related to the delay in the completion of the 2019 Audited Financials have all been materially resolved and/or completed and they are not contributing factors to the delay in the 2020 Audited Financial Statements. The primary reason for the delay in finalizing the 2020 Audited Financial Statements was the delay in receiving information related to pensions and other post-employment benefits, which was provided by the State Controller’s Office and was necessary to finalize the 2020 Audited Financial Statements, until approximately six months after such information is typically provided (excluding 2019).

VERIFICATION

Robert Thomas CPA (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 the mathematical computations of the adequacy of the amounts deposited or to be deposited with the State Treasurer in the Escrow Account to pay the redemption price of and interest on the Refunded Bonds, when due. (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 BD and BE Bonds are being purchased by an underwriting group, represented by Morgan Stanley & Co. LLC (referred to herein as the “Underwriters”), from the State Treasurer, who is authorized pursuant to the Act to sell the Series BD and BE Bonds on behalf of the Department. The Underwriters have agreed to purchase the Series BD and BE Bonds at a price of \$600,078,596.35, representing the principal amount of the Series BD and BE Bonds, plus original issue premium of \$67,506,163.30 relating to the Series BD Bonds, less an Underwriters’ discount of \$1,227,566.95. The purchase contract pursuant to which the Series BD and BE Bonds are being sold provides that the Underwriters will purchase all of the Series BD and BE Bonds, if any Series BD and BE 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 BD and BE Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

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

CERTAIN RELATIONSHIPS

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

In addition, in the ordinary course of sales, trading, brokerage and financing activities, 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 BD and BE 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 of the State, 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 BD and BE Bonds to provide certain financial information and operating data relating to the Department by not later than nine months following the end of the Department's fiscal year (which shall be March 31 of each year, so long as the Department's fiscal year ends on June 30) (the "Annual Report"), commencing with the report containing 2020-2021 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 BD and BE Bonds, and the same may be further supplemented or amended from time to time, 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 for both the Power Supply Revenue Bonds and certain of the Bonds; however, the annual reports for fiscal years ended June 30, 2015 and 2016 related to the Bonds omitted a portion of the required information for two relevant water contractors, and the annual report for the fiscal year ended June 30, 2019, related to the Bonds omitted financial statements. The Department caused a notice of failure to file a complete annual report due to absence of financial statements to be filed on the Electronic Municipal Market Access ("EMMA") website on March 26, 2020. The Department filed the 2019 Audited Financial Statements promptly upon their completion and approximately six weeks after the related annual report was filed.

The 2020 Audited Financial Statements were released on April 29, 2021. Accordingly, the Department caused a notice of failure to file a complete annual report due to the absence of financial statements concurrently with the Annual Report on March 26, 2021. For further information on the delay in the release of financial statements for the last two completed fiscal years, see "FINANCIAL STATEMENTS."

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>. Certain information regarding the Department and any current bond offerings, including the Series BD and BE Bonds, are available via the Department's investor website at <https://www.cawaterbonds.com>. The information contained on such websites is not incorporated herein by reference and is not intended to be relied upon in making an investment decision with respect to the Series BD and BE 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 BD and BE 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/ KARLA A. NEMETH
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 Contractors whose payments are expected (accounting for projected capital expenditures on Water System Projects after the issuance of the Series BD and BE Bonds) to contribute at least five percent (5%) of Revenues for payment of the Bonds based on projected payments to the Department through the final maturity of the Bonds. These 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	40%
Kern County Water Agency	11
San Bernardino Valley Municipal Water District	10
Santa Barbara County Flood Control and Water Conservation District/Central Coast Water Authority.....	8
Alameda County Flood Control and Water Conservation District, Zone 7	7
San Geronio Pass Water Agency	6
Twenty-three other Contractors	18
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⁾	
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⁾	61,460,534.68	566,960.01	0.92	⁽⁵⁾	0.0035	1.193027
2019	2,916,620,002,752	67,179,889.79	666,681.73	0.99	⁽⁵⁾	0.0035	1.196046
2020	3,092,426,782,060	73,220,841.42	1,180,662.61	1.61	⁽⁵⁾	0.0035	1.174279
2021	3,263,355,524,486					0.0035	1.200129

Direct and Overlapping Bonded Debt at December 31, 2020:

Total Gross Direct Debt	\$ 32,230,000
Less: Self-supporting Debt	0
Total Net Direct Debt	\$ 32,230,000
Total Overlapping Tax and Assessment Debt	\$61,193,834,251
Direct and Overlapping Tax and Assessment Debt	\$61,226,064,251
Total Gross Overlapping General Fund Obligation Debt	\$15,945,501,338
Less: Self-supporting Debt	868,499,035
Total Net Overlapping General Fund Obligation Debt	\$15,077,002,303
Overlapping Tax Increment Debt	\$ 5,923,077,205
Gross Direct and Overlapping Bonded Debt	\$83,094,642,794
Net Direct and Overlapping Bonded Debt	\$82,226,143,759

Ratios to Assessed Valuation at December 31, 2020:

Gross Direct Debt.....	0.001%
Net Direct Debt.....	0.001%
Direct and Overlapping Tax and Assessment Debt.....	1.88%
Total Gross Direct and Overlapping Bonded Debt.....	2.55%
Total Net Direct and Overlapping Bonded Debt.....	2.52%

- (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.

Source: California Municipal Statistics, Inc.

METROPOLITAN WATER DISTRICT

2020-21 Assessed Valuation: \$3,263,355,524,486

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/31/20</u>
Community College Districts	Various	\$12,874,839,786
Los Angeles Unified School District	99.606	11,014,645,633
San Diego Unified School District	99.960	4,429,580,040
Other Unified School Districts	Various	15,021,071,651
High School and School Districts	Various	7,450,243,797
City of Los Angeles	99.995	627,428,627
Other Cities	Various	194,039,836
Irvine Ranch Water District Improvement Districts	100.000	532,000,000
Santa Margarita Water District Improvement Districts	100.000	34,410,000
Other Water Districts	Various	30,112,195
Healthcare Districts	Various	647,818,125
Other Special Districts	Various	9,986,879
Community Facilities Districts	Various	7,309,711,522
1915 Act Bonds and Other Special Assessment District Bonds	Various	<u>1,017,946,160</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$61,193,834,251

METROPOLITAN WATER DISTRICT TOTAL DIRECT DEBT **\$32,230,000**

TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT **\$61,226,064,251**

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County Obligations	93.250%	\$ 2,460,329,537
Orange County Obligations	99.919	631,628,171
Riverside County Obligations	66.669	1,108,395,542
San Bernardino County Obligations	50.839	226,884,586
San Diego County Obligations	96.703	600,583,653
Ventura County Obligations	76.521	250,694,274
City of Anaheim General Fund Obligations	99.881	509,357,757
City of Long Beach General Fund Obligations and Pension Obligation Bonds	100.000	91,780,000
City of Los Angeles General Fund and Judgment Obligations	99.995	1,470,157,240
City of Pasadena General Fund and Pension Obligation Bonds	100.000	541,507,944
City of San Diego General Fund Obligations	99.949	488,897,944
Other City General Fund Obligations	Various	5,428,432,611
Water District General Fund Obligations	Various	62,649,719
Los Angeles Unified School District Certificates of Participation	99.606	153,766,763
Other School District General Fund Obligations	Various	1,872,546,452
Other Special District General Fund Obligations	Various	<u>47,889,145</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$15,945,501,338
Less: Obligations supported from other revenue sources		<u>868,499,035</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$15,077,002,303

OVERLAPPING TAX INCREMENT DEBT (Successor Agencies): \$5,923,077,205

GROSS COMBINED TOTAL DEBT **\$83,094,642,794 ⁽¹⁾**

NET COMBINED TOTAL DEBT **\$82,226,143,759**

(1) 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 2020-21 Assessed Valuation:

Direct Debt (\$32,230,000)	0.001%
Total Direct and Overlapping Tax and Assessment Debt.....	1.88%
Gross Combined Total Debt.....	2.55%
Net Combined Total Debt.....	2.52%

Ratios to Redevelopment Incremental Valuation (\$461,324,899,154):

Total Overlapping Tax Increment Debt.....	1.28%
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Source: California Municipal Statistics, Inc.

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 Typical Total Rate		
			Amount	Percent	Agency Rate	City of Bakersfield Total Rate	Elk Hills School District
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				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			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	33,033,896	351,729	1.06	0.090374	1.220308	1.112009
2019	80,502,901,315	32,788,630	383,891	1.17	0.082148	1.200369	1.094740
2020	84,074,584,469	37,953,554	583,988	1.54%	0.094733	1.207273	1.164463
2021	86,453,205,524				0.091399	1.208096	1.187214

Direct and Overlapping Bonded Debt at December 31, 2020:

Total Gross Direct Debt	\$ 0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$ 0
Total Gross Overlapping Tax and Assessment Debt	\$1,595,101,984
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$1,595,101,984
Total Gross Overlapping General Fund Debt	\$ 620,250,985
Less: Supported Debt	<u>0</u>
Total Net Overlapping General Fund Debt	\$ 620,250,985
Total Gross Overlapping Tax Increment Debt	\$ 66,633,000
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$ 66,633,000
Gross Direct and Overlapping Bonded Debt	\$2,281,985,969
Net Direct and Overlapping Bonded Debt	\$2,281,985,969

Ratios to Assessed Valuation at December 31, 2020:

Gross Direct Debt.....	0.00%
Net Direct Debt.....	0.00%
Gross Direct and Overlapping Tax and Assessment Debt	1.75%
Net Direct and Overlapping Tax And Assessment Debt.....	1.75%
Gross Direct and Overlapping Bonded Debt	2.51%
Net Direct and Overlapping Bonded Debt.....	2.51%

(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.

Source: California Municipal Statistics, Inc.

**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
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	749,310,498	7,405,629	0.98	0.00000	1.05136
2019	77,584,016,408	785,888,856	7,629,757	0.97	0.00000	1.06593
2020	81,434,155,659	826,936,584	10,360,976	1.25	0.00000	1.05998
2021	85,301,256,419				0.00000	1.05761

Direct and Overlapping Bonded Debt at December 31, 2020:

Total Gross Direct Debt	\$ 0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$ 0
Total Gross Overlapping Tax and Assessment Debt	\$ 910,105,349
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$ 910,105,349
Total Gross Overlapping General Fund Debt	\$ 108,983,556
Less: Supported Debt	<u>36,295,473</u>
Total Net Overlapping General Fund Debt	\$ 72,688,083
Total Gross Overlapping Tax Increment Debt	\$ 26,910,000
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$ 26,910,000
Total Gross Direct and Overlapping Bonded Debt	\$1,045,998,905
Less: Supported Debt	<u>36,295,473</u>
Total Net Direct and Overlapping Bonded Debt	\$1,009,703,432

Ratio to Assessed Valuation at December 31, 2020:

Gross Direct Debt.....	0.00%
Net Direct Debt.....	0.00%
Total Gross Overlapping Tax and Assessment Debt.....	1.07%
Total Net Overlapping Tax and Assessment Debt.....	1.07%
Gross Direct and Overlapping Bonded Debt.....	1.23%
Net Direct and Overlapping Bonded Debt.....	1.18%

(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.

Source: California Municipal Statistics, Inc.

SAN BERNARDINO VALLEY MUNICIPAL WATER 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 Amount Percent		Tax Rate Per \$100 Assessed Valuation		
					Agency Rate	Typical Total Rate	
				School District Total Rate		Total Tax Rate	
2015	44,303,762,567				0.1625	0.0987	1.2612
2016	46,634,312,131				0.1625	0.0970	1.2595
2017	49,387,383,172				0.1625	0.0874	1.2499
2018	52,417,437,603				0.1525	0.0870	1.2395
2019	56,318,797,318				0.1525	0.0731	1.2256
2020	60,512,590,555				0.1425	0.0901	1.2326
2021	63,897,480,184				0.1425	0.1011	1.2436

Direct and Overlapping Bonded Debt at December 31, 2020:

Total Gross Direct Debt	\$ 0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$ 0
Total Gross Overlapping Tax and Assessment Debt	\$1,434,646,002
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$1,434,646,002
Total Gross Overlapping General Fund Debt	\$ 322,628,869
Less: Self-supporting Debt	<u>0</u>
Total Net Overlapping General Fund Debt	\$ 322,628,869
Total Gross Overlapping Tax Increment Debt	\$ 508,108,815
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$ 508,108,815
Gross Direct and Overlapping Bonded Debt	\$2,265,383,686
Net Direct and Overlapping Bonded Debt	\$2,265,383,686

Ratios to Assessed Valuation at December 31, 2020:

Gross Direct Debt.....	0.00%
Net Direct Debt	0.00%
Gross Direct and Overlapping Tax and Assessment Debt	2.25%
Net Direct and Overlapping Tax And Assessment Debt.....	2.25%
Gross Direct and Overlapping Bonded Debt	3.55%
Net Direct and Overlapping Bonded Debt.....	3.55%

⁽¹⁾ The assessed valuations include state-reimbursable exemptions and exclude redevelopment incremental valuations.

⁽²⁾ Information unavailable.

Source: California Municipal Statistics, Inc.

**ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT,
ZONE 7**

**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
2015	\$46,590,971,389	\$11,113,571	\$ 74,553	0.67%	0.0250	1.1292
2016	50,227,748,217	16,575,533	221,027	1.33	0.0343	1.0873
2017	53,661,748,685	17,078,709	131,010	0.77	0.0333	1.0915
2018	57,115,444,470	19,695,457	126,311	0.64	0.0359	1.1581
2019	61,423,451,270	19,553,061	124,982	0.64	0.0332	1.1654
2020	65,870,004,511	\$19,418,422	135,389	0.70	0.0309	1.1702
2021	69,421,461,427	⁽³⁾	⁽³⁾	⁽³⁾	0.0309	1.1389

Direct and Overlapping Bonded Debt at December 31, 2020:

Total Gross Direct Debt	\$ 0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$ 0
Total Gross Overlapping Tax and Assessment Debt	\$1,493,784,004
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$1,493,784,004
Total Gross Overlapping General Fund Debt	\$ 220,223,999
Less: Supported Debt	<u>7,465,000</u>
Total Net Overlapping General Fund Debt	\$ 212,758,999
Total Gross Overlapping Tax Increment Debt	\$ 18,535,000
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$ 18,535,000
Total Gross Direct and Overlapping Bonded Debt	\$1,732,543,003
Less: Self-supporting Debt	<u>7,465,000</u>
Total Net Direct and Overlapping Bonded Debt	\$1,725,078,003

Ratio to Assessed Valuation at December 31, 2020:

Gross Direct Debt.....	0.00%
Net Direct Debt	0.00%
Total Gross Overlapping Tax and Assessment Debt	2.15%
Total Net Overlapping Tax and Assessment Debt	2.15%
Gross Direct and Overlapping Bonded Debt	2.50%
Net Direct and Overlapping Bonded Debt.....	2.48%

- ⁽¹⁾ The assessed valuations include state-reimbursable exemptions.
- ⁽²⁾ Excludes tax levy on inventories and other unsecured property.
- ⁽³⁾ Information not available until fiscal year is completed.

Source: California Municipal Statistics, Inc.

SAN GORGONIO PASS 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 Total Rate	Typical Total Rate
2015	\$ 7,153,758,801	\$12,452,588	\$233,658	1.88%	0.1850	1.37965
2016	7,690,055,788	13,427,522	232,231	1.73	0.1850	1.35143
2017	8,130,682,113	14,310,311	234,673	1.64	0.1850	1.35370
2018	8,729,481,463	15,241,124	225,619	1.48	0.1825	1.36299
2019	9,436,463,325	16,536,186	309,574	1.87	0.1825	1.35694
2020	10,180,505,657	17,287,789	264,359	1.53	0.1775	1.33498
2021	11,294,530,549	⁽⁴⁾	⁽⁴⁾	⁽⁴⁾	0.1775	1.40036

Direct and Overlapping Bonded Debt at December 31, 2020:

Total Gross Direct Debt	\$ 0
Less: Supported Debt	<u>0</u>
Total Net Direct Debt	\$ 0
Total Gross Overlapping Tax and Assessment Debt	\$527,155,221
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax and Assessment Debt	\$527,155,221
Total Gross Overlapping General Fund Debt	\$ 76,884,481
Less: Supported Debt	<u>0</u>
Total Net Overlapping General Fund Debt	\$ 76,884,481
Total Gross Overlapping Tax Increment Debt	\$ 45,441,889
Less: Supported Debt	<u>0</u>
Total Net Overlapping Tax Increment Debt	\$ 45,441,889
Total Gross Direct and Overlapping Bonded Debt	\$649,481,591
Less: Supported Debt	<u>0</u>
Total Net Direct and Overlapping Bonded Debt	\$649,481,591

Ratio to Assessed Valuation at December 31, 2020:

Gross Direct Debt.....	0.00%
Net Direct Debt	0.00%
Total Gross Overlapping Tax and Assessment Debt	4.67%
Total Net Overlapping Tax and Assessment Debt.....	4.67%
Gross Direct and Overlapping Bonded Debt	5.75%
Net Direct and Overlapping Bonded Debt.....	5.75%

⁽¹⁾ The assessed valuations include state-reimbursable exemptions.

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

⁽³⁾ Not available at this time.

⁽⁴⁾ Information not available until fiscal year is completed.

Source: California Municipal Statistics, Inc.

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APPENDIX B

**AUDITED FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2019)**

**STATE WATER RESOURCES
DEVELOPMENT SYSTEM**

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DEPARTMENT OF WATER RESOURCES

STATE WATER RESOURCES DEVELOPMENT SYSTEM

An Enterprise Fund
of the State of California

Annual Comprehensive Financial Report for the fiscal years ended June 30, 2020 and 2019

STATE OF CALIFORNIA
Gavin Newsom, Governor

NATURAL RESOURCES AGENCY
Wade Crowfoot, Secretary for Natural Resources

DEPARTMENT OF WATER RESOURCES
Karla Nemeth, Director

Gary Lippner
Deputy Director

Cindy Messer
Chief Deputy Director

Kathie Kishaba
Deputy Director

Ted Craddock
Deputy Director

Vacant
Assistant Chief Deputy Director

Steve Springhorn
Deputy Director

Eric Wulff
Deputy Director

Spencer Kenner
Chief Counsel

Kristopher Tjernell
Deputy Director

Division of Fiscal Services
Vinay Narjit Singh Behl, CPA
Comptroller & Chief Financial Officer
Chief, Division of Fiscal Services

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

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Omid Torabian.....Accounting Administrator I
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Eleanor De Anda.....Accounting Administrator I
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Linh Chieng.....Associate Accounting Analyst
Jeanet Uy.....Associate Accounting Analyst
Thu Nguyen.....Associate Accounting Analyst
Sharon Chu.....Associate Accounting Analyst
Carla Elder.....Associate Accounting Analyst
Michelle Wong-Chiu.....Senior Accounting Officer
Alex Caputo.....Senior Accounting Officer
Salvin Sharma.....Senior Accounting Officer
Maigia Yang.....Accountant Officer
Ilesha Williams.....Executive Secretary
Loan Tran.....Office Technician

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	5
Certificate of Achievement for Excellence in Financial Reporting.....	26

FINANCIAL SECTION

Independent Auditor's Report	30
Management's Discussion and Analysis	34

Financial Statements

Statements of Net Position	46
Statements of Revenues, Expenses, and Changes in Net Position	48
Statements of Cash Flows	49
Notes to Financial Statements.....	52

Required Supplementary Information

Schedule of the System's Proportionate Share of the Net Pension Liability.....	100
Schedule of the System's Pension Contributions	101
Schedule of the System's Proportionate Share of the Net OPEB.....	102
Schedule of the System's OPEB Contributions	102

Supplementary Information

Calculation of Adequacy of Debt Service Coverage (FOR THE CENTRAL VALLEY PROJECT REVENUE BONDS).....	105
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STATISTICAL SECTION

Schedule of Changes in Net Position	109
Schedule of Net Position by Component.....	111
Schedule of Significant Revenues by Source	112
Summary of Schedule of Water and Power Sales Rates.....	113
Largest Distribution Water Revenue Accounts.....	114
Largest Distribution Power Sales Revenue Accounts.....	115
Schedule of Ratios of Outstanding Debt by Type	116
Schedule of Debt Service Coverage.....	117
Schedule of Demographic and Economic Indicators	118
Schedule of California Number of Employees by Industry	119
Schedule of Full-Time Equivalent Employees by Function.....	120
Operating and Capital Indicators.....	121
Capital Assets, Net	122



INTRODUCTORY SECTION





April 29, 2021

To the Citizens of the State of California:

We are pleased to present the Annual Comprehensive Financial Report (Financial Report) of the State Water Resources Development System (the System) for the fiscal years ended June 30, 2020 and 2019, along with the Independent Auditor's Report. The Financial Report 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 DWR management. 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 Financial Report was prepared using the financial reporting requirements as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34), as amended. 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 of the State of California administered by the California Department of Water Resources (DWR)¹. DWR operates within the Natural Resources Agency of the State of California, and is responsible for the planning, construction, and operation of the System. The System includes the State Water Project (SWP), the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program.

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 3,118 full-time staff throughout the State, of which approximately 2,363 are allocated to the System. The Director of DWR oversees the Department's activities, with the assistance of a Chief Deputy Director and eight Deputy Directors. The Director, Chief Deputy Director, Deputy Director for the State Water Project, and Chief Counsel are each appointed by the Governor.

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 443-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.

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*

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, 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 increase 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 with varying termination dates ranging between 2035 and 2042 (depending upon when an individual contract was first signed) or until all bonds issued to finance construction costs of SWP facilities have been repaid (currently fiscal 2036), 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.” The Monterey Amendment includes provisions relating to the allocation of water, the transfer of the land and related assets of the Kern Fan Element, the operation of certain SWP reservoirs, transfers of the annual Table A amounts, 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. In addition, the Monterey Amendment provides for the reduction of annual Water Supply Contract charges.

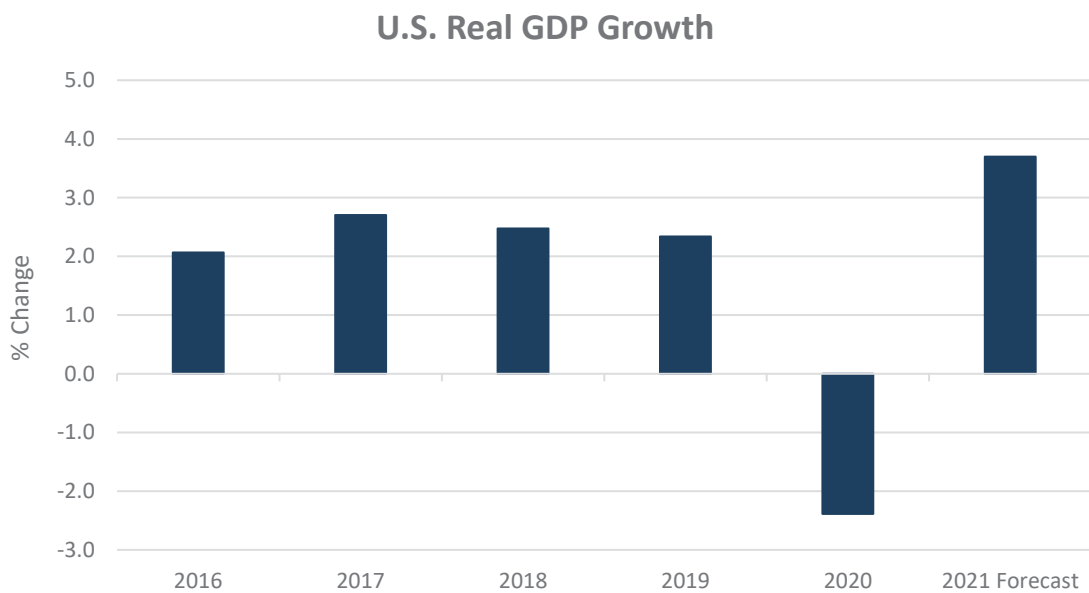
ECONOMIC OVERVIEW

A Macroeconomic View

Under normal circumstances, the Department’s day-to-day operations are not materially impacted by fluctuations in global or national economic conditions. Generally, macroeconomic trends can affect market interest rates and energy costs, which in turn can impact investment income earned on financial assets, borrowing costs, and water transportation costs. Significant changes in economic conditions also can affect the availability and cost of bank credit products and other sources of capital relied on by the Department from time to time.

During the fiscal year ended June 30, 2020, financial market conditions shifted from being relatively stable and favorable in the first half of the year to being extremely volatile in March and April as spread of the COVID-19 pandemic impacted the markets. By the end of the fiscal year, U.S. financial markets had largely stabilized and were functioning normally, due in large part to unprecedented governmental monetary and fiscal support. At the time of the publication of this Financial Report, world, national and regional impacts from the pandemic continue to alter the operating and financial landscape for the Department and the businesses and residents of California. The following economic overview primarily focuses on various economic metrics during the period covered by the Financial Report (fiscal year ended June 30, 2020) but also includes commentary regarding the ongoing impacts on the financial markets that have resulted from COVID-19-related restrictions on public interaction and their impact on businesses and the residents of California. Even with the availability of new COVID-19 vaccines, the duration and full impact of these restrictions are still unknown as the situation surrounding the pandemic continues to evolve.

During the fiscal year ended June 30, 2020, the U.S. economy had positive growth in the first calendar quarter of 0.3%. In the second quarter, growth dropped precipitously to a change of -9% as COVID-19 accelerated throughout the country. The second half of the calendar year saw declines of 2.8% and 2.4% as businesses and individuals adapted to the new conditions and government support took effect. However, economic restrictions continued to take their toll.⁴ The Federal Reserve Bank took unprecedented actions to support the financial markets in 2020, including lowering the target fed funds borrowing rate from 1.50 - 1.75% at the end of 2019 to 0-0.25% at two emergency meetings in March 2020. With the worst of the pandemic possibly in the rear-view mirror, economic growth is expected to normalize in coming years. After a U.S. Real GDP decline of about 2.4% in 2020, growth of about 3.7% is expected in 2021.⁵ As of April 15, 2021, the forecasted probability of a recession in the next 12 months was 6.3%.⁶



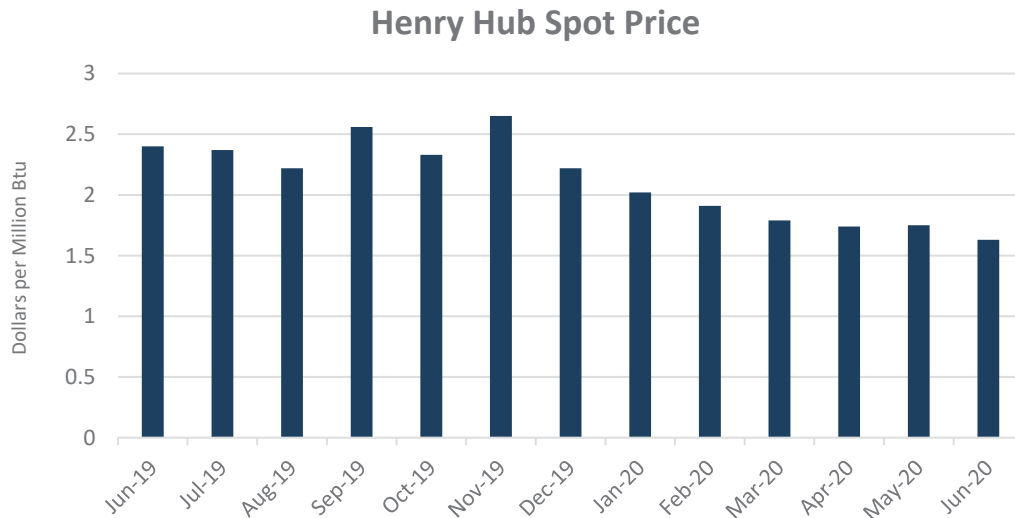
In energy markets, the Henry Hub natural gas spot price averaged \$2.10 per million British thermal units (MMBtu) during fiscal year 2020 and averaged \$2.04 per MMBtu for calendar year 2020. It is projected that Henry Hub spot prices will average \$3.04 per MMBtu for calendar year 2021.⁷ As of April 5, 2021, the Henry Hub natural gas spot price was \$2.43.

⁴ US Bureau of Economic Analysis

⁵ Congressional Budget Office

⁶ Federal Reserve Bank of New York

⁷ US Energy Information Administration



California Economy

According to an update by the UCLA Anderson School of Management published in March 2021, the California economy is poised to recover significantly in calendar year 2021 as the impact of the pandemic subsides.

The state’s unemployment rate for Q1 2021 is projected to be 7.7%, with an average for the year at 6.8%. The broader U.S. saw unemployment rates of 6.7% in Q4 2020, with expectations of improvement to 5.2% by Q4 2021. California’s unemployment rate is projected to decline further in future years, reaching averages of 5.1% and 4.1% for 2022 and 2023.⁸ In the last quarter of 2020, California’s total personal income fell 1.71% quarter-over-quarter, versus a reduction in U.S. personal income of 1.77%.⁹ In fiscal year 2020, California’s all urban consumer annualized price index rose 1.67%, compared with a 2.98% rise for fiscal year 2019.¹⁰ California’s median home price hit \$699,000 in February 2021, down slightly from highs in late 2020. February’s prices were up 20.6% from a year ago.¹¹

The State reported in the 2021-22 Governor’s Budget that the General Fund balance for June 2021 is projected to be \$12.203 billion, falling to \$6.058 billion a year later. The Governor’s Budget for fiscal year 2021-22 reports that revenues are expected to be \$158.370 billion, compared to revenue of \$137.719 billion in the 2020-21 State Budget.¹²

For the second consecutive year, the Internal Revenue Service has extended the April 15th deadline for tax filing and California has followed suit.¹³

⁸ UCLA Anderson School of Management Forecasts
⁹ Federal Reserve Bank of St. Louis
¹⁰ State of California Department of Industrial Relations
¹¹ California Association of Realtors
¹² State of California Department of Finance
¹³ California State Controller, California Fiscal Focus, April 2021

Interest Rates

Long-term tax-exempt interest rates declined again during fiscal year 2020, but with significant COVID-19-related volatility along the way. As of June 30, 2020, the 20-year “AAA” tax-exempt borrowing rate was approximately 1.43%, versus 2.12% as of June 30, 2019. The rate briefly rose to over 3% in March 2020 as the municipal bond markets reacted to the pandemic but normalized soon thereafter.

Variable rate tax-exempt rates at fiscal year-end declined to near 0% as the Federal Reserve made several rate cuts to lower the Federal Funds rate to 0-0.25%, and introduced programs designed to provide liquidity to the financial markets and financial institutions. As of June 30, 2020, variable rate tax-exempt rates were 0.13%, versus 1.90% a year earlier.¹⁴

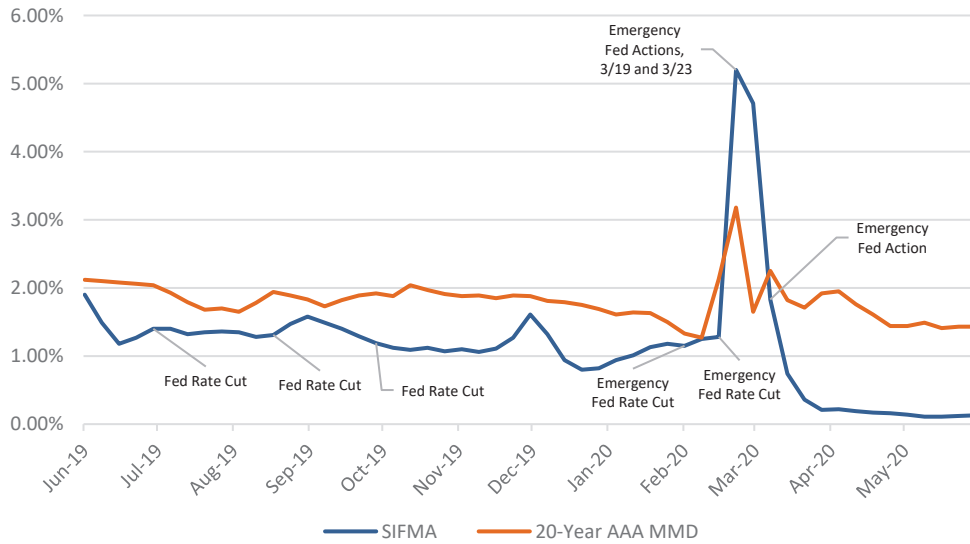
In the fiscal year ended June 30, 2020, the Department did not sell any long-term bond issues.

Subsequent to the end of fiscal year 2020, the Department sold two long-term bond issues. In August of 2020, the Department issued its tax-exempt \$544,210,000 Central Valley Project Water System Revenue Bonds, Series BB with a final maturity of 2035, a weighted average maturity of 9.6 years and an average borrowing cost of 1.18% and its taxable \$515,150,000 Central Valley Project Water System Revenue Bonds, Series BC with a final maturity of 2035, a weighted average maturity of 8.4 years and an average borrowing cost of 1.41%.



¹⁴ Thompson-Reuters TM3

1-Year History of Short and Long Term Interest Rates



STATE WATER PROJECT

State Water Project Capital Projects

Since the State Water Project began construction in 1960, its original scope has been modified and expanded to address the needs of the growing population as well as commercial, industrial and agricultural demands for water in California. The following table shows the projects that have been undertaken as part of the State Water Project and the amounts that have been spent, as of April 26, 2021, for each project and each’s project’s estimated future capital expenditures.

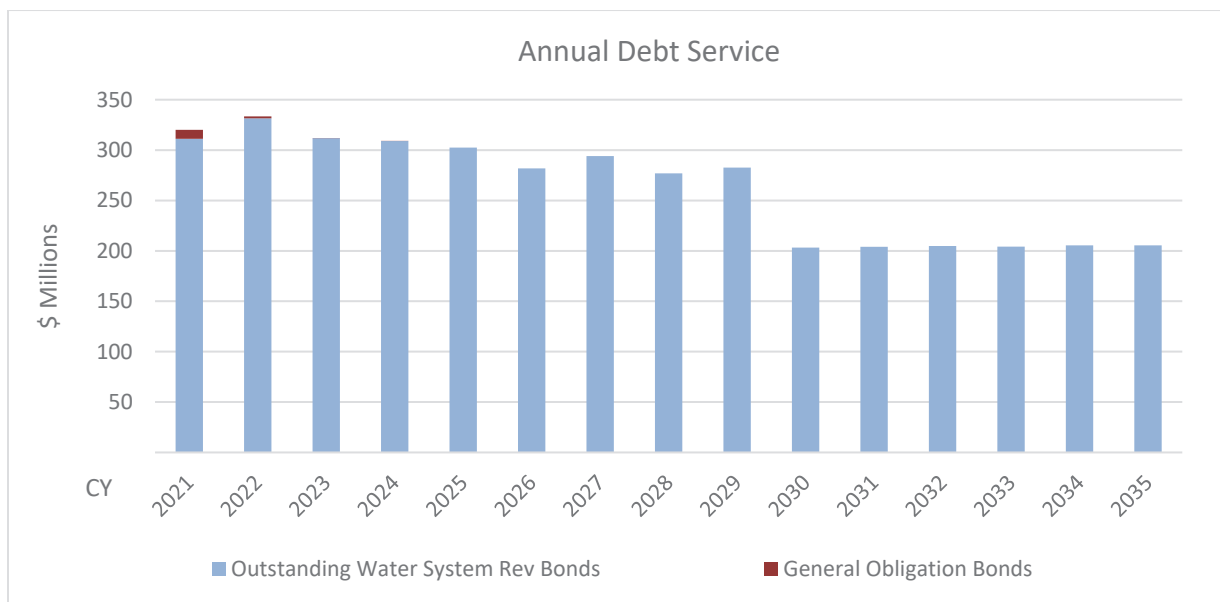
**ESTIMATED CAPITAL FINANCING FROM WATER SYSTEM REVENUE BONDS FOR EXISTING WATER SYSTEM
REVENUE PROJECTS
(in Millions)**

Water System Project	Capital Expenditures Series A through BD & BE	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	74.4
Alamo Project	30.4	0	30.4
Bottle Rock Facilities ⁽²⁾	80.2	0	80.2
South Geysers Project ⁽³⁾	40.9	0	40.9
Reid Gardner Project ⁽⁴⁾	176.2	0	176.2
East Branch Enlargement – Phase I	453	0	453
Additional East Branch Improvements	124.1	0	124.1
East Branch Enlargement – Phase II	7.9	0.2	8.1
Delta Pumping Plant Completion	73.6	0	73.6
Suisun Marsh Environmental Facilities	37.2	0	37.2
San Bernardino Tunnel Intake Structure	29.3	0	29.3
San Luis Rock Quarry	4.5	0	4.5
Castle Rock–Lakeville Transmission Line	6.9	0	6.9
Midway-Wheeler Ridge Transmission Line	10.1	0	10.1
Kern Water Bank	37	0	37
Vista del Lago Visitor Center	9	0	9
North Bay Aqueduct–Phase II	87.1	0	87.1
North Bay Aqueduct Improvements – Terminal Tanks	7.4	6.1 ⁽⁶⁾	13.5
North Bay Aqueduct Alternate Intake	0	0	0
Project Monitor and Control System	71.5	0	71.5
SWP Communications System Replacement ⁽⁵⁾	38.4	0.9	39.3
Arroyo Pasajero Program	4.9	0.2	5.1
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	356.5	396.1	752.6
Tehachapi East Afterbay ⁽⁵⁾	70.7	11.3	82
Perris Dam Remediation ⁽⁵⁾	135.1	113.5	248.6
Thermalito Powerplant Cleanup and Reconstruction ⁽⁷⁾	266.1	4	270.2
Oroville Dam Spillways Response, Recovery and Restoration ⁽⁷⁾	450.9	162.4	613.3
Oroville Dam Safety Comprehensive Needs Assessment ⁽⁷⁾	1.9	13.4	15.3
FERC Relicensing – State Water Project ⁽⁷⁾	34.4	65.6	100
Facilities Reconstruction and Improvement Project	750.5	2,294.00	3,044.40
Project Planning Costs	112.8	36.2	149
Coastal Branch – Phase II	491.3	0	491.3
East Branch Extension – Phase I	126	0	126
East Branch Extension – Phase I Improvements ⁽⁵⁾	38.6	0.8 ⁽⁶⁾	39.4
East Branch Extension – Phase II ⁽⁵⁾	270.5	0	270.5
South Bay Aqueduct Enlargement and Improvement ⁽⁵⁾	272.6	1.5	274.1
Total Water System Projects ⁽⁸⁾	\$4,870.60	\$3,105.20	\$7,975.80

- (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.
- (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
- (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.

State Water Project Debt Profile

The Department currently has \$4 billion of total debt outstanding. These amounts include revenue bonds, general obligation bonds, commercial paper, and SB 84 loan. The debt has a final maturity of December 1, 2035. The State Water Contractors are responsible for the payment of debt service on the bonds and are billed annually for their share of the debt obligation. The Department has generally structured each new money issuance of bonds with level annual debt service payments. However, from 2021 to the final maturity of the Department's bonds in 2035, annual debt service payments on existing long-term debt will peak in 2022 at approximately \$333 million and gradually decline to approximately \$205 million.



State Water Project Credit Ratings

The Department's Water System Revenue Bond credit is rated AAA (highest possible rating) by Standard & Poor's and Aa1 (second to highest possible rating) by Moody's Investor's Service. The Water System Revenue Bond credit rating is not tied to or impacted by the State of California's general obligation bond ratings or the Department's \$11 billion in Power Supply Revenue Bonds sold in 2002 to finance power for the state's investor owned utilities during the 2000-2001 energy crisis are rated separately.

Oroville Dam Spillway Emergency Repairs

A steady barrage of storms in early 2017 led to the wettest January and February in 110 years of Feather River hydrologic records. While releases from the Oroville Dam were being made to accommodate these extraordinary conditions, a section of the main spillway chute was damaged. When the emergency spillway was activated, erosion occurred on the slope downstream of the emergency spillway crest structure. 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.

On February 12, 2017, concern regarding the potential risk to the emergency spillway crest structure prompted the Butte County Sheriff to issue an evacuation order for approximately 188,000 people living in Oroville and other downstream 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 concrete, remove eroded debris, construct or improve access roads, and begin the design for reconstruction efforts. The evacuation order was lifted on February 14, 2017.

Due to the magnitude of the project, repair of the main and emergency spillways was completed over multiple phases. To ensure public safety, the Department set and achieved a goal of November 1, 2017, to reconstruct the main spillway to handle flows of 100,000 cubic feet per second. In March 2018, the Department completed construction of a cut-off wall 750 feet downhill of the emergency spillway, which will prevent uphill erosion beyond the wall if the emergency spillway is ever used again. In spring of 2018, work on the main spillway ramped back up and the spillway was returned to operational status at its original design capacity in December 2018. At the emergency spillway, the Department constructed a splash pad that was completed in November 2018 and a buttress that was completed in March 2019. These two features are designed to bolster the integrity of the emergency spillway and the hillside downstream. In April 2019, the main spillway was successfully operated for the first time since its reconstruction. Major civil construction activities were completed in early 2020, and site rehabilitation and revegetation activities will continue through at least 2024.

Members of the U.S. Army Corps of Engineers, Federal Energy Regulatory Commission, the Division of Safety of Dams, as well as dam experts on a board of consultants were actively engaged with the Department throughout the major civil construction and design portion (through mid-2020) of this project.

On April 1, 2017, former President Trump 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. It was envisioned that costs associated with the recovery and restoration efforts at the Oroville Dam spillways would be approximately \$1.1 billion, with up to 75% expected to be reimbursed by the Federal Government. In March 2019, the Federal Emergency Management Agency (FEMA) informed the Department that it did not consider the following costs to be eligible for reimbursement through its public assistance program: (i) approximately \$214 million in recovery costs (with a \$161 million federal cost share) for the upper portion of the main spillway and (ii) approximately \$290 million in costs (with a \$218 million federal cost share) for the recovery of the emergency spillway. The Department appealed FEMA's determination and provided additional information to support the Department's assertion that these costs should be eligible for reimbursement. FEMA responded to the Department's appeal in February 2020, finding that the costs associated with the upper portion of the main spillway are eligible for reimbursement, whereas the costs associated with the emergency spillway remain

ineligible for reimbursement. In May 2020, the California Office of Emergency Services filed with FEMA, on behalf of the Department, an application for hazard mitigation grant program funding for these costs associated with the emergency spillway that are not being reimbursed through FEMA’s public assistance program.

In September 2020, the Department updated its cost estimate for work associated with the recovery and restoration efforts at the Oroville Dam spillways to \$1.186 billion. Through ongoing discussions with FEMA, it has been determined that \$68 million of this total will not be eligible for a FEMA cost share. As of February 2021, the Department had received \$234 million in federal reimbursement. Based on the Department’s discussions with FEMA, the Department expects FEMA to provide an additional \$377 million through its Public Assistance program. The amount of federal cost share for the work associated with the Oroville Dam’s emergency spillway provided through the federal Hazard Mitigation Grant Program is more uncertain and is currently estimated at approximately \$100 million. On February 3, 2021, the Department was notified that FEMA had made an initial determination that the work at the emergency spillway would not be eligible for funding through the federal Hazard Mitigation Grant Program. The Department is currently developing its appeal of this decision. These amounts are based on preliminary estimates and may be materially revised through the project close-out period.

The following table summarizes the current, approximate amounts and status of the costs and FEMA reimbursements for the Oroville Dam spillways restoration efforts described above. The table also shows the approximate portion of costs of such repair and replacement that is currently expected to be financed long-term with Bonds (assuming all FEMA reimbursements described above and in the following chart are received) and paid by the Contractors under the Water Supply Contracts

Costs incurred through September 30, 2020	\$1.125 billion
Costs expected from October 1, 2020 through 2024	<u>\$ 61 million</u>
Total costs expected through 2024.....	\$1.186 billion
FEMA reimbursements to date	\$ 234 million
Expected future FEMA reimbursements (in years 2021-2024)	\$ 377 million
Amount expected to be financed with Water System Revenue Bonds.....	<u>\$ 575 million</u>
Total sources (preliminary) expected through 2024	<u>\$1.186 billion</u>

The costs for the repair and replacement work at Oroville Dam were and are being financed with the proceeds of Notes, such costs that are not reimbursed by FEMA are expected to be financed long-term with Bonds. 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 Bonds.

STATE WATER CONTRACTORS

Contractor Share of Payments

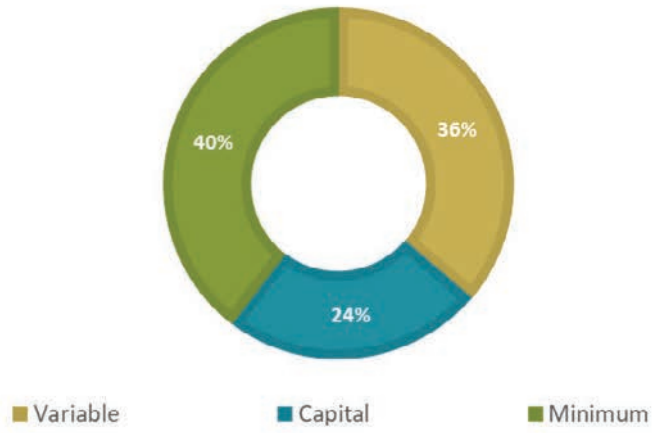
The State Water Contractors are billed each July for projected operating and capital costs for the upcoming calendar year. These Annual Statements of Charges include three types of charges:

- Capital (Repay Construction, Major Replacement/Refurbishment Costs)
- Minimum (Repay O&M and Non-Capital Replacement Costs)
- Variable (Repay Power Costs)

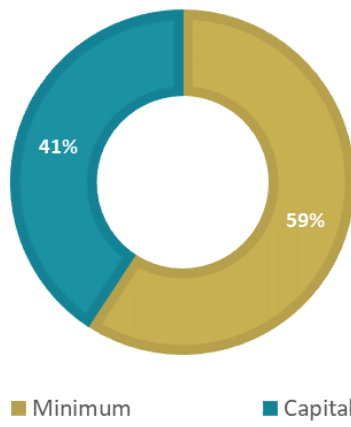
The capital, minimum and variable charges are applied in the following five main areas:

- Transportation - Capital, Minimum, Variable
- Conservation - Capital & Minimum
- Off-Aqueduct Power Facilities
- Water System Revenue Bond Surcharge
- Separate Bond Charges (East Branch Enlargement, East Branch Extension, Coastal Branch Extension, South Bay Aqueduct Enlargement, RAS)

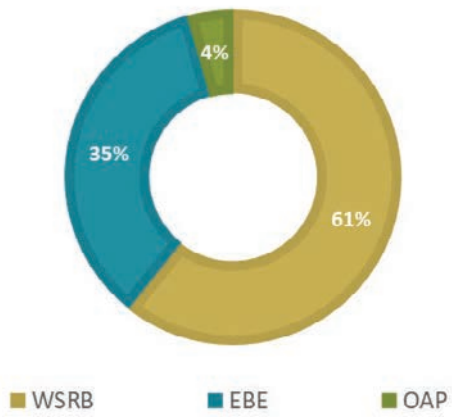
TRANSPORTATION CHARGES



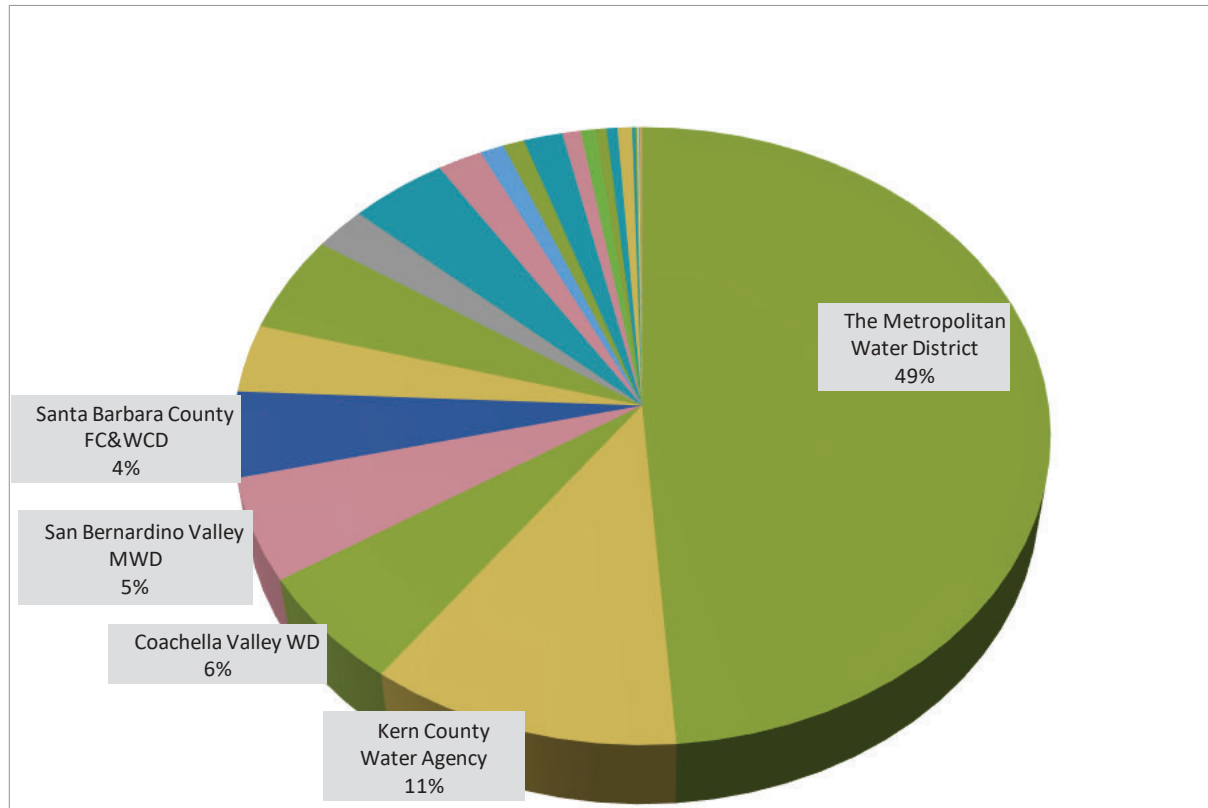
CONSERVATION CHARGES



OFF AQUEDUCT POWER FACILITIES CHARGES



The 29 State Water Contractors pay for the costs of the State Water Project through a combination of monthly and semi-annual charges. In 2020, five of the Water Contractors have accounted for more than 75 percent of water system revenues.



The percentage of total revenue collected by the Department from each Water Contractor varies significantly from the percentage of water the Water Contractor may be eligible to receive based on what is referred to as Table A. Table A is contained in the Long-Term Water Supply Contracts executed by the Department with each of the 29 State Water Contractors and details the maximum amount of water that each Water Contractor is entitled to request from the Department. The Water Contractors make their requests by October 1 for water to be delivered in the upcoming calendar year. Below are the Table A shares of water each Water Agency may request. Municipal and Industrial Contractors represent 76% of the Water Contractors' share of the Table A water supply, while Agricultural Contractors represent 24%.

**Maximum Table A Amounts
(in acre-feet)**

Upper Feather River	
County of Butte	27,500
Plumas County Flood Control & Water Conservation District	2,700
City of Yuba	9,600
Subtotal	39,800
North Bay Area	
Napa County Flood Control & Water Conservation District	29,025
Solano County Water Agency	47,756
Subtotal	76,781
South Bay Area	
Alameda County Flood Control & Water Conservation District, Zone 7	80,619
Alameda County Water District	42,000
Santa Clara Valley Water District	100,000
Subtotal	222,619
San Joaquin Valley	
Oak Flat Water District	5,700
County of Kings	9,305
Dudley Ridge Water District	45,350
Empire West Side Irrigation District	3,000
Kern County Water Agency	982,730
Tulare Lake Basin Water Storage District	87,471
Subtotal	1,133,556
Central Coast	
San Luis Obispo County Flood Control & Water Conservation District	25,000
Santa Barbara County Flood Control & Water Conservation District	45,486
Subtotal	70,486
Southern California	
Antelope Valley-East Kern Water Agency	144,844
Castaic Lake Water Agency	95,200
Coachella Valley Water District	138,350
Crestline-Lake Arrowhead Water Agency	5,800
Desert Water Agency	55,750
Littlerock Creek Irrigation District	2,300
The Metropolitan Water District of Southern California	1,911,500
Mojave Water Agency	85,800
Palmdale Water District	21,300
San Bernardino Valley Municipal Water District	102,600
San Gabriel Valley Municipal Water District	28,800
San Geronio Pass Water Agency	17,300
Ventura County Watershed Protection District	20,000
Subtotal	2,629,544
Total State Water Project (in acre-feet)	4,172,786

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 Water 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.

A contract extension amendment has now been prepared based on the AIP. Under the amendment, the term of the Water Supply Contract for each Water Contractor that signs the amendment would be extended until December 31, 2085. Also under the amendment, 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 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. Other provisions addressed in the amendment 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.

As required by statute, on September 11, 2018, the Department of Water Resources (DWR) presented the terms of the proposed contract extension amendment in an informational hearing to the Legislature’s Joint Legislative Budget Committee. With regard to the required environmental review pursuant to the California Environmental Quality Act (CEQA), in August 2016, DWR released, for public comment, a draft Environmental Impact Report (EIR) for the proposed contract extension amendment. The Director of DWR certified and released the final EIR in November 2018.

On December 11, 2018, the Director of DWR approved the contract extension amendment project under CEQA and executed the amendment with Metropolitan. As of March 15, 2021, twenty-two Water Contractors have executed the extension amendment with the Department. Under the terms of the extension amendment, the amendment will only take effect as to all signing Water Contractors when (1) 24 Water Contractors, with an aggregate maximum Table A amount exceeding 3,950,000-acre feet, have executed the amendment and (2) all pending litigation addressing the amendment has been resolved, unless either of these conditions is waived by the Department and the Water Contractors that have signed the amendment.

Three lawsuits are now pending that address the amendment, and those lawsuits are discussed in Note 10.

Renewable Energy

In accordance with the Renewable Energy Procurement Plan, that has been revised to meet Senate Bill (SB) 100's zero-emissions energy by 2045, DWR has achieved its procurement targets thru 2020. The System plans to procure approximately 1,080 GWh's of renewable energy by 2030. Purchase agreements for such power include:

- A 20-year contract with RE Camelot Solar Photovoltaic Project¹⁵ for the purchase of 45 megawatt (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 MWh's 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 deliver 230,000 MWh's of annual generation.
- A 20-year contract for 9.5 MW with Solar Star California XLIV, LLC for a facility built at the Pearblossom power plant. This Pearblossom facility includes an additional 10-year option to extend and is expected to deliver 27,400 MWh's of annual generation.

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

¹⁵ Owned and operated by Dominion Solar Holdings, Inc.

COVID-19 Pandemic

DWR was faced with the COVID-19 pandemic like the rest of the world and with this unprecedented public health crisis DWR had to quickly adapt to a new working environment. DWR quickly implemented emergency telework provisions to allow employees to telework if their job allowed, created processes and procedures that provided electronic routing and quick approvals, and expanded technology tools and capabilities to allow employees to effectively telework. DWR went from approximately 100 teleworkers to over 2200 in one month, and currently still has over 1800 active teleworkers today. DWR acted quickly and provided the flexibility and relief for its employees who had to manage many other challenges while working in a new telework environment.

Financial Management Enhancements Program

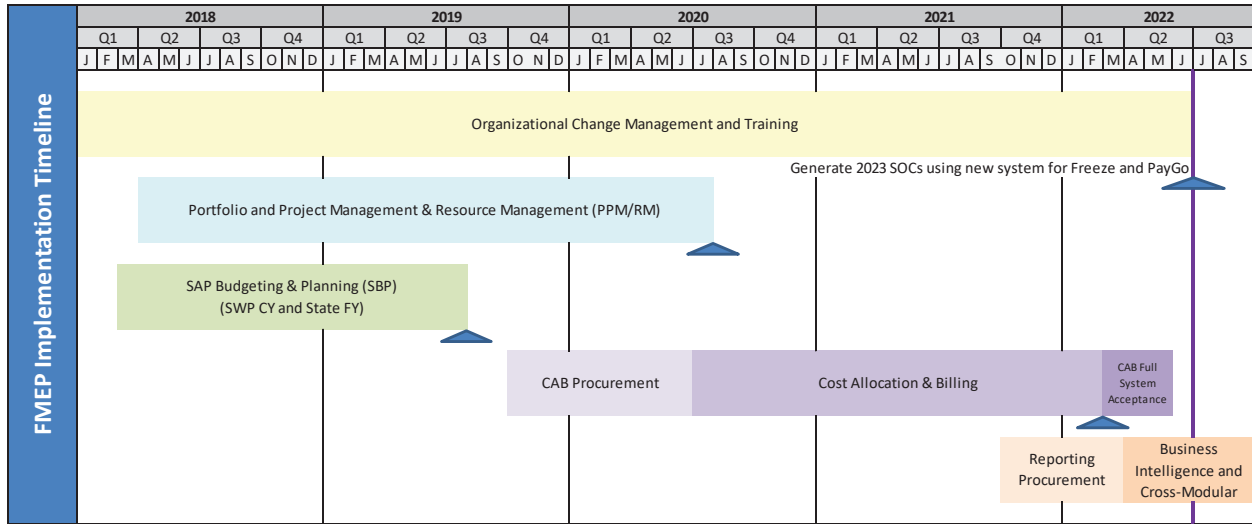
DWR initiated Financial Management Enhancements Program (FMEP) to analyze and assess its State Water Project organizational, budgeting, billing, and financial processes and reporting needs. DWR used a staged approach to implement the end-to-end business solution. Stage 1 produced high-level solution alternatives to meet the goals for SWP financial management, and in Stage 2, DWR selected the solution. DWR is currently in Stage 3, which implements the end-to-end business solution (solution). The solution includes three technology tools, Portfolio and Project Management/Resource Management (PPM/RM), SAP Budgeting and Planning (SBP), and Cost Allocation and Billing (CAB).

PPM/RM and SBP were developed to integrate the State and State Water Project planning and budgeting processes. Together, they work to create a single planning and budgeting solution that allows SWP and DWR to plan for project and program activity costs, prepare the State Budget, and prepare the B-132 Cost Projections used in the preparation of the Statements of Charges.

CAB will enhance the existing billing processes, replace certain components of the existing Utility Cost Accounting and Billing System (UCABS) and Cost Allocation and Repayment Analysis (CARA) system, and add new billing methodologies by automating the manual processes for integrating B-132 Cost Projection data and Debt Service and incorporating the requirements for the new Pay-As-You-Go calculation method into the billing process.

The end-to-end business solution described above also includes an overarching Organizational Change Management (OCM) and Training effort that spans the technology implementation. The OCM/Training team has been coordinating the sustained training efforts for the two systems that have already gone into production, PPM/RM and SBP. PPM/RM sustained training is offered quarterly, and SBP sustained training is offered yearly before the State budget planning cycle starts. The CAB implementation started on July 1, 2020, and system go live is expected by March 2022. This will enable the 2023 Statements of Charges to be produced by the new system by July 2022.

The following graphic shows the overall technology implementation plan for FMEP:



INDEPENDENT AUDIT

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

AWARDS and ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its Financial Report for the fiscal year ended June 30, 2019. This was the fourth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the System published an easily readable and efficiently organized Financial Report. This report satisfies both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 Eide Bailly, LLP for their invaluable professional support in the preparation of the Financial Report.

Respectfully submitted,



Ted Craddock
SWP Deputy Director



Vinay Narjit Singh Behl, CPA
Comptroller & Chief Financial Officer
Chief, Division of Fiscal Services



Lisa Toms
Accounting Administrator III



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**California State Water Resources Development
System**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO



FINANCIAL SECTION





Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State Water Resources Development System (System), an enterprise fund of the State of California, as of and for the years ended June 30, 2020 and 2019, 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

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

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, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements

As disclosed in Note 1 to the financial statements, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2020 and 2019, and the changes in its financial positions and its cash flows for the years then ended in conformity 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 management's discussion and analysis, schedule of the System's proportionate share of the net pension liability, schedule of the System's pension contributions, schedule of the System's proportionate share of the net other-post employment benefits (OPEB) liability, and schedule of the System's OPEB 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 taken as a whole. The introductory section, calculation of the adequacy of debt service coverage for the Central Valley Project revenue bonds, and the statistical section is presented for purposes of additional analysis and is not a required part of the financial statements.

The calculation of the adequacy of debt service coverage for the Central Valley Project revenue bonds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the calculation of the adequacy of debt service coverage for the Central Valley Project revenue bonds is fairly stated, in all material respects, in relation to the financial statements taken 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 April 29, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sacramento, California

April 29, 2021



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 for the fiscal years ended June 30, 2020 and 2019, 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 2020 and 2019, the System recorded an increase in total assets of \$250 million and \$810.3 million, respectively, on total operating revenues of \$1,135 million and \$1,150 million, respectively.
- Deferred inflows of resources for capital costs increased by \$140.3 million to an ending balance of \$1,244.5 million in fiscal 2020 compared to \$1,104.2 million in fiscal 2019. The increase is primarily due to net revenues collected for principal payments of previous costs incurred to construct Utility Plant in Service (UPIS) assets.
- Deferred inflows of resources for capital costs increased by \$264.7 million to an ending balance of \$1,104.2 million in fiscal 2019 compared to \$839.5 million in fiscal 2018. 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 April 27, 2020, the System received an approximately \$6.8 million FEMA disaster grant, included in other revenues, to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.
- On January 6, 2020, the System received an approximately \$138.4 million FEMA disaster grant (accrued as of June 30, 2019), included in other revenues, to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.
- On December 12, 2019, the System received an approximately \$15.9 million FEMA disaster grant (accrued as of June 30, 2019), included in other revenues, to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.

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 includes all the assets, liabilities, deferred outflows and inflows of resources, and net position. The Statements of Revenues, Expenses and Changes in Net Position reports all of the revenues and expenses incurred during the fiscal year presented. The Statements of Cash Flows reports the cash inflows and outflows classified by operating, investing, noncapital financing, and capital and related financing activities during the reporting period presented.

The Financial Statements can be found on pages 45 - 50 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 52 - 98 of this report.

Required Supplementary Information (RSI) and Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information related to the pension and other postemployment benefits plans and certain supplementary information concerning the System's adequacy of debt service coverage. RSI and Supplementary information can be found on pages 99 - 105 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.

Condensed Statements of Net Position

	June 30,			% Change 2020-2019	% Change 2019-2018
	2020	2019	2018		
	(amounts in thousands)				
Assets					
Other assets	\$ 2,826,388	\$ 2,868,819	\$ 2,613,180	-1.5%	9.8%
Total utility plant	5,813,417	5,520,962	4,966,257	5.3%	11.2%
Total assets	8,639,805	8,389,781	7,579,437	3.0%	10.7%
Total deferred outflows of resources	309,206	296,601	401,026	4.2%	-26.0%
Total assets and deferred outflows of resources	\$ 8,949,011	\$ 8,686,382	\$ 7,980,463	3.0%	8.8%
Liabilities					
Other liabilities	\$ 807,701	\$ 732,168	\$ 639,296	10.3%	14.5%
Noncurrent liabilities	5,404,262	5,298,865	5,077,345	2.0%	4.4%
Total liabilities	6,211,963	6,031,033	5,716,641	3.0%	5.5%
Total deferred inflows of resources	1,600,156	1,489,000	1,069,784	7.5%	39.2%
Net position					
Net investment in capital assets	890,438	783,286	942,618	13.7%	-16.9%
Restricted	246,454	383,063	251,420	-35.7%	52.4%
Total net position	1,136,892	1,166,349	1,194,038	-2.5%	-2.3%
Total liabilities, deferred inflows of resources, and net position	\$ 8,949,011	\$ 8,686,382	\$ 7,980,463	3.0%	8.8%

* 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 \$292.5 million, primarily due to the construction of the Oroville Dam Spillway Recovery and Restoration Project and the Facilities Reconstruction and Improvement Project. This increase was offset by an increase of \$185.3 million in debt related to capital assets and increases in capital costs relating to the timing difference between capital revenue recovered and the depreciation expense recognition. This resulted in an overall increase in net investment in capital assets of \$107.2 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 following table reflects how the System recognized revenues and expenses during the year:

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

	Fiscal Year Ended June 30,			% Change 2020-2019	% Change 2019-2018
	2020	2019	2018		
	(amounts in thousands)				
Operating revenues:					
Water supply	\$ 1,040,036	\$ 1,010,751	\$ 1,076,238	2.9%	-6.1%
Power sales	49,435	96,308	88,148	-48.7%	9.3%
Federal and State reimbursements	45,719	42,593	42,127	7.3%	1.1%
Total operating revenues	<u>1,135,190</u>	<u>1,149,652</u>	<u>1,206,513</u>	<u>-1.3%</u>	<u>-4.7%</u>
Operating expenses:					
Operations and maintenance	617,236	645,191	555,163	-4.3%	16.2%
Purchased power	243,120	290,908	342,115	-16.4%	-15.0%
Depreciation and amortization	105,345	94,191	80,101	11.8%	17.6%
Operating expenses recovered, net	<u>(139,779)</u>	<u>(151,926)</u>	<u>(64,454)</u>	<u>-8.0%</u>	<u>135.7%</u>
Total operating expenses	<u>825,922</u>	<u>878,364</u>	<u>912,925</u>	<u>-6.0%</u>	<u>-3.8%</u>
Income from operations	309,268	271,288	293,588	14.0%	-7.6%
Nonoperating revenues/expenses:					
Capital revenues recovered (deferred), net	(221,600)	(334,870)	(294,864)	-33.8%	13.6%
Interest expense	(110,158)	(116,481)	(105,429)	-5.4%	10.5%
Investment income (loss), net	19,811	22,482	15,353	-11.9%	46.4%
Other revenues (expenses), net	(26,778)	129,892	42,493	-120.6%	205.7%
Total nonoperating revenues/expenses	<u>(338,725)</u>	<u>(298,977)</u>	<u>(342,447)</u>	<u>13.3%</u>	<u>-12.7%</u>
Change in net position	(29,457)	(27,689)	(48,859)	6.4%	-43.3%
Net position, beginning of year	1,166,349	1,194,038	1,242,897	-2.3%	-3.9%
Net position, end of year	<u>\$ 1,136,892</u>	<u>\$ 1,166,349</u>	<u>\$ 1,194,038</u>	<u>-2.5%</u>	<u>-2.3%</u>

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

The System recognized a decrease in net position in fiscal 2020 of \$29.5 million compared to a decrease of \$27.7 million in fiscal 2019. The components of the decreases are shown in the table below:

Net Position		
	2020	2019
	(amounts in thousands)	
Capital cost in excess of revenue	\$ 9,768	\$ (6,040)
Suspended costs	(20,698)	(6,777)
Recreation minimum	(18,846)	(25,497)
Recreation depreciation	(3,162)	(2,404)
Bad debt	(14,439)	(13,025)
Interest and other miscellaneous	17,920	26,054
Change in net position	<u>\$ (29,457)</u>	<u>\$ (27,689)</u>

Revenues

Operating Revenues

The decrease of \$14.5 million in operating revenues for fiscal 2020 is attributable to a decrease of \$46.9 million in power sales primarily due to less forward energy purchase contracts, and a temporary outage in the Lodi Energy Center, which resulted in less energy generated. This decrease was offset by an increase of \$29.3 million in water supply revenues mainly due to an increase in water rate and an increase of \$3.1 million in federal and state reimbursements.

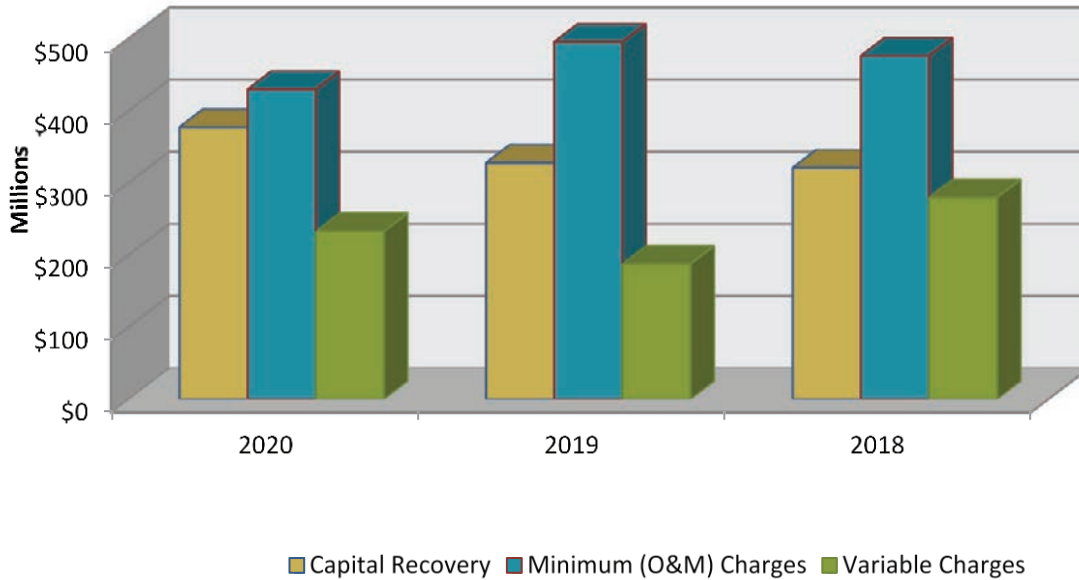
The decrease of \$56.9 million in operating revenues for fiscal 2019 was attributable to a decrease of \$65.5 million in water supply revenue billings primarily due to decreased water deliveries. This decrease was offset by an increase in power sales revenue of \$8.1 million and an increase of \$500 thousand in federal reimbursements.

Water Supply Revenue

The largest portion of revenues, approximately 91.62%, comes from Water Supply Revenue. In fiscal 2020, the System generated \$1,040 million in water supply revenue, compared to \$1,010.8 million in fiscal 2019, and \$1,076.2 million in fiscal 2018.

The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2020, 2019, and 2018:

Water Supply Revenue



Expenses

Operating Expenses

Total operating expenses decreased by \$52.4 million for fiscal 2020 to a total of \$826 million. The decrease is primarily due to the timing difference between recovery and recognition of operating costs and decreased power purchases.

Total operating expenses decreased by \$34.6 million for fiscal 2019 to a total of \$878.4 million. The decrease was primarily due to the timing difference between recovery and recognition of operating costs and decreased power purchases.

Operations and Maintenance Expenses

The total operations and maintenance expenses decrease of \$28 million in fiscal 2020 was mostly attributed to a \$22.5 million decrease in consultant and professional services, waste removal, and general costs and a decrease of \$5.5 million in water supply.

The increase in operations and maintenance expenses of \$90 million in fiscal 2019 was mostly attributed to the following factors: \$53 million increase in litigation cost related to the Oroville Dam Spillway; \$24 million increase in consultant and professional services, facilities security, and waste removal cost; and \$13 million increase in bad debt expense.

Purchased Power

Decreased water deliveries generally result in decreased purchased power. In fiscal 2020, purchased power decreased by \$47.8 million to a total of \$243 million. This decrease was not due to decreased water deliveries. Primary factors that contributed to decreased purchases were additional bilateral energy purchased in fiscal 2019 to hedge against potential energy price

increases, and decreases in the megawatt hour (MWh) rate. The average monthly MWh rate decreased from \$40.75 in fiscal 2019 to \$29.08 in fiscal 2020.

In fiscal 2019, purchased power decreased by \$51.2 million to a total of \$291 million. This was mainly due to water deliveries decreased from 3.1 million acre-feet in fiscal 2018 to 2.4 million acre-feet in 2019, a decrease of 0.70 million acre-feet or 22.47%. The decrease in water deliveries resulted in decreased pumping demand.

Operating and Maintenance Expense Recovered (Deferred)

Operating and maintenance expense recovered (deferred) represents an adjustment for the timing difference between operations and maintenance (O&M) costs recovered as per the Water Supply Contracts and the incurrence of such O&M costs. Operating and maintenance expense recovered (deferred) decreased by \$12.1 million in fiscal 2020. This is due to a \$26 million decrease in power purchases offset by a \$13.9 million increase in suspended cost.

In fiscal 2019, operating and maintenance expense recovered increased by \$87.5 million. This was due mainly to the difference noted in the Operations and Maintenance expenses section.

Capital Revenues Deferred

Capital revenues deferred represents an adjustment for the timing difference between capital revenue recovered as per the Water Supply Contracts and the depreciation expense recognition of such capital assets and their associated financing costs. Capital revenues deferred decreased by \$113.3 million in fiscal 2020. This is due primarily to the normal-course timing difference as described and a reduction in FEMA disaster grant to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.

In fiscal 2019, capital revenues deferred increased by \$40 million in fiscal 2019. This was due primarily to the normal-course timing difference as described.

Interest Expense

Interest expense for fiscal 2020 decreased by \$6.3 million from \$116.4 million in fiscal 2019 to \$110.1 million in fiscal 2020. The \$6.3 million decrease was attributable to a decline in interest rates from Commercial Paper borrowings as well as an increase in the scheduled annual amortization of premium.

Interest expense for fiscal 2019 increased by \$11 million from \$105.4 million in fiscal 2018 to \$116.4 million in fiscal 2019. The \$11 million increase was attributable to the new issuances of Revenue Bonds Series AZ and BA, interest accrued for the SB 84 Loan, as well as the increase in interest from Commercial Paper borrowings.

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, other intangible assets, and general. The increase in the System's investment in capital assets for fiscal 2020 was \$292.5 million (including \$8.8 million of capitalized interest) and for fiscal 2019 was \$554.7 million (including \$28.1 million of capitalized interest), an increase of 5.30% and 11.17%, respectively. Additional details of capital assets are contained in Note 4.

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

Capital Assets			
	Balance (in thousands)		
	2020	2019	2018
Nondepreciable Utility Plant	\$ 2,253,757	\$ 2,379,198	\$ 1,926,901
Depreciable Utility Plant	5,938,956	5,418,274	5,224,850
Total Utility Plant	8,192,713	7,797,472	7,151,751
Less Accumulated depreciation / amortization	(2,379,296)	(2,276,510)	(2,185,494)
Utility Plant, Net	<u>\$ 5,813,417</u>	<u>\$ 5,520,962</u>	<u>\$ 4,966,257</u>

Long-Term Debt

The System's total debt increased \$32.2 million or 0.8% during fiscal 2020. This increase was comprised of the issuance of approximately \$230.1 million in new debt, net of refundings, including premiums, offset by principal payments and amortization of premiums and discounts of \$197.9 million. The change in debt included the issuance of \$390.5 million of commercial paper notes, which was partially offset by a \$160.4 million of FEMA disaster grant to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project, bond principal payments and amortization of premium and discount of \$194.5 million, and the SB 84 loan principal payment of \$3.4 million. The most significant increase in debt was due to the issuance of commercial paper notes, which were used to continue financing the cost related to the Oroville Dam Spillway Recovery and Restoration Project. During fiscal 2019, the System's total debt increased by \$436.9 million. This was comprised of new debt of \$619.3 million, net of refundings, and principal payments and amortization of premiums and discounts of \$182.4 million.

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

Long-Term Debt			
	Balance (in thousands)		
	2020	2019	2018
Revenue Bonds	\$ 3,045,468	\$ 3,222,577	\$ 2,869,007
General Obligation Bonds	10,685	28,090	54,065
Commercial Paper	920,107	689,984	580,672
SB 84 Loan	57,471	60,910	60,910
Total	4,033,731	4,001,561	3,564,654
Less current portion	(186,878)	(164,440)	(155,375)
Long-term portion	<u>\$ 3,846,853</u>	<u>\$ 3,837,121</u>	<u>\$ 3,409,279</u>

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

Economic Factors

The Department of Water Resources (DWR) continues operations to maintain critical functions while modifying the way we work in the face of the current emergencies, like COVID-19 and fires statewide, to protect our staff and the public. DWR continues providing California its core services of water delivery, flood protection, dam safety, and infrastructure maintenance.

Following guidance from Gov. Gavin Newsom and California Department of Public Health (CDPH), DWR has made several changes due to COVID-19. To protect the health and safety of visitors and employees at DWR facilities, visitors and staff are advised to follow CDPH and local guidelines for social distancing. Stay six feet apart, wash your hands, and wear a face covering.

DWR continues to assess and monitor the effects that the ongoing COVID-19 outbreak and the measures taken by the State and local governments to slow the virus' spread have had and will have on the Department's finances and operations. DWR is utilizing financial tools to mitigate COVID-19 recessionary pressures, including pre-funding \$250 million of future capital expenditures to bolster its financial flexibility. In December 2020, two vaccines were approved for emergency use in the United States and vaccinations began in California. A third vaccine was approved for emergency use in February 2021.

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. In fiscal 2015, the System began purchasing renewable energy under a purchase contract with Dominion Solar- RE Camelot, a 45 MW solar plant. The System is also under contract for solar energy purchases with Solverde 1 and Solar Star California XLIV, which came online near the end of calendar year 2016 and added 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 wildfires.

Increases or decreases in water allocations depend on water availability. Water allocations also depend heavily on reservoir storage and snowpack water content. Water deliveries increased from 2.43 million acre-feet in fiscal 2019 to 2.48 million acre-feet in fiscal 2020, an increase of 0.05 million acre-feet or 2%. Water allocation began at 75% in July 2019 and was decreased to 15% in January 2020. This significant entitlement reduction was primarily due to decreasing snowpack water content and warmer temperatures.

During fiscal year 2020, water levels at the SWP reservoirs began at or above their historical averages. While weather is very unpredictable, the Department is hopeful that upcoming storms in the next fiscal year will continue to build up snowpack water content in Northern California.

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, Enterprise Accounting Branch, 1416 Ninth Street Room 816, Sacramento, CA 95814.



FINANCIAL STATEMENTS

Statements of Net Position
(amounts in thousands)

	June 30,	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 780,498	\$ 708,971
Receivables:		
Interest on investments	3,238	5,037
Water supply and power billings, net	82,861	147,624
Due from federal and state governments, net	63,857	207,380
Due from others	-	7,664
Inventories	4,893	4,893
Total current assets	<u>935,347</u>	<u>1,081,569</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	35,783	37,779
Cash and investments restricted for debt service	140,622	142,380
Cash and cash equivalents on deposit with revenue bond trustee	34,454	34,354
Total restricted assets	<u>210,859</u>	<u>214,513</u>
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	1,102,099	1,014,786
Unamortized project costs	184,727	184,727
Unbilled interest incurred on capital costs	225,664	267,071
Total amounts recoverable through future billings	<u>1,512,490</u>	<u>1,466,584</u>
Loans receivable from local water agencies	9,337	10,105
Advances to other state funds	158,355	96,048
Utility plant:		
Nondepreciable utility plant	322,093	300,865
Depreciable utility plant	5,938,956	5,418,274
Less accumulated depreciation/amortization	<u>(2,379,296)</u>	<u>(2,276,510)</u>
Net utility plant in service	3,881,753	3,442,629
Construction work in progress	<u>1,931,664</u>	<u>2,078,333</u>
Total utility plant	<u>5,813,417</u>	<u>5,520,962</u>
Total noncurrent assets	<u>7,704,458</u>	<u>7,308,212</u>
Total assets	<u>8,639,805</u>	<u>8,389,781</u>
Deferred outflows of resources		
Deferral of loss on refunding	128,978	138,932
Deferral of resources related to pensions	128,134	133,035
Deferral of resources related to OPEB	52,094	24,634
Total deferred outflows of resources	<u>309,206</u>	<u>296,601</u>
Total assets and deferred outflows of resources	<u>\$ 8,949,011</u>	<u>\$ 8,686,382</u>

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

	June 30,	
	2020	2019
Liabilities		
Current liabilities:		
Current maturities of bonds	\$ 176,370	\$ 164,440
Accounts payable	207,040	172,753
Accrued compensated absences	16,873	16,578
Pollution remediation	9,611	10,358
SB 84 Loan	10,508	12,554
Accrued interest on long-term debt	11,223	15,329
Due to other state funds	93,183	50,821
Proceeds due to water contractors	282,893	289,335
Total current liabilities	807,701	732,168
Noncurrent liabilities:		
General obligation bonds, net of current portion	2,090	10,685
Revenue bonds, net of current portion	2,877,693	3,075,542
Commercial paper	920,107	689,984
Net pension liability	558,713	527,333
Net OPEB liability	805,535	771,286
SB 84 Loan	46,963	48,356
Claims liability	67,829	52,259
Accrued compensated absences, net of current portion	28,271	25,703
Pollution remediation, net of current portion	43,000	41,978
Unearned revenue - State and Federal capital recovery	15,875	16,468
Advances for plant replacements	38,186	39,271
Total noncurrent liabilities	5,404,262	5,298,865
Total liabilities	6,211,963	6,031,033
Deferred inflows of resources		
Operations and maintenance expense	3,387	1,731
Capital costs	1,244,549	1,104,215
Power sales credit due to Water Contractors	97,301	111,636
Deferral of resources related to pensions	35,478	40,444
Deferral of resources related to OPEB	219,441	230,974
Total deferred inflows of resources	1,600,156	1,489,000
Total liabilities and deferred inflows of resources	7,812,119	7,520,033
Net position:		
Net investment in capital assets	890,438	783,286
Restricted for:		
Debt service and plant replacements	210,859	214,513
SWP related activities	35,595	168,550
Total net position	1,136,892	1,166,349
Total liabilities, deferred inflows of resources, and net position	\$ 8,949,011	\$ 8,686,382

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

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

	Fiscal Year Ended June 30,	
	2020	2019
Operating revenues:		
Water supply	\$ 1,040,036	\$ 1,010,751
Power sales	49,435	96,308
Federal and State reimbursements	45,719	42,593
Total operating revenues	<u>1,135,190</u>	<u>1,149,652</u>
Operating expenses:		
Operations and maintenance	617,236	645,191
Purchased power	243,120	290,908
Depreciation and amortization	105,345	94,191
Operating expenses recovered, net	(139,779)	(151,926)
Total operating expenses	<u>825,922</u>	<u>878,364</u>
Income from operations	<u>309,268</u>	<u>271,288</u>
Nonoperating revenue (expenses):		
Capital revenues recovered (deferred), net	(221,600)	(334,870)
Interest expense	(110,158)	(116,481)
Investment income	19,811	22,482
Other revenues (expenses), net	(26,778)	129,892
Total nonoperating revenues (expenses)	<u>(338,725)</u>	<u>(298,977)</u>
Change in net position	(29,457)	(27,689)
Net position, beginning of year	1,166,349	1,194,038
Net position, end of year	<u>\$ 1,136,892</u>	<u>\$ 1,166,349</u>

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

Statements of Cash Flows
(amounts in thousands)

	Fiscal Year Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Receipts from customers	\$ 1,349,148	\$ 1,092,325
Payments to employees for services	(425,649)	(392,703)
Payments to suppliers	(378,525)	(478,709)
Other receipts (payments)	(26,836)	129,892
Net cash provided by operating activities	<u>518,138</u>	<u>350,805</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	-	405,805
Principal payments on long-term debt	(164,440)	(155,375)
Commercial paper notes issued	390,527	585,075
Principal payments on commercial paper notes	(160,404)	(475,763)
Interest payments on long-term debt	(140,583)	(89,223)
Additions to utility plant and construction work in progress	(397,801)	(649,078)
Net cash used by capital and related financing activities	<u>(472,701)</u>	<u>(378,559)</u>
Cash flows from investing activities:		
Cash received from investment earnings	21,500	21,034
Proceeds of investments matured	152,265	252,618
Purchases of investments	(152,059)	(252,772)
Loan payments from local water agencies	769	819
Net cash provided by investing activities	<u>22,475</u>	<u>21,699</u>
Net increase (decrease) in cash and cash equivalents	67,912	(6,055)
Cash and cash equivalents, beginning of year	872,624	878,679
Cash and cash equivalents, end of year	<u>\$ 940,536</u>	<u>\$ 872,624</u>
Noncash capital and related financing activities:		
Amortization of bond premium/discount	\$ 30,074	\$ 27,287
Amortization of deferred loss on refunding	9,964	(10,302)
Principal retirements of long-term debt on proceeds received from issuance of Series AZ and Series AX & AY Water System Revenue Bonds for 2020 and 2019, respectively	-	109,080
Noncash capital and related financing activities:	<u>\$ 40,038</u>	<u>\$ 126,065</u>

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

	Fiscal Year Ended June 30,	
	2020	2019
Reconciliation to the statement of net position:		
Cash and cash equivalents	\$ 780,498	\$ 708,971
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	35,783	37,779
Cash and cash equivalents restricted for debt service (net of \$50,821 and \$50,860 of U.S. Agency securities for 2020 and 2019, respectively)	89,801	91,520
Cash and cash equivalents on deposit with revenue bond trustee	34,454	34,354
Cash and cash equivalents	\$ 940,536	\$ 872,624
	2020	2019
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 309,268	\$ 271,288
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	105,345	94,191
Other receipts	(26,836)	129,892
Other non current liabilities	11,439	72,646
(Increase) decrease in deferred charges and credits, net	(157,884)	18,369
Changes in assets and liabilities:		
(Increase) decrease in receivables	86,172	(45,123)
Decrease in inventories	-	545
(Increase) decrease in due from federal government	129,777	(166,769)
Increase (decrease) in accounts payable, accrued vacation, and pollution remediation	(4,311)	41,395
Increase (decrease) in pension & OPEB	34,249	(141,626)
Increase (decrease) in due to other state funds	37,361	(2,238)
Increase (decrease) in proceeds due to Water Contractors	(6,442)	78,235
Total adjustments	208,870	79,517
Net cash provided by operating activities	\$ 518,138	\$ 350,805

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. It 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, approximately 69% of its population and 8% of the United States' entire population, including Puerto Rico.

The operations of the System are separate and distinct from other operations of the State of California. The accompanying financial statements only reflect the activity of the System and do not purport to, and do not, present fairly, the financial position of the State of California and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. 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 historical cost. Historical 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 expensed 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
Equipment, computers, 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 original 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.

Cash and Investments

Cash not required for current use, including restricted cash, is invested in SMIF, which is stated at fair value. The weighted average to maturity of PMIA investments was 191 days as of June 30, 2020 and 173 days as of June 30, 2019. The State's total amount of deposits in SMIF was \$55.7 billion as of June 30, 2020 and \$43.2 billion as of June 30, 2019. 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 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 it 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, 2020 are of a similar nature as those held at June 30, 2019.

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. The other Advances to Other State Funds represent the System's advances to the Department of General Services to fund the Rio Vista Science Center, a joint venture between DWR and the United States Fish and Wildlife Services, and to fund the Joint Operations Center.

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, 2020 and 2019 were as follows:

Inventories		
	2020	2019
Operating supplies	\$ 4,629	\$ 4,608
Fuel	264	285
Total	<u>\$ 4,893</u>	<u>\$ 4,893</u>

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, 2020 and 2019.

Regulated Operations

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an expense/expenditure until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as revenue until that time.

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 \$129 million as of June 30, 2020 and \$138.9 million as of June 30, 2019. The \$9.9 million decrease is due to the scheduled annual amortization expense.

The System's allocated share of the deferred outflows of resources related to pensions was \$128.1 million and \$133 million as of June 30, 2020 and 2019, respectively. See Note 8 for additional information.

The System's allocated share of the deferred outflows of resources related to OPEB was \$52.1 million and \$24.6 million as of June 30, 2020 and 2019, respectively. See Note 9 for additional information.

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 \$3.4 million and \$1.7 million in deferred inflows of operations and maintenance expenses as of June 30, 2020 and 2019, 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 System had an ending balance of \$1,244.5 million and \$1,104.2 million in deferred inflows of capital costs as of June 30, 2020 and 2019, respectively.

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 \$14.3 million to an ending balance of \$97.3 million in fiscal 2020 compared to \$111.6 million in fiscal 2019.

The System's allocated share of the deferred inflows of resources related to pensions was \$35.5 million and \$40.4 million as of June 30, 2020 and 2019, respectively. See Note 8 for additional information.

The System's allocated share of the deferred inflows of resources related to OPEB was \$219.4 million and \$231 million as of June 30, 2020 and 2019. See Note 9 for additional information.

Unearned Revenue – State and Federal Capital Recovery

Unearned revenue represents reimbursement payments made 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 investment in capital assets includes utility plant in service, net of accumulated depreciation, construction work in progress, unamortized project costs, less debt related to capital assets, unearned revenue, and other assets and liabilities related to the recovery of utility plant. Net investment in capital assets were \$890.4 million and \$783.3 million at June 30, 2020 and 2019, respectively.

The restricted component of net position is for debt service and plant replacements, and State Water Project (SWP) related activities. Net position restricted for debt service represents reserves held by the System as required by its bond resolutions. Net position restricted for plant replacements represents reserves held by the System for future replacement of certain System's Assets. Net position restricted for SWP related activities represents 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. Restricted net position totaled \$246.5 million and \$383.1 million at June 30, 2020 and 2019, respectively.

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, 2020 and 2019. 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 under collections. 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 \$63.2 million and \$58.9 million for the years ended June 30, 2020 and 2019, respectively, are included as Proceeds Due to Water Contractors as presented in the Supplementary Information Debt Service Coverage. The Water Contractors received bond cover refunds of \$58.9 million and \$56.3 million in the fiscal years 2020 and 2019, respectively.

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 39.90% share of the operating costs and 45% share of the capital 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.

Compensated Absences

Compensated absences represent employees' vested unpaid vacation, annual leave, and other similar paid leave programs which are eligible for payment upon separation from state service. Unused sick-leave balances are not included in the compensated absences as they do not vest to employees.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System's portion of the California Public Employees' Retirement System (CalPERS) pension plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System's portion of the CalPERS OPEB plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Reclassifications

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

Compliance and Accountability

Per the System's continuing disclosure certificates and continuing disclosure agreement, the System has an obligation to meet specific continuing disclosures. The System's annual report and notices of material events must be filed by the System with the Municipal Securities Rulemaking Board (the MSRB) within 270 days after the System's fiscal year end. The System had filed the annual report for fiscal 2020 on the date hereof, but the annual report did not include financial statements as required per the continuing disclosure certificates and continuing disclosure agreement. The System will file its 2020 financial statements promptly on the MSRB website upon its completion.

3. Interests in Jointly Owned Facilities

At June 30, 2020 and 2019, 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	Utility Plant/Construction		Accum Depreciation	
			Work in Progress			
			2020	2019	2020	2019
San Luis Joint-Use Facilities	USBR	55%	\$ 350,530	\$ 298,126	\$ 73,079	\$ 64,782
SWP Hydropower Facilities License	LADWP	50%	\$ 5,663	\$ 4,696	\$ -	\$ -

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 2020 is presented below:

Utility Plant June 30, 2020

	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	\$ 188,965	\$ 20,200	\$ -	\$ 209,165
Construction work in progress (CWIP)	2,078,333	365,939	(512,608)	1,931,664
Land use rights	12,460	5	-	12,465
Other intangible assets	99,440	1,618	(595)	100,463
Total nondepreciable utility plant	<u>2,379,198</u>	<u>387,762</u>	<u>(513,203)</u>	<u>2,253,757</u>
Depreciable Utility Plant:				
Aqueducts	2,182,663	12,597	-	2,195,260
Dams & reservoirs	818,899	178,544	-	997,443
Power plants	650,730	98,515	-	749,245
Pumping plants	1,025,608	-	(26,604)	999,004
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	35,544	4,695	-	40,239
Facilities	304,796	185,530	-	490,326
Equipment and other depreciable assets	82,698	10,640	(2,600)	90,738
Computer software	27,349	34	-	27,383
Land use rights	272	-	-	272
Other intangible assets	12,005	-	-	12,005
General	209,913	59,331	-	269,244
Total depreciable utility plant	<u>5,418,274</u>	<u>549,886</u>	<u>(29,204)</u>	<u>5,938,956</u>
Less: accumulated depreciation and amortization				
Aqueducts	(665,869)	(25,005)	-	(690,874)
Dams & reservoirs	(399,877)	(10,312)	-	(410,189)
Power plants	(329,045)	(12,195)	-	(341,240)
Pumping plants	(627,856)	(15,583)	-	(643,439)
Environmental preservation and mitigation	(39,112)	(1,366)	-	(40,478)
Fish protection	(32,004)	(794)	-	(32,798)
Facilities	(49,327)	(12,055)	-	(61,382)
Equipment and other depreciable assets	(63,772)	(8,297)	2,559	(69,510)
Computer software	(25,784)	(619)	-	(26,403)
Land use rights	(272)	-	-	(272)
Other intangible assets	(7,207)	(1,199)	-	(8,406)
General	(36,385)	(17,920)	-	(54,305)
Total accumulated depreciation and amortization	<u>(2,276,510)</u>	<u>(105,345)</u>	<u>2,559</u>	<u>(2,379,296)</u>
Net depreciable plant	<u>3,141,764</u>	<u>444,541</u>	<u>(26,645)</u>	<u>3,559,660</u>
Total Utility Plant - net	<u>\$ 5,520,962</u>	<u>\$ 832,303</u>	<u>\$ (539,848)</u>	<u>\$ 5,813,417</u>

The summarized activity of the System's utility plant during 2019 is presented below:

Utility Plant June 30, 2019

	Beginning Balance (As restated)	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	\$ 162,457	\$ 26,508	\$ -	\$ 188,965
Construction work in progress (CWIP)	1,653,005	611,125	(185,797)	2,078,333
Land use rights	12,458	2	-	12,460
Other intangible assets	98,981	3,934	(3,475)	99,440
Total nondepreciable utility plant	1,926,901	641,569	(189,272)	2,379,198
Depreciable Utility Plant:				
Aqueducts	2,183,839	646	(1,822)	2,182,663
Dams & reservoirs	817,041	36	1,822	818,899
Power plants	523,529	127,201	-	650,730
Pumping plants	1,018,627	6,981	-	1,025,608
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	35,544	-	-	35,544
Facilities	301,157	3,639	-	304,796
Equipment and other depreciable assets	75,214	10,662	(3,178)	82,698
Computer software	27,206	143	-	27,349
Land use rights	272	-	-	272
Other intangible assets	12,005	-	-	12,005
General	162,619	47,294	-	209,913
Total depreciable utility plant	5,224,850	196,602	(3,178)	5,418,274
Less: accumulated depreciation and amortization				
Aqueducts	(640,883)	(24,986)	-	(665,869)
Dams & reservoirs	(389,695)	(10,182)	-	(399,877)
Power plants	(317,132)	(11,913)	-	(329,045)
Pumping plants	(612,498)	(15,358)	-	(627,856)
Environmental preservation and mitigation	(37,746)	(1,366)	-	(39,112)
Fish protection	(31,275)	(729)	-	(32,004)
Facilities	(39,296)	(10,031)	-	(49,327)
Equipment and other depreciable assets	(59,731)	(7,216)	3,175	(63,772)
Computer software	(25,177)	(607)	-	(25,784)
Land use rights	(272)	-	-	(272)
Other intangible assets	(6,008)	(1,199)	-	(7,207)
General	(25,781)	(10,604)	-	(36,385)
Total accumulated depreciation and amortization	(2,185,494)	(94,191)	3,175	(2,276,510)
Net depreciable plant	3,039,356	102,411	(3)	3,141,764
Total Utility Plant - net	\$ 4,966,257	\$ 743,980	\$ (189,275)	\$ 5,520,962

5. Investments

The System maintains cash deposits with the State's Surplus Money Investment Fund (SMIF), which is part of the Pooled Money Investment Account (PMIA). The State Treasurer manages the PMIA in accordance with various provisions of the California Water Code and the State's investment policies. The State Treasurer also acts as trustee for the System's revenue bonds, and manages the System's investments. Investment of the System's funds is administered in accordance with California Government Code, State's policies, and applicable provisions of the Central Valley Project Act bond resolutions.

The System follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement requires the disclosure of five types of risks: interest, credit, custodial, concentration, and foreign currency. Additional disclosures required by GASB No. 40 for cash deposits and investments within the State's centralized treasury system can be found in the State of California's Comprehensive Annual Financial Report.

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; and Level 3 inputs are significant unobservable inputs. Deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, the System's proportionate share of investments in the State Treasury at June 30, 2020 and 2019 of \$906.1 million and \$838.3 million, respectively, is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The following is a summary of the System's cash and investments by percentage of total, their related credit ratings and by fair value measurement as of June 30, 2020:

Cash and Investments at June 30, 2020							Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level1)
	% of Total	Credit Rating (S&P)	Maturities			6/30/2020	
			Under 30 Days	31-180 Days	181-365 Days		
Investments by fair value level:							
US Treasury Notes	5%	AA+	\$ -	\$ 50,821	\$ -	\$ 50,821	\$ 50,821
Total Investments by fair value level			\$ -	\$ 50,821	\$ -	\$ 50,821	\$ 50,821
Investments not subject to fair value level:							
Surplus Money Investment Fund	91%	Not rated	-	-	906,082	906,082	
Cash and Investments held outside State Treasury:							
Money Market Funds	4%	AAA	34,454	-	-	34,454	
Total cash and investments			\$ 34,454	\$ 50,821	\$ 906,082	\$ 991,357	

The following is a summary of the System's cash and investments by percentage of total, their related credit ratings and by fair value measurement as of June 30, 2019:

Cash and Investments at June 30, 2019

	% of Total	Credit Rating (S&P)	Maturities			6/30/2019	Fair Value
			Under 30 Days	31-180 Days	181-365 Days		Measurement Using Quoted Prices in Active Markets for Identical Assets (Level1)
Investments by fair value level:							
Federal Home Loan Bank	6%	AA+	\$ -	\$ 50,860	\$ -	\$ 50,860	\$ 50,860
Total Investments by fair value level			\$ -	\$ 50,860	\$ -	\$ 50,860	\$ 50,860
Investments not subject to fair value level:							
Surplus Money Investment Fund	90%	Not rated	-	-	838,270	838,270	
Cash and Investments held outside State Treasury:							
Money Market Funds	4%	AAA	34,354	-	-	34,354	
Total cash and investments			\$ 34,354	\$ 50,860	\$ 838,270	\$ 923,484	

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by weighted average to maturity, tend to be more sensitive to changes in interest rates than those with a shorter duration. As of June 30, 2020 and 2019, the weighted average maturity of the investments contained in SMIF is approximately 191 days and 173 days, respectively.

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: Credit risk is the risk that a debt issuer will fail to fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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: Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. As of June 30, 2020 and 2019, the System had investments contained in SMIF totaling 91% for both fiscal years. The System's PMIA investments totaled \$906,082 and \$838,270 for the fiscal years ended June 30, 2020 and 2019, respectively. Investments outside the State's Centralized Treasury System totaled \$85,275 and \$85,214 for the fiscal years ended June 30, 2020 and 2019, respectively.

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 1.934%, and 2.266% for the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, interest earned on the deposits with PMIA approximated \$16.4 million and \$18.8 million, respectively. Interest earned is included in the investment income line item on the statement of revenues, expenses, and changes in net position.

The U.S. Federal Agency Securities of \$50.8 million and \$50.9 million at June 30, 2020 and 2019, respectively, 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.

6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2020 and 2019:

	Long-Term Debt							
	Revenue Bonds				General	Commercial		Total Long
					Obligation Bonds	Paper	SB 84 Loan	Term Debt
	Par Amount	Unamortized Discount	Unamortized Premium	Total Revenue Bonds	Par Amount	Par Amount	Loan Amount	
Balance at June 30, 2018	\$ 2,507,860	\$ (6)	\$ 361,153	\$ 2,869,007	\$ 54,065	\$ 580,672	\$ 60,910	\$ 3,564,654
Additions	514,885	-	104,452	619,337	-	585,075	-	1,204,412
Retirements	(109,080)	-	(313)	(109,393)	-	(475,763)	-	(585,156)
Amortization	-	1	(26,975)	(26,974)	-	-	-	(26,974)
Payments	(129,400)	-	-	(129,400)	(25,975)	-	-	(155,375)
Balance at June 30, 2019	2,784,265	(5)	438,317	3,222,577	28,090	689,984	60,910	4,001,561
Additions	-	-	-	-	-	390,527	-	390,527
Retirements	-	-	(28)	(28)	-	(160,404)	-	(160,432)
Amortization	-	1	(30,047)	(30,046)	-	-	-	(30,046)
Payments	(147,035)	-	-	(147,035)	(17,405)	-	(3,439)	(167,879)
Balance at June 30, 2020	2,637,230	(4)	408,242	3,045,468	10,685	920,107	57,471	4,033,731
Less current portion	(167,775)	-	-	(167,775)	(8,595)	-	(10,508)	(186,878)
Total Long-term Debt	\$ 2,469,455	\$ (4)	\$ 408,242	\$ 2,877,693	\$ 2,090	\$ 920,107	\$ 46,963	\$ 3,846,853

General Obligation Bonds

The Burns-Porter Act authorized the issuance of State Water Resources Development System (SWRDS) General Obligations (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, 2020, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service is \$11.3 million with payments through 2025. Principal and interest paid for the current year was \$18.8 million and Burns-Porter Act water supply operating revenues were \$763.2 million. As of June 30, 2019, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service was \$30.1 million with payments through 2025. The prior amount stated as of June 30, 2019 for the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service reflected only the principal amount of \$28.1 million and excluded the interest portion of \$2 million for payments through 2025. Principal and interest paid for 2019 was \$28.4 million and Burns-Porter Act SWRDS water supply operating revenues were \$764.4 million.

SWRDS GO Bonds of \$168 million are authorized but un-issued as of June 30, 2020 and 2019, and may only be used for additional facilities, meeting certain requirements of the Burns-Porter Act.

Outstanding SWRDS GO Bonds include Series Q 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, 2020:

General Obligation Bonds					Amounts Outstanding	
Fiscal Year of Issue	Series	Original Par Amount	Fixed Rates	Fiscal Year of Final Maturity	2020	2019
1970	N	\$ 100,000	5.0%	2020	\$ -	\$ 4,500
1970	P	100,000	5.0%	2020	-	4,500
1971	Q	100,000	4.8%	2021	4,500	8,900
1971	R	50,000	4.8%	2021	2,250	4,450
1972	S	40,000	5.3%	2022	3,560	5,280
1994	X	2,000	4.8%	2024	200	250
1995	Y	1,400	7.0-7.1%	2025	175	210
Total General Obligation bond debt outstanding at par					10,685	28,090
Less current portion					(8,595)	(17,405)
Total Long-term General Obligation bond debt outstanding					<u>\$ 2,090</u>	<u>\$ 10,685</u>

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, 2020, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service is \$3,563.8 million with payments through fiscal 2036. Principal and interest paid for the current year was \$270.4 million and CVP water supply operating revenues were \$276.8 million. As of June 30, 2019, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service were \$3,838.4 million with payments through 2036. Principal and interest paid for the previous year was \$242.5 million and CVP water supply operating revenues were \$246.3 million.

The System's outstanding Water System Revenue Bonds contain a provision that in an event of default, and if after given a period of 60 days written notice by the Trustee, and the event of default continues, then the Trustee or the bondholders with at least 25 percent in the principal amount of outstanding Bonds are entitled to declare the outstanding amounts due immediately.

On April 24, 2019, the System issued tax-exempt, fixed-rate CVP Water System Revenue Bond, Series BA, with a par amount of \$299.6 million and a premium of \$70.3 million. This was achieved through a competitive sale to redeem \$346 million of outstanding commercial paper notes. Bond proceeds were also used to pay the costs of issuance and fund both capitalized interest and the reserve account. The final maturity of the Series BA bonds will be 2035.

On October 18, 2018, the System issued tax-exempt, fixed rate CVP Water System Revenue Bond, Series AZ with a par amount of \$215.3 million and a premium of \$34.2 million. This was achieved through a negotiated sale to redeem \$129.7 million of outstanding commercial paper notes and to current refund Series AF and AY. The System achieved an economic gain of \$2.5 million, representing 2.26% savings of the refunded bonds. The final maturity of the Series AZ bonds will be 2035.

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, 2020:

CVP Revenue Bonds							Amounts Outstanding	
Fiscal Year of Issue	Series	Original Par Amount	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	2020	2019	
Devil Canyon-Castaic Facilities:								
1973	A&B	\$ 139,165	5.3%	2023	1983	\$ 24,720	\$ 32,045	
CVP Water System:								
1999	V	20,580	6.3%	2025	None	18,050	18,050	
2010	AG	169,115	4.0%	2020	None	-	400	
2011	AH	97,675	4.5-5.0%	2023	2021	12,570	15,600	
2012	AI	92,275	5.0%	2026	2022	19,070	32,625	
2012	AJ	216,930	4.0-5.0%	2030	2022	55,325	62,270	
2012	AK	36,370	4.0-5.0%	2030	2022	7,880	8,815	
2013	AL	105,875	5.0%	2030	2023	38,495	51,265	
2013	AM	183,960	5.0%	2026	2023	104,555	124,570	
2013	AN	49,525	5.0%	2030	2023	9,650	12,895	
2013	AP	45,340	3.0-4.0%	2036	2023	11,090	12,700	
2013	AQ	120,205	4.0-5.0%	2036	2023	40,600	42,580	
2014	AR	161,445	4.0-5.0%	2036	2024	72,710	78,870	
2015	AS	645,795	4.0-5.0%	2033	2025	606,540	627,380	
2015	AT	149,245	Variable	2036	2022	149,245	149,245	
2016	AU	109,275	Variable	2036	2020	109,275	109,275	
2016	AV	106,530	4.0-5.0%	2036	2026	98,650	102,685	
2017	AW	428,130	4.0-5.0%	2036	2027	411,930	424,975	
2018	AX	350,670	5.0%	2036	2028	303,450	326,190	
2018	AY	140,825	2.2-3.1%	2030	2018	35,325	36,945	
2019	AZ	215,295	3.0-5.0%	2036	2029	208,510	215,295	
2019	BA	299,590	5.0%	2036	2029	299,590	299,590	
Total CVP Water System Revenue Bonds						2,612,510	2,752,220	
Total revenue bond debt outstanding at par						2,637,230	2,784,265	
Unamortized bond issuance premiums						408,242	438,317	
Unamortized bond issuance discounts						(4)	(5)	
Less current portion						(167,775)	(147,035)	
Total long-term bond debt outstanding						\$ 2,877,693	\$ 3,075,542	

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2020:

Future Debt Service Requirements							
Year	Revenue Bonds			General Obligation Bonds			All Bonds
	Principal	Interest [*]	Total	Principal	Interest	Total	Total
2021	\$ 167,775	\$ 119,405	\$ 287,180	\$ 8,595	\$ 527	\$ 9,122	\$ 296,302
2022	171,645	111,297	282,942	1,885	109	1,994	284,936
2023	179,225	102,662	281,887	85	10	95	281,982
2024	167,315	93,426	260,741	85	5	90	260,831
2025	172,830	85,514	258,344	35	1	36	258,380
2026-2030	880,920	298,715	1,179,635	-	-	-	1,179,635
2031-2035	732,645	112,294	844,939	-	-	-	844,939
2036	164,875	3,306	168,181	-	-	-	168,181
	<u>\$ 2,637,230</u>	<u>\$ 926,619</u>	<u>\$ 3,563,849</u>	<u>\$ 10,685</u>	<u>\$ 652</u>	<u>\$ 11,337</u>	<u>\$ 3,575,186</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 2.85% for Series AU was used to project the variable portion of 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. The variable rate for the bonds as of June 30, 2020 was 0.50% for Series AT and 0.35% for Series AU.

SB 84 Loan

On July 10, 2017, the California Senate Bill 84 was enacted, an act to amend Sections 16475 and 16480.6 of, and to add Section 20825 to, the Government Code, relating to state employees' retirement. This bill would require the State Controller's Office (SCO) to transfer up to \$6 billion from the Surplus Money Investment Fund and other funds in the Pooled Money Investment Account to the General Fund as a cash loan, the proceeds of which would supplement the state's employer contributions for the fiscal year 2018-2019. This bill would also require that repayment of the loan principal and the payment of interest be made from the General Fund and other funds and accounts that are required by law to fund the state's employer contribution to the Public Employees' Retirement Fund. The loan is to be fully repaid by June 30, 2030. The amount allocated to the System was \$60.9 million and a payment of \$3.4 million was made during fiscal year 2020. Future principal and interest payment requirements on the loan are as follows as of June 30, 2020:

Future Debt Service Requirements			
Year	SB 84 Loan		
	Principal	Interest	Total
2021	\$ 10,508	\$ 761	\$ 11,269
2022	9,486	1,783	11,269
2023	9,832	1,437	11,269
2024	10,232	1,037	11,269
2025	10,637	632	11,269
2026	6,776	2,204	8,980
	<u>\$ 57,471</u>	<u>\$ 7,854</u>	<u>\$ 65,325</u>

Commercial Paper Notes

In March 1993, the System launched its commercial paper (CP) program to pay for Water System Capital costs relating to State Water System Projects. Pursuant to the original Resolution No. DWR-CP-1, adopted as of March 1, 1993, the Department authorized the issuance of CP Notes Series 1 in an aggregate amount not to exceed \$150 million, limited to \$139.7 million in principal and \$10.3 million of accrued interest. To provide liquidity for the program, the Department entered into two separate credit agreements with two commercial banks on May 3, 2017. Pursuant to Resolution No. DWR-CP-5, adopted on May 1, 2017, the Department authorized the increase of the issuance of CP Notes Series 1 (Series 1) in an amount not to exceed \$300 million in principal and \$22.2 million in accrued interest. On the same date, pursuant to Resolution DWR-CP-Series 2-1, the Department authorized the issuance of new CP Notes Series 2 (Series 2), with a limit not to exceed \$500 million in principal and \$37 million in accrued interest. On February 1, 2018, pursuant to Resolution No. DWR-CP-Series 2-2, the Department authorized an additional increase of the issuance of Series 2 in an amount not to exceed \$800 million in principal and \$59.2 million in accrued interest. On October 18, 2018, pursuant to Resolution No. DWR-CP-6, the Department authorized an additional increase of the issuance of Series 1 in an amount not to exceed \$600 million in principal and \$44.4 million in accrued interest, to expand its total CP capacity to \$1.4 billion in principal and \$103.6 million in accrued interest. Proceeds of the Series 1 Notes are expected to be used to provide funds for the construction of certain Water System Projects, including a portion of the costs of the Oroville Dam Spillway Recovery and Restoration Projects. The Series 2 program was established to pay for cost relating to the Oroville Dam Spillway Recovery and Restoration Project.

The Department has two revolving credit agreements with two commercial banks supporting its \$1.4 billion CP program. The Series 1 is supported by Bank of America, N.A (Bank of America) and the Series 2 by Wells Fargo Bank, National Association (Wells Fargo). The Series 1 expires on October 15, 2021 and Series 2 on February 25, 2021, but both can be extended for up to three years upon written request and approval of the banks. Both agreements require quarterly commitment fee payments on the first business day of each July, October, January and April. As of June 30, 2020, there were no borrowings with the banks under the current revolving credit agreements.

The Series 1 program, which was originally supported by a \$150 million credit agreement with Bank of Montreal, was scheduled to expire on October 24, 2017, but was terminated early on May 4, 2017. Under the prior credit agreement, Bank of Montreal was obligated to provide \$150 million, with principal limited to \$139.7 million and \$10.3 million of accrued interest. There were no borrowings with Bank of Montreal under this revolving credit agreement before it was terminated. Under the current credit agreement with Bank of America, which became effective on October 18, 2018, Bank of America is obligated to provide up to \$600 million in principal at any one time and \$44.4 million of accrued interest. For sizing purposes, accrued interest is calculated at 10% per annum for 270 days on a maximum principal commitment of \$600 million.

The Series 2 is supported by a credit agreement with Wells Fargo. Under the original agreement dated May 4, 2017, Wells Fargo was obligated to provide up to \$500 million in principal at any one time and up to \$37 million of accrued interest. Under the current agreement dated February 26, 2018, Wells Fargo is obligated to provide up to \$800 million of principal at any one time and \$59.2 million of accrued interest. For sizing purposes, accrued interest is calculated at 10% per annum for 270 days on a maximum principal commitment of \$800 million.

The System's outstanding CP Series 1 and Series 2 contain certain provisions that under certain events of default, the credit agreements supported by Bank of America and Wells Fargo, respectively, will terminate and amounts outstanding become immediately due and payable.

As of June 30, 2020, the amount of CP notes outstanding was \$513.9 million for the Series 1, and \$406.2 million for the Series 2. As of June 30, 2019, the amount outstanding for the Series 1 was \$129.2 million, and \$560.7 million for the Series 2. The weighted average rate for interest expense for the Series 1 Notes approximated 1.02% for the year ended June 30, 2020 and 1.59% for the year ended June 30, 2019. The weighted average rate for interest expense for the Series 2 Notes approximated 0.98% for the year ended June 30, 2020 and 1.58% for the year ended June 30, 2019. The System expects a significant portion of the Series 2 Notes to be paid with proceeds from the federal government as reimbursement for costs relating to the Oroville Dam Spillway Recovery and Restoration Project. The Department received approximately \$161.1 million in federal reimbursements in fiscal 2020 and \$ 3.8 million in fiscal 2019. Any CP outstanding remaining after all reimbursements have been received will be refunded with Revenue Bonds.

Proceeds from the sale of CP notes are used to finance Water System Projects prior to permanent financing from the sale of Water System Revenue Bonds. Proceeds from the Series 2 Notes are restricted to be used to provide funds for costs related to the Oroville Dam Spillway Recovery and Restoration Project (Oroville) and proceeds from the Series 1 Notes are restricted to be used to provide funds for costs related to all Water System projects, including Oroville. 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 Commercial Paper Notes is subordinate to its payment obligations with respect to 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.

7. Bond Refundings and Defeasances

During the current fiscal year, the System did not issue any CVP Water System Revenue Bonds to refund portions of previous issuances. In fiscal 2019, the System issued tax-exempt CVP Water Systems Revenue Bonds Series AZ with an average yield of 2.59% to refund portions of Series AF and Series AY. Bond proceeds were used to refund bonds with a par amount of \$109.1 million. In prior years, the Systems has defeased various bond issuances by depositing bonds proceeds in escrows and creating irrevocable trusts. The net proceeds from these refundings were used to purchase U.S. Treasury Securities, such as State and Local Government Series (SLGS) to meet the requirements of the refunded debt. Those securities were deposited in irrevocable escrow trust accounts with the State Treasurer acting as escrow agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased, and the related liabilities have been excluded from the System's basic financial statements. At June 30, 2020 and 2019, outstanding Water System

Revenue Bonds held in escrow trust accounts of \$336.6 million and \$504.5 million, respectively, are considered defeased.

In addition to GASB Statement No. 86, the System is required to disclose any remaining balance of previously defeased bonds that were defeased using its own existing resources. As of June 30, 2020, and 2019, the outstanding balance of bonds that were defeased using the System's own existing resources was \$18.6 million and \$20.4 million, respectively. The cash deposited to the escrow was invested in U.S. Treasury Securities – SLGS to comply with yield restrictions and arbitrage rebate provisions of the Internal Revenue Code. SLGS are direct obligations of the U.S. Government and are considered essentially risk-free.

On October 18, 2018, the Series AZ refunding was undertaken to take advantage of lower interest rates. This transaction resulted in cash flow savings of \$3.05 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of \$2.47 million, or 2.26% of the refunded bonds. The refunding resulted in a difference between the book value of the old debt and the amount required to retire the debt of \$146 thousand. This difference is considered a deferred gain on the refunding and is being amortized over the original remaining life of the old debt or the life of the new debt, whichever is less, using the straight-line method.

Amortization of all deferred refunding costs was approximately \$9.9 million in fiscal 2020 and \$10.3 million in fiscal 2019.

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, 2018
- Measurement Date June 30, 2019
- Measurement Period July 1, 2018 to June 30, 2019

Plan Description

As a participant in the State of California's defined benefit pension plan, the System reports an allocated share of the total net pension liability reported by the State. 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. 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. Fiduciary net position available for benefits of the System's employees are also determined as the System's 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 9, 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 (PERL) 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 PERL Section 20683.2, which mandates that certain employees 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 System's total employer contributions were \$69.6 million and \$63.1 million for the fiscal years ended June 30, 2020 and 2019, respectively.

The following table shows the average active employee and the employer contribution rates for the State Miscellaneous and State Industrial plans applicable to the System as a percentage of annual pay for the measurement period ended June 30, 2019 and 2018:

Contribution Rates

	Measurement Dates			
	June 30, 2019		June 30, 2018	
	State Miscellaneous	State Industrial	State Miscellaneous	State Industrial
Average active employee rate	6.901%	7.969%	6.766%	7.890%
Employer rate of annual payroll	29.370%	20.431%	28.401%	20.408%
Total	36.271%	28.400%	35.167%	28.298%

Actuarial Methods and Assumptions

The net pension liability at June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, by rolling forward the total pension liability using an annual actuarial valuation as of June 30, 2018 and 2017, respectively.

The total pension liabilities for the measurement dates of June 30, 2019 and 2018 were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68	
Actuarial Assumptions:		
	Discount Rate	7.15% in 2019 and in 2018
	Inflation	2.50% in 2019 and in 2018
	Salary Increases	Varies by Entry Age and Service
	Investment Rate of Return:	7.15% in 2019 and in 2018, net of pension plan investment expense, but without reduction for administrative expenses; includes inflation
	Mortality Rate Table	Derived using CalPers' Membership Data for all Funds
	Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% in 2019 and contract COLA up to 2.00 in 2018, until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter in 2019 and 2018

The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries 90% of Scale MP 2016. For more details on this table, please refer to the 2017 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study).

All other actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality, and retirement rates. The Experience Study report may be accessed on the CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2019 and 2018 measurement dates was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions of the Plans, the assets were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected discount rate of 7.15% at June 30, 2019 and 2018 measurement dates, was applied to all plans in the Public Employees Retirement Fund. CalPERS' approach for the cash flow projections are presented in the GASB 67 and 68 Crossover Testing Report, which may be obtained from the CalPERS' website.

The long-term expected rate of return on pension plan investments of 7.15% was determined using a building-block method in which 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 pension fund cash flows. 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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The following table reflects expected real rate of return by asset class.

Long-Term Expected Rate of Return by Asset Class

Asset Class	Current Target Allocation	Real Return Year 1-10 ¹	Real Return Years 11+ ²
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	-0.92%
	<u>100.0%</u>		

¹ An expected inflation rate of 2.00% used for this period

² An expected inflation rate of 2.92% used for this period

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

The following presents the net pension liability of the System's proportionate share of the Plan as of the June 30, 2019 and 2018 measurement dates, calculated using the discount rate of 7.15% for both years, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

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

	Measurement Dates	
	2019	2018
Discount Rate -1%	6.15%	6.15%
Net Pension Liability	\$ 796,105	\$ 755,996
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 558,713	\$ 527,333
Discount Rate +1%	8.15%	8.15%
Net Pension Liability	\$ 359,855	\$ 335,709

Pension Plans Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and the State of California financial report.

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

As of June 30, 2020, and 2019, the System reported a net pension liability of \$558.7 million and \$527.3 million, respectively, for its proportionate share.

The net pension liability at June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, by rolling forward the total pension liability using an annual actuarial valuation as of June 30, 2018 and 2017, respectively. The System's proportion of the net pension liability was based on the System's pensionable compensation relative to the pensionable compensation of the State Miscellaneous plan members, as calculated by the State Controller's Office (SCO). The System's proportionate share of the net pension liability as of June 30, 2019 and 2018 was 1.6611% and 1.6786%, respectively.

For the year ended June 30, 2020 and 2019, the System recognized pension expense of \$100.9 million and \$83.8 million, respectively. At June 30, 2020 and 2019, the System has deferred outflows and deferred inflows of resources related to pensions as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources				
	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
System contribution subsequent to the measurement date	\$ 69,557	\$ -	\$ 63,075	\$ -
Changes in proportion	5,722	(17,990)	11,287	(19,286)
Changes of assumptions	23,536	(11,720)	47,568	(17,484)
Differences between expected and actual experience	29,319	(1,607)	5,657	(3,674)
Net differences between projected and actual earnings on pension plan investments	-	(4,161)	5,448	-
Total	\$ 128,134	\$ (35,478)	\$ 133,035	\$ (40,444)

The System reported \$69.6 million and \$63.1 million as deferred outflows of resources related to contributions subsequent to the measurement date of June 30, 2019 and 2018, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Amortization of Deferred Outflows/(Inflows)

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2021	\$ 27,696
2022	(7,595)
2023	1,718
2024	1,279
Total	<u>\$ 23,099</u>

9. Postemployment Benefits Other Than Pensions**Plan Description and Benefits Provided**

As a participant in the State of California's defined benefit other postemployment benefits plan, the System reports an allocated share of the total net OPEB liability reported by the State. Departments and agencies within the State, including the System, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. The State of California provides medical benefits to retired state employees and dependents through the California Public Employees' Retirement System (CalPERS) under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation group benefit retirees and dependents associated with that valuation group. CalPERS issues a publicly available annual comprehensive financial report that includes financial statements for its CERBT Fund. Copies of these reports may be obtained by visiting the CalPERS website at www.calpers.ca.gov.

To be eligible for these benefits, employees must retire after attaining certain age and length of service requirements. In accordance with the California Government Code, the State generally pays 100% of the health insurance premium cost for retirees, plus 90% of the additional premium required for dependents. The State generally pays all or a portion of the dental insurance premium cost for retirees, depending upon the completed years of credited state service at retirement and the coverage selected by the retiree.

As a participant in the State of California's defined benefit other postemployment plan, the System reports an allocated share of the total net OPEB liability reported by the State.

Contributions

The contribution requirements of plan members and the State are established and may be amended by the Legislature, and can be subject to collective bargaining. The State funds the cost of providing health and dental insurance to retirees primarily on a "pay-as-you-go" basis, with a modest amount of prefunding for members of certain bargaining units, and other funded plans. The System's allocated share of the contribution was \$27.3 million and \$23.9 million for fiscal years ended June 30, 2020 and 2019, respectively.

Actuarial Methods and Assumptions

The net OPEB liability at June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, by rolling forward the total OPEB liability using an actuarial valuation as of June 30, 2019 and 2018, respectively.

The total OPEB liability for the measurement dates of June 30, 2019 and 2018 were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions			
Actuarial Cost Method:	Entry age normal in accordance with the requirements of GASB Statement No. 75		
Actuarial Assumptions:			
Discount Rate	Blended rate for each valuation group, consisting of 6.75% in 2019 and 7.00% in 2018, when assets are available to pay benefits, otherwise 20-year Municipal G.O. Bond AA Index rate of 3.13% in 2019 and 3.62% in 2018		
Inflation	2.25% in 2019 and 2.5% in 2018		
Salary Increases	Varies by entry age and service		
Investment Rate of Return	6.75% in 2019 and 7.00% in 2018, net of OPEB plan investment expenses but without reduction for OPEB plan administrative expenses		
Healthcare Cost Trend Rates	<u>2019 valuation:</u>	<u>2018 valuation:</u>	
	Pre-Medicare coverage: Actual rates for 2020, increasing to 7.50% in 2021, then decreasing 0.50% per year to an ultimate rate of 4.5% for 2027 through 2036, then to 4.25% for 2037 and later years	Pre-Medicare coverage: Actual rates for 2019, increasing to 7.50% in 2020, then decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years	
	Post-Medicare coverage: Actual rates for 2020, increasing to 7.50% for 2021 then decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 through 2036, then to 4.25% for 2037 and later years	Post-Medicare coverage: Actual rates for 2019, increasing to 8.0% for 2020 then decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years	
	Dental coverage: 0.01% in 2020 and 4.50% for 2021 through 2036, then 4.25% thereafter	Dental coverage: 0.26% in 2019 and 4.50% thereafter	
Mortality Rate Table	Derived using CalPERS' membership data for all members		

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using the Society of Actuaries 90% Scale MP 2016. For more details on this table, refer to the 2017 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study) for the period from 1997 to 2015. Other demographic assumptions used in the June 30, 2019 and 2018 valuations were also based on the results of the Experience Study, including updates to termination, disability, and retirement rates. The Experience Study report can be obtained from CalPERS' website, at www.calpers.ca.gov.

Healthcare related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors are based on the State of California Retiree Health Benefits Program 2018 Experience Review performed by Gabriel, Roeder, Smith and Company (GRS) for the period from 2014 to 2018. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. The GRS 2018 Experience Review is available at www.sco.ca.gov.

Discount Rate

The discount rate used to measure the total OPEB liability was based on a blended rate for each valuation group. The blended rate used to measure the June 30, 2019 and 2018 total OPEB liability consists of the 20-year Municipal G.O. Bond AA Index rate of 3.13% as of June 30, 2019 and 3.62% as of June 30, 2018, as reported by Fidelity Index, when prefunding

assets are not available to pay benefits, and 6.75% and 7.00% at June 30, 2019 and 2018 measurement dates, respectively, when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rates were developed assuming that prefunding agreements in which actuarially determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval. Detailed information on the blended discount rates by valuation group is available in the State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2019 and 2018, on the State Controller's Office website, at www.SCO.ca.gov.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) real returns were calculated over a closed period. Based on separate expected real returns for the short-term (first 10 years) and the long-term (11-40 years), and an average inflation assumption of 2.25% and 2.50% at June 30, 2019 and 2018 measurement dates, respectively, a single expected nominal return rate of 6.75% and 7.00% at June 30, 2019 and 2018 measurement dates, respectively, was calculated for the combined short-term and long-term periods. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

The following table reflects the long-term expected real rate of return by asset class:

Long-Term Expected Rate of Return by Asset Class						
Asset Class	Current Target Allocation		Real Return Year 1-10		Real Return Years 11+	
			Measurement Dates			
	2019	2018	2019 ¹	2018 ²	2019 ³	2018 ⁴
Global Equity	59.0%	59.0%	4.80%	4.80%	5.98%	5.98%
Global Fixed Income	25.0%	25.0%	1.10%	1.10%	2.62%	2.62%
Treasury Inflation-Protected Securities	5.0%	5.0%	0.25%	25.00%	1.46%	1.46%
Real Estate Investment Trust	8.0%	8.0%	3.50%	3.50%	5.00%	5.00%
Commodities	3.0%	3.0%	1.50%	1.50%	2.87%	2.87%
	100.0%	100.0%				

¹ An expected inflation of 1.75% used for this period

² An expected inflation of 2.67% used for this period

³ An expected inflation of 2.00% used for this period

⁴ An expected inflation of 2.92% used for this period

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

The following presents the net OPEB liability of the System's proportionate share of the Plan as of the June 30, 2019 and 2018 measurement date, calculated using a blended discount rate that is one percentage point lower or one percentage point higher than the current rate:

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

	Measurement Dates	
	2019	2018
Net OPEB Liability		
Blended Discount Rate -1%	\$ 946,562	\$ 904,585
Current Blended Discount Rate	805,535	771,286
Blended Discount Rate +1%	692,658	664,462

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the System's proportionate share of the Plan if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019 and 2018:

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

	Measurement Dates	
	2019	2018
Net OPEB Liability		
Healthcare Cost Trend Rates -1%	\$ 685,566	\$ 676,894
Current Healthcare Cost Trend Rates	805,535	771,286
Healthcare Cost Trend Rates +1%	958,417	890,940

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued California Employer's Retiree Benefit Trust (CERBT) Fund financial reports.

OPEB Liabilities, OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

As of June 30, 2020 and 2019, the System reported a net OPEB liability of \$805.5 million and \$771.3 million, respectively, for its proportionate share.

For the measurement period ended June 30, 2019 and 2018, the net OPEB liability was measured by rolling forward the total OPEB liability using an actuarial valuation as of June 30, 2019 and 2018, respectively. The System's proportion of the net OPEB liability was based on the System's pay-as-you-go relative to the pay-as-you-go of all the valuation groups plan members, as calculated by the State Controller's Office. The System's proportionate share of the net OPEB liability as of June 30, 2019 and 2018 was 0.8763% and 0.9011%, respectively.

For the years ended June 30, 2020 and 2019, the System recognized OPEB expense of \$22.5 million and \$28.2 million, respectively. At June 30, 2020 and 2019, the System has deferred outflows and deferred inflows of resources related to OPEB as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
System contribution subsequent to the measurement date	\$ 27,272	\$ -	\$ 23,948	\$ -
Net differences between actual and expected contributions	153	(1,608)	195	(2,010)
Differences in PAY GO contributions	-	-	491	(334)
Changes in proportion	-	(94,848)	-	(87,994)
Changes of assumptions	23,821	(65,852)	-	(84,565)
Differences between expected and actual experience	848	(57,039)	-	(56,009)
Net differences between projected and actual earnings on OPEB plan investments	-	(94)	-	(62)
Total	\$ 52,094	\$ (219,441)	\$ 24,634	\$ (230,974)

The System reported \$27.3 million and \$23.9 million as deferred outflows of resources related to contributions subsequent to the measurement date of June 30, 2019 and 2018, respectively, will be/was recognized as a reduction of the net OPEB liability in the fiscal years ended June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Amortization of Deferred Outflows/(Inflows)

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2021	\$ (21,382)
2022	(25,215)
2023	(36,614)
2024	(34,237)
2025	(35,055)
Thereafter	(42,117)
Total	\$ (194,619)

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, 2020 and 2019, were approximately \$18.2 million and \$75.5 million, respectively.

Power Transmission and Purchases

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 \$84.9 million over periods ranging from one to 22 years. Payments made under these contracts approximated \$5.3 million for both years ended June 30, 2020 and 2019.

The System has long-term power purchase contracts with anticipated future payments of approximately \$704 million, which includes operation and maintenance expense, over periods ranging from one to 47 years. The remaining amounts of fixed obligations under the long-term power contracts as of June 30, 2020, are as follows:

Fixed Obligations			
Year	Transmission	Power	Total
2021	\$ 5,191	\$ 45,709	\$ 50,900
2022	5,191	43,753	48,944
2023	5,191	38,646	43,837
2024	5,191	38,646	43,837
2025	4,992	38,646	43,638
2026-2067	<u>59,094</u>	<u>498,158</u>	<u>557,252</u>
Total	<u>\$ 84,850</u>	<u>\$ 703,558</u>	<u>\$ 788,408</u>

The System has a contract with the Kings River Conservation District (the District) which provides the System all power generated by the Pine Flat Power Plant Project (the Project). Under the contract, which expires in 2037, 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. Debt service payments are to be made until all of the bonds issued by the District to finance the Project have been retired in fiscal 2019. As of June 30, 2019, all bonds have been fully redeemed. Payments to the District totaled approximately \$13.7 million and \$14.2 million during the years ended June 30, 2019, and 2018, respectively.

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% of the construction and operating costs in exchange for receiving 33.5% 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, 2019 are as follows:

LEC Bonds Fixed Obligations	
Year	Total
2020	\$ 9,209
2021	9,207
2022	9,209
2023	9,209
2024	9,211
2025-2029	46,038
2030-2034	46,039
2035	9,210
	\$ 147,332

Market value information for certain power purchases, sales, and exchange contracts are disclosed at June 30, 2020 using forward market prices discounted at the prevailing risk-free interest rate. All purchase contracts were expired in fiscal 2019. The long-term energy purchase contracts involving energy delivered from Hoover Dam will expire in fiscal 2068; the Pine Flat Power Plants, Solar Star California XLIV and Solverde Solar energy purchase contracts will expire in fiscal 2037; Dominion Solar Holdings purchase contract will expire in fiscal 2035; and two purchase contracts with the Water Contractor, Metropolitan Water District of Southern California (Metropolitan), will expire in fiscal 2021 and 2023. An exchange agreement with the NCPA, operator of the Lodi Energy Center Project, commits DWR to purchase power on a long-term basis subject to the agreement, but has no explicit termination date.

Power purchase commitments extending beyond June 30, 2020 are as follows:

Energy Commitments 2020			
	Number of Contracts	Total Capacity (MWh)	Value at June 30, 2020
Long-term energy purchases	8	461	(93,353)
Total			\$ (93,353)

Power purchase commitments extending beyond June 30, 2019 are as follows:

Energy Commitments 2019			
	Number of Contracts	Total Capacity (MWh)	Value at June 30, 2019
Long-term energy purchases	8	488	\$ (181,940)
Total			<u>\$ (181,940)</u>

Contingencies

Litigation and Claims

Monterey Amendment

In 1994, the System and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the long-term water supply contracts have since been negotiated (Monterey Amendment). The Monterey Amendment includes provisions related to the transfer of land and related assets, known as the Kern Water Bank, to the Kern County Water Agency (KCWA) (one of the Water Contractors), the operation of certain System reservoirs, transfers of water allocations between Water Contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenues. Certain parties have disputed the Monterey Amendment by challenging the validity of the related Environmental Impact Report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System was required to prepare a new EIR. The System 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 the System'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 the System's CEQA compliance with respect to the Kern Fan Element transfer from the System to KCWA. The two lawsuits filed in Kern County Superior Court were transferred to the Sacramento Superior Court. In December 2012, the System 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 deficient.

In October 2014, the Court ordered the System, 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 in a revised EIR and upon completion of the revised EIR, 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 EIR that are new or changed shall be subject to challenge under CEQA. In December 2014, one set of plaintiffs filed an appeal with the Court of Appeal regarding the trial court's final CEQA and validation decisions. In September 2016, the System 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 challenges the System's certification of the revised 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. In December 2017, the plaintiffs appealed that ruling. The appeal is pending. The System, however, does not believe that there will be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

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

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

One item that has been determined to have merit, contested the System's practice of charging the Water Contractors for certain financing costs of the recreation and fish and wildlife enhancement portion of facilities financed with Water System Revenue Bonds. The System rectified the situation by restating past bills to provide appropriate credits back to the Water Contractors for the contested charges and taking other actions to pay for the costs of the recreation and fish and wildlife enhancement portion of System facilities with sources other than charges to the Water Contractors. Such actions included DWR entering into Tolling and Waiver Agreements in 2007 and 2008 with the 28 Contractors, which included certain waivers allowing DWR to resume issuing revenue bonds in May 2008. The Water Contractors that have signed the Tolling and Waiver Agreements have more than 99 per cent of the Table A amounts and make more than 99 percent of the annual Water Supply Contract payments.

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 tolls (i.e. suspends) until December 31, 2021 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 2022, (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

Agreements. One such issue was raised in an October 2019 letter the System received from the Metropolitan Water District of Southern California which asserted, among other items, that a provision in the Water Supply Contracts precludes the System from seeking reimbursement from the Water Contractors for their allocated share of claims and damages related to the control, carriage, handling, use, disposal or distribution of System water prior to the delivery of water to the Water Contractors. In the opinions of management and the System's legal counsel such allocated amounts have been properly included in past bills to the Water Contractors and will continue to be recoverable from the Water Contractors in the future under the long-term water supply contracts. 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, or that the System's positions on the issues will prevail, once the Tolling and Waiver Agreements expire.

Federal Energy Regulatory Commission Proceedings

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

2017 Oroville Dam Spillway Emergency and Feather River Flooding

Historical amounts of rainfall occurred in January and February 2017 causing widespread flooding throughout California, including in the Oroville and Feather River area. During the storms and rainfall, significant damage occurred to both the control spillway and emergency spillway at Oroville Dam. As a result, DWR operated the control spillway and Dam facilities to address this situation. In addition, because of a concern about the potential failure of the emergency spillway, the Butte County Sheriff issued an evacuation order for Oroville and the surrounding communities on February 12, 2017. The evacuation order was lifted on February 14, 2017. A number of claims and lawsuits have been filed as a result of these events.

Approximately 400 claims were 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. Most of the claims were filed by individuals and businesses claiming damages resulting from their compliance with the February 12, 2017, Butte County Sheriff's evacuation order. The Government Claims Program rejected these claims, which required the claimants to file a lawsuit within six months of the rejection to pursue their claims in court.

Two separate class action lawsuits have been filed. The first is 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 and that other costs were incurred in complying with the emergency evacuation order. The other class action

identifies three classes of plaintiffs: 1) the “Diminution Class,” i.e., plaintiffs who allege diminution in property value; 2) the “Property Loss Class,” i.e., plaintiffs who allege property loss; and 3) the “Business Loss Class,” i.e., plaintiffs who allege lost business income. The coordination trial judge granted DWR’s Motion to Defeat Class Certification. The plaintiffs in the first lawsuit filed an appeal. That appeal is pending. Plaintiffs in the second lawsuit did not appeal and are proceeding individually.

The City of Oroville and the County of Butte have each filed separate lawsuits seeking damages to reimburse each such public entity for costs and losses they claim they suffered as a result of the response and evacuation at Oroville. The lawsuit filed by the County of Butte has been settled.

Other lawsuits have been filed by agricultural land owners and other land owners whose property adjacent to the Feather River was flooded. These lawsuits allege, among other things, that DWR’s operation of the Oroville Dam facilities caused damages to their property and agricultural crops. Trial is scheduled to begin May 10, 2021. A separate lawsuit filed by South Feather Water & Power Agency has been settled.

In addition, Pacific Gas and Electric Company filed a lawsuit 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.

The County of Butte District Attorney also filed a lawsuit seeking civil penalties of up to \$51 billion for an alleged violation of the Fish and Game Code arising from the release of sediment into the Feather River during the emergency, which is being vigorously contested by the Department. In September 2020, the Department filed a motion for summary judgment. The court granted the Department’s motion, finding that the District Attorney’s complaint failed to state a claim. The final order was entered on January 5, 2021. The District Attorney has appealed. In June 2019, the Department received a letter from the State Water Contractors organization which asserted that a provision in the water supply contracts would preclude the Department from seeking reimbursement from the Water Contractors for their allocated share of any judgment or settlement amount in the Butte County lawsuit. In the opinions of management and the Department’s legal counsel such allocated amounts, if incurred, would be recoverable from the Water Contractors under the long-term water supply contracts.

All of the above lawsuits have been coordinated for purposes of pre-trial activities and been transferred to the Sacramento County Superior Court. Discovery and depositions in the coordinated cases have been and are continuing to be conducted. Other pre-trial motions, including the motion to certify the class in the class action lawsuit and a motion to continue the trial date have, or will take place shortly. Unless otherwise noted above, the eventual outcome of these lawsuits is uncertain. The Department, however, continues to defend itself against these claims and lawsuits and believes they will not have a material adverse effect on its ability to continue to operate and maintain the System and pay its related liabilities.

Water Supply Contract Extension Litigation

As discussed on the transmittal letter, the Director of DWR approved the contract extension amendment project under CEQA and executed the amendment with Metropolitan on December 11, 2018 and as of March 15, 2021, twenty-two Contractors have executed the extension amendment with the Department.

On the same date that the Director executed the first contract extension amendment, December 11, 2018, the Department filed an action in Sacramento County Superior Court seeking to validate the contract extension amendment. In February 2019, four groups filed answers in the validation action in opposition to the Department's request to validate the amendment. One answer was filed by several environmental organizations; the second answer was filed by several other environmental organizations and an Indian Tribe; the third answer was filed by a number of counties and public water agencies, including the County of Butte and the Plumas County Flood Control and Water Conservation District, both of which are Contractors; and the fourth answer was filed by the South Delta Water Agency. Six Contractors have filed answers in support of the extension amendment.

All three cases – the validation action and the two environmental lawsuits – have been determined to be related and assigned to a single judge in the Sacramento Superior Court for all purposes. These cases are currently in the pre-trial stage.

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.

Water Supply Reliability, Delta Conservation and Infrastructure

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 and ensure water supply reliability for the Contractors.

This resulted in the proposed Bay Delta Conservation Plan (BDCP). In 2015, a change in permitting approach resulted in the BDCP transitioning to the California WaterFix, a proposed two-tunnel water conveyance facility authorized under different provisions of the ESA and CESA, not as part of a Habitat Conservation Plan or Natural Community Conservation Plan under federal and State law. A component of the large-scale environmental restoration in the Delta originally proposed in the BDCP would be implemented through a separate program designated as California EcoRestore (described in part below). In 2017, the Department approved California WaterFix, filed a validation action and worked towards obtaining relevant permits and authorizations necessary for construction and implementation. Several lawsuits ensued as a result of the California WaterFix approval and validation action and were consolidated in the Sacramento Superior Court.

In his first State of the State Address, delivered on February 12, 2019, Governor Gavin Newsom announced that he did not support California WaterFix and laid out a new direction for Delta conveyance and expressed his support for a revised project consisting of a single tunnel. On April 29, 2019, Governor Newsom issued Executive Order N-10-19, which detailed his new policy direction regarding water issues in the state, including Delta conveyance, and directed several state agencies to take action implementing his policies. The Department assessed the nature and extent of the actions necessary as a result of the Governor's statements and, beginning on May 2, 2019, took several actions in response.

The Department's actions included rescinding all project approvals for California WaterFix and withdrawing its Petition for Change in Points of Diversion and Rediversion and Application for Section 401 Certification of the Clean Water Act. This withdrawal ended the water rights hearing before the SWRCB. In July 2019, the Department and all plaintiffs filed requests for dismissal in the numerous lawsuits that had been filed regarding the California Waterfix following its approval. Plaintiffs and petitioners in these actions moved for fees and costs totaling over \$13 million, which the trial court denied. Plaintiffs and petitioners have appealed, and briefing is currently expected to be completed in summer of 2021.

The Department has begun the environmental review, planning, design and engineering of a proposed single tunnel, smaller capacity project, consistent with Governor Newsom's direction. The Department issued a NOP of an EIR for the proposed project on January 15, 2020. As described in the NOP, the proposed Delta conveyance project includes constructing and operating new facilities in the Delta that would add to the existing State Water Project infrastructure. The new facilities would include intake structures on the Sacramento River and a tunnel to convey water to the existing pumping plants in the south Delta. The proposed Delta conveyance project would be operated in coordination with the existing south Delta pumping facilities, resulting in a system known as "dual conveyance" because there would be two complementary methods to divert and convey water.

Under the direction and authority of the Department, the Delta Conveyance Design and Construction Authority (the "DCA") is providing design and engineering support for the environmental review process. The DCA is also continuing to conduct a stakeholder engagement process with Delta communities to find ways to avoid or minimize local land use concerns and impacts through design and engineering.

On July 24, 2019, the Department and the Contractors began a public negotiation with the goal of reaching an agreement in principle with the Contractors on a conceptual approach to cost allocation and the related financial and water management matters related to this Delta conveyance facility. The negotiations concluded on April 30, 2020 with the announcement of such an agreement in principle that, if approved by the Department and the Contractors, would be the basis for amendment of the Water Supply Contracts. As of the date hereof, 18 Contractors have approved the agreement in principle.

Whether and/or the extent to which a conveyance system will be implemented, the final form of any implementation, the process and cost of any implementation, who would pay such costs and the scope and specifics of any conveyance system are all still under discussion with relevant stakeholders.

Pollution Remediation

Pollution remediation obligations are recorded by the System when an obligating event occurs, as defined in GASB Statement No. 49, and if a reasonable estimate of the remediation costs can be made. These liabilities are measured using either actual contract costs, where no change in cost is expected, or the estimated remediation costs, offset by estimated recoveries from other responsible parties and expenditures incurred to date. Estimated remediation costs are subject to change over time. Estimated costs are revised for updated technology, changes in potential responsible parties, results of environmental studies, changes in statutes or regulations, price fluctuations and other factors.

Six different locations require pollution remediation, including previously-owned Reid Gardner Unit 4 in Nevada, Methyl Mercury Control programs in the Delta, and landfill sites at Banks Pumping Plant, Pearblossom O&M Center, Oroville Wildlife Area southwest of Oroville, and Del Valle Pumping Plant. In addition, the liability for pollution remediation includes the GHG emissions credits to be surrendered to California Air Resources Board (CARB).

The following table presents the pollution remediation liability for the years ended June 30, 2020 and 2019:

Pollution Remediation Liabilities

	2020	2019
Reid Gardner Power Plant	\$ 24,132	\$ 25,679
Delta Mercury Control Program	5,830	2,802
Green House Gas Emissions Credits	12,341	13,650
Banks Pumping Plant	5,946	5,929
Pearblossom O&M Center	2,482	2,433
Oroville Wildlife Area	1,375	1,348
Del Valle Pumping Plant	505	495
Total Liabilities	52,611	52,336
Less current portion	(9,611)	(10,358)
Total Long-term liabilities	\$ 43,000	\$ 41,978

Reid Gardner Power Plant

The Reid Gardner Power Plant (“RG”), located near Moapa, Nevada, was operated by Nevada Energy (“NVE”) and consisted 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 plant continued to generate electricity until early 2017. The remediation costs described below are being shared under an Environmental Agreement in proportion to DWR’s ownership interest, executed along with the Termination Agreement 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, as needed, 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 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.

The System expended approximately \$1.5 million in fiscal 2020 and \$1.3 million in fiscal 2019. DWR expects to pay \$4.5 million of the total estimated financial liability during fiscal 2021.

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 of methyl mercury in the Delta. The amendment, among other provisions, 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. Phase I of the Delta Mercury Control Program is ending and it is anticipated that DWR will be regulated in Phase II. The System expended approximately \$1.6 million in fiscal 2020 and \$1.3 million in fiscal 2019.

The State Water Resources Control Board (“SWRCB”) is currently developing a statewide mercury regulation applicable to inland waters, including reservoirs. Once finalized, 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. However, there is insufficient information currently available to enable DWR to estimate the timing and 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 \$12.3 million. The System surrendered \$595 thousand and \$3.5 million of compliance instruments under this program during fiscal 2020 and 2019, respectively.

Other Construction Sites

During the construction of the System, DWR created at least three landfill sites for construction debris and waste, including the Harvey O. Banks Pumping Plant and Intake Channel, Pearblossom Pumping Plant Enlargement, and Oroville Wildlife Area. The landfill sites are closed and monitored by DWR. Two of the sites are routinely inspected by county officials.

Evidence of burrowing has been detected at the Harvey O. Banks Pumping Plant. DWR is addressing the burrowing issue by constructing a new burrowing resistant. This project is in the design phase at this time, awaiting approval by CalRecycle and Contra Costa County. Construction is projected to go from March to October 2021. It should be noted that no hazardous substances or hazardous wastes are known to be part of the waste; at this time the landfill waste is believed to consist only of construction debris. The System expended approximately \$100 thousand and \$273 thousand during fiscal 2020 and 2019, respectively.

Remediation activities have not formally commenced at the other two sites, however, DWR expects such activities to occur in the future. DWR will continue to refine estimated remediation liabilities associated with these three sites.

During the 1990s, DWR noted waste and debris at a fourth site, the Del Valle Pumping Plant, to be eroding from the bank of Arroyo Valle Creek and into the channel. Initial clean-up of surface debris was conducted in the spring of 1996 followed by slope stability, waste removal, and erosion control construction in July 1996. The site is listed as a closed landfill subject to periodic inspection by the Alameda County Department of Public Health, and DWR was identified as the responsible party for maintenance. Recent communication between Alameda County and Delta Field Division indicates potential regulatory action could occur soon. DWR will continue to refine the estimated remediation liability associated with this site.

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.

Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported. Claims liabilities are calculated considering the effect of recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The following table presents the claim liabilities for the year ended June 30, 2020 and 2019:

Unpaid Claims Liabilities		
	2020	2019
Unpaid claims, beginning	\$ 52,259	\$ -
Incurred claims	27,000	52,259
Claims payments and adjustments	(11,430)	-
Unpaid claims, ending	<u>\$ 67,829</u>	<u>\$ 52,259</u>

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 which exceeded 5% of the total water supply revenues sold by the System

Water Supply Revenues

	2020	% Total	2019	% Total
The Metropolitan Water District	\$ 566,211	48.78%	\$ 565,123	51.28%
Kern County Water Agency	130,728	11.26%	119,531	10.85%
Coachella Valley Water District	68,276	5.88%	-	-
San Bernardino Valley MWD	62,090	5.35%	71,409	6.48%

The System sold power to 9 and 13 power entities during the years ended June 30, 2020 and 2019, respectively. The highest percentage of power revenues came from the California Independent System Operator (CAISO). The following table shows power sales to entities which exceeded 5% of the total power sold by the System:

Power Sales

	2020	% Total	2019	% Total
California Independent System Operator	\$ 30,559	61.82%	\$ 56,472	58.64%
Northern California Power Agency	14,275	28.88%	26,843	27.87%
Western Area Power Administration	-	-	8,116	8.43%

Similarly, the System purchased power from 14 and 19 power entities during the years ended June 30, 2020 and 2019, respectively. The highest percentage of power provided to the System came from the CAISO. The following table shows power purchases from entities which exceeded 5% of the total power purchased by the System:

Power Purchases

	2020	% Total	2019	% Total
California Independent System Operator	\$ 172,834	71.09%	\$ 191,047	65.67%
Northern California Power Agency	26,904	11.07%	33,899	11.65%
Kings River Conservation District	-	-	15,939	5.48%

13. Segment Information

The table below presents the condensed statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows for the System's two segments, as of and for the years ended June 30, 2020 and 2019.

Segment	2020			2019		
	Activities Allowed Under			Activities Allowed Under		
	Burns-Porter Act	Central Valley Project Act	Total	Burns-Porter Act	Central Valley Project Act	Total
Condensed Statement of Net Position:						
Assets						
Current assets	\$ 472,906	\$ 462,441	\$ 935,347	\$ 565,345	\$ 516,224	\$ 1,081,569
Other assets	1,649,032	242,009	1,891,041	1,542,850	244,400	1,787,250
Capital assets	1,086,632	4,726,785	5,813,417	1,047,674	4,473,288	5,520,962
Total assets	3,208,570	5,431,235	8,639,805	3,155,869	5,233,912	8,389,781
Deferred outflows of resources	180,228	128,978	309,206	157,669	138,932	296,601
Total assets and deferred outflows of resources	\$ 3,388,798	\$ 5,560,213	\$ 8,949,011	\$ 3,313,538	\$ 5,372,844	\$ 8,686,382
Liabilities						
Current liabilities	\$ 208,167	\$ 599,534	\$ 807,701	\$ 217,901	\$ 514,267	\$ 732,168
Noncurrent liabilities	1,570,955	3,833,307	5,404,262	1,496,592	3,802,273	5,298,865
Total liabilities	1,779,122	4,432,841	6,211,963	1,714,493	4,316,540	6,031,033
Deferred inflows of resources	1,025,367	574,789	1,600,156	956,908	532,092	1,489,000
Total liabilities and deferred inflows of resources	2,804,489	5,007,630	7,812,119	2,671,401	4,848,632	7,520,033
Net position						
Net investment in capital assets	565,192	325,246	890,438	608,195	175,091	783,286
Restricted	19,117	227,337	246,454	33,942	349,121	383,063
Total net position	584,309	552,583	1,136,892	642,137	524,212	1,166,349
Total liabilities, deferred inflows of resources, and net position	\$ 3,388,798	\$ 5,560,213	\$ 8,949,011	\$ 3,313,538	\$ 5,372,844	\$ 8,686,382
Condensed Statement of Revenues, Expenses and Changes in Net Position:						
Operating revenues						
Water supply	\$ 797,864	\$ 242,172	\$ 1,040,036	\$ 764,413	\$ 246,338	\$ 1,010,751
Power sales	49,416	19	49,435	96,272	36	96,308
Federal and State reimbursements	25,030	20,689	45,719	21,497	21,096	42,593
	872,310	262,880	1,135,190	882,182	267,470	1,149,652
Depreciation and amortization	(24,257)	(81,088)	(105,345)	(21,827)	(72,364)	(94,191)
Other operating expense	(680,662)	(39,915)	(720,577)	(734,362)	(49,811)	(784,173)
Income from operations	167,391	141,877	309,268	125,993	145,295	271,288
Nonoperating revenues/expenses						
Capital revenues recovered (deferred), net	(180,632)	(40,968)	(221,600)	(145,938)	(188,932)	(334,870)
Interest expense	132	(110,290)	(110,158)	(5,800)	(110,681)	(116,481)
Transfers In/(Out)	(52,379)	52,379	-	(27,928)	27,928	-
Investment income (loss), net	7,659	12,152	19,811	9,755	12,727	22,482
Other revenues (expenses), net	-	(26,778)	(26,778)	-	129,892	129,892
Total nonoperating revenues/expenses	(225,220)	(113,505)	(338,725)	(169,911)	(129,066)	(298,977)
Increase (decrease) in net position	(57,829)	28,372	(29,457)	(43,918)	16,229	(27,689)
Net position, beginning of year, as restated	642,136	524,213	1,166,349	686,054	507,984	1,194,038
Net position, end of year	\$ 584,307	\$ 552,585	\$ 1,136,892	\$ 642,136	\$ 524,213	\$ 1,166,349
Condensed Statement of Cash Flows:						
Net cash provided by (used in)						
Operating activities	\$ 99,955	\$ 418,183	\$ 518,138	\$ 153,757	\$ 197,048	\$ 350,805
Capital and related financing activities	(142,119)	(330,582)	(472,701)	(159,133)	(219,426)	(378,559)
Investing activities	9,564	12,911	22,475	9,939	11,760	21,699
Net (decrease) increase in cash and cash equivalents	(32,600)	100,512	67,912	4,563	(10,618)	(6,055)
Cash and equivalents, beginning of year	459,242	413,382	872,624	454,679	424,000	878,679
Cash and equivalents, end of year	\$ 426,642	\$ 513,894	\$ 940,536	\$ 459,242	\$ 413,382	\$ 872,624

14. New Governmental Accounting Standards

GASB Statement No. 84

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB No. 84 are effective for fiscal 2020 and thereafter. It has been determined that GASB No. 84 did not impact the System.

GASB Statement No. 87

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB No. 87 are effective for fiscal year 2021 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 89

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB No. 89 are effective for fiscal year 2021 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 90

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of GASB No. 90 are effective for fiscal year 2020 and thereafter. It has been determined that GASB No. 90 did not impact the System.

GASB Statement No. 91

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of GASB No. 91 are effective for fiscal year 2022 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 92

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of GASB No. 92 are effective for fiscal year 2021 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 93

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of GASB No. 93 are effective for fiscal year 2021 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 94

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of GASB No. 94 are effective for fiscal year 2023 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 95

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements of GASB No. 95 are effective for fiscal year 2020 and thereafter. The System has implemented certain items in connection with GASB No. 95 in fiscal 2020.

GASB Statement No. 96

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information arrangements (SBITAs) for government end users. The requirements of GASB No. 96 are effective for fiscal year 2023 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 97

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB No. 97 are effective for fiscal year 2022 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

15. Subsequent Events

On August 6, 2020, the System issued its CVP Revenue Bonds Series BB (Tax Exempt) and its CVP Revenue Bonds Series BC (Federally Taxable) with par amounts of \$544.2 million and \$515.2 million, respectively. This was achieved through a negotiated sale to redeem \$319 million of commercial paper notes, pre-funded \$250 million for future water systems projects, and to refund Series AH, AI, AJ, AK, AL, AM, AN, AP, AQ, AR, AS, AU, and AW. The Series BB was issued with a premium of \$188.5 million and the Series BC was issued at par. The System achieved a net present value savings of \$47.3 million, representing 8.6% savings of the refunded bonds. The Series BB and BC Bonds were issued using a fixed rate structure and the final maturity of these bonds will be 2035.

On February 1, 2021, the System restructured its commercial paper (CP) Program for Series 2 and authorized the issuance of two new CP Notes, Series 3 and Series 4. The System entered into a credit agreement with JPMorgan Chase Bank, National Association (the Bank). The credit agreement became effective on February 11, 2021, and initially expires on February 9, 2024, subject to extension or termination. Pursuant to the credit agreement, the Bank has agreed to provide a revolving line of credit up to \$859,178,083, which consists of \$800 million in principal and \$59.2 million in accrued interest.

REQUIRED SUPPLEMENTARY INFORMATION

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

Last 10 Years* (in thousands)

Fiscal Year	2020	2019	2018	2017	2016	2015
The System's proportion of the net pension liability	1.6611%	1.6786%	1.7268%	1.6813%	1.7191%	1.6927%
The System's proportionate share of the net pension liability	\$ 558,713	\$ 527,333	\$ 630,912	\$ 556,748	\$ 485,502	\$ 426,935
The System's covered payroll	\$ 211,364	\$ 206,175	\$ 194,340	\$ 188,680	\$ 181,151	\$ 164,571
The System's proportionate share of the net pension liability as a percentage of their covered payroll	264.34%	255.77%	324.64%	295.08%	268.01%	259.42%
Plan fiduciary net position as a percentage of the total pension liability	71.34%	71.83%	66.42%	66.81%	70.68%	73.05%
Measurement date:	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

* - Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

Schedule of the System's Pension Contributions

Last 10 Years* (in thousands)

Fiscal Year	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 69,557	\$ 63,075	\$ 58,265	\$ 51,594	\$ 47,978	\$ 44,393
Contributions in relation to the contractually required contribution	69,557	63,075	119,175	51,594	47,978	44,393
Contribution deficiency (excess)	\$ -	\$ -	\$ (60,910)	\$ -	\$ -	\$ -
System's covered payroll	\$ 220,400	\$ 211,364	\$ 206,175	\$ 194,340	\$ 188,680	\$ 181,151
Contributions as a percentage of covered payroll	31.56%	29.84%	57.80%	26.55%	25.43%	24.51%

* - Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

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

Last 10 Years* (in thousands)

Fiscal Year	2020	2019	2018
The System's proportion of the net OPEB liability	0.8763%	0.9011%	1.0031%
The System's proportionate share of the OPEB liability	\$ 805,535	\$ 771,286	\$ 912,912
The System's covered payroll	\$ 211,364	\$ 206,175	\$ 194,340
The System's proportionate share of the OPEB liability as a percentage of their covered payroll	381.11%	374.09%	469.75%
Plan fiduciary net position as a percentage of the total OPEB liability	1.693%	1.011%	0.546%
Measurement date:	June 30, 2019	June 30, 2018	June 30, 2017

* - Fiscal year 2018 was the 1st year of implementation, therefore only three years are shown.

Schedule of the System's OPEB Contributions

Last 10 Years* (in thousands)

Fiscal Year	2020	2019	2018
Actuarially determined contribution	\$ 38,491	\$ 40,950	\$ 44,788
Contributions in relation to the actuarially determined contribution	27,272	23,948	21,016
Contribution deficiency (excess)	\$ 11,219	\$ 17,002	\$ 23,772
System's covered payroll	\$ 220,400	\$ 211,364	\$ 206,175
Contributions as a percentage of covered payroll	12.37%	11.33%	10.19%

* - Fiscal year 2018 was the 1st year of implementation, therefore only three 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>	
	2020	2019
Water supply revenues, Central Valley Project Act	\$ 276,795	\$ 246,338
Add: Cover Collected as Proceeds Due To Water Contractors	63,224	58,967
Less: Devil Canyon Castaic Revenues	(22,404)	(21,878)
Revenues not available for Debt Service	(4,748)	(11,255)
Net CVP revenues available for debt service	<u>312,867</u>	<u>272,172</u>
Principal and interest for revenue bonds	<u>\$ 240,714</u>	<u>\$ 211,558</u>
Debt service coverage	<u>130.0%</u>	<u>128.7%</u>

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) 1.36 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 \$276.8 million in fiscal 2020 and \$246.3 million in fiscal 2019, respectively in Water Supply Revenues of the System's (CVP) segment.

In fiscal 2020, the revenues include: an increase of \$63.2 million in refundable proceeds, a decrease of \$22.4 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 \$4.8 million in miscellaneous revenue not available for debt service.

In fiscal 2019, the revenues include: an increase of \$59 million in refundable proceeds, a decrease of \$21.9 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 \$11.3 million in miscellaneous revenue not available for debt service.

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	
<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>	
Schedule of Changes in Net Position.....	109
Schedule of Net Position by Component.....	111
Revenue Capacity	
<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>	
Schedule of Significant Revenues by Source.....	112
Summary of Schedule of Water and Power Sales Rates.....	113
Largest Distribution Water Revenue Accounts.....	114
Largest Distribution Power Sales Revenue Accounts.....	115
Debt Capacity	
<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>	
Schedule of Ratios of Outstanding Debt by Type.....	116
Schedule of Debt Schedule Coverage	117
Demographic and Economic Information	
<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>	
Schedule of Demographic and Economic Indicators.....	118
Schedule of California Number of Employees by Industry.....	119
Operating Information	
<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>	
Schedule of Full-Time Equivalent Employees by Function.....	120
Operating and Capital Indicators.....	121
Capital Assets, Net.....	122

Schedule of Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

	2011	2012	2013	2014
OPERATING REVENUES:				
Water supply	\$ 874,748	\$ 860,891	\$ 931,808	\$ 789,370
Power sales	193,154	148,360	146,277	131,952
Federal and State reimbursements	28,294	36,561	52,397	52,186
Total operating revenues	<u>1,096,196</u>	<u>1,045,812</u>	<u>1,130,482</u>	<u>973,508</u>
OPERATING EXPENSES:				
Operations and maintenance	428,559	526,402	545,413	557,209
Purchased power	342,446	271,377	258,899	241,444
Depreciation and amortization expense	100,257	87,400	85,236	68,896
Operating expenses recovered (deferred), net	118,325	67,063	22,261	-
Total operating expense	<u>989,587</u>	<u>952,242</u>	<u>911,809</u>	<u>867,549</u>
NET OPERATING INCOME (LOSS)	<u>106,609</u>	<u>93,570</u>	<u>218,673</u>	<u>105,959</u>
NONOPERATING REVENUES (EXPENSES):				
Capital revenues recovered (deferred), net	22,812	43,834	(174,356)	(42,934)
Interest expense	(134,996)	(107,770)	(53,492)	(115,499)
Other revenues (expenses), net	5,575	(29,634)	9,175	52,474
Total nonoperating revenues (expenses)	<u>(106,609)</u>	<u>(93,570)</u>	<u>(218,673)</u>	<u>(105,959)</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Source: State Water Resources Development System

Schedule of Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

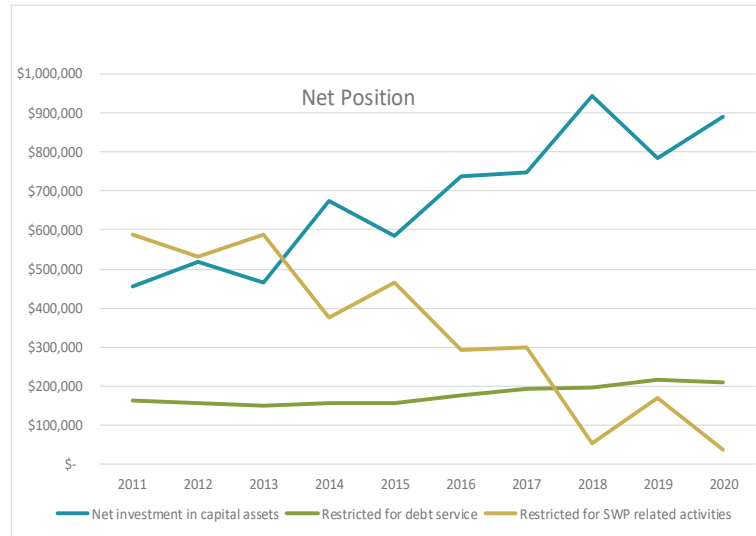
2015	2016	2017	2018	2019	2020
\$ 883,538	\$ 948,105	\$ 1,082,587	\$ 1,076,238	\$ 1,010,751	\$ 1,040,036
91,780	71,236	85,089	88,148	96,308	49,435
44,060	67,309	55,664	42,127	42,593	45,719
1,019,378	1,086,650	1,223,340	1,206,513	1,149,652	1,135,190
404,627	511,926	544,925	555,163	645,191	617,236
202,780	219,661	339,993	342,115	290,908	243,120
81,495	77,170	77,265	80,101	94,191	105,345
-	65,004	57,066	(64,454)	(151,926)	(139,779)
688,902	873,761	1,019,249	912,925	878,364	825,922
330,476	212,889	204,091	293,588	271,288	309,268
(243,945)	(118,510)	(130,147)	(294,864)	(334,870)	(221,600)
(96,082)	(106,978)	(105,768)	(105,429)	(116,481)	(110,158)
9,551	12,599	31,824	57,846	152,374	(6,967)
(330,476)	(212,889)	(204,091)	(342,447)	(298,977)	(338,725)
\$ -	\$ -	\$ -	\$ (48,859)	\$ (27,689)	\$ (29,457)

Source: State Water Resources Development System

Schedule of Net Position by Component (Unaudited)

	Last Ten Fiscal Years (in thousands)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NET POSITION										
Net investment in capital assets	\$ 455,265	\$ 516,670	\$ 466,348	\$ 674,336	\$ 585,309	\$ 736,203	\$ 748,439	\$ 942,618	\$ 783,286	\$ 890,438
Restricted for:										
Debt service and plant replacements	162,056	156,913	150,825	155,116	155,857	177,330	193,889	197,363	214,513	210,859
SWP related activities	588,107	531,845	588,255	375,976	464,262	291,895	300,569	54,057	168,550	35,595
TOTAL NET POSITION	\$ 1,205,428	\$ 1,205,428	\$ 1,205,428	\$ 1,205,428	\$ 1,205,428	\$ 1,205,428	\$ 1,242,897	\$ 1,194,038	\$ 1,166,349	\$ 1,136,892

Source: State Water Resources Development System



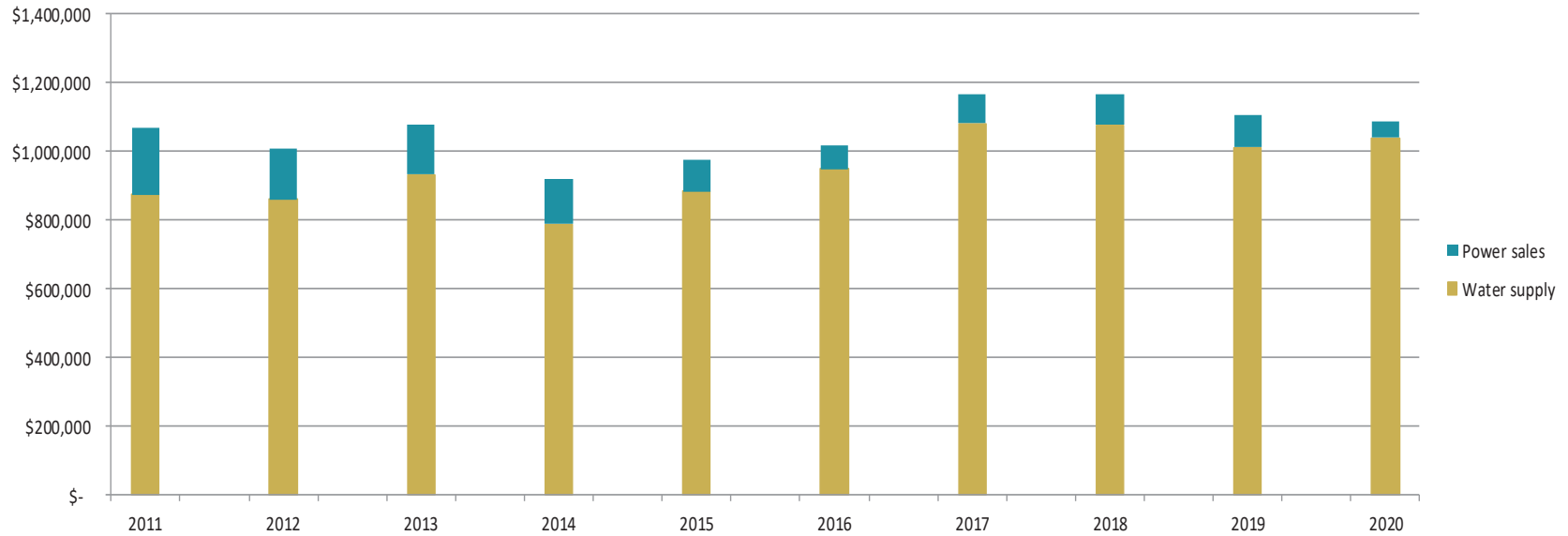
Schedule of Significant Revenues By Source (Unaudited)

Last Ten Fiscal Years (in thousands)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues by Source										
Water supply	\$ 874,748	\$ 860,891	\$ 931,808	\$ 789,370	\$ 883,538	\$ 948,105	\$1,082,587	\$1,076,238	\$1,010,751	\$ 1,040,036
Power sales	193,154	148,360	146,277	131,952	91,780	71,236	85,089	88,148	96,308	49,435
TOTAL	\$1,067,902	\$1,009,251	\$1,078,085	\$ 921,322	\$ 975,318	\$1,019,341	\$1,167,676	\$1,164,386	\$1,107,059	\$ 1,089,471

Source: State Water Resources Development System

Operating Revenues by Source



Summary of Schedule of Water and Power Sales Rates (Unaudited)

Last Ten Years

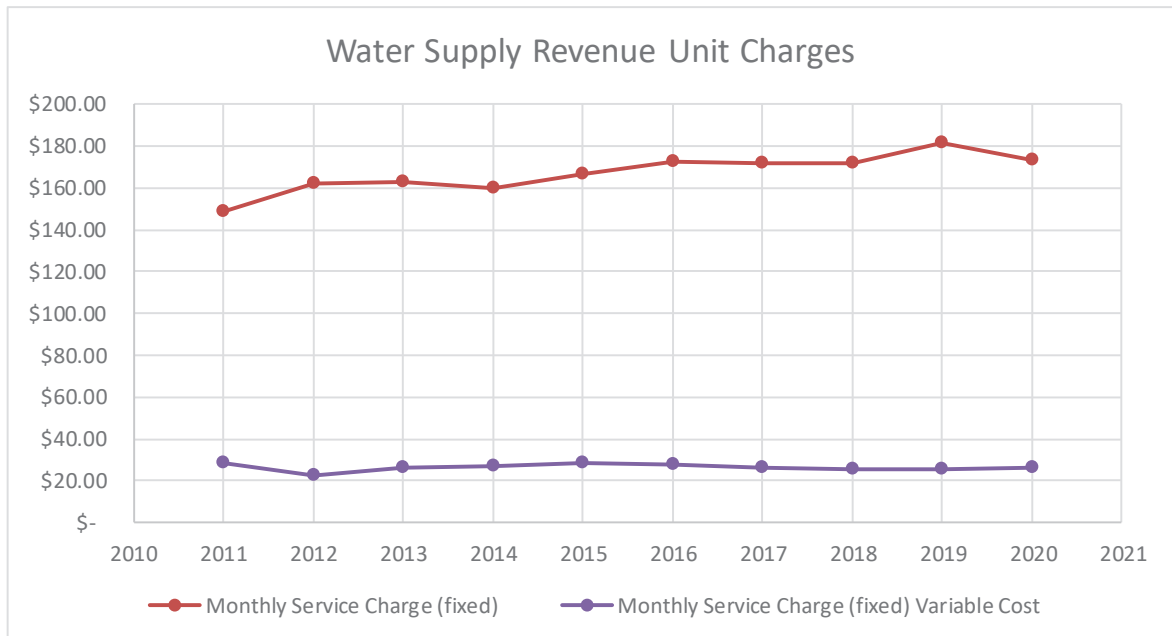
Water Supply^a

Year ^b	Monthly Service Charge	Variable Cost
2011	\$ 148.48	\$ 28.33
2012	162.20	22.45
2013	162.64	26.36
2014	159.89	26.79
2015	166.37	28.21
2016	172.81	27.52
2017	171.99	26.34
2018	172.07	25.33
2019	181.06	25.78
2020	173.24	25.98

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



Largest Distribution Water Revenue Accounts (Unaudited)

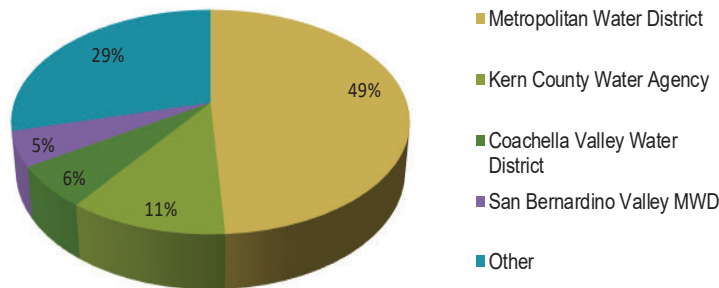
Current Year and Nine Years Prior

Customer	FY 2020			Customer	FY 2011		
	Annual Water Sales	Rank	Percentage of Total ^a		Annual Water Sales	Rank	Percentage of Total ^a
THE METROPOLITAN WATER DISTRICT	\$ 566,211,422	1	49%	THE METROPOLITAN WATER DISTRICT	\$ 481,111,400	1	55%
KERN COUNTY WA - AG	130,727,913	2	11%	KERN COUNTY WA - AG	87,474,800	2	10%
COACHELLA VALLEY WATER DISTRICT	68,275,586	3	6%				
SAN BERNARDINO VALLEY MWD	62,089,920	4	5%				
Subtotal	\$ 827,304,841		71%	Subtotal	\$ 568,586,200		65%
Total Water Sales	\$ 1,040,035,860				\$ 874,748,000		

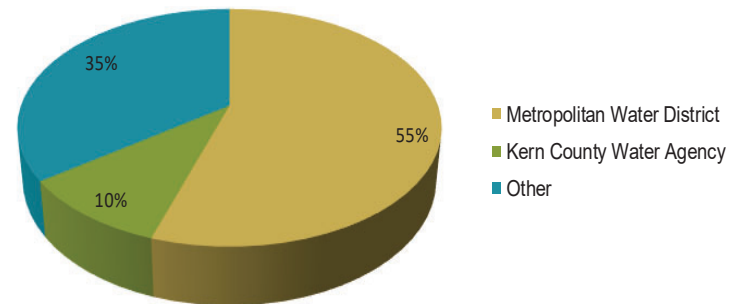
Source: State Water Resources Development System

a) Percentage of total is based on total revenues billed under the water supply contracts

FY 2020



FY 2011

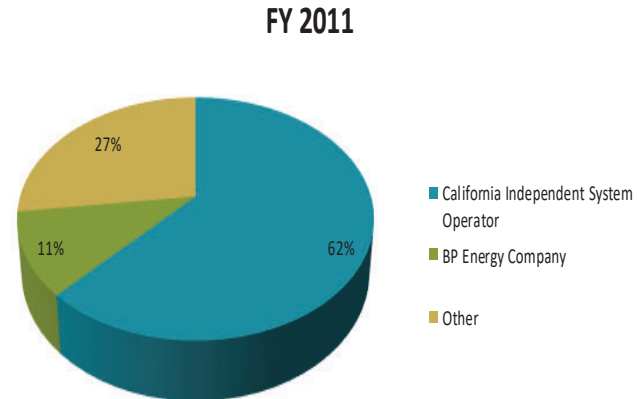
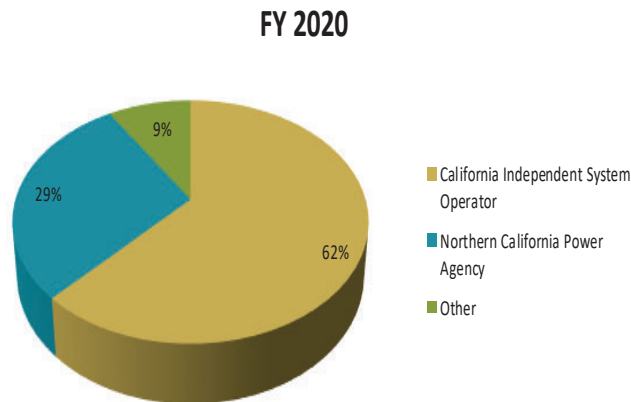


Largest Distribution Power Sales Revenue Accounts (Unaudited)

Current Year and Nine Years Prior

Customer	FY 2020			Customer	FY 2011		
	Annual Revenues	Rank	Percentage of Total		Annual Revenues	Rank	Percentage of Total
CALIFORNIA INDEPENDENT SYSTEM OPERATOR	\$ 30,558,794	1	62%	CALIFORNIA INDEPENDENT SYSTEM OPERATOR	\$ 119,755,356	1	62%
NORTHERN CALIFORNIA POWER AGENCY	14,274,608	2	29%	BP ENERGY COMPANY	21,246,918	2	11%
Subtotal	<u>\$ 44,833,402</u>		<u>91%</u>	Subtotal	<u>\$ 141,002,274</u>		<u>73%</u>
Total Power Sales	<u>\$ 49,435,077</u>			Total Power Sales	<u>\$ 193,153,800</u>		

Source: State Water Resources Development System



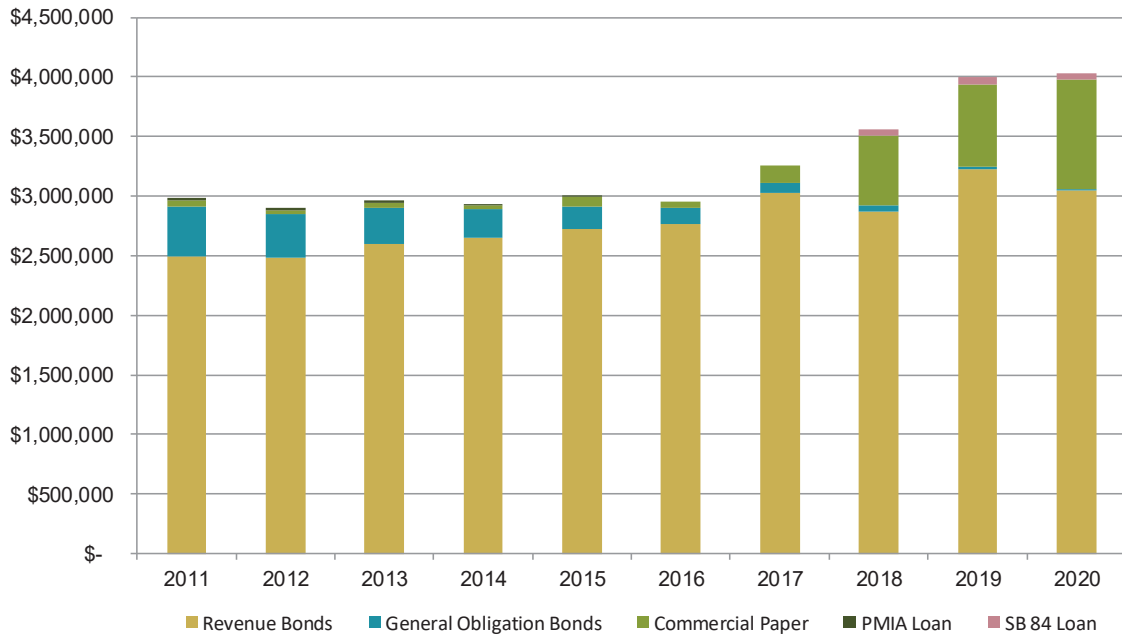
Schedule of Ratios of Outstanding Debt by Type (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Revenue Bonds	General Obligation Bonds	Commercial Paper	PMIA Loan	SB 84 Loan	Total
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
2017	3,026,368	88,300	147,165	-	-	3,261,833
2018	2,869,007	54,065	580,672	-	60,910	3,564,654
2019	3,222,577	28,090	689,984	-	60,910	4,001,561
2020	3,045,468	10,685	920,107	-	57,471	4,033,731

Source: State Water Resources Development System

Outstanding Debt Portfolio



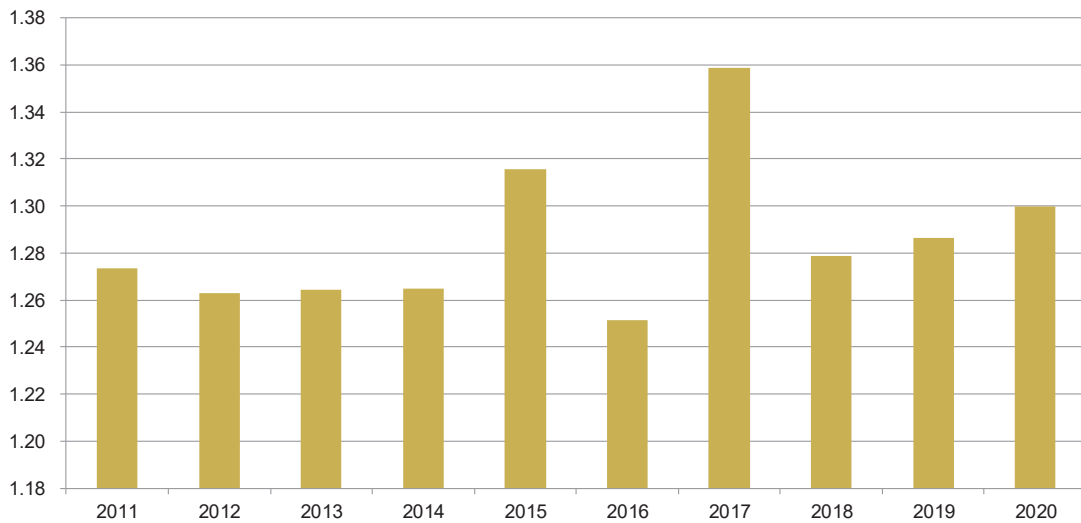
Schedule of Debt Service Coverage (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Water Supply Revenues	Cover Collected for Debt Service	Revenues Not Available for Debt Service	Net Revenue Available for Debt Service	Debt Service Requirements			
					Principal	Interest	Total	Coverage
2011	\$ 320,631	\$ 55,542	\$ 96,016	\$ 280,157	\$ 104,535	\$ 115,439	\$ 219,974	1.27
2012	307,438	56,385	85,448	278,375	111,555	108,900	220,455	1.26
2013	372,748	54,677	156,404	271,021	119,280	95,098	214,378	1.26
2014	281,461	51,786	72,829	260,418	109,610	96,313	205,923	1.26
2015	225,899	54,316	26,405	253,810	110,105	82,819	192,924	1.32
2016	255,106	57,779	28,325	284,560	130,095	97,255	227,350	1.25
2017	241,117	56,321	26,248	271,190	128,035	71,584	199,619	1.36
2018	235,540	56,305	26,681	265,164	132,050	75,291	207,341	1.28
2019	246,338	58,967	33,133	272,172	122,490	89,068	211,558	1.29
2020	276,795	63,224	27,152	312,867	139,710	101,004	240,714	1.30

Source: State Water Resources Development System

Debt Coverage Ratio



Schedule of Demographic and Economic Indicators (Unaudited)

Last Ten Years

Year	Population (in thousands)	Personal Income (in millions)	Per Capita Personal Income	Unemployment Rate
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%
2016	39,250	2,197,492	55,987	5.4%
2017	39,537	2,303,870	58,272	4.8%
2018	39,557	2,475,727	62,586	4.4%
2019	39,512	2,633,926	66,661	4.2%

1 - Source: Economic Research Unit, California Department of Finance

2 - Note: 2020 information is not available and therefore not presented

Schedule of California Number of Employees By Industry (Unaudited)

	2010	2011	2012	2013	2014
Agriculture, Forestry, Fishing, Hunting	440,265	449,614	463,476	463,169	467,923
Mining	25,011	27,016	28,475	27,986	29,142
Utilities	57,175	58,199	59,160	58,240	57,829
Construction	562,922	580,550	609,365	656,000	691,811
Manufacturing	1,250,589	1,257,097	1,264,017	1,265,860	1,283,779
Wholesale Trade	647,193	661,757	679,339	702,319	713,642
Retail Trade	1,496,821	1,522,619	1,553,812	1,587,467	1,615,557
Transportation and Warehousing	397,932	404,582	415,488	433,112	455,070
Information	429,065	425,193	426,056	445,121	459,781
Finance and Insurance	509,852	512,160	522,529	520,579	514,826
Real Estate and Rental and Leasing	248,452	247,476	253,154	260,584	265,335
Services	6,063,638	6,216,242	6,519,084	6,809,757	7,056,066
Nonclassifiable Establishments (3)	44,336	58,663	59,443	36,808	63,478
Federal, State and Local Government	2,302,160	2,276,153	2,260,320	2,276,164	2,317,813
Total for all Industries	14,475,411	14,697,321	15,113,718	15,543,166	15,992,052

	2015	2016	2017	2018	2019
Agriculture, Forestry, Fishing, Hunting	471,566	474,766	473,554	475,503	478,758
Mining	25,668	21,218	20,130	20,545	20,133
Utilities	57,577	58,008	57,766	56,571	56,499
Construction	748,872	789,841	830,446	880,556	908,159
Manufacturing	1,303,651	1,304,915	1,318,709	1,337,213	1,333,653
Wholesale Trade	719,576	718,853	723,984	701,831	694,166
Retail Trade	1,645,332	1,654,247	1,670,450	1,673,554	1,643,399
Transportation and Warehousing	488,428	517,790	553,571	592,578	635,648
Information	486,838	517,275	526,390	542,792	562,689
Finance and Insurance	523,933	540,844	544,423	541,035	540,286
Real Estate and Rental and Leasing	271,617	278,001	285,957	296,584	305,824
Services	7,247,138	7,442,898	7,630,490	7,888,061	8,077,285
Nonclassifiable Establishments (3)	102,851	119,680	82,201	12,948	1,543
Federal, State and Local Government	2,388,336	2,434,565	2,346,343	2,366,731	2,390,055
Total for all Industries	16,481,383	16,872,901	17,064,414	17,386,502	17,648,097

- (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: 2020 information is not available and therefore not presented
- Definitions of Terms and Source Notes: www.labormarketinfo.edd.ca.gov

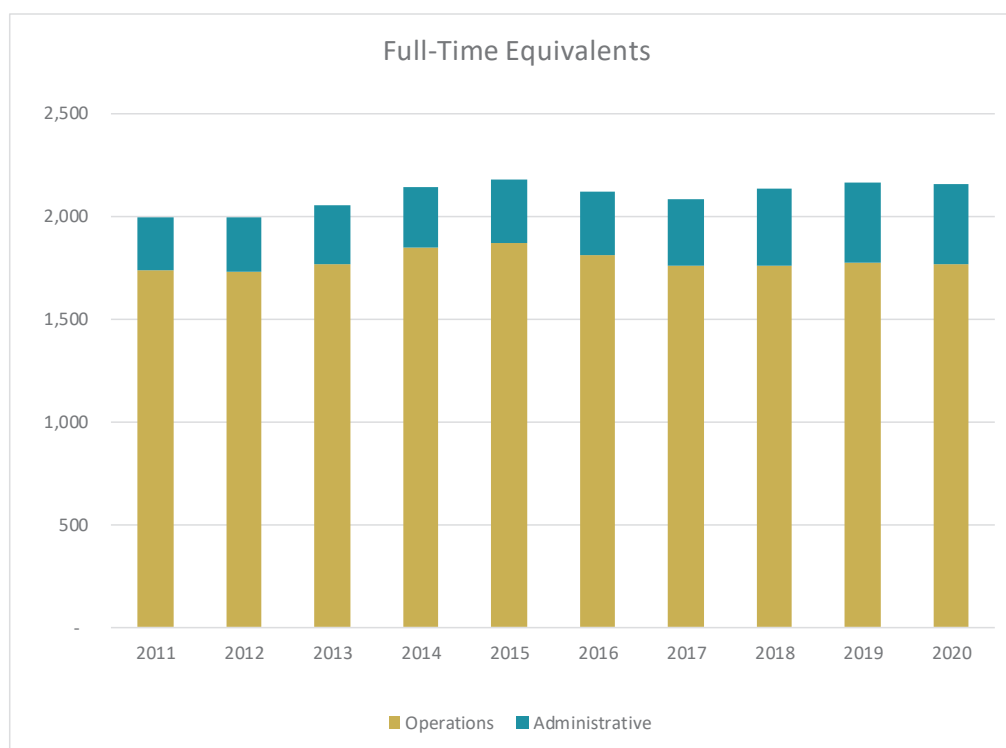
Schedule of Full-Time Equivalent Employees by Function (Unaudited)

Last Ten Fiscal Years

Function	Full-Time Equivalents by Function as of June 30, ¹									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Field Operations	862	872	863	920	934	899	904	910	886	870
Engineering	328	329	337	330	324	280	283	286	294	287
Operations and Maintenance	318	295	338	348	355	388	381	390	413	408
Environmental Services	123	128	129	135	132	129	127	126	127	140
Flood Management	62	68	65	65	67	60	10	10	8	9
Safety of Dams	2	2	2	2	2	2	2	-	-	-
Power Management	38	38	35	47	52	53	53	35	48	49
Operations Total	1,733	1,732	1,769	1,847	1,866	1,811	1,760	1,757	1,776	1,763
Executive	43	51	56	63	71	77	78	90	99	104
Finance and Accounting	69	72	72	69	75	69	70	74	72	72
Technology Services	93	79	99	104	105	107	110	110	111	110
Communications	27	26	27	24	27	27	29	26	27	29
Legal	28	31	30	30	31	31	33	33	33	33
Human Resources	-	-	-	-	-	-	-	46	44	44
Administrative Total	260	259	284	290	309	311	320	379	386	392
Grand Total	1,993	1,991	2,053	2,137	2,175	2,122	2,080	2,136	2,162	2,155

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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 ^a
Water										
Water Deliveries (AF)	3,788,118	4,687,030	4,010,749	3,405,691	2,017,124	2,108,876	3,344,756	4,783,208	3,157,728	4,169,976
Percentage of Requested Water Delivered	50%	80%	65%	35%	5%	20%	60%	85%	35%	75%
Gross Area Served (Acres)	25,091,780	25,091,780	23,509,885	23,847,530	23,527,540	23,514,148	23,514,148	23,514,604	23,513,897	23,513,897
Estimated Population Served ³	21,462,843	26,324,019	26,201,400	26,267,499	26,520,624	26,876,859	26,926,556	27,214,361	27,209,404	27,336,310
Statewide Precipitation (% of Avg) ¹	107%	136%	77%	79%	56%	74%	105%	164%	73%	131%
Statewide Snowpack (% of Apr 1 Avg)	106%	165%	54%	47%	33%	5%	86%	163%	54%	175%
Statewide River Runoff (% of Avg) ¹	93%	146%	62%	60%	35%	46%	97%	217%	68%	137%
Total Storage (% of Average) ²	103%	130%	97%	79%	57%	54%	82%	120%	99%	124%
Total Storage (% of Capacity) ²	60%	76%	56%	46%	33%	31%	47%	68%	56%	71%
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	22	22
Gross Storage Capacity (AF)	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,700	6,761,700	6,762,567	6,762,567
Number of Pumping Plants	23	23	23	23	23	23	23	23	24	24
Number of Pumps	162	162	162	162	162	162	162	162	177	177
Power										
Energy Generated (Mwh)	3,920,000	4,846,000	4,198,000	3,068,539	1,132,659	1,274,706	3,075,218	4,519,141	2,551,901	4,470,674
Energy Purchased (Mwh)	5,081,000	4,895,000	3,741,000	3,604,135	1,691,424	2,780,643	4,108,601	5,378,979	3,646,253	3,643,139
Energy Sold (Mwh)	1,814,000	1,192,000	533,000	936,975	33,000	566,891	579,934	243,590	471,188	398,420
Net Power Consumption (Mwh)	7,187,000	8,549,000	7,406,000	5,735,699	2,791,083	3,488,458	6,603,883	9,654,529	5,726,966	7,715,393
Number of Power Plants	10	10	10	10	9	9	9	9	9	9
Number of Power Generating Units	37	37	37	37	36	36	36	36	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.

4 - Based on snow sensor network on April 1

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				
	2011	2012	2013	2014	2015
Nondepreciable Utility Plant					
Land	\$ 136,129	\$ 136,129	\$ 136,797	\$ 137,033	\$ 141,874
Construction work in progress	366,975	408,072	528,836	438,244	611,900
Land use rights	11,005	11,250	11,549	11,583	11,630
Other intangible assets	81,976	88,930	100,064	103,740	103,445
Total Nondepreciable Utility Plant	596,085	644,381	777,246	690,600	868,849
Depreciable Utility Plant					
Aqueducts	2,057,437	2,064,208	2,071,255	2,167,237	2,169,352
Dams & reservoirs	781,110	781,202	781,408	781,408	708,303
Power plants	910,100	906,554	911,703	466,358	441,202
Pumping plants	787,008	829,344	836,655	836,814	826,704
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	65,820	66,230	246,397	254,741
Equipment	67,996	70,593	71,819	75,705	77,384
Computer software	23,629	24,162	24,501	24,529	24,531
Land use rights	-	272	272	272	272
Other intangible assets	-	-	11,995	11,995	12,005
General	5,964	6,491	39,579	61,310	62,262
Total Depreciable Utility Plant	4,799,785	4,850,377	4,917,148	4,773,756	4,678,487
Less Accumulated Depreciation/Amortization	(2,194,406)	(2,281,806)	(2,366,429)	(1,994,695)	(2,014,654)
Total Utility Plant, Net	\$ 3,201,464	\$ 3,212,952	\$ 3,327,965	\$ 3,469,661	\$ 3,532,682

Source: State Water Resources Development System

Capital Assets, Net (in thousands) (Unaudited)

	Last Ten Fiscal Years				
	2016	2017	2018	2019	2020
Nondepreciable Utility Plant					
Land	\$ 147,681	\$ 156,934	\$ 162,457	\$ 188,965	\$ 209,165
Construction work in progress	769,871	1,340,586	1,653,005	2,078,333	1,931,664
Land use rights	11,760	11,767	12,458	12,460	12,465
Other intangible assets	100,123	99,240	98,981	99,440	100,463
Total Nondepreciable Utility Plant	1,029,435	1,608,527	1,926,901	2,379,198	2,253,757
Depreciable Utility Plant					
Aqueducts	2,171,981	2,126,713	2,183,839	2,182,663	2,195,260
Dams & reservoirs	708,303	729,521	817,041	818,899	997,443
Power plants	470,818	477,044	523,529	650,730	749,245
Pumping plants	838,880	850,475	1,018,627	1,025,608	999,004
Environmental preservation and mitigation	67,797	67,797	67,797	67,797	67,797
Fish protection	35,544	35,544	35,544	35,544	40,239
Facilities	271,965	298,295	301,157	304,796	490,326
Equipment	79,229	82,526	75,214	82,698	90,738
Computer software	24,717	27,108	27,206	27,349	27,383
Land use rights	272	272	272	272	272
Other intangible assets	12,005	12,005	12,005	12,005	12,005
General	73,053	119,562	162,619	209,913	269,244
Total Depreciable Utility Plant	4,754,564	4,826,862	5,224,850	5,418,274	5,938,956
Less Accumulated Depreciation/Amortization	(2,084,676)	(2,117,138)	(2,185,494)	(2,276,510)	(2,379,296)
Total Utility Plant, Net	\$ 3,699,323	\$ 4,318,251	\$ 4,966,257	\$ 5,520,962	\$ 5,813,417

Source: State Water Resources Development System



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 of the State of California (the "Treasurer") must have received evidence that the issuance of the additional Bonds will not result in the lowering of any rating then assigned to any then outstanding Bonds by any nationally recognized rating agency.

Additional Requirements for New Money Bonds. In order to issue a series of Bonds for new money purposes, the Department must (in addition to the foregoing general requirements) also certify that the Water System Project for which such series is being issued can be beneficially used by the Department to assist in the conservation or transportation of water under Water Supply Contracts, that the Water System Project is technically and economically feasible and that moneys, if any, for Project Planning Costs are then required (including an estimate of the amount of moneys required for Project Planning Costs).

Disposition of Revenues

Revenues as defined under the Resolution include:

(a) moneys to be received under the Water Supply Contracts resulting from the construction, acquisition or operation of Water System Projects (but only in the amounts required to meet the rate covenant of the Resolution);

(b) moneys received from any other legally available source that the Department in its discretion determines to be Revenues and so designates in a certificate filed with the Treasurer; and

(c) income from the investment of moneys held in the Revenue Fund pursuant to the Resolution.

Revenues do not include any other income or receipts resulting from the construction, acquisition or operation of a Water System Project other than the income and receipts specified in the immediately preceding clauses (a), (b) and (c).

The Resolution requires the State Controller to establish and maintain the following accounts in the Revenue Fund: the Interest Account, the Principal Retirement Account, the Operating Account, the Debt Service Reserve Account, and the Surplus Account. The State Controller is to allocate to the Operating Account during each Year an amount equal to the amount previously estimated by the Department to be required in such Year for Water System Operating Expenses.

The Resolution requires the State Controller to allocate all Revenues, when received, to these accounts. The allocation is required to be in the following priority: Interest Account, Principal Retirement Account, Operating Account, Debt Service Reserve Account and Surplus Account. The State Controller is to allocate to the Interest Account on or before each interest payment date an amount equal to the interest due on such interest payment date (less amounts then in the Interest Account or the Construction Fund available to pay such interest). The State Controller is to allocate to the Principal Retirement Account on or before each maturity date and sinking fund installment date the sum of (a) the principal amount of any serial Bonds becoming due on such date, plus (b) any sinking fund installments that become due on such date. The State Controller is to maintain separate subaccounts in the Principal Retirement Account for the serial Bonds of each series and for the sinking fund installments of each series of Bonds.

Moneys in the Surplus Account may be applied to any lawful purpose, including transfer to funds not subject to the lien of the Resolution.

Debt Service Reserve Account

A Debt Service Reserve Account is required to be maintained in the State Treasury. On the issuance of each series of Bonds, provision must be made for placing moneys in the Debt Service Reserve Account so that on the first interest payment date when interest on the Bonds of that series is to be paid from Revenues, the Debt Service Reserve Account will contain an amount at least equal to, for any date of calculation, for all series of Bonds outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation (the "Reserve Account Requirement"). Revenues will be allocated to the Debt Service Reserve Account to the extent necessary, under the priority described under "Disposition of Revenues," so that the amount in the Debt Service Reserve Account will be at least equal to such amount.

The Department, at its option and notwithstanding any contrary provision in the Resolution, may withdraw, in whole or in part, amounts required to be held in the Debt Service Reserve Account upon the deposit of a Reserve Fund Instrument with the Treasurer, as trustee, in a stated amount equal to the amounts so withdrawn. Upon request of the Department or as may be provided in a supplemental resolution, Revenues deposited in the Debt Service Reserve Account shall be used to reimburse draws on any Reserve Fund Instruments therein, but only to the extent that such reimbursement results in a commensurate increase in the amount of available coverage provided under the respective Reserve Fund Instrument. The amount available to be drawn under any Reserve Fund Instrument on deposit in the Debt Service Reserve Account shall be included in calculating the amount credited to such Account. A Reserve Fund Instrument is a letter of credit, surety bond or other credit facility issued by a provider the unsecured obligations of which, at the time of initial deposit of such facility, are rated not lower than "Aa" by Moody's and "AA" by S&P, and the deposit of which does result in a withdrawal or downgrading of any rating of the Bonds then in effect.

Moneys in the Debt Service Reserve Account are to be applied, upon the claim of the Treasurer, to make good any deficiency in the Interest Account or the Principal Retirement Account, in that priority.

Any amount in the Debt Service Reserve Account in excess of its requirement may be transferred to any legally permissible fund or account designated by the Department.

Security for Payment of Bonds

Payment of the principal and redemption price of, and interest on, the Bonds is secured by a first and direct charge and lien upon the Revenues and all moneys and securities held and accounts established (except amounts, if any, in any Rebate Account) under the Resolution, by the Department, the State Controller, the Treasurer, or the Paying Agent, subject only to the provisions of the Resolution permitting the payment or the use thereof for the purpose, in the manner, and upon the terms and conditions set forth in the Resolution.

The Department must perform and observe all the obligations and conditions required to be performed and observed by it under the Water Supply Contracts at the times, and in the manner therein prescribed. The Department must diligently enforce its rights under the Water Supply Contracts and must not agree to any amendment to the Water Supply Contracts that would materially adversely affect the security of the Bonds.

The Department must at all times use its best efforts to maintain the Revenues in each year at an amount at least equal to 1.25 times the annual debt service for such year to be paid from the Revenue Fund plus the amount required from the Revenue Fund for Water System Operating Expenses in such year, plus certain amounts required to fund initially the Debt Service Reserve Account.

Investment of Moneys Held Under the Resolution

Moneys held in all accounts other than the Debt Service Reserve Account will be invested under the laws governing the investment of moneys in the State Treasury. Moneys held in the Debt Service Reserve Account shall be invested in obligations of the United States (including trust receipts or certificates evidencing ownership of payments on such obligations), in obligations for which the faith and credit of the United States are pledged for the payment of principal and interest, in certain federal agency securities, in certain state or local government obligations secured by obligations of or guaranteed by the United States or in the Surplus Money Investment Fund operated by the Treasurer.

Certain Covenants

The covenants of the Department contained in the Resolution include the following:

Punctual Payment. The Department will pay or cause to be paid the principal or redemption price of and interest to become due in respect of all Bonds, in strict conformity with the terms of the Bonds and of the Resolution, and it will faithfully observe and perform all of the conditions, covenants, and requirements of the Resolution and all supplemental resolutions and of the Bonds.

Covenant Against Encumbrances, Sale, or Disposition. The Department shall not create, or permit to be created, any mortgage, lien, or pledge on the Revenues equal or prior to the charge or lien of the Resolution, nor sell or otherwise dispose of all or any part of a Water System Project essential to the maintenance of the Revenues, nor enter into any lease or agreement that would materially adversely affect the rights or security of the Bondholders under the Resolution.

Tax Covenants. The Department may include in any supplemental resolution authorizing the issuance of a series of Bonds covenants designed to preserve the tax-exempt status of such series of Bonds, including covenants concerning the rebate of excess investment earnings on moneys held under the Resolution.

Events of Default; Remedies of Bondholders

The Bondholders and the Treasurer, as trustee, *acting* for the Bondholders shall be entitled to all of the rights and remedies provided in the CVP Act and to all of the rights and remedies otherwise provided or permitted by law.

In the event the Department shall default in the payment of principal or redemption price of any Bond, or in the payment of interest on any Bond, or in the event the Department shall not comply with any of the covenants or agreements contained in the Resolution or the Bonds and such defaults shall have continued for a period of 60 days after written notice thereof shall have been given to the Department by the Treasurer, or to the Department and the Treasurer by the holders of at least 25 percent in principal amount of the outstanding Bonds; then the Treasurer or the holders of at least a majority in principal amount of the outstanding Bonds shall be entitled to declare the principal of all of the outstanding Bonds, and the interest accrued thereon, to be due and payable immediately.

Under any default or other occurrence creating a right in the Treasurer to represent the holders of Bonds, the Treasurer may take such action as he or she may deem appropriate, and shall take such action as shall be specified in a written request of the holders of at least 25 percent in principal amount of the outstanding Bonds and upon the furnishing to the Treasurer of indemnity satisfactory to him or her.

Amendment of the Resolution

The Resolution and the rights and obligations of the Department and the Bondholders may be changed at any time by a supplemental resolution when approved by the holders of 60 percent of the principal amount of the Bonds then outstanding and affected by such change at a meeting of the Bondholders or by the written consent of the Bondholders. Any such consent shall be binding upon the Bondholder giving such consent and on any subsequent Bondholder (whether or not such subsequent Bondholder has notice thereof) unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent Bondholder by filing such revocation with the Treasurer prior to the date the Department mails notice that the consents of the holders of the requisite percentage of Bonds have been obtained.

No change shall be made, without the consent of all Bondholders, (a) in the principal amount or the redemption price of any Bond, the rate of interest thereon, the maturity of the principal thereof or of any installment of interest thereon or (b) in the percentage of the principal amount of Bonds the vote or consent of the holders of which is required to effect any change.

A change may also be made at any time by supplemental resolution, without the consent of any Bondholders, for any one or more of the following:

- (a) To add to the covenants of the Department, other covenants, or to surrender any right reserved to the Department;
- (b) To cure any ambiguity, defect or inconsistent provision in the Resolution or to make provisions in regard to questions arising under the Resolution as the Department deems

necessary and not inconsistent with the Resolution, and which shall not materially adversely affect the interests of the Bondholders;

(c) To provide for the issuance of an additional series of Bonds;

(d) To provide for the issuance of Bonds in coupon form rather than or in addition to registered form. No such change may be materially adverse to the interests of the holders of outstanding Bonds; or

(e) To add such provisions as may be necessary to accommodate such banking, insurance, remarketing and other financial arrangements as may be necessary or desirable to provide additional security for the payment of principal and interest on any one or more series of Bonds or to provide the holders of any one or more series of Bonds the right to tender such Bonds to the Department or to another party for purchase at the times, on the notice and on such other terms as the Department may determine. These arrangements may provide for the reimbursement by the Department, with interest, of moneys advanced by the provider of additional security, the provider of a tender right, the provider of moneys to fund a tender right or anyone performing a related function from the sources available for the payment of Bonds. No such change may be materially adverse to the interests of the holders of outstanding Bonds.

Discharge of Obligations Under the Resolution

The obligations of the Department and the pledge, lien, covenants and agreements of the Department made or provided for in the Resolution will be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder, when payments of the principal of and the applicable redemption price, if any, on such Bond, plus interest thereon to the due date thereof, (i) has been made or caused to be made in accordance with the terms thereof or (ii) has been provided for by depositing with the Treasurer in trust for such payment (a) moneys sufficient to make such payments or (b) specified governmental obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and, except for the purposes of such payment, such Bond will no longer be secured by or entitled to the benefits of the Resolution; provided that, with respect to Bonds that are to be redeemed or otherwise prepaid prior to the stated maturities thereof, no such deposit will constitute such discharge and satisfaction unless such Bonds have been called or designated for redemption or prepayment in accordance with the provisions thereof and notice of such redemption or prepayment has been given or irrevocable provision has been made for the giving of such notice.

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APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE

The Department has executed a Continuing Disclosure Certificate, dated April 24, 2019, and will execute a Supplemental Continuing Disclosure Certificate with respect to the Series BD and BE Bonds at the time of delivery of the Series BD and BE 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

In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in the Disclosure Certificate, the following capitalized terms have the following meanings for purposes of the Continuing Disclosure Certificate.

“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.

“Financial Obligation” shall mean, for purposes of the Listed Events number 15 and 16 described below under the heading “Reporting of Significant Events”, a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“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 nine months after the end of the Department’s fiscal year (which shall be March 31 of each year, so long as the Department’s fiscal year ends on June 30), provide to the MSRB an Annual Report consistent with the requirements of the Disclosure Certificate. The Annual Report may cross-reference other information as provided in the Disclosure Certificate; 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 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 a filing with the MSRB.

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, in a timely manner, file a 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:

(a) 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 Section 3(a) of the Disclosure Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statement of the Department, the Annual Report shall also include an update of the following information contained in the Official Statement:

1. The amount on deposit in the Debt Service Reserve Account.
2. The information under the heading “THE DEPARTMENT – Investments of Department Moneys.”
3. The information relating to the prior year’s water deliveries under the heading “STATE WATER PROJECT WATER SUPPLY– Annual Water Deliveries.”
4. The information relating to the current year’s water requests under the heading “STATE WATER PROJECT WATER SUPPLY– Annual Water Deliveries.”
5. 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.”

6. 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.”
7. 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.”
8. 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.

If any of the information identified in the immediately preceding list by references to headings in the Official Statement is under a different heading in any subsequent Official Statement, the heading references above shall be read as references to the relevant heading in such Official Statement as necessary to insure the same information is updated with respect to all bonds subject to the terms of this Continuing Disclosure Certificate, by supplement or otherwise.

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 to which the Disclosure Certificate is applicable, 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 to which the Disclosure Certificate is applicable, 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;
14. the appointment of a successor or additional trustee, or the change in the name of a trustee, if material;
15. incurrence of a Financial Obligation of the Department, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Department, any of which affect security holders; and
16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Department, any of which reflect financial difficulties.

(b) Whenever the Department obtains knowledge of the occurrence of a Listed Event, the Department shall as soon as possible, if such Listed Event requires such a determination as set forth in the preceding clause (a), determine if such event would be material under applicable federal securities laws.

(c) The Department shall promptly file a notice electronically to the MSRB, in an electronic format prescribed by 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 to which the Disclosure Certificate is applicable is legally defeased, with respect to such defeased Bonds), prior redemption or payment in full of all of the Bonds to which the Disclosure Certificate is applicable. 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 hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds to which the Disclosure Certificate is applicable, the Department shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5(c) of the Disclosure Certificate.

Dissemination Agent

The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Amendment; Waiver

The Department may amend or waive any provision of the Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of the Disclosure Certificate dealing with the timing and content of the Annual Report or the giving of notice of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an Obligated Person with respect to the Bonds to which the Disclosure Certificate is applicable, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds to which the Disclosure Certificate is applicable, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Bondholders of the Bonds to which the Disclosure Certificate is applicable in the same manner as provided in the Resolution for amendments to the Resolution with the consent of such Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of such 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 under the Disclosure Certificate, 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 such 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.

APPENDIX E

PROPOSED FORM OF OPINION OF ATTORNEY GENERAL

The following form of opinion is expected to be delivered with respect to the Series BD and BE Bonds on the date of issue thereof.

[Issue Date]

State of California Department of Water Resources
Sacramento, California

\$533,800,000

**State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series BD and BE (Federally Taxable)**

We have served as counsel to the State of California Department of Water Resources (the “Department”) in connection with the issuance by the Department of its Central Valley Project Water System Revenue Bonds, Series BD (the “Series BD Bonds”) in the aggregate principal amount of \$217,640,000 and its Central Valley Project Water System Revenue Bonds, Series BE (Federally Taxable) (the “Series BE Bonds” and together with the Series BD Bonds, the “Series 2021 Bonds”) in the aggregate principal amount of \$316,160,000. The Series 2021 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 BD Bonds and the supplemental resolution authorizing the Series BE Bonds, each adopted as of May 5, 2021 (the general bond resolution and all resolutions supplemental thereto are herein collectively called the “Resolution”). The Series BD Bonds and the Series BE Bonds constitute the fifty-sixth and fifty-seventh series of bonds, respectively, 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 2021 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 2021 Bonds and we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated May 5, 2021, or other offering material relating to the Series 2021 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 2021 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 2021 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 2021 Bonds are not secured by any other property or moneys of the Department.

4. The Series 2021 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 2021 Bonds. The Department has no taxing power.

Sincerely,

Deputy Attorney General

For ROB BONTA
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 BD and BE Bonds on the date of issue thereof.

[Issue Date]

**State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds
Series BD and Series BE (Federally Taxable)**

(Final Opinion)

Ladies and Gentlemen,

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 BD (the “Series BD Bonds”), in the aggregate principal amount of \$217,640,000 and its Central Valley Project Water System Revenue Bonds, Series BE (Federally Taxable) (the “Series BE Bonds”), in the aggregate principal amount of \$316,160,000. The Series BD Bonds and the Series BE 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 BD Bonds and the supplemental resolution authorizing the Series BE Bonds, each adopted as of May 5, 2021 (the general bond resolution and all resolutions supplemental thereto are herein collectively called the “Resolution”). The Series BD Bonds and the Series BE Bonds constitute the fifty-sixth and fifty-seventh series of bonds, respectively, 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 BD 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 original delivery of the Series BD Bonds and the Series BE Bonds on 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 original delivery of the Series BD Bonds and the Series BE Bonds on 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 BD 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 BD 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 BD Bonds and the Series BE 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 the 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 or having the effect of 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 May 5, 2021, or other offering material relating to the Series BD Bonds and the Series BE 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 BD Bonds and the Series BE 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 BD Bonds and the Series BE 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. Neither the Series BD Bonds nor the Series BE Bonds are secured by any other property or moneys of the Department.
4. Neither the principal of nor the interest on the Series BD Bonds or the Series BE 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 BD 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 BD Bonds and the Series BE Bonds is exempt from State of California personal income taxes. Interest on the Series BD Bonds is not a specific preference item for purposes of the federal alternative minimum tax. 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 BD Bonds or the Series BE Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX G

DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) or Clearstream Banking, S.A. (“Clearstream”) (DTC, Euroclear and Clearstream together, the “Clearing Systems”) currently in effect. The information in this Appendix G concerning the Clearing Systems has been obtained from sources that the Department believes to be reliable, but none of the Department, the State Treasurer or the Underwriters take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The Department will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Series BD Bonds or the Series BE Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC. Capitalized terms used but not defined in this Appendix G have the definitions given to such terms in the forepart of this Official Statement.

DTC Book-Entry System. DTC will act as securities depository for the Series BD and BE Bonds. The Series BD and BE 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 BD Bond certificate will be issued for each interest rate borne by Series BD Bonds of a particular maturity, each in the aggregate principal amount of Series BD Bonds applicable to such interest rate, and one fully-registered Series BE Bond certificate will be issued for each interest rate borne by Series BE Bonds of a particular maturity, each in the aggregate principal amount of Series BE Bonds applicable to such interest rate, and , in each case, will be deposited with DTC. If, however, the aggregate principal amount of any such certificate 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 has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants

are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series BD and BE Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series BD Bonds and Series BE Bonds, as applicable, on DTC's records. The ownership interest of each actual purchaser of each Series BD Bond or Series BE Bond ("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 BD and BE 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 the Series BD Bonds or the Series BE Bonds, except in the event that use of the book-entry system for the Series BD Bonds or Series BE Bonds is discontinued.

To facilitate subsequent transfers, all Series BD and BE 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 BD and BE Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series BD and BE Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series BD and BE 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. The Department will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Series BD and BE Bonds. Beneficial Owners of Series BD Bonds and Series BE Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series BD Bonds and Series BE Bonds, as applicable, such as redemptions, tenders, defaults and proposed amendments to the Series BD Bond documents or the Series BE Bond documents, as applicable. For example, Beneficial Owners of Series BD and BE Bonds may wish to ascertain that the nominee holding the Series BD and BE 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series BD Bonds or Series BE Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series BD Bonds or Series BE Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series BD Bonds or Series BE Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Series BD and BE 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 dates 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 nor 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 redemption proceeds, 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 BD Bonds or the Series BE 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 BD Bond certificates and Series BE 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 transfers through DTC (or a successor securities depository). In that event, Series BD Bond certificates and Series BE Bond certificates will be printed and delivered.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES BD BONDS AND/OR THE SERIES BE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC, AS APPLICABLE. 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 BD BONDS AND/OR SERIES BE 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 Series BD Bonds or Series BE Bonds paid or any 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 BD Bonds or Series BE 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 BD and BE Bonds, payment of principal of and interest and other payments with respect to the Series BD and BE Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Series BD and BE 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 BD BONDS AND THE SERIES BE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS, OWNERS OR REGISTERED OWNERS OF THE SERIES BD BONDS AND THE SERIES BE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES BD BONDS AND THE SERIES BE BONDS.

Euroclear and Clearstream. Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures. The Series BE Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Series BE Bonds, the record holder will be DTC's nominee. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a Direct Participant, other than the depository for Clearstream or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between DTC Participants will occur in accordance with DTC rules. Transfers between Clearstream participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal

procedures for same day funds settlement applicable to DTC. Clearstream participants or Euroclear participants may not deliver instructions directly to the depositories.

The Department and the State Treasurer will not impose any fees in respect of holding Series BE Bonds; however, holders of book-entry interests in the Series BE Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in DTC, Euroclear and Clearstream.

Initial Settlement. Interests in the Series BE Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Series BE Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Series BE Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Series BE Bonds against payment (value as on the date of delivery of the Series BE Bonds). Direct Participants acting on behalf of purchasers electing to hold book-entry interests in the Series BE Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. Direct Participants' securities accounts will be credited with book-entry interests in the Series BE Bonds following confirmation of receipt of payment to the Department or the State Treasurer on the date of delivery of the Series BE Bonds.

Secondary Market Trading. Secondary market trades in the Series BE Bonds will be settled by transfer of title to book-entry interests in DTC, Euroclear and Clearstream. Title to such book-entry interests will pass by registration of the transfer within the records of DTC, Euroclear or Clearstream, as the case may be, in accordance with their respective procedures. Book-entry interests in the Series BE Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Book-entry interests in the Series BE Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Transfer of book-entry interests in the Series BE Bonds between DTC, Euroclear or Clearstream may be effected in accordance with procedures established for this purpose by DTC, Euroclear and Clearstream.

Special Timing Considerations. Investors should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Series BE Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Series BE Bonds, or to receive or make a payment or delivery of Series BE Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

General. The Department expects that the Series BE Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The CUSIP numbers for the Series BE Bonds are set out on the inside cover page of this Official Statement.

None of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither the Department nor any of its agents will have any responsibility for the performance by Euroclear Clearstream or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information above concerning the Clearing Systems has been obtained from sources that the Department, the State Treasurer and the Underwriters believe to be reliable, but the Department, the State Treasurer and the Underwriters take no responsibility for the accuracy thereof.

Limitations. For so long as the Series BD Bonds and the Series BE Bonds are registered in the name of DTC or its nominee, Cede & Co., the Department and the State Treasurer will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series BD Bonds and the Series BE Bonds, as applicable, for all purposes, including payments, notices and voting. So long as Cede & Co. is the registered owner of the Series BD Bonds and the Series BE Bonds, references in this Official Statement to registered owners of the Series BD Bonds and the Series BE Bonds, as applicable, shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series BD Bonds or the Series BE Bonds.

Because DTC is treated as the owner of the Series BD Bonds and the Series BE Bonds for substantially all purposes under the Resolution, Beneficial Owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of Beneficial Owners is unknown to the Department, the State Treasurer or DTC, it may be difficult to transmit information of potential interest to Beneficial Owners in an effective and timely manner. Beneficial Owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the Series BD Bonds and the Series BE Bonds that may be transmitted by or through DTC.

Under the Resolution, payments made by the Department or the State Treasurer to DTC or its nominee shall satisfy the Department's obligations under the Resolution to the extent of the payments so made.

Neither the Department nor the State Treasurer have any responsibility or obligation with respect to:

- the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any Beneficial Ownership interest in any Series BD Bonds or Series BE Bonds;
- the delivery to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the State Treasurer, of any notice with respect to any Series BD Bonds or Series BE Bonds including, without limitation, any notice of redemption with respect to any Series BD Bonds or Series BE Bonds;
- the selection by DTC or any Direct Participant or Participant of any person to receive payment in the event of a partial redemption of the Series BD Bonds or the Series BE Bonds;
- the payment to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the State Treasurer, of any amount with respect to the principal of, premium, if any, or interest on, any Series BD Bond or Series BE Bond; or
- any consent given by DTC or its nominee as registered owner.

Prior to any discontinuation of the book-entry only system hereinabove described, the Department and the State Treasurer may treat Cede & Co. (or such other nominee of DTC) as, and deem Cede & Co. (or such other nominee) to be, the absolute registered owner of the Series BD Bonds and Series BE for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the Series BD Bonds and the Series BE Bonds;
- giving notices of redemption and other matters with respect to the Series BD Bonds and the Series BE Bonds;
- registering transfers with respect to the Series BD Bonds and the Series BE Bonds; and
- the selection of Series BD Bonds and Series BE Bonds for redemption.

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APPENDIX H

WATER SYSTEM PROJECTS

Water System Projects consist of the portion of certain State Water Project facilities financed or expected to be financed with Bonds. The Water System Projects are described below. In each case, sources other than Bond Proceeds may have been used to pay certain costs of the facility, particularly those costs allocable to purposes other than water conservation and water transportation.

Capital Expenditures for Water System Projects

The following table summarizes the capital costs financed by Bonds for the Water System Projects described below and sets forth the capital costs expected as of May 5, 2021 to be financed for such projects by the issuance of additional Bonds. The Department has a goal of maintaining level debt service for each new Water System Project.

**ESTIMATED CAPITAL FINANCING FROM
WATER SYSTEM REVENUE BONDS FOR EXISTING WATER SYSTEM PROJECTS
(in Millions)**

Water System Project	Capital Expenditures Series A through BD & BE	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	0.0	0.0
Project Monitor and Control System	71.5	0.0	71.5
SWP Communications System Replacement ⁽⁵⁾	38.4	0.9	39.3
Arroyo Pasajero Program	4.9	0.2	5.1
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	356.5	396.1	752.6
Tehachapi East Afterbay ⁽⁵⁾	70.7	11.3	82.0
Perris Dam Remediation ⁽⁵⁾	135.1	113.5	248.6
Thermalito Powerplant Cleanup and Reconstruction ⁽⁷⁾	266.1	4.0	270.2
Oroville Dam Spillways Response, Recovery and Restoration ⁽⁷⁾	550.9	62.4	613.3
Oroville Dam Safety Comprehensive Needs Assessment ⁽⁷⁾	1.9	13.4	15.3
FERC Relicensing – State Water Project ⁽⁷⁾	34.4	65.6	100.0
Facilities Reconstruction and Improvement Project	750.5	2,294.0	3,044.4
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⁾	38.6	0.8 ⁽⁶⁾	39.4
East Branch Extension – Phase II ⁽⁵⁾	270.5	0.0	270.5
South Bay Aqueduct Enlargement and Improvement ⁽⁵⁾	272.6	1.5	274.1
Total Water System Projects ⁽⁸⁾	\$4,970.6	\$3,005.2	\$7,975.8

- (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. Eide Bailly LLP has neither examined nor compiled such projections and, accordingly, Eide Bailly 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 H to finance capital costs allocated to existing Water System Projects or to Water System Projects defined by supplemental resolutions to be adopted in the future. (See "SECURITY FOR THE BONDS – Outstanding Bonds; Additional Bonds" and "STATE WATER PROJECT WATER SUPPLY – Long-Term Planning Efforts for the Delta – *Water Supply Reliability, Delta Conservation and Infrastructure*".)

Project Descriptions

The following Water System Projects have been fully or substantially 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. The 38-mile Castle Rock-Lakeville 230 kilovolt transmission line provides transmission from the Geysers geothermal area where the Bottle Rock and South Geysers Projects are located. The Department was a co-tenant in this transmission line with Pacific Gas and Electric Company (“PG&E”), the Northern California Power Agency and the City of Santa Clara. The Department terminated its co-tenancy effective August 1, 2019. Additionally, the Department has sold the South Geysers Project and the Bottle Rock Project. Currently, neither project is operational. (See “WATER SYSTEM PROJECTS – Project Descriptions – *Bottle Rock Facilities*” and “*South Geysers Project*.”)

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 groundwater 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 kilovolt transmission line from Banks Pumping Plant to South Bay Pumping Plant began in 2010. Overall project work was completed in 2016.

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 which included new habitat and invasive plan removal, was completed in 2019.

SWP Communications System Replacement. In 2004, the Department began replacing the existing communications system for the State Water Project. The new high-speed communications system equipment was installed at the various area control centers, plants, hydro-sites, and check structures along the aqueduct and at other various operation, administration and headquarters facilities. Access for leased back-up facilities were also upgraded. The equipment installations, system testing, and cutover of all applications statewide were completed in 2019.

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. Overall project work in the program, which is located near the town of Coalinga in Fresno County, California, was completed in 2018. The only items remaining are the transfer of easements to the Bureau and resolution of a legal challenge from local landowners impacted by the Cantua Creek Stream Group.

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. The Solano County Water Agency and the 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. Phase II of this project was expected to begin once the NOD and ROD were filed and would have included the acquisition of the necessary land and right of way, required permits, and the design and construction of this project. The Solano County Water Agency and the Napa County Flood Control and Water Conservation District officially terminated the funding agreement for this project on July 29, 2019.

Oroville Dam Safety Comprehensive Needs Assessment. A Comprehensive Needs Assessment (“CNA”) of the Oroville Dam facilities was completed to identify measures to enhance, as necessary, the safety and reliability of Oroville Dam and the appurtenant structures. The CNA evaluated the needs through completion of the following six task projects (Tasks 1 through 6):

- Task 1 - Evaluate Measures to Enhance Spillway Reliability and Resiliency
- Task 2 - Operations Needs Assessment to Support Development of Measures for Reservoir Flow Enhancements
- Task 3 - Flood Control Outlet (FCO) Enhanced Reliability
- Task 4 - Evaluate Measures for Low-level Outlet Enhancement
- Task 5 - Oroville Dam Embankment Reliability and Improvements
- Task 6 - Instrumentation and Monitoring for the Oroville Dam Complex

The final report with recommendations for future next steps and projects was completed on August 31, 2020. This report combines and prioritizes the recommendations at a project by project level.

Thermalito Powerplant Clean-up and Reconstruction. The project included 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 included completing an assessment

of plant systems to determine equipment disposition, developing a strategic recovery plan with associated costs, and completing a value engineering study to evaluate alternatives associated with the partial or total rebuild of the Thermalito Powerplant. The mechanical refurbishment and reassembly of all four generating units has been completed. The design and construction of new fire protection and life safety improvements has been completed, as well as the design for new electrical, protection, controls, and communication systems. All plant systems have been tested and commissioned. Thermalito Powerplant was returned to full service on September 1, 2020.

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.

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.

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 remained in place as the Department evaluated remediation alternatives, followed by design and construction of the dam remediation project. The dam remediation was substantially completed in late 2017. In early 2018, the reservoir restriction was removed and the reservoir refilled to near its maximum reservoir operating level.

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 Department 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 bridge and outlet works retrofit. In 2019, the Department awarded a contract for the tower bridge retrofit and its construction was completed in 2020. The design of the outlet works retrofit continues, with construction expected to span from 2021 through 2023.

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. The EIR for the Emergency Release Facility (ERF) was released in the fall of 2017. Design for the ERF began in 2018, with construction expected to be completed

in 2025. 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.

Oroville Dam Spillways Response, Recovery and Restoration Project. Projects associated with this program are broken into three distinct phases. Phase 1 is the immediate response phase that includes the emergency protective measures used to stabilize the facility and perform debris removal. As part of the stabilization, projects spanned throughout the Oroville Field Division; repairing downstream facilities, repairing roads, and constructing alternative recreations sites while the Spillway boat ramp was unusable. Phase 2 is the recovery phase that is focused near Oroville Dam, which includes rebuilding the flood control outlet and emergency spillways, re-grading the terrain adjacent to the spillways, and bringing the Spillway boat ramp back into public use. Phase 3 builds on the previous phases, restoring the aesthetic and environmental aspects of the facility through long-term revegetation contracts. Phase 1 is complete and Phase 2 is anticipated to be complete by spring of 2022. Phase 3 design is well underway and is anticipated to start construction following regulatory approval in late 2021, with site rehabilitation and vegetation maintenance extending through at least 2025.

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.”)

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 license is issued by FERC, which is anticipated to occur no earlier than 2022.

(c) Pine Flat Transmission Line

In 1982, the Department built 0.8 miles of high voltage transmission lines (the “Pine Flat Transmission Line”) to transport energy to the grid generated from Pine Flat Power Plant owned by the Kings River Conservation District. This energy is purchased by the Department under a long-term contract with the Kings River Conservation District and used for the State Water Project.

The Department acquired a 50-year license from FERC (Project 2876) for the Pine Flat Transmission line. This license expires August 31, 2029. The expenses related to the initial license were considered part of the original facilities development costs. The Department will now be seeking a new license having a term of 30 to 50 years to replace the original 50-year license.

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. East Branch Extension Phase I pumping capacity was 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 allows 100 percent pumping capacity and consists 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. The Phase II facilities were completed in December 2017. The completion of all final documentation for this project is anticipated to be in the summer of 2021.

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APPENDIX I

LETTERS FROM CERTAIN UNDERWRITERS

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Morgan Stanley

April 22, 2021

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 BD and Series BE (Federally Taxable) (the “Bonds”)

Dear Mr. Fowler:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement.

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Morgan Stanley & Co. LLC

CC: Vinay Behl, State of California Department of Water Resources
Lisa Toms, State of California Department of Water Resources



April 21, 2021

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

CC: Mr. Vinay Behl
Chief Financial Officer
State of California Department of Water Resources
1416 Ninth Street, 8th Floor
Sacramento, CA 95814

Re: State of California Department of Water Resources
Central Valley Water Project Water System Revenue Bonds,
Series 2021 BD and BE (Federally Taxable) ("Bonds")

Dear Sirs:

Academy Securities, Inc., a Co-Managing Underwriter of the Bonds, intends to enter into Third-Party Distribution Agreements with 280 Securities LLC and TD Ameritrade Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Third-Party Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

ACADEMY SECURITIES, INC.



April 20th, 2021

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: California Department of Water Resources Central Valley Project Water System
Revenue Bonds - Distribution Agreement

Dear Mr. Fowler:

Caldwell Sutter Capital, Inc. ("CSC"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Wedbush Inc. ("Wedbush") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, Wedbush may purchase Bonds from CSC at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that Wedbush sells.

Respectfully,

Caldwell Sutter Capital, Inc.

April 16, 2021

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: California Department of Water Resources Central Valley Project Water System
Revenue Bonds, Series BD and Series BE (Federally Taxable) (the "Bonds")

Dear Mr. Fowler:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

J.P. MORGAN SECURITIES LLC

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	500-625	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	138		
South Bay Aqueduct				
South Bay	9	566	330	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	5	382	70	5,400
Crafton Hills	7	613	135	13,500
Citrus	8	665	160	18,000
Cherry Valley	4	75	52	1,000

(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	22,600	930	120	1,320
Frenchman Lake	55,500	1,580	139	720
Lake Davis/ Grizzly Valley Dam	84,400	4,030	132	800
Lake Oroville	3,537,600	15,810	770	6,920
Thermalito Forebay	11,800	630	91	15,900
Thermalito Afterbay	15,000	4,300	39	42,000
Thermalito Diversion Pool	13,400	320	143	1,300
Clifton Court Forebay	31,300	2,180	30	36,500
Bethany	5,100	180	121	3,940
Lake Del Valle	77,100	1,060	235	880
San Luis Reservoir/Sisk Dam	2,027,800	12,520	385	18,600
SWP Storage (b)	1,062,183			
O'Neill Forebay	56,400	2,700	88	14,300
SWP Storage (c)	29,500			
Los Banos	34,600	620	167	1,370
Little Panoche	5,600	190	152	1,440
Quail Lake (d)	7,600	290		
Pyramid Lake	171,200	1,300	400	1,090
Elderberry Forebay	32,500	500	200	1,990
Castaic Lake	323,700	2,240	425	4,900
Silverwood Lake/ Cedar Springs Dam	75,000	980	249	2,230
Lake Perris	131,500	2,320	128	11,600
Crafton Hills (e)			95	500
Citrus Reservoir	560	17		

(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	410-676	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	1,600	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)	66.7
Delta to O'Neill Forebay	105.7
O'Neill Forebay to Kettleman City (joint use)	121.0
Kettleman City to Edmonston Pumping Plant	10.0
Edmonston Pumping Plant to Tehachapi Afterbay	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
- Santa Clarita Valley Water Agency
- Antelope Valley - East Kern Water Agency
- Palmdale Water District
- Littlerock 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



- ### AQUEDUCT
- A** Edmund G. Brown California Aqueduct
 - B** North Bay Aqueduct
 - C** South Bay Aqueduct
 - D** Coastal Branch
 - E** West Branch
 - F** East Branch
 - G** East Branch Extension
 - H** Locally Owned

indicates SWP/CVP joint use



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