
State of California Department of Water Resources



Investor Presentation Relating to \$[699,185,000]* Central Valley Project Water System Revenue Bonds, Series BB and BC

\$[547,890,000]* Series BB (Tax-Exempt)
\$[151,295,000]* Series BC (Federally Taxable)

July 17, 2020



*Preliminary subject to change



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Transaction Summary: Central Valley Project Water System Revenue Bonds, Series BB & Series BC

Series and Size*	<ul style="list-style-type: none"> ■ Series BB (Tax-Exempt): \$[547,890,000]* ■ Series BC (Federally Taxable): \$[151,295,000]*
Ratings	<ul style="list-style-type: none"> ■ Moody's: [Aa1]; S&P: [AAA]
Security	<ul style="list-style-type: none"> ■ Bonds are secured by Revenues derived from Water Supply Contracts with the State Water Project Contractors, which Contracts require payment regardless of water deliveries ■ Water Supply Contracts require that Revenues receivable in each year provide for Water System Operating Expenses and 1.25 times the debt service payable on the Bonds ■ If Revenues are insufficient in any year, the Contractors are required to levy a tax or assessment within their service area to cover their obligation
Use of Proceeds*	<ul style="list-style-type: none"> ■ Series BB: Fund construction of certain Water System Projects; refund a portion of the Department's outstanding commercial paper notes; refund a portion of the Department's outstanding Bonds; fund interest on a portion of the Series BB Bonds through December 1, 2021; fund a deposit to the Debt Service Reserve Account; and pay certain costs of issuance ■ Series BC: Refund certain of the Department's outstanding Water System Revenue Bonds; fund interest on a portion of the Series BB Bonds through December 1, 2021; fund interest on the Series BC Bonds through December 1, 2021; fund a deposit to the Debt Service Reserve Account; and pay certain costs of issuance
Tax Status*	<ul style="list-style-type: none"> ■ Series BB: Tax-Exempt ■ Series BC: Federally Taxable
Structure*	<ul style="list-style-type: none"> ■ Series BB: [Add amortization if included in POS] ■ Series BC: [Add amortization if included in POS]
Optional Redemption*	<ul style="list-style-type: none"> ■ Series BB: 10-Year par call for bonds maturing after 2030 ■ Series BC: MWC for all bonds and 10-year par call for bonds maturing after 2030
Joint Senior Managers	<ul style="list-style-type: none"> ■ Morgan Stanley ■ Jefferies LLC
Co-Senior Manager	<ul style="list-style-type: none"> ■ Cabrera Capital Markets, LLC
Other Transaction Participants	<ul style="list-style-type: none"> ■ Municipal Advisor: Montague DeRose and Associates, LLC ■ Bond Counsel: Orrick, Herrington & Sutcliffe LLP

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California State Water Project is an Essential Project that Supplies Water to Agencies Serving a population of 27 million or 69% of California's Population

- Constructed and operated by the California Department of Water Resources (“DWR”) to convey a supplemental water supply to 29 local water agencies
- Complex set of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities
- 705 miles of aqueducts and pipeline systems

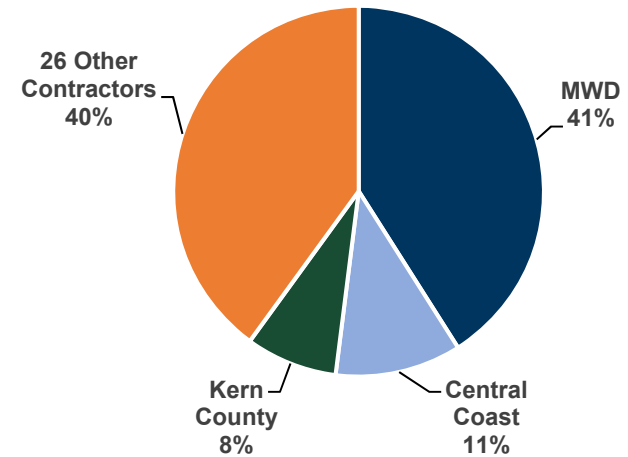




State Water Project Contractors are Highly Rated

- The State Water Project Contractors are comprised of 29 public agency water contractors
 - Principally located in Norther California, Central Coast, Central Valley and Southern California
 - Service area includes a population of 27 million or 69% of California’s population
- Largest Contractor, Metropolitan Water District of Southern California (“MWD”), rated Aa1 / AAA
 - Currently represents ~[41%] of the projected contribution of revenues pledged to secure the Water System Revenue Bonds
- MWD, Santa Barbara County Flood Control and Water Conservation District / Central Coast Water Agency, and Kern County Water Agency currently make up 60% of projected contribution of revenues
- Each Contractor has entered into a Water Supply Contract with DWR

Projected Contributions of Contractors to Water System Revenue Bonds¹ [TBU]



Historical Water Deliveries (Thousand Acre-Feet)²

Contractor	2015	2016	2017	2018	2019
MWD	574	1,084	1,625	680	1,347
Kern County	521	639	1,190	614	981
Antelope Valley-East Kern	14	41	130	72	78
Coachella Valley	38	69	84	139	35
San Bernardino Valley	24	63	78	44	78
Santa Clara Valley	83	107	127	120	105
Other Contractors	245	348	533	378	434
Total Deliveries	1,498	2,352	3,768	2,047	3,058

¹ Source: Selected Contractor Financial Information, Series BB & BC Preliminary Official Statement

² Source: Historical Deliveries of Water from the State Water Project to the Contractors, Series BB & BC Preliminary Official Statement



Overview of Credit and Key Security Provisions

Essential Project	<ul style="list-style-type: none"> State Water Project supplies water to agencies serving a population of 27 million or 69% of Californians and a significant portion of the State's agriculture industry
Contractor Creditworthiness	<ul style="list-style-type: none"> The debt obligations of the largest of the contractors are highly rated, with the Metropolitan Water District of Southern California representing the largest share of payments
Water Supply Contracts	<ul style="list-style-type: none"> Charges under the Water Supply Contracts are required to be sufficient to return the costs of all Water System Projects
Rate Covenant	<ul style="list-style-type: none"> DWR collects O&M costs and 125% of debt service on all Water System Revenue Bonds from Contractors, as required by bond resolution
Step Up Provisions	<ul style="list-style-type: none"> Contractors are also obligated to pay up to an additional 25% of their debt service obligations on Water System Revenue Bonds issued to finance projects under the Water System Revenue Bond Amendment and to support any shortfall in debt service obligation(s) due from other contractors for such Bonds
Ad Valorem Levy	<ul style="list-style-type: none"> Contractors have ad valorem taxing power that can be used to meet obligations to DWR Contractors are obligated to levy if they are unable to meet their obligations from revenues (and certain Contractors currently use their taxing power to service their obligations)
Coverage and True-Up Provisions	<ul style="list-style-type: none"> 25% minimum coverage per Contractor protects against other Contractor default "True-up" mechanisms exist to ensure full cost recovery and to further mitigate default risk
Debt Service Reserve Account	<ul style="list-style-type: none"> Cash funded, 50% Aggregate Maximum Annual Debt Service requirement
Debt Profile	<ul style="list-style-type: none"> Fixed rate debt profile with accelerated debt repayment and no swaps

**Preliminary subject to change*

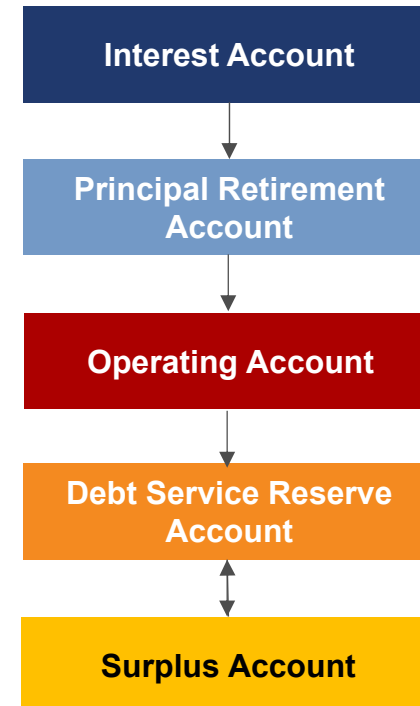


The Water System Revenue Flow of Funds is Straightforward with Priority Given to Bondholders

Description of Accounts

- The portion of each Contractor's payments under Water Supply Contract that is attributable to Revenue Bonds financed projects will be deposited in Revenue Fund
- On or before each debt service payment date, interest and principal is allocated to appropriate Interest and Principal Accounts
- During each year, an amount equal to the amount previously estimated by DWR for Water System Operating Expenses is allocated to the Operating Account
- Monies in Debt Service Reserve Account may be used only to make up any deficiency in Interest or Principal Accounts (in that priority)
- Monies in the Surplus Account are available for any lawful purpose, including transfer to funds not subject to the pledge of the Resolution

Priority of Allocation of Revenues

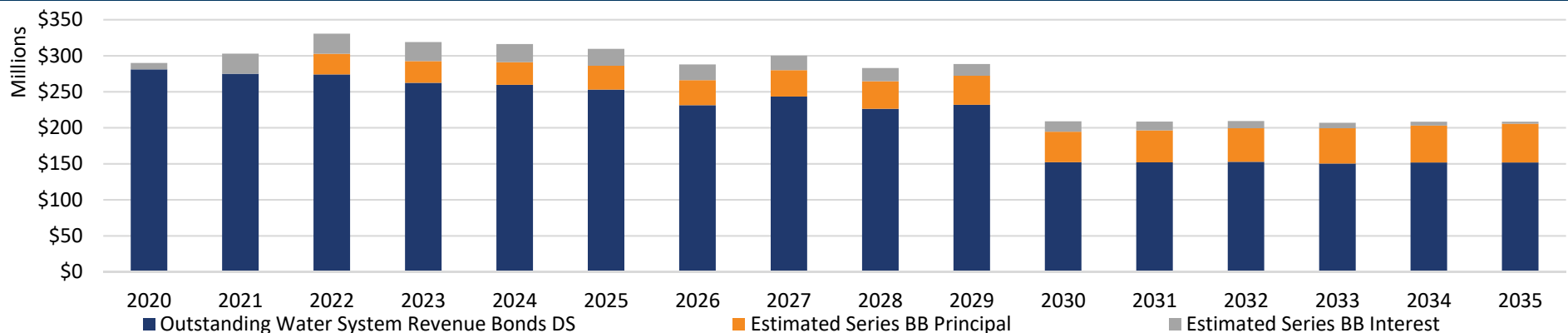




DWR's Water System Debt Management Policy Guides its Debt Portfolio

Debt Portfolio	<ul style="list-style-type: none"> \$2.612 billion in aggregate principal outstanding¹ Frontloaded debt service with 2035 final maturity Majority fixed rate debt with \$258.5 million of outstanding variable rate bonds (9.8% of portfolio) which will be reduced to \$149.2 million after completion of the transaction
Level Debt Service	<ul style="list-style-type: none"> DWR has a goal of maintaining level debt service for each new project
No Derivatives	<ul style="list-style-type: none"> No swaps outstanding
Unrelated Debt	<ul style="list-style-type: none"> DWR's rating is independent of State of California rating DWR Power Bonds are rated separately and paid from a separate fund The Bonds are not secured by the same sources of repayment as, and otherwise bear no material relationship to, bonds to be issued by DWR under The Wildfire Prevention and Recovery Act of 2019
New Money Uses of Proceeds	<ul style="list-style-type: none"> Fund construction of certain Water System Projects Refund a portion of DWR's outstanding Water Revenue Commercial Paper Notes, Series 1
Proposed Refunding	<ul style="list-style-type: none"> A portion of the Series BB Bonds will current refund all of DWR's outstanding Series AU Floating Rate Notes A portion of the Series BC Bonds may advance refund portions of DWR's outstanding Series [] Bonds

Water System Revenue Bonds Annual Debt Service²



Source: Series BB & BC Preliminary Official Statement

1 Existing principal and debt service not reflective of Series BB & BC

2 Does not incorporate Series BC. Any taxable advance refunding associated with Series BC will not increase aggregate debt service in any year and will be done to realize debt service savings. Assumes variable rate Series AT trades at 3%, variable rate Series AU trades at 2.75% through 8/1/2020 payment and is refunded thereafter via Series BB bonds.



DWR Has a Well Managed Plan to Implement Necessary Capital Improvements to the System

- DWR expects to borrow an additional ~\$3.0 billion for existing projects
- DWR has a commercial paper program (total authorized size of \$1.4 billion) that is used to finance Water System Projects prior to subsequent bond financings
- DWR is considering future substantial projects, including a potential tunnel conveyance system, to address environmental issues in the Bay Delta area that will also improve project reliability
- The costs of any conveyance system, if ultimately approved and constructed, could be substantial

Estimated Future Financings from Water System Revenue Bonds

Water System Project	Estimated Future Capital Expenditures (\$M)
Facilities Reconstruction and Improvement Project	\$1,381.9
North Bay Aqueduct Alternate Intake	545.0
Delta Facilities Program	502.1
Oroville Dam Spillways Response, Recovery and Restoration	262.6
Perris Dam Remediation	92.6
FERC Relicensing - State Water Project	74.3
Thermalito Powerplant Cleanup and Reconstruction	32.7
Other ¹	99.9
Total	\$2,991.1

Source: Estimated Capital Financing from Water System Revenue Bonds for Existing Water System Projects, Series BB & BC Preliminary Official Statement

¹ Includes East Branch Enlargement – Phase II; North Bay Aqueduct Improvements – Terminal Tanks; SWP Communications System Replacement; Arroyo Pasaiero Program; Hyatt Pump – Turbine Refurbishment; Edmonston Pump replacement; Tehachapi East Afterbay; Oroville Dam Safety Comprehensive Needs Assessment; Project Planning Costs; East Branch Extension Phase I Improvements; South Bay Aqueduct Enlargement and Improvement



Oroville Dam Repair Update

- While releases from the Oroville Dam were being made to accommodate extraordinary wet weather conditions in early 2017, a section of the main spillway chute was damaged
- Oroville Dam Spillways capital repairs are well underway and on schedule
- The main spillway reconstruction was completed in December 2018
- The Department continues work on restoration activities around the spillway structures. Major construction activities were completed in early 2020 and environmental site rehabilitation and revegetation activities will continue through at least 2024
- Oroville project costs are currently estimated at \$1.1 billion, with up to 75% of costs expected to be reimbursed by the Federal Emergency Management Agency (FEMA)
- As of June 2020, the Department has received approximately \$234 million from FEMA and expects additional reimbursement. Summarized in the adjacent table are the current approximate amounts and status of the costs and FEMA reimbursements for the Oroville Dam spillways restoration efforts:

<u>Costs and FEMA Reimbursements</u>	
Total Costs Incurred to Date:	\$1.1B
Additional Costs Expected (2020 – 2024):	73.2M
FEMA Reimbursements to Date:	234.1M
Expected future FEMA reimbursements (2020-2024):	435.6M
FEMA reimbursements still being sought, negotiated, or appealed:	210.3M
- The costs for the repair and replacement work at Oroville Dam were initially financed with proceeds from DWR's CP program
- The costs which are not reimbursed by FEMA are expected to be financed with long-term bonds (currently estimated at \$284.8 million) that are expected to be paid by the Contractors under the Water Supply Contracts



Potential Effects of COVID-19

Conform to new version
of POS when available

- Department is assessing and monitoring the impact of COVID-19 on the finances and operations of the Department and the Contractors
- Department is utilizing financial tools to mitigate COVID-19/recessionary pressures, including pre-funding of future capital expenditures to bolster financial flexibility
- Careful attention is being paid to factors that may affect the Contractors' finances and their ability to make payments under the Water Supply Contracts:
 - Changes in aggregate levels of retail water use and water demand
 - Declines in assessed valuation or increases in property tax delinquencies or non-payment
 - Changes to Contractor billing and collection procedures
- Contractor payments to the Department have not been impacted to date
- Department operations have also not been significantly impacted by COVID-19:
 - Identified critical activities and staff to ensure the continued reliable and safe operation of the SWP
 - Implemented robust health and safety plans for staff and construction workforce
- Department has not experienced significant construction delays due to COVID-19 but is actively monitoring for disruptions in manufacturing and construction industries
- The COVID-19 outbreak may directly negatively affect DWR as a protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation of, DWR's State Water Project facilities and may increase the costs of such projects or DWR's operations



Conclusion

- The State Water Project is an essential project that provides water to 69% of Californians and supports our State's large agriculture industry
- The proposed taxable refunding reduces fixed rate interest cost, and decreases DWR's overall debt obligations
- To date, COVID-19 has not materially impacted the Department's operations, but long-term ramifications of the pandemic are uncertain
- DWR's Water Supply Contracts require Contractors to pay full debt service, an obligation not conditioned on the amount of water delivered
- Payments on the Bonds are supported by a rate covenant that requires payments of O&M expenses plus 1.25 times debt service, as well as step-up provisions
- If operating revenues do not meet debt service requirements, Contractors must levy a tax or assessment
- The debt obligations of the largest of the contractors are highly rated, contributing to the Water System Revenue Bonds' ratings of [Aa1]/[AAA] (Moody's / S&P)



Transaction Schedule*

Date	Event
Friday, July 17	Post POS / Investor Presentation
Tuesday, July 28	Series BB: Retail Order Period Series BC: Indications of Interest
Wednesday, July 29	Institutional Order Period
Thursday, August 6	Closing

**Preliminary subject to change*



Contact Information

State Treasurer's Office

Investor Relations
Phone: 1-800-900-3873
Email: investorrelations@treasurer.ca.gov

Buy California Bonds
www.buycaliforniabonds.com

Municipal Advisor

Montague DeRose and Associates, LLC
Doug Montague
Phone: 805-496-2211
Email: montague@montaguederose.com

Natalie Perkins
Phone: 925-357-9153
Email: perkins@montaguederose.com

State of California Department of Water Resources

Vinay Behl
Phone: 916-653-9836
Email: vinay.behl@water.ca.gov

Lisa Toms
Phone: 916-653-6148
Email: lisa.toms@water.ca.gov

Joint Senior Managers

Morgan Stanley
John Sheldon
Phone: 415-576-2083
Email: john.sheldon@morganstanley.com

Jefferies LLC
Simon Wirecki
Phone: 310-575-5251
Email: swirecki@jefferies.com