

**NEW ISSUE - BOOK-ENTRY ONLY**

**RATINGS:**  
**Moody's: "Aa2"**  
**Standard & Poor's: "AAA"**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Authority ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the 2015 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.*

**\$27,810,000**

**ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY  
WATER SYSTEM REVENUE BONDS, SERIES 2015**



**Dated: Date of Delivery**

**Due: June 1, as shown on inside cover**

The Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2015 (the "2015 Bonds"), will be issued pursuant to a Trust Agreement, dated as of March 1, 2015 (the "Trust Agreement"), by and between the Alameda County Water District Financing Authority (the "Authority") and U.S. Bank National Association, as Trustee (the "Trustee"). The 2015 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the 2015 Bonds is payable semiannually on June 1 and December 1, commencing June 1, 2015.

The 2015 Bonds will be issued as fully registered bonds and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2015 Bonds. Individual purchases of the 2015 Bonds will be made in book-entry form only.

The 2015 Bonds are being issued by the Authority to provide funds to (i) finance the design, acquisition and construction of improvements to the Alameda County Water District's Water System (as defined herein), and (ii) pay the costs of issuing the 2015 Bonds.

The 2015 Bonds are secured by a pledge of Authority Revenues, consisting of installment payments (the "2015 Installment Payments") and other payments paid by the Alameda County Water District (the "Water District") and received by the Authority pursuant to a 2015 Installment Purchase Contract, dated as of March 1, 2015, by and between the Authority and the Water District, and all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement (other than the Rebate Fund), and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund). The Water District has previously incurred obligations and may issue or incur obligations payable from Net Revenues on a parity with the 2015 Installment Payments, subject to the terms and conditions of the 2015 Installment Purchase Contract, as more fully described herein. See "SECURITY FOR THE 2015 BONDS – Parity Obligations." and "- Execution of Subordinate Obligations" herein.

The 2015 Bonds are subject to optional redemption and mandatory sinking fund redemption as described herein.

**THE 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM AUTHORITY REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE TRUST AGREEMENT.**

**THE OBLIGATION OF THE WATER DISTRICT TO MAKE THE 2015 INSTALLMENT PAYMENTS IS A LIMITED OBLIGATION OF THE WATER DISTRICT PAYABLE SOLELY FROM A PLEDGE OF NET REVENUES, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE WATER DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT THEREOF.**

**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2015 BONDS.**

*The 2015 Bonds are offered when, as and if issued by the Authority and accepted by the initial purchaser, subject to the legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Water District, and certain other conditions. Certain legal matters will be passed upon for the Authority and the Water District by Hanson Bridgett LLP. It is expected that the 2015 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about March 17, 2015.*

## MATURITY SCHEDULE

### \$15,725,000 Serial Bonds

<i>Maturity (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP<sup>†</sup></i>
2016	\$455,000	5.00%	0.25%	105.713	01112CAZ9
2017	480,000	5.00	0.50	109.857	01112CBA3
2018	500,000	5.00	0.90	112.924	01112CBB1
2019	525,000	5.00	1.05	116.207	01112CBC9
2020	555,000	5.00	1.23	118.951	01112CBD7
2021	580,000	5.00	1.42	121.191	01112CBE5
2022	610,000	5.00	1.65	122.668	01112CBF2
2023	640,000	5.00	1.82	124.134	01112CBG0
2024	675,000	5.00	1.96	125.488	01112CBH8
2025	705,000	5.00	2.07	126.827	01112CBJ4
2026	740,000	4.00	2.35	114.891*	01112CBK1
2027	770,000	4.00	2.50	113.434*	01112CBL9
2028	800,000	4.00	2.64	112.094*	01112CBM7
2029	835,000	4.00	2.74	111.148*	01112CBN5
2030	870,000	4.00	2.82	110.398*	01112CBP0
2031	900,000	4.00	2.90	109.653*	01112CBQ8
2032	940,000	4.00	2.95	109.191*	01112CBR6
2033	975,000	4.00	3.02	108.548*	01112CBS4
2034	1,015,000	4.00	3.07	108.091*	01112CBT2
2035	1,055,000	4.00	3.15	107.365*	01112CBU9
2036	1,100,000	4.00	3.20	106.914*	01112CBV7

**\$3,560,000 4.00% Term Bonds due June 1, 2039 - Yield: 3.34%; Price: 105.664\* CUSIP No. 01112CBW5<sup>†</sup>**

**\$4,010,000 4.00% Term Bonds due June 1, 2042 - Yield: 3.37%; Price: 105.398\* CUSIP No. 01112CBX3<sup>†</sup>**

**\$4,515,000 4.00% Term Bonds due June 1, 2045 - Yield: 3.40%; Price: 105.133\* CUSIP No. 01112CBY1<sup>†</sup>**

\* Priced to par call on June 1, 2025.

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<sup>†</sup> Copyright 2015, American Bankers Association. CUSIP data herein is provided by the CUSIP Global Services (CGS), managed on behalf of the American Bankers Association by S&P Capital IQ. This data is not intended to create a database and does not serve in any way as a substitute for the CGS Database. CUSIP numbers are provided for reference only. The Authority, the Water District and the initial Purchaser do not assume any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Water District to provide any information or to make any representations in connection with the offering or sale of the 2015 Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Water District. 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 2015 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 to be construed as a contract with the purchasers of the 2015 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. This Official Statement is submitted in connection with the sale of the 2015 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority and the Water District.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the initial purchaser, the Authority, or the Water District. The information and expression of opinion 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 Authority or the Water District since the date hereof.

**THE 2015 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2015 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

IN CONNECTION WITH THE OFFERING OF THE 2015 BONDS, THE INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015 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 INITIAL PURCHASER MAY OFFER AND SELL THE 2015 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE INITIAL PURCHASER.

The initial purchaser has provided the following for inclusion in the Official Statement in connection with the offering of the 2015 Bonds: The initial purchaser has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under the federal securities laws, as applied to the facts and circumstances of this transaction, but the initial purchaser does not guarantee the accuracy or completeness of such information.

#### **FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements, involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or

implied by such forward- looking statements. No assurance is given that actual results will meet the forecasts of the Authority or the Water District in any way, regardless of the level of optimism communicated in the information. The Authority and the Water District are not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. Such forward-looking statements include, but are not limited to, the Projected Operating Results of the Water District in Table 9 herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY AND THE WATER DISTRICT DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

**ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY**

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**BOARD OF DIRECTORS**

Martin L. Koller, President  
Judy C. Huang, Vice President  
James G. Gunther, Director  
Paul Sethy, Director  
John H. Weed, Director  
Jennifer Toy (Member from Union Sanitary District)

**WATER DISTRICT OFFICERS AND STAFF**

Robert T. Shaver, General Manager  
Shelley Burgett, Manager of Finance  
Edward H. Stevenson, Manager of Engineering and Technical Services  
Steven D. Inn, Manager of Water Resources Services  
Steve Peterson, Manager of Operations and Maintenance  
Michael D. Yee, Budget and Financial Analysis Manager

**PROFESSIONAL SERVICES**

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Sacramento, California

**WATER DISTRICT COUNSEL**

Hanson Bridgett LLP  
San Francisco, California

**FINANCIAL ADVISOR**

Montague DeRose and Associates, LLC  
Walnut Creek, California

**TRUSTEE**

U.S. Bank National Association  
San Francisco, California

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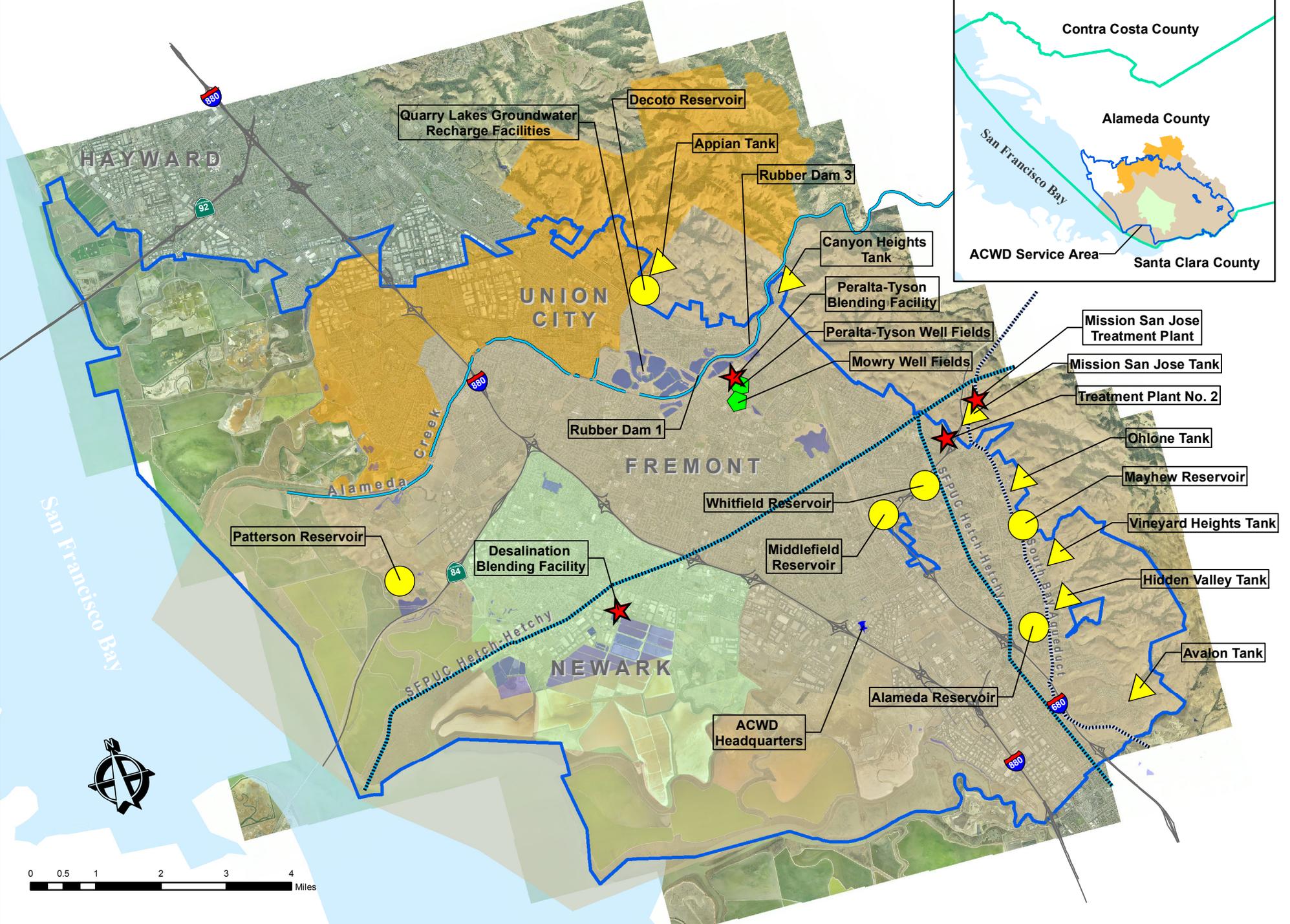
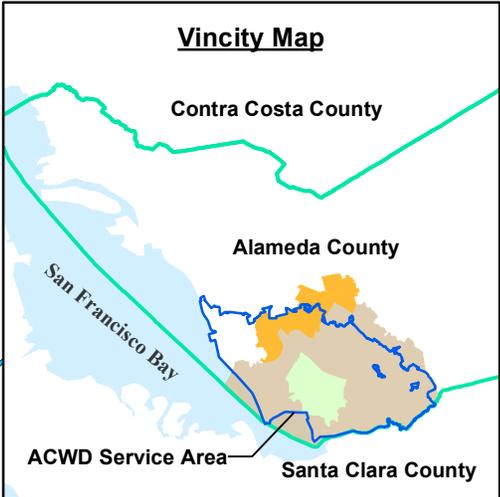
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# Alameda County Water District & Major Facilities



## OFFICIAL STATEMENT

**\$27,810,000**

### **ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY WATER SYSTEM REVENUE BONDS, SERIES 2015**

#### INTRODUCTION

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering of Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2015 (the “2015 Bonds”), in the aggregate principal amount of \$27,810,000. Certain capitalized terms used herein are defined in “APPENDIX A-SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The 2015 Bonds are secured by a pledge of Authority Revenues, consisting of installment payments to be made by the Alameda County Water District (the “Water District”), pursuant to the 2015 Installment Purchase Contract, dated as of March 1, 2015 (the “2015 Installment Purchase Contract”), by and between the Water District and the Alameda County Water District Financing Authority, a joint exercise of powers agency (the “Authority”), and all interest and or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement, dated as of March 1, 2015 (the “Trust Agreement”), by and between the Authority and U.S. Bank National Association, as Trustee (the “Trustee”) (except the Rebate Fund), and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund). The Authority is a joint exercise of powers authority organized under the laws of the State of California (the “State”) and composed of the Water District and Union Sanitary District, a public sanitary district duly organized and existing under and pursuant to the Sanitary District Act of 1923 (“USD”).

The 2015 Installment Purchase Contract is being executed and delivered to (i) finance the design, acquisition and construction of various components of the Water District’s Water System, and (ii) to pay the costs of issuing the 2015 Bonds. See “FINANCING PLAN” herein. The Trust Agreement defines “Water System” as all facilities for the pumping, storage, transmission and treatment of water now owned by the Water District and all other properties, structures or works hereafter acquired and constructed by the Water District and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

The 2015 Bonds are being issued pursuant to the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) (the “Act”) and the Trust Agreement. Pursuant to the Trust Agreement, the Authority will assign to the Trustee, for the benefit of the registered owners of the 2015 Bonds, all its rights to receive the payments of principal and interest payable by the Water District under the 2015 Installment Purchase Contract (the “2015 Installment Payments”) and certain other rights and interests of the Authority in the 2015 Installment Purchase Contract. The Authority shall not have any obligation or liability to the Bond owners with respect to the Water District’s performance of its obligations under the 2015 Installment Purchase Contract.

**The 2015 Bonds are limited obligations of the Authority and are payable solely from Authority Revenues and the other assets pledged therefor under the Trust Agreement. The obligation of the Water District to make the 2015 Installment Payments is a limited obligation payable solely from a pledge of Net Revenues (as defined below), and neither the full faith and credit nor the taxing power of the Water District, the State of California or any of its political subdivisions is pledged for the payment thereof.**

## **The Authority**

The Authority was created by a Joint Exercise of Powers Agreement, dated as of November 14, 2011, and amended as of January 20, 2015, between USD and the Water District. The agreement was entered into pursuant to the provisions of Articles 1, 2 and 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Authority is empowered to assist in financing projects and certain public improvements, such as the design, acquisition and construction of additions, betterments and improvements to the Water System. Under the Act, the Authority has the power to issue revenue bonds to assist in the financing of public capital improvements.

## **The Water District**

The Water District is a special district formed under California law. The Water District is located in southern Alameda County along the southeastern shore of San Francisco Bay in the State. It includes the cities of Fremont, Newark and Union City, and serves a population of approximately 340,000 as of June 2014. The Water District provides water service and manages the Niles Cone Groundwater Basin in its service area.

## **Sources of Payment for the 2015 Bonds**

*Trust Agreement.* The payment of principal of and interest on the 2015 Bonds is secured solely by a pledge of the Authority Revenues, consisting of mainly 2015 Installment Payments and other payments paid by the Water District and received by the Authority pursuant to the 2015 Installment Purchase Contract. The obligation of the Water District to make the 2015 Installment Payments is a limited obligation of the Water District payable solely from a Pledge of Net Revenues. "Net Revenues" means, for any period, an amount equal to all of the Revenues (as hereinafter defined) received by the Water District during such period less the amount of Maintenance and Operation Costs becoming payable during such period. See "SECURITY FOR THE 2015 BONDS - Net Revenues; Pledge of Net Revenues."

*Rate Covenant.* In the 2015 Installment Purchase Contract, the Water District has covenanted that it will fix, prescribe and collect rates, fees and charges for the services and facilities furnished by the Water District's Water System during each fiscal year, which are at least sufficient to yield in each fiscal year Net Revenues equal to 125 percent of the Debt Service for such fiscal year. See "SECURITY FOR THE 2015 BONDS - Rate Covenant."

*Parity Obligations.* The 2015 Installment Purchase Contract provides that additional installment purchase contracts and bonds payable from Net Revenues may be issued or incurred on a parity with the 2015 Installment Payments provided that certain conditions are met. (Such additional installment purchase contracts or bonds payable from Net Revenues on a parity with the 2015 Installment Payments are referred to as "Parity Obligations.") The Water District previously executed and delivered (i) \$26,340,000 of 2009 Water System Refunding Revenue Bonds (the "2009 Bonds") and (ii) \$45,240,000 of 2012 Water System Refunding Revenue Bonds (the "2012 Bonds"). The 2009 Bonds are payable pursuant to an Indenture between the Water District and the Trustee, dated as of October 1, 2009 (the "2009 Indenture") and the 2012 Bonds are payable from installment payments to be made by the Water District pursuant to an Installment Purchase Agreement between the Water District and the Authority, dated as of January 24, 2012 (the "2012 Installment Purchase Agreement" and, together with the 2009 Bonds, the "Prior Parity Obligations"). The 2015 Installment Purchase Agreement, when issued, will be secured by a pledge of Net Revenues on a parity with the Water District's obligation to make payments with respect to the Prior Parity Obligations. There are currently \$15,445,000 in outstanding 2009 Bonds and \$44,750,000 in outstanding 2012 Bonds. See "SECURITY FOR THE 2015 BONDS - Parity Obligations."

## **Continuing Disclosure**

The Water District has covenanted, on behalf of itself and the Authority, for the benefit of owners of the 2015 Bonds to provide certain financial information and operating data relating to the Water District by not later than seven months after the end of the Water District's fiscal year (which is currently June 30) in each year commencing with the report for the Fiscal Year 2014-15 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will all be filed with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the initial purchasers in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the Water District is set forth in APPENDIX C - "Form of Continuing Disclosure Certificate."

The Water District entered into undertakings to provide annual reports, and to provide notice of certain events, in connection with the issuance of the 2009 Bonds and the 2012 Bonds. The Water District has prepared annual reports pursuant to such undertakings each of the last five years, and provided the annual reports to the Dissemination Agent for the 2009 Bonds and the 2012 Bonds in a timely manner. However, on one occasion the Dissemination Agent filed the annual report with the Municipal Securities Rulemaking Board three days late and on another occasion the Dissemination Agent filed the annual report with the Municipal Securities Rulemaking Board 21 days late. In addition, certain information in the annual reports was presented in a different format than specified in the undertakings.

## **Summaries Not Definitive**

Brief descriptions of the 2015 Bonds, the security for the 2015 Bonds and the Water District are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions. All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Manager of Finance of the Water District.

## **THE 2015 BONDS**

### **General**

The 2015 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on June 1 in the years and in the amounts set forth on the cover page hereof. Interest on the 2015 Bonds is payable from their dated date at the rates set forth on the cover page hereof, on June 1 and December 1 of each year, commencing June 1, 2015.

The 2015 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC," and, together with any successor securities depository, the "Securities Depository"). DTC will act as Securities Depository for the 2015 Bonds so purchased. Individual purchases will be made only in book-entry form. Purchasers will not receive physical certificates representing their beneficial ownership interest in the 2015 Bonds. So long as the 2015 Bonds are registered in the name of Cede & Co., payment of the principal of, premium, if any, and interest on the 2015 Bonds will be payable to DTC or its nominee. DTC in turn will remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners. See "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

THE 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE, AS TO INTEREST THEREON, PRINCIPAL THEREOF AND ANY PREMIUMS UPON

THE REDEMPTION OF ANY THEREOF, SOLELY FROM THE AUTHORITY REVENUES (AS DEFINED IN THE TRUST AGREEMENT), AND THE AUTHORITY IS NOT OBLIGATED TO PAY THE INTEREST OR PREMIUM, IF ANY, ON AND PRINCIPAL OF THE 2015 BONDS EXCEPT FROM AUTHORITY REVENUES. THE AUTHORITY HAS NO TAXING POWER AND THE FULL FAITH AND CREDIT OF THE WATER DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE 2015 BONDS. NO TAX SHALL EVER BE LEVIED OR COLLECTED TO PAY THE INTEREST ON OR PRINCIPAL OF THE 2015 BONDS. THIS BOND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE OR LIEN UPON ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS EXCEPT THE AUTHORITY REVENUES.

**Redemption**

*Optional Redemption.* The 2015 Bonds are subject to optional redemption prior to their respective stated maturities at the direction of the Authority, from moneys deposited by the Authority or the Water District from any source of available funds, in whole on any date, or in part (in such maturities as are designated by the Authority at the direction of the Water District) on any date on or after June 1, 2025, at a redemption price equal to 100 percent of the principal amount of Bonds called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

*Mandatory Sinking Fund Redemption.* The Term Bonds maturing on June 1, 2039 are subject to redemption prior to their respective stated maturities, on any June 1 on or after June 1, 2037, in part, by lot, from mandatory sinking account payments at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption date, without premium, as set forth below.

Sinking Fund Redemption Date (June 1)	Principal Amount
2037	\$1,140,000
2038	1,185,000
2039*	1,235,000

\*Final Maturity

The Term Bonds maturing on June 1, 2042 are subject to redemption prior to their respective stated maturities, on any June 1 on or after June 1, 2040, in part, by lot, from mandatory sinking account payments at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption date, without premium, as set forth below.

Sinking Fund Redemption Date (June 1)	Principal Amount
2040	\$1,285,000
2041	1,335,000
2042*	1,390,000

\*Final Maturity

The Term Bonds maturing on June 1, 2045 are subject to redemption prior to their respective stated maturities, on any June 1 on or after June 1, 2043, in part, by lot, from mandatory sinking account payments at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption date, without premium, as set forth below.

Sinking Fund Redemption Date (June 1)	Principal Amount
2043	\$1,445,000
2044	1,505,000
2045*	1,565,000

\*Final Maturity

*Partial Redemption of the 2015 Bonds.* If less than all Outstanding Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the 2015 Bonds and maturity date to be redeemed in any manner that it deems appropriate and fair and shall promptly notify the Authority in writing of the numbers of such Bonds so selected for redemption. For purposes of such selection, Bonds shall be deemed to be composed of \$5,000 multiples and any such multiple may be separately redeemed.

### **Notice, Rescission and Effect of Redemption**

*Notice of Redemption.* Notice of redemption is required to be mailed by first-class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Holders of the 2015 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services is required to be given by registered mail, overnight delivery, electronic mail or facsimile transmission. Each notice of redemption is required to state the date of such notice, the Series being redeemed, the redemption price, if any (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the 2015 Bonds of such maturity to be redeemed and, in the case of 2015 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice is also required to state that on said date there will become due and payable on each of said 2015 Bonds to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and require that the 2015 Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

So long as the 2015 Bonds are held in book-entry only form, notice of redemption will be mailed by the Trustee only to DTC and not to the Beneficial Owners of Bonds under the DTC book-entry only system. Neither the Authority nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

Neither the failure to receive any such notice of redemption nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the redemption date. Neither the Authority nor the Trustee shall have any responsibility for any defect in CUSIP numbers which appears on any Bond or in any redemption notice with respect thereto.

*Conditional Notice of Optional Redemption.* Any notice of optional redemption of the 2015 Bonds may be conditional and if any condition stated in the notice of redemption is not satisfied on or prior to the redemption date, said notice will be of no force and effect and the Authority (at the direction of the Water District) will not redeem such 2015 Bonds. The Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

*Right to Rescind Redemption.* The Authority (at the direction of the Water District) has the right to rescind any redemption by written notice of rescission. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the 2015 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Trust Agreement. The Trustee will mail notice of rescission of such redemption in the same manner as the original notice of redemption was sent.

*Effect of Redemption.* If notice of redemption is given as provided in the Trust Agreement and money for the payment of the redemption price of the 2015 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice the 2015 Bonds so called for redemption will become due and payable, and from and after such redemption date interest on such Bonds will cease to accrue, and the Holders of such Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

## FINANCING PLAN

A portion of the proceeds of the 2015 Bonds will be used to finance capital projects related to improving seismic reliability, replacing aging infrastructure, improving water supply reliability through improving water quality and production reliability (collectively, the “2015 Water Projects”).

### ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the 2015 Bonds are as follows:

**SOURCES:**

Principal Amount of the 2015 Bonds	\$27,810,000.00
Plus Original Issue Premium	2,741,289.65
<b>TOTAL:</b>	<b>\$30,551,289.65</b>

**USES:**

2015 Acquisition Fund <sup>(1)</sup>	\$30,000,000.00
Underwriter’s Discount	312,910.28
Costs of Issuance <sup>(2)</sup>	238,379.37
<b>TOTAL:</b>	<b>\$30,551,289.65</b>

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<sup>(1)</sup> Pursuant to the Trust Agreement, the 2015 Acquisition Fund will be established and held by the Water District. Amounts in the 2015 Acquisition Fund are not pledged pursuant to the Trust Agreement.

<sup>(2)</sup> Includes legal fees, financial advisory fees, rating fees, printing expenses and other costs relating to the execution and delivery of the 2015 Bonds.

## DEBT SERVICE REQUIREMENTS

Annual debt service on the 2009 Bonds, 2012 Bonds and 2015 Bonds is presented below.

<i>Period Ending (June 1)</i>	<i>2009 and 2012 Bonds Principal</i>	<i>2009 and 2012 Bonds Interest</i>	<i>2015 Bonds Principal</i>	<i>2015 Bonds Interest</i>	<i>Total Debt Service</i>
2015	\$2,650,000	\$2,109,006		\$240,428	\$4,999,434
2016	2,720,000	2,036,481	\$455,000	1,169,650	6,381,131
2017	2,800,000	1,959,506	480,000	1,146,900	6,386,406
2018	2,880,000	1,870,381	500,000	1,122,900	6,373,281
2019	2,980,000	1,768,056	525,000	1,097,900	6,370,956
2020	3,080,000	1,670,756	555,000	1,071,650	6,377,406
2021	2,335,000	1,570,381	580,000	1,043,900	5,529,281
2022	2,400,000	1,453,631	610,000	1,014,900	5,478,531
2023	2,465,000	1,333,631	640,000	984,400	5,423,031
2024	2,545,000	1,210,381	675,000	952,400	5,382,781
2025	2,635,000	1,108,581	705,000	918,650	5,367,231
2026	2,725,000	1,003,181	740,000	883,400	5,351,581
2027	2,815,000	921,431	770,000	853,800	5,360,231
2028	2,910,000	836,981	800,000	823,000	5,369,981
2029	1,385,000	749,681	835,000	791,000	3,760,681
2030	1,430,000	708,131	870,000	757,600	3,765,731
2031	1,475,000	665,231	900,000	722,800	3,763,031
2032	1,520,000	619,138	940,000	686,800	3,765,938
2033	1,575,000	571,638	975,000	649,200	3,770,838
2034	1,635,000	520,450	1,015,000	610,200	3,780,650
2035	1,690,000	463,225	1,055,000	569,600	3,777,825
2036	1,755,000	404,075	1,100,000	527,400	3,786,475
2037	1,815,000	342,650	1,140,000	483,400	3,781,050
2038	1,885,000	279,125	1,185,000	437,800	3,786,925
2039	1,955,000	213,150	1,235,000	390,400	3,793,550
2040	2,030,000	144,725	1,285,000	341,000	3,800,725
2041	2,105,000	73,675	1,335,000	289,600	3,803,275
2042			1,390,000	236,200	1,626,200
2043			1,445,000	180,600	1,625,600
2044			1,505,000	122,800	1,627,800
2045			1,565,000	62,600	1,627,600
Total	\$60,195,000	\$26,607,281	\$27,810,000	\$21,182,878	\$135,795,159

Totals may not add due to rounding.

## SECURITY FOR THE 2015 BONDS

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in APPENDIX A- SUMMARY OF PRINCIPAL LEGAL DOCUMENTS- Certain Definitions.

### General

The 2015 Bonds are secured by a pledge of Authority Revenues, consisting of the 2015 Installment Payments and other payments paid by the Water District and received by the Authority pursuant to the 2015 Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement (other than the Rebate

Fund), and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund).

**The 2015 Bonds are limited obligations of the Authority and are payable solely from Authority Revenues and the other assets pledged therefor under the Trust Agreement. The obligation of the Water District to make the 2015 Installment Payments is a limited obligation of the Water District payable solely from a pledge of Net Revenues, and neither the full faith and credit nor the taxing power of the Water District, the State of California or any of its political subdivisions is pledged for the payment thereof.**

### **Pledge of Revenues**

“Authority Revenues” is defined in the Trust Agreement to mean all 2015 Installment Payments and other payments paid by the Water District and received by the Authority pursuant to the 2015 Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement (other than the Rebate Fund).

All Authority Revenues and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the 2015 Bonds as provided in the Trust Agreement, and the Authority Revenues are not permitted to be used for any other purpose while any of the 2015 Bonds remain Outstanding. The pledge of Authority Revenues under the Trust Agreement constitutes a first pledge of and charge and lien upon the Authority Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the 2015 Bonds in accordance with the terms of the Trust Agreement.

### **Deposit of Authority Revenues; Funds and Accounts**

Under the Trust Agreement, all Authority Revenues are required to be deposited in the Authority Revenue Fund and all money in the Authority Revenue Fund is required to be disbursed, allocated, and applied by the Trustee solely for the uses and purposes set forth in the Trust Agreement.

*Allocation of Authority Revenues.* The Trustee is required under the Trust Agreement to set aside the moneys in the Authority Revenue Fund in the following respective accounts or funds in the following order of priority:

First:	Interest Account
Second:	Principal Account

*Interest Account.* On or before each June 1 and December 1, commencing June 1, 2015, the Trustee is required to set aside from the Authority Revenue Fund and deposit in the Interest Account that amount of money that is equal to the amount of interest coming due and payable on all Outstanding 2015 Bonds on such June 1 or December 1.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all 2015 Bonds on such interest payment date.

All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2015 Bonds as it becomes due and payable (including accrued interest on any 2015 Bonds purchased or redeemed prior to maturity).

*Principal Account.* On each June 1, the Trustee is required to set aside from the Authority Revenue Fund and deposit in the Principal Account an amount of money equal to the principal amount of all Outstanding Serial Bonds maturing or becoming subject to mandatory sinking account redemption on such June 1.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding 2015 Bonds maturing or becoming subject to mandatory sinking account redemption by their terms on such June 1.

All money in the Principal Account is required to be used and withdrawn by the Trustee solely for the purpose of paying the principal of the 2015 Bonds as it becomes due and payable, whether at maturity or redemption.

No debt service reserve fund to secure the 2015 Bonds is created under the Trust Agreement.

### **2015 Installment Payments**

Pursuant to the 2015 Installment Purchase Contract, the Water District is obligated to make 2015 Installment Payments, solely from Net Revenues, the combined totals of which 2015 Installment Payments equal the principal of and interest on the 2015 Bonds. The obligation of the Water District to pay such 2015 Installment Payments is absolute and unconditional, and until such time as the 2015 Installment Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2015 Installment Purchase Contract, the Water District will not discontinue or suspend any 2015 Installment Payments required to be paid by it under the 2015 Installment Purchase Contract required to be paid when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset, abatement or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever. The obligation of the Water District to make the 2015 Installment Payments is not subject to annual appropriation by the Water District.

The obligation of the Water District to make the 2015 Installment Payments pursuant to the 2015 Installment Purchase Contract is a limited obligation of the Water District payable solely from a pledge of Net Revenues, and neither the full faith and credit nor the taxing power of the Water District, the State of California or any of its political subdivisions is pledged for the payment of the 2015 Installment Payments.

### **Net Revenues**

*Pledge of Net Revenues.* Under the 2015 Installment Purchase Contract, all Net Revenues are irrevocably pledged to the payment on a parity of the 2015 Installment Payments and all other Installment Payments and Bonds, and the Net Revenues shall not be used for any other purpose while any of the 2015 Installment Payments remain unpaid; provided, that out of the Net Revenues there may be apportioned such sums for such purposes as described below. The pledge under the 2015 Installment Purchase Contract constitutes a first lien on the Net Revenues for the payment of the 2015 Installment Payments and all other Installment Purchase Contracts and Bonds in accordance with the terms of the 2015 Installment Purchase Contract, and the 2015 Installment Payments shall be secured by and payable on a parity with all such payments.

“Net Revenues” are defined in the 2015 Installment Purchase Contract as, for any designated period, the Revenues during such period, less the Maintenance and Operation Costs during such period.

“Revenues” are defined in the 2015 Installment Purchase Contract as all gross income and revenue received or receivable by the Water District from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, charges and connection fees received by the Water District for water and the other services of the Water System and all proceeds of insurance covering business interruption loss relating to the Water System and all other income and revenue howsoever derived by the Water District from the ownership or operation of the Water System, but excluding all proceeds of taxes and all refundable deposits made to establish credit and advances or contributions in aid of construction.

“Maintenance and Operation Costs” are defined in the 2015 Installment Purchase Contract as the reasonable and necessary costs paid or incurred by the Water District for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased for the Water System (except those costs paid from taxes), and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the Water District or charges required to be paid by it to comply with the terms of the 2015 Installment Purchase Contract and of any resolution authorizing the execution of any Installment Purchase Contract or of such Installment Purchase Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or Bonds and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

*Allocation of Revenues.* In order to carry out and effectuate the pledge and lien of Net Revenues, the Water District agrees and covenants in the 2015 Installment Purchase Contract that all Revenues shall be received by the Water District in trust under the 2015 Installment Purchase Contract and shall be deposited when and as received in the Water District Revenue Fund, which fund the Water District agrees and covenants to continue to maintain in the treasury of the Water District so long as any 2015 Installment Payments remain unpaid, and all money in the Water District Revenue Fund shall be applied and used as provided in the 2015 Installment Purchase Contract. The Water District is obligated under the 2015 Installment Purchase Contract to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Water District Revenue Fund as they become due and payable, and all remaining money in the Water District Revenue Fund shall be set aside by the Water District at the following times in the Authority Revenue Fund (to be held by the Trustee, and which is established under the 2015 Installment Purchase Contract and which the Water District agrees and covenants to maintain so long as any 2015 Installment Payments remain unpaid).

On or before the fifth (5th) Business Day before June 1 and December 1 of each year, beginning on June 1, 2015, the Water District shall, from the money in the Water District Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of all other Debt Service) for deposit in the Authority Revenue Fund a sum equal to the amount of the interest installment becoming due under the 2015 Installment Purchase Contract on the next succeeding June 1 or December 1, as the case may be, and on or before the fifth (5th) Business Day before June 1 of each year, beginning on June 1, 2015, the Water District shall, from the money in the Water District Revenue Fund, transfer to the Trustee (on a parity with the transfers for the payment of all other Debt Service) for deposit in the Authority Revenue Fund a sum equal to the amount of the principal installment becoming due under the 2015 Installment Purchase Contract on the next succeeding June 1.

No transfer to and deposit in the Authority Revenue Fund need be made if the amount available and contained therein is at least equal to the amount of the interest installment becoming due under the 2015 Installment Purchase Contract on the next succeeding June 1 or December 1, as the case may be, plus (in the case of deposits required to be made on or before the fifth (5th) Business Day before each June 1) the amount of the principal installment becoming due hereunder on the next succeeding June 1.

All remaining money in the Water District Revenue Fund, after the foregoing deposits have been made, may be withdrawn from the Revenue Fund and deposited by the Water District in such fund as it may determine for expenditure for any lawful purpose of the Water District.

### **Rate Covenant**

The Water District covenants under the 2015 Installment Purchase Contract that it will fix, prescribe and collect charges, fees and rates for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield, during each Fiscal Year, Net Revenues equal to one hundred twenty-five per cent (125%) of the Debt Service for such Fiscal Year. The Water District may make adjustments from time to time in such charges, fees and rates and may make such classification thereof as it deems necessary, but shall not reduce the charges, fees and rates then in effect unless the Net Revenues from such reduced charges, fees and rates will at all times be sufficient to meet the requirements described in this section. If for any Fiscal Year the Water District does not meet the rate covenant, the Water District covenants under the 2015 Installment Purchase Contract to engage an Independent Engineer to recommend revised charges, fees and rates, and the Water District will, to the extent practicable and subject to applicable requirements and restrictions imposed by law and subject to a good faith determination by the Water District that such recommendations, in whole or in part, are in the best interests of the Water District, implement such revised charges, fees and rates so as to produce the necessary Net Revenues.

### **Parity Obligations**

The 2015 Installment Purchase Contract provides that the Water District will not incur any obligations payable from the Net Revenues superior to the payment of the 2015 Installment Payments, although the Water District may at any time execute any Installment Purchase Contract or issue any water revenue bonds ("Bonds"), as the case may be, to finance or refinance any Project the Debt Service on which Installment Purchase Contract or Bonds are payable on a parity with the payment by the Water District of the 2015 Installment Payments from the Net Revenues, provided that the following conditions are met:

(a) The Net Revenues for the most recently audited fiscal year preceding the date of the adoption by the Board of Directors of the resolution authorizing the execution of such Installment Purchase Contract or the issuance of such Bonds, as the case may be (including adjustments to give effect to increases or decreases in charges, fees or rates for the use of the Water System approved and in effect as of the date of calculation), calculated (with respect to fees) on the basis of the average annual connection fees, annexation fees and other one-time fees received by the Water District during the immediately preceding three audited fiscal year period, as evidenced by both a calculation prepared by the Water District and a special report prepared by an Independent Certified Public Accountant on such calculation on file with the Water District, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such fiscal year on all then outstanding Installment Purchase Contracts and Bonds; and

(b) The estimated Net Revenues for the first fiscal year after the latest date of operation of any uncompleted Project (or the period for which interest is capitalized, whichever is longer), as evidenced by a calculation prepared by an Independent Engineer on file with the Water District, plus

(after giving effect to the completion of all uncompleted Projects) an allowance for estimated Revenues for such fiscal year arising from any increase in the charges, fees or rates estimated to be fixed and prescribed for the use of the Water System in an amount equal to ninety percent (90%) of the amount by which such Revenues would have been increased if such increase had been in effect during such fiscal year (as similarly evidenced), shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for such fiscal year; after giving effect, in either case, to the execution of all Installment Purchase Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects, assuming that all such Installment Purchase Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Installment Purchase Contract last executed or then being executed or the Parity last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects; and

(c) The Project to be acquired and constructed with the proceeds of such Installment Purchase Contract or such Bonds, as the case may be, is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted Projects) Water System for such fiscal year from the fiscal year in which such Installment Purchase Contract is executed or such Bonds are issued, as the case may be, to and including the first complete fiscal year after the latest date of operation of any uncompleted Project are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by an Engineer's Report (prepared at the time of the execution of the initial Installment Purchase Contract or the issuance of the initial Bonds, as the case may be, for the purpose of acquiring and constructing the Project) on file with the Water District;

provided, that notwithstanding the foregoing conditions, any Installment Purchase Contract may be executed and delivered and any Bonds may be issued without regard to such conditions if the Debt Service in each fiscal year after the execution and delivery of any such Installment Purchase Contract or the issuance of any such Bonds, as the case may be, is not increased by reason of the execution and delivery of such Installment Purchase Contract or the issuance of such Bonds; and provided further, that notwithstanding the foregoing conditions, no such Installment Purchase Contract shall be executed and delivered nor such Bonds shall be issued if an Event of Default shall have occurred and shall be then continuing.

Upon issuance of the 2015 Bonds, the 2015 Installment Payments will be payable from Net Revenues on a parity with the Water District's obligation to make payments with respect to the Prior Parity Obligations.

### **Execution of Subordinate Obligations**

Pursuant to the 2015 Installment Agreement, the Water District may at any time, or from time to time, issue evidences of indebtedness for any lawful purpose which are payable from and secured by a pledge of and lien on any Net Revenues then remaining in the Water District Revenue Fund as provided in the 2015 Installment Agreement so long as such pledge and lien shall be subordinate in all respects to the pledge of and lien on the Net Revenues provided herein.

### **Eminent Domain Proceeds**

The 2015 Installment Purchase Contract provides that if all or any part of the Water System is taken by eminent domain proceedings, then if: (1) the Water District obtains and files with the Trustee an Engineer's Report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the Water District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and

constructed by the Water District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the Water District, on the basis of such Engineer's Report, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the Water District to meet its obligations under the 2015 Installment Purchase Contract will not be substantially impaired (which determination shall be final and conclusive), then the Water District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such Engineer's Report and such Net Proceeds shall be applied as set forth in a Written Request of the Water District for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the Water District for such purpose shall be deposited in the Water District Revenue Fund.

## **Insurance**

The Water District covenants in the 2015 Installment Purchase Contract to procure and maintain insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in from reputable insurance companies. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement promptly after such damage or destruction shall occur, and the Water District shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens.

The Water District further covenants in the 2015 Installment Purchase Contract to procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Owners, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with water systems similar to the Water System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System.

## **DISTRICT AND WATER SYSTEM INFORMATION**

### **Background**

In 1914, the Alameda County Water District became the first agency formed under the State's County Water District Law (California Water Code Sections 30000 et seq.). The Water District was formed originally to halt the exportation of water from the local groundwater basin and to conserve the water of Alameda Creek. It is responsible for the groundwater supply underlying the cities of Fremont, Newark and Union City in southern Alameda County.

Since 1930, the Water District has also been a water distribution agency. From purchase of a small distribution system in Alvarado (now a part of Union City), the Water District has expanded to serve almost all of the area covering the cities of Fremont, Newark and Union City. The Water District produces, stores, treats and distributes water for a population of 340,000 people in southern Alameda County. The Water District covers approximately 100 square miles and as of June 2014 had over 81,000 customer accounts. For Fiscal Year 2013-14, average daily demand was approximately 41.7 millions of gallons per day ("mgd") and peak demand was approximately 63 mgd (July 2013).

## **District Facilities and Infrastructure; Capital Improvement Planning**

The Water District includes four water production facilities, as described below:

The Mission San Jose Water Treatment Plant (“MSJWTP”) produces up to 4.0 mgd. The MSJWTP was placed on-line in 1975 using conventional water treatment processes but underwent major treatment process upgrades in 2004 and currently utilizes ultrafiltration as a major component of the water treatment process.

The Water Treatment Plant 2 (“WTP2”) produces up to 26 mgd. WTP2, which like the MSJWTP receives water from the South Bay Aqueduct of the State Water Project, began operation in 1993 and utilizes pre-ozonation and biologically-active filtration as major components of the water treatment process.

The Newark Desalination Facility (“NDF”) produces up to 12.5 mgd. The NDF is one of the first water plants in northern California using reverse osmosis membranes to remove salts from brackish water. The NDF not only helps restore saline-intruded portions of the Niles Cone groundwater basin but also turns a previously untapped local resource into high quality potable supply. Placed into service in 2003, the production capacity of the facility was increased to its current maximum capacity of 12.5 mgd in a 2009 expansion.

The Blending Facility produces up to 45 mgd. Placed into service in 1992, the Blending Facility enables more uniform water quality and moderation of groundwater hardness from the Water District’s Peralta-Tyson and Mowry Wellfields, comprised of eight wells each. The quality of blended water is comparable in hardness to the Water District’s treated surface water, which is achieved by combining the higher hardness water from wells with the very low hardness water purchased from the San Francisco Hetch Hetchy Regional Water System, owned and operated by the City and County of San Francisco

The Water District has approximately 901 miles of pipes in its distribution system (not including “service lines” which bring water from the distribution pipes to particular residential or commercial locations), of which more than half are older than forty years.

Much of the Water District's water infrastructure is aging and susceptible to damage as a result of ground shaking and ground failure due to earthquakes. Accordingly, the Water District has embarked on a Main Replacement and Seismic Upgrade Program (“MRSUP”) which will (1) improve the overall seismic reliability of the Water District's distribution system by strategically making improvements in areas of potential seismic induced- earth movement, (2) improve fire flows in the older portions of the service area that are currently served by mains that do not meet current standards, and (3) improve the seismic reliability of its distribution storage and production facilities. As part of the MRSUP, the Water District, in Fiscal Year 2013-14, seismically retrofitted 6 of 15 large diameter pipelines planned for seismic strengthening along 8.5 miles of the Hayward Fault; replaced approximately 4,500 feet of pipeline to improve flows and ensure better fire protection in one of the older residential areas of Fremont; replaced the existing roof of a 4.3 million gallon water storage reservoir to meet current seismic codes and increase the likelihood the reservoir can remain operational after an earthquake; and completed the installation of a backup power system at the Blending Facility.

The Water District also improved the reliability of distribution storage by replacing the existing roof on the Mayhew Reservoir. Mayhew Reservoir is one of the Water District's upper zone storage facilities and has a capacity of 4.3 million gallons. The new roof is designed to compensate for movement in a seismic event.

The Water District utilizes three main comprehensive long range integrated planning tools: the Integrated Resources Plan (“IRP”), Capital Improvement Program (“CIP”) and the Financial Planning Model (“FPM”). The IRP process evaluates a wide range of water supply and water conservation options as well as land use projections in the Water District's service area to develop the Water District's long range water supply strategy necessary to meet projected demands. The CIP includes project schedules and projected costs for production facilities and other projects identified in the IRP needed to support and maintain water supply and system reliability, public health and water quality, and environmental compliance over a 25-year planning horizon.

## **District Board Members**

The Water District is governed by five directors elected to four-year terms by the voters. Brief biographies of each director and principal members of the Water District staff are set forth below.

**Mr. Martin L. Koller** is the current Board President and has served since 2000. Professional/occupational history: Electrician in the U.S. Navy from 1968 to 1972; served as a quality assurance staff member at a nuclear power plant in Minnesota from 1972 to 1974; and retired after 33 years of service as a Utility Mechanic/Operator with the Union Sanitary District. Past volunteer service as Post-Commander of California Veterans of Foreign Wars Post 7636; past member, State Committee for POW MIA program; past President of Fremont Jaycees; and past President of Fremont Pathfinders.

**Ms. Judy C. Huang** is the current Vice President and has served since 2002. Professional/occupational history: Registered Professional Engineer in California; Water Resource Control Engineer from 1993 to 1997 and Associate Water Resource Control Engineer from 1997 to 2006 with the California Regional Water Quality Control Board, San Francisco Bay Region; and Environmental Engineer/Project Manager for the U.S. Environmental Protection Authority from 2006 to the present.

Ms. Huang has a Bachelor of Science degree in Chemical Engineering from the University of California, Berkeley.

**Mr. James G. Gunther** Mr. James G. Gunther has served since 1995. Professional/occupational history: Formerly a registered Professional Engineer in the State of Maryland and formerly a registered Environmental Assessor in the State of California. Holds a Hazardous Materials Management Certificate; 12 years of experience as a U.S. Coast Guard officer/engineer; formerly a facility supervisor with an environmental cleanup and emergency response firm; currently a conductor supervisor for Transit America Services, Inc. for the Caltrain System; has served as an active member of the Association of California Water Agencies since 1995 and was previously a volunteer with the Fremont Fire Department.

Mr. Gunther has a Bachelor of Science degree in Ocean Engineering from the U.S. Coast Guard Academy.

**Mr. Martin L. Koller** has served since 2000. Professional/occupational history: Electrician in the U.S. Navy from 1968 to 1972; served as a quality assurance staff member at a nuclear power plant in Minnesota from 1972 to 1974; and retired after 33 years of service as a Utility Mechanic/Operator with the Union Sanitary District. Past volunteer service as Post-Commander of California Veterans of Foreign Wars Post 7636; past member, State Committee for POW MIA program; past President of Fremont Jaycees; and past President of Fremont Pathfinders.

**Mr. Paul Sethy** was first elected to the ACWD board in November 2010, and re-elected in November 2014. He served as Vice-President of the board in 2012-13, and President of the Board in

2013-14. He has served four years on the Water District's Finance Committee, the last three as Chair, and will continue in that role in 2015.

Professional/occupational history: Chairman and Chief Executive Officer; Founder in 1999 of AirPrime, Inc., raising a total of \$82 million in venture capital financing. The company eventually grew into a leading manufacturer of cellular modems for personal computer, smartphone, and industrial applications and was later acquired by Sierra Wireless, a NASDAQ listed company; at AirPrime, introduced the world's first internet-enabled smartphone which was retailed by both Sprint and Verizon; 35 year veteran of Silicon Valley's high technology industry working in various management positions for corporate leaders Verbatim, Xerox, 3Com, VeriFone and Hewlett-Packard, as well as for several startup companies; written numerous articles for industry trade publications and co-author of the book, *The Wireless Industry*; served as the subject of a PBS program, *The Wireless Future*, which aired on 200 television stations internationally during 2001 and 2002; current Vice-President of the Fremont Cultural Arts Council and Board member of the Washington Township Historical Society.

Mr. Sethy attended the University of California, Berkeley, School of Letters and Sciences.

**Mr. John H. Weed** has served since 1995. Professional/occupational history: Attorney/Property Development. Military experience as an Explosive Ordnance Disposal Officer and Engineering Officer in the United States Air Force Reserve, consulted with the United States Air Force on water utility installations worldwide, retired in 2000 with the rank of Colonel. Previously employed as an Engineer Technician with the Santa Clara Valley Water District and Special Assistant to Division Manager of Ordinance Engineering Division, FMC Corporation. Currently serves on the Board of Directors of the Bay Area Water Supply and Conservation Authority. He has been an appointed member of the Alameda County Assessment Appeals Board since 2010. An active member of the California State Bar. Former member of the Board of Directors of the Association of California Water Agencies (ACWA) from 2005 to 2009 and currently a Member of the ACWA Region 5 Council. Served as an elected Trustee of the Ohlone Community College District from 1977 to 2010.

Mr. Weed has a Bachelor of Science degree in Civil Engineering from the University of Santa Clara and a Master of Business Administration degree in Finance from Eastern New Mexico University; has conducted doctoral level graduate studies in Water Resource Administration at the University of Arizona; and has a Juris Doctor from the University of Santa Clara.

## **District Staff**

**Mr. Robert T. Shaver, General Manager**, has been with the Water District since 1991. Mr. Shaver has performed a broad range of technical and managerial activities, mostly in the public sector, for over 29 years. Prior to assuming the role of General Manager in December 2014, Mr. Shaver was the Water District's Assistant General Manager and the Engineering Manager for a combined period of 10 years. As General Manager, Mr. Shaver currently serves as the chief executive with responsibility for implementing the policy direction and decisions of the Board of Directors and through subordinate managers, all engineering, planning, design and construction activities, as well as the administrative, operational and financial affairs of the Water District.

Mr. Shaver has a Bachelor of Science degree in Civil Engineering from Virginia Tech and a certificate in Business Administration from the University of California, Berkeley, and is a registered professional engineer in California. He currently serves on the Board of California Urban Water Agencies and the Executive Committee of CalDesal and is also a member of several public-service, technical and water industry organizations, including Rotary International, the American Society of Civil Engineers, the Association of California Water Agencies, and the American Water Works Association.

**Mr. Steve Peterson, Manager of Operations and Maintenance**, has been with the Water District for 28 years and has been the manager of the Operations and Maintenance Department since 2009. Prior to that, he held multiple division level managerial positions including the Water Production Manager and the Project Engineering Manager responsible for the Water District's Capital Improvement Program. Before joining the Water District, Mr. Peterson worked 11 years for Guy F. Atkinson Construction Company from South San Francisco, California. He is a member of the American Water Works Association and the American Society of Civil Engineers.

Mr. Peterson holds a B.S. in Civil Engineering from the University of Washington and is a licensed civil engineer in the State of California.

**Ms. Shelley Burgett, Manager of Finance**, joined the Water District in September 2010. Previously, Ms. Burgett served as the Treasurer/Controller and Auditor/Controller at water and electric utilities in Washington State. She has a diverse background and experience in all aspects of financial management along with rate design, customer service management, and meter reading management. She is a member of the Government Finance Officers Association and California Municipal Treasurers Association.

Ms. Burgett has a Bachelor of Science degree in Economics/Mathematics from Western Washington University and a Master of Science degree in Management from Antioch University. She is a certified public accountant licensed in Washington State.

**Mr. Edward H. Stevenson, Manager of Engineering and Technical Services**, joined the Water District in 1998 and has over 18 years of public sector experience in water quality, water supply, capital projects, water distribution planning and design, development services and customer service. His areas of responsibility include management of the Water District's Capital Improvement Program, as well as development services and information technology functions.

Mr. Stevenson has a Bachelor of Science degree in Civil Engineering from San Jose State University and a certificate in Special District Leadership and Management from the Special District and Local Government Institute. He is a registered professional engineer in California and a member of several technical and water industry organizations, including the American Water Works Association, and the Bay Area Water Works Association.

**Mr. Steven D. Inn, Manager of Water Resources**, has been with the Water District for 26 years and was recently appointed as the Manager of Water Resources. Prior to this appointment, he was responsible for supervising and managing the Groundwater Resources Division of the Engineering Department for over 22 years. Before joining the Water District, Mr. Inn was with the California Regional Water Quality Control Board – San Francisco Bay Region as a Water Resources Control Engineer from 1986 to 1988. Prior to the Regional Board, he worked as a Utilities Engineer at the California Public Utilities Commission from 1980 to 1985. He is a member of the Groundwater Resources Association of California.

Mr. Inn has a Bachelor of Science degree in Chemical Engineering from the University of California, Berkeley. Mr. Inn is a registered professional engineer in the State of California.

**Mr. Michael D. Yee, Budget and Financial Analysis Manager**, joined the Water District in June 1993. Previously, Mr. Yee was with Pacific Gas & Electric as an Engineer Economist from 1992 to 1993. Prior to PG&E, he worked as a Project Manager at AT&T from 1991 to 1992. From 1981 to 1989, Mr. Yee was a consulting electrical engineer in both the private and public sector. He is a member of the Government Finance Officers Association, the California Municipal Treasurers Association, the

California Society of Municipal Finance Officers and the National Association of Government Defined Contribution Administrators.

Mr. Yee has a Bachelor of Science degree in Electrical Engineering & Computer Sciences from the University of California, Berkeley, and a Master of Business Administration degree in Finance from California State University, Hayward. Mr. Yee is a registered professional engineer in the State of California. He has also been published in the American Water Works Association Journal.

### **District Employees**

As of July 1, 2014, the Water District has an authorized staff of 239 full-time employees of which 103 are management, confidential and professional (“MCP”) employees. The Water District’s non-MCP employees are currently represented by two labor organizations:

- Operating Engineers Local No. 3 of the AFL-CIO, represents 136 of the Water District’s employees in the Finance, Operations, Engineering, and Administration Services departments with wages, benefits, and conditions of employment are covered by a memorandum of understanding with Operating Engineers Local No. 3.
- Effective September 2014, 20 of the non-MCP employees have formed the Alameda County Water District Operators Association and have commenced contract discussions.

### **Water Supply**

The Water District’s fiscal year 2013-14 water production was approximately 46,500 acre-feet. Water is typically provided from the following sources:

- the Niles Cone Groundwater Basin, consisting of fresh groundwater produced from 16 wells in the Peralta-Tyson and Mowry wellfields plus brackish water produced from 6 wells that supply the NDF;
- surface water from the Sacramento-San Joaquin Delta and supply (when available) from Lake Del Valle watershed delivered via the State Water Project (“SWP”) which is then treated at either the MSJWTP or WTP2; and
- water purchased from the San Francisco Public Utility Commission’s (“SFPUC”) Hetch Hetchy Regional Water System.

The amount of water available from these sources is variable in any given year due to hydrologic conditions and other factors. Assuming locally high levels of precipitation and full delivery of imported water supplies, these sources can theoretically provide over 125,000 acre-feet in a given year. As described below under “California Drought and Response,” the current drought has resulted in increased reliance on conservation and water purchases from the SFPUC, as the availability of water from the SWP has decreased.

The Water District’s contract with the State provides that in the event of a shortage in supply due to drought, the Department of Water Resources (“DWR”) will reduce deliveries from the SWP to its contractors in proportion to their maximum contractual amounts. See “State Water Project” below for further details.

The Water District’s contract with the City and County of San Francisco (“San Francisco”) provides for a division in supply between the wholesale customers, collectively, and San Francisco,

in the event of a shortage of supply in the Hetch Hetchy Regional Water System. In the event of a shortage of up to 20%, the wholesale customers will receive between 62.5% and 64.5% of the total water available, depending on the severity of the shortage. See “San Francisco Hetch Hetchy Regional Water System” below for further details.

Supply agreements with both DWR and San Francisco permit these suppliers to increase the unit charges for water. The cost of water purchased from DWR is determined by formula based on capital and operating expenses. Water is purchased from San Francisco in accordance with a wholesale rate schedule as adjusted annually by the SFPUC, in accordance with cost allocation rules contained in the water supply agreement with its wholesale customers, such as the Water District.

The following table shows the acre-feet of water from each of the Water District’s sources during the last five fiscal years:

**TABLE 1  
WATER SUPPLY BY SOURCE  
(Acre-Feet)**

	<u>Groundwater</u>	<u>Desalination</u>	<u>SWP</u>	<u>SFPUC</u>	<u>Total*</u>
2010	15,224	1,045	18,975	11,678	46,923
2011	12,084	6,585	19,826	8,750	47,244
2012	10,432	8,885	19,562	9,277	48,155
2013	8,895	8,049	21,704	10,006	48,655
2014	8,299	8,393	16,835	13,012	46,539

\*Totals may not add due to rounding.

Source: Alameda County Water District

### **San Francisco Hetch Hetchy Regional Water System**

The Water District has a 25-year contract with San Francisco that runs through 2034 and provides up to 15,300 acre feet per year (13.76 mgd) from the San Francisco Hetch Hetchy Regional Water System. The supply is derived predominantly from runoff and melted snowpack collected in Hetch Hetchy Reservoir located within Yosemite National Park in the Sierra Nevada mountain range. It is seasonally supplemented by treated water produced from SFPUC lands and facilities within the Alameda Creek watershed. This water does not require further treatment by the Water District to meet potable water requirements. The Water District is one of 26 wholesale customers that have collectively contracted with San Francisco for up to 184 mgd on an annual average basis, but the supply can be, and has been, reduced at San Francisco’s discretion in times of drought.

The water purchased from the San Francisco Regional Water System has proven to be the Water District’s most reliable imported supply. However, it is also the most expensive source of supply because of the high capital, operations and maintenance costs associated with extensive water supply works virtually spanning the breadth of California. After three dry years that have necessitated the reduction in water consumption and has resulted in reduced revenue, San Francisco announced in January of 2015 that actions will be required to increase the unit cost of water for wholesale customers by a projected 17.7% to 31.3% by July 1, 2015.

The Water District is a member of the Bay Area Water Supply and Conservation Agency (“BAWSCA”) which represents the interests of 24 cities and water districts, and two private utilities that purchase water wholesale from the San Francisco Regional Water System. In February 2013, BAWSCA issued bonds in the amount of \$335.8 million to raise the funds necessary to prepay capital commitments

owed to San Francisco by BAWSCA member agencies thereby realizing a present value savings of approximately \$62.3 million over all member agencies. For the Water District, this translates into an annual net savings of purchased water cost in excess of \$200,000. BAWSCA issued revenue bonds are secured by a surcharge on BAWSCA member agencies. San Francisco collects the surcharge and sends the amount to BAWSCA for payment to bond holders. The surcharge will be in place for the term of the bonds which end in 2034. The surcharge is listed on the San Francisco wholesale water bill and is accounted for by the Water District as water purchases expense. The Water District's annual bond surcharge is estimated to be approximately \$2.5 million based on all member agencies actual wholesale water use in fiscal year ended June 30, 2014. The annual surcharge for each agency will be based on the actual wholesale water purchase percentage from the last full year for which data is available with an annual reconciliation based on the actual water purchased.

### **State Water Project; State Water Project Tax Revenues**

On November 29, 1961, the Water District entered into a water supply contract with DWR for a water supply from the State Water Project (the "State Water Project Contract"), under which the Water District has agreed to make payments which include, among other charges, capital charges and operation and maintenance charges. Under the State Water Project Contract, in any year the Water District fails or is unable to raise sufficient funds by other means, the Water District is required to levy upon all property in the Water District not exempt from taxation a tax sufficient to provide for all payments thereunder then due or to become due within such year.

Although the State Water Project Contract was not required to be, and was not, submitted for approval by voters in the Water District, relevant current case law (*Goodman v. County of Riverside*, 140 Cal. App. 3d 900, 190 Cal. Rptr. 7 (Cal. App. 4th Dist. (1983)) (the "Goodman Case") has held that similar State Water Project contracts not approved by the voters are nevertheless deemed to be voter approved indebtedness for purposes of Article XIII A of the California Constitution (Proposition 13). The Goodman Case held that, when the voters approved the Burns-Porter Act in 1960 (which authorized the construction and financing of the State Water Project), they intended that the cost to finance construction, operation, maintenance and replacement of the State Water Project would be paid by local agencies through their water contracts, which in turn could be paid through local property taxes.

Based on current case law, the Water District has historically levied, and expects to continue to levy, property taxes to pay amounts due under the State Water Project Contract. The Authority has covenanted in the Indenture to comply with the provision of the State Water Project Contract which requires the levying of property taxes to the extent necessary. Table 7 shows the amount of the taxes levied for payment of State Water Project costs the last five years. In accordance with the 2015 Installment Purchase Contract, taxes imposed by the Water District for the payment of SWP costs do not constitute "Revenues" and are not pledged for the payment of the 2015 Installment Purchase Payments. SWP costs paid from such taxes do not constitute Maintenance and Operation Costs.

The majority of the water supply from the SWP enters the Water District's distribution system after surface water treatment at the MSJWTP and WTP2. The remainder of the Water District's State allotment is diverted to Alameda Creek, destined for Water District groundwater recharge facilities, or can be delivered for storage in the Semitropic Water Bank described below. The Water District has a contract with the State for a maximum annual amount of 42,000 acre feet ("Table A amount"). However, not all of the SWP planned facilities to provide the full project reliability have been constructed by the State, so the State is left with reduced delivery capability under certain conditions.

Environmental-related regulations and court rulings have resulted in new Delta export pumping constraints which have further reduced the SWP delivery reliability. As such, the amount the State will be

able to deliver to the Water District and its other customers in the future depends on several physical, environmental, and political factors beyond the control of the Water District.

In addition, as a result of the current drought, deliveries of SWP water to the Water District have been significantly curtailed. DWR announced on January 31, 2014, a zero allocation of State Water Project entitlements for the first time in its 54-year history. Although the allocation was subsequently raised to 5%, this water was not available before September 1, 2014, after the typically high summer demand season. (The current SWP allocation for 2015 is 15%.)

Recognizing the need to increase long-term water supply reliability, in 1996 the Water District entered into a water banking agreement with the Semitropic Water Storage District to enable the storage of wet year surpluses of State Water Project water for subsequent dry year use. This agreement provided for 50,000 acre-feet of storage capacity at the Semitropic Groundwater Banking Program. In 2001, the Water District acquired an additional 100,000 acre-feet of additional storage capacity at the Semitropic Groundwater Banking Program by purchasing a portion of the entitlement owned by the Vidler Water Company, Inc. Under both of the Water District's agreements with Semitropic, farmers in the Semitropic Water Storage District use surplus water from the Water District's SWP supplies in lieu of pumping from Semitropic's groundwater basin during water surplus years. During dry years, the Water District is entitled to withdraw water previously stored in the Semitropic water "bank." The Water District's water banking contracts run through 2035. The operating costs of the Water District's participation in the water banking project are accounted for in the Water District's audits under "water purchases."

As of the end of December 2014, the Water District had approximately 124,000 acre-feet of water stored in the Semitropic water bank. The contractual maximum storage volume available to the Water District is 150,000 acre-feet. Since 1996, the Water District has stored 160,480 acre-feet of water, and withdrawn more than 36,400 acre-feet. The Water District's withdrawals have occurred during locally dry periods: the first such dry period since the beginning of the Water District's banking program in 1996 occurred from 2007 to 2009. During that period, the Water District returned 18,053 acre-feet of previously banked water from Semitropic to supplement groundwater recharge and to supply the Water Treatment Plants. In 2008, more than 40% of the water used to supply the Water Treatment Plants was water recovered from the Semitropic water bank.

In the most recent dry period which began in 2013, the Water District recovered more than 18,300 acre feet of previously banked water from Semitropic by the end of December 2014. The recovery of this banked supply bolstered groundwater recharge and provided a reliable supply of water when the State Water Project announced significant cutbacks. In 2014, when the State Water Project allocation was a record low 5%, recovered water from the Semitropic Water Bank was pivotal to ensuring the sufficiency of supply to the Water District's treatment plants during the high demand summer season.

### **Local Runoff**

Runoff from the Alameda Creek watershed provides the primary source of recharge to the Niles Cone Groundwater Basin. The Alameda Creek watershed is an area roughly 42 miles long and 15 miles wide, stretching from about nine miles north of Highway 580 to a line about 12 miles into Santa Clara County and encompassing over 630 square miles.

Average rainfall in the watershed is approximately 20 inches per year. Runoff from much of the southern region is collected in the Calaveras and San Antonio reservoirs and is part of the San Francisco Regional Water System. Runoff from much of the southeastern portion is collected in Del Valle Reservoir, to which the Water District and Zone 7 Water Authority equally share the right to store water. The remainder of Lake Del Valle storage is allotted to DWR. Stored water from Del Valle Reservoir can be delivered through the South Bay Aqueduct.

A continuous flow record has been kept for Alameda Creek since 1892 at the stream gauging station located about 1.2 miles above Niles. Average annual flow at this station is about 89,000 acre-feet per year.

### **California Drought and Response**

The State is currently experiencing a severe drought. Due to these record-dry conditions, Governor Edmund G. Brown proclaimed a drought emergency on January 17, 2014. In 2014, the Water District's local supply availability was approximately 45% of average, SFPUC supply availability was 90% of the Water District's contract amount and the SWP allocation was a record low 5% of full contract amounts. In addition, the drought has resulted in major conservation efforts, reduced water demand, and significantly increased water purchase costs.

To reduce water demand, on March 13, 2014, the Water District declared a water shortage emergency and adopted a Water Shortage Emergency Ordinance (the "Drought Ordinance") that prohibited certain uses of water and limited landscape irrigation to achieve a 20% service area-wide reduction in water use. As a result of the ordinance and enhanced customer outreach, the Water District has achieved its goal of a 20% overall reduction in water use through December 2014. The Water District hired several temporary staff people to address a fivefold increase in inquiries and provide additional customer education related to the Drought Ordinance and the Water District's water conservation programs. To date, over 800 notices have been sent to customers regarding possible violations of the Drought Ordinance.

To maximize water supply reliability, purchases of SFPUC water were increased to offset historically low SWP allocations of 0% to 5% of the Water District's 42,000 acre feet of Table A contract water during 2014. Additionally, in January 2014, a previously arranged water exchange involving the purchase of 1,000 acre feet of Contra Costa Water District's Los Vaqueros Reservoir water was expanded to 5,000 acre feet. This purchased water helped to maintain water treatment capacity at needed levels of production and enabled groundwater recharge in the late summer. Also in 2014, the Water District was successful in transferring Semitropic banked water (412 AF).

Managing demands and ensuring an adequate water supply are not the only challenges when addressing the impacts of a drought. The Water District's Board members, staff, and outside consultants worked diligently, beginning in January 2014, to analyze, discuss, and evaluate the financial ramifications of the drought and to develop strategies and contingency plans to mitigate its negative impact on the Water District's overall financial situation. More specifically, (1) the Board adopted drought surcharges in July 2014 consisting of a three-tier inclining block format for all single-family residential customers and a uniform surcharge for all other distribution customer classes and (2) staff made budget cuts (including eliminating or holding open positions), deferred construction of lower priority capital projects over the next several years, and utilized certain existing reserves. Currently, the Projected Operating Results assume that the drought will continue (and the drought surcharge will continue to be imposed) through June 2016.

### **Environmental Compliance**

The Water System is subject to regulatory requirements imposed by the State Water Resources Control Board's Division of Drinking Water ("SWRCB DDW," formerly California Department of Public Health or "CDPH"). To comply with mandated water quality, the Water District must operate the Water System facilities according to Domestic Water Supply Permit No. 02-04-95P-0110001, issued on September 19, 1995, as amended, up to and including Amendment No. 7 to the permit issued on May 6, 2010. The permit has no expiration date and may be amended from time to time as required by the

SWRCB DDW. The Water District believes it is in material compliance with the permit, and all regulatory requirements.

**Water System Accounts**

The following table shows the number of accounts (as measured by meters installed) for the periods indicated.

**TABLE 2  
ALAMEDA COUNTY WATER DISTRICT  
Number of Metered Accounts**

Fiscal Year Ending June 30	Number of Meters*
2004	77,710
2005	78,089
2006	78,523
2007	79,934
2008	79,421
2009	79,787
2010	80,206
2011	80,484
2012	81,005
2013	81,432
2014	81,700

\*The Water District upgraded its Customer Information System (“CIS”) in March 2012. Meter counts from 2004 through 2011 have been restated to be consistent with the current CIS.

Source: Alameda County Water District

The following table shows forth the Water District’s largest distribution service accounts as of June 30, 2014 estimated according to annualized calendar year billings.

**TABLE 3  
ALAMEDA COUNTY WATER DISTRICT  
Largest Distribution Water Accounts (Unaudited)  
(in thousands)**

	Fiscal Year 2014 Water Revenues (000’s)
City of Fremont	\$1,176
Fremont Unified School District	925
Prologis Trust	512
Western Digital Technologies	499
City of Union City	485
Contempo Homeowners Association	395
Tesla Motors, Inc.	391
Ardenwood Forest Apartments	371
New Haven School District	367
Newark Unified School District	318

Source: Alameda County Water District.

## Rates and Charges

In Fiscal Year 2013-14 water revenues were divided industrial approximately \$5,726,000; commercial approximately \$10,688,000; residential approximately \$59,324,000; and miscellaneous approximately \$6,135,000.

The following table shows the Water District’s historical and projected bi-monthly water charge based on 23 hundred cubic feet of consumption, which is the average water use of a single family residence under normal conditions. Future rate increases are subject to Board approval, as well as satisfaction of the requirements of Proposition 218. With respect to the increase shown on the table for May 1, 2015, on February 12, 2015, the Water District Board directed staff to commence the required process under Proposition 218. The Projected Operating Results assume that this increase will be approved by the Board in April 2015. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES – Proposition 218” and “ - Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies.”

**TABLE 4  
ALAMEDA COUNTY WATER DISTRICT  
Historical and Projected Water Rates**

Effective Date	Actual/Approved						Projected <sup>(1)</sup>				
	<u>2/1/2010</u>	<u>3/1/2011</u>	<u>2/1/2012</u>	<u>2/1/2013</u>	<u>2/1/2014</u>	<u>7/21/2014</u>	<u>5/1/2015</u>	<u>2/1/2016</u>	<u>2/1/2017</u>	<u>2/1/2018</u>	<u>2/1/2019</u>
Bi-monthly Commodity Charge	\$63.34	\$68.40	\$72.50	\$72.50	\$77.58	\$77.58	\$83.79	\$90.49	\$97.73	\$105.55	\$113.99
Bi-monthly Service Charge	\$11.62	\$12.55	\$14.93	\$29.86	\$31.95	\$31.95	\$34.51	\$37.27	\$40.25	\$43.47	\$46.95
Drought Surcharge						\$10.36	\$10.36	\$10.36			
<b>TOTAL</b>	\$74.96	\$80.95	\$87.43	\$102.36	\$109.53	\$119.89	\$128.65	\$138.12	\$137.98	\$149.02	\$160.94

<sup>(1)</sup> Projected years assume 8% annual increase overall.  
Totals may not add due to rounding.  
Source: Alameda County Water District

## Comparative Rates

The following table shows a comparison of residential user fees for services charged by the Water District and other agencies within the Bay Area.

**TABLE 5**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Bi-Monthly Residential Service Charges**  
**For the Water District and Other Bay Area Agencies**  
**September 2014<sup>(1)(3)</sup>**

Authority	Commodity Charge <sup>(2)</sup>	Service Charge	Total
City Of Burlingame	\$122.66	\$77.56	\$200.22
City Of San Bruno	163.48	35.98	199.46
City Of Palo Alto	143.26	39.02	182.28
Mid-Peninsula Water District	143.41	36.86	180.27
North Coast County Water District	140.34	29.46	169.80
Calif Water Svs. Co. - Bear Gulch	117.71	42.60	160.31
City Of Mountain View	136.92	22.20	159.12
San Francisco Water Dept. (SFPUC)	136.68	22.18	158.86
City Of Millbrae	125.35	30.00	155.35
City Of East Palo Alto (American Water)	116.15	38.08	154.23
City Of Redwood City	92.36	52.26	144.62
Calif Water Svs. Co. - Mid-Peninsula	108.61	31.50	140.11
Calif Water Svs. Co. - South SF (Bayshore)	108.61	31.50	140.11
City Of Hayward	123.50	16.30	139.80
Dublin San Ramon Service District	90.51	48.87	139.38
City Of Daly City	106.51	32.12	138.63
City Of Livermore	96.51	42.10	138.61
San Jose Water Company	75.70	62.53	138.23
Contra Costa Water District	75.92	55.48	131.40
<b>Alameda County Water District</b>	<b>87.94</b>	<b>31.95</b>	<b>119.89</b>
Calif Water Svs. Co. - Los Altos	77.75	40.32	118.07
East Bay Municipal Utility District	83.71	32.12	115.83
North Marin Water Dist - Novato	80.04	30.00	110.04
Marin Municipal Water District	86.02	23.81	109.83
Calif Water Svs. Co. - Livermore	74.63	30.14	104.77
City Of Milpitas	75.07	29.07	104.14
City Of Foster City (Estero)	70.66	32.00	102.66
City Of Sunnyvale	79.30	19.88	99.18
City Of San Jose Municipal Water	69.40	25.55	94.95
City Of Santa Clara	87.40	-	87.40

<sup>(1)</sup> Rates shown for non-District agencies are those currently in effect as of September 2014 for 3/4" meters.

<sup>(2)</sup> Based on bimonthly charges for 23 hundred cubic feet (ccf).

<sup>(3)</sup> On July 17, 2014, the Board of the Water District approved new drought surcharges that became effective July 21, 2014.

Source: Alameda County Water District.

## Connection Fees

The following table shows the last ten years of annual revenues from connection fees and other related fees.

**TABLE 6**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Connection Fees (in thousands)**

Fiscal Year	Amount (000's)
2004-05	\$3,864
2005-06	3,589
2006-07	3,276
2007-08	3,874
2008-09	5,703
2009-10	1,768
2010-11	1,892
2011-12	2,118
2012-13	1,977
2013-14	3,494

Source: Alameda County Water District.

## 1% Property Tax Revenues

Each County levies a 1% property tax on behalf of all taxing agencies in each County, including the Water District. The taxes collected are allocated to taxing agencies within each County, including the Water District, on the basis of a formula established by State law enacted in 1979. Under this formula, each County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership and inflation) prorated among the jurisdictions, which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas, which were developed to permit the levying of taxes for less than countywide or less than citywide special districts.

The Water District portion of the 1% property tax received in each of the last five years is shown in Table 7.

From time to time legislation has been considered as part of the State budget to shift Property Tax Revenues from special districts to school districts or other governmental entities. There can be no assurance that the property tax revenues that the Water District currently expects to receive will not be reduced pursuant to State legislation enacted in the future. If the property tax formula is changed in a State fiscal year or permanently changed in the future, it could have a material adverse effect on the receipt of property tax revenues by the Water District.

## Assessed Valuations, Tax Collections and Tax Delinquencies

The following table shows the secured assessed valuation within the Water District and the amount of the 1% property tax paid by the County of Alameda to the Water District, as well as the tax imposed to pay SWP costs during the five most recent Fiscal Years.

**Table 7**  
**District Secured Assessed Valuation, District Allocation of County Property Tax**  
**and District State Water Project Tax**  
**Fiscal Years Ending June 30, 2010 Through June 30, 2014**  
**(in Thousands)**

<u><i>Fiscal Year</i></u>	<u><i>Total Secured Assessed Valuation</i></u>	<u><i>1% Property Tax Allocation Levy</i></u>	<u><i>State Water Contract Tax</i></u>
2010	\$43,825,950	\$3,541	\$2,595
2011	43,522,656	3,537	2,803
2012	43,072,743	3,500	3,010
2013	43,846,946	3,569	3,189
2014	46,275,494	3,769	3,194

Source: The Water District.

**Certain Audited Financial Information**

The following tables contain the Water District's audited Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position for the past four years.

**TABLE 8**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**As of June 30**  
**(Amounts in Thousands)**

	2011	2012	2013	2014
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 96,642	\$ 90,725	\$ 96,593	\$ 94,698
Customer and other accounts receivable, net	3,765	4,786	7,470	5,917
Accrued unbilled revenue	5,713	9,011	8,162	7,635
Taxes receivable	1,354	973	840	94
Grant receivable	1,320	885	1,012	28
Interest receivable	625	523	357	218
Materials and supplies	2,479	2,288	2,401	2,274
Prepaid items	26	50	29	8
Total unrestricted assets	<u>111,924</u>	<u>109,241</u>	<u>116,864</u>	<u>110,872</u>
Restricted cash and investments	5,378	24,485	18,112	2,846
Total current assets	<u>117,302</u>	<u>133,726</u>	<u>134,976</u>	<u>113,718</u>
Noncurrent assets:				
Debt issuance costs	634	-	-	-
Net other postemployment benefits asset	1,943	1,909	1,872	1,826
Capital assets:				
Nondepreciable	21,990	20,009	31,339	41,540
Depreciable, net	319,860	328,820	327,425	344,746
Total capital assets	<u>341,850</u>	<u>348,829</u>	<u>358,764</u>	<u>386,286</u>
Total noncurrent assets	<u>344,427</u>	<u>350,738</u>	<u>360,636</u>	<u>388,112</u>
<b>TOTAL ASSETS</b>	<u>461,729</u>	<u>484,464</u>	<u>495,612</u>	<u>501,830</u>
<b>DEFERRED OUTFLOWS OF RESOURCES<sup>(1)</sup></b>				
Deferred loss on refunding debt	-	3,328	3,021	2,714
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	5,078	5,073	6,876	7,330
Accrued payroll and related liabilities	2,516	2,607	2,829	3,011
Contractor and customer deposits	3,025	2,626	4,983	3,697
Interest payable	154	187	181	176
Unearned revenue	91	-	40	-
Long-term debt-due within one year	1,961	2,529	2,799	2,864
Total current liabilities	<u>12,825</u>	<u>13,022</u>	<u>17,708</u>	<u>17,078</u>
Noncurrent liabilities:				
Accrued payroll and related liabilities	182	2,087	1,788	1,918
Long-term debt-due in more than one year	44,376	66,304	63,504	60,639
Total noncurrent liabilities	<u>44,558</u>	<u>68,391</u>	<u>65,292</u>	<u>62,557</u>
<b>TOTAL LIABILITIES</b>	<u>57,383</u>	<u>81,413</u>	<u>83,000</u>	<u>79,635</u>
<b>NET POSITION</b>				
Net investment in capital assets	298,301	304,983	310,757	325,497
Restricted for debt service	2,436	2,639	2,656	2,669
Unrestricted	103,609	98,757	102,220	96,743
<b>TOTAL NET POSITION</b>	<u>\$ 404,346</u>	<u>\$ 406,379</u>	<u>\$ 415,633</u>	<u>\$ 424,909</u>

<sup>(1)</sup> As of July 1, 2011, the Water District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and reclassified the unamortized loss on refunding from a liability to a deferred outflows of resources.

Source: Water District Audited Financial Statements.

**TABLE 9**  
**ALAMEDA COUNTY WATER DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Fiscal Years Ended June 30**  
**(Amounts in Thousands)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>OPERATING REVENUES:</b>				
Water sales	\$ 62,596	\$ 70,098	\$ 76,903	\$ 81,081
Developer charges	1,892	2,118	1,977	3,494
Fees and rental	610	739	823	1,039
Other	949	923	1,091	1,070
<b>TOTAL OPERATING REVENUES</b>	<u>66,047</u>	<u>73,878</u>	<u>80,794</u>	<u>86,684</u>
<b>OPERATING EXPENSES:</b>				
Source of supply:				
Water purchases	14,402	18,747	21,367	23,427
Pumping	3,116	3,338	2,954	2,763
Other	8,819	8,875	8,828	10,215
Total sources of supply	<u>26,337</u>	<u>30,960</u>	<u>33,149</u>	<u>36,405</u>
Water treatment	12,464	12,119	12,586	12,584
Transmission and distribution	11,343	10,953	10,650	10,934
Administration of customer accounts	1,507	1,390	1,680	1,832
Administration and general	6,170	9,679	11,965	13,090
Depreciation and amortization	12,462	12,262	12,845	12,624
<b>TOTAL OPERATING EXPENSES</b>	<u>70,283</u>	<u>77,363</u>	<u>82,875</u>	<u>87,469</u>
<b>OPERATING LOSS</b>	<u>(4,236)</u>	<u>(3,485)</u>	<u>(2,081)</u>	<u>(785)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income	1,416	672	(46)	1,217
Property taxes	7,256	7,936	7,917	7,654
Other nonoperating revenues	-	-	-	12
Other settlements	450	215	68	35
Gain (loss) on disposal of capital assets	(69)	66	39	85
Expense due to abandoned capital projects	-	(1,251)	-	(117)
Cost of issuance expense	-	(1,032)	-	-
Interest expense	(1,991)	(1,662)	(2,172)	(1,592)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>7,062</u>	<u>4,944</u>	<u>5,806</u>	<u>7,294</u>
Income before capital contributions	2,826	1,459	3,725	6,509
Capital contributions	3,677	2,849	5,529	2,767
<b>CHANGES IN NET POSITION</b>	<u>6,503</u>	<u>4,308</u>	<u>9,254</u>	<u>9,276</u>
<b>NET POSITION</b>				
Beginning of year, as previously reported	397,843	404,346	406,379	415,633
Restatements of beginning net position <sup>(2)</sup>	-	(2,275)	-	-
Beginning of year, as restated	<u>397,843</u>	<u>402,071</u>	<u>406,379</u>	<u>415,633</u>
End of year	<u>\$ 404,346</u>	<u>\$ 406,379</u>	<u>\$ 415,633</u>	<u>\$ 424,909</u>

<sup>(1)</sup> As of July 1, 2011, the Water District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and restated the beginning net position in the amount of \$634,000 to write off the unamortized bond issuance costs previously reported as an asset. The Water District also re-evaluated the tax, accounting and financial reporting impact associated with Management/Confidential/ Professional (MCP) Bonus Program and determined that the MCP Bonus Program should be presented under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, and restated the beginning net position in the amount of \$1,641,000 to record this obligation.

Source: Water District Audited Financial Statements.

## Historical and Projected Net Revenues and Debt Service Coverage

Table 10 sets forth historical operating results through Fiscal Year 2013-14, and are based on the Water District audited financial statements. Table 10 also contains Projected Operating Results for Fiscal Years 2014-15 through 2018-19. The Projected Operating Results have been prepared by the Water District in February 2015 in connection with the issuance of the 2015 Bonds, and are based upon certain assumptions and qualifications, which the Water District believes are reasonable.

Significant assumptions include the following:

Customer Growth. The Projected Operating Results assume growth in the number of meters that is generally based on the General Plans of the cities in the Water District's service area. Annual growth is projected to average approximately 0.5% for the next five years.

Rates. The Projected Operating Results reflect the rates increases shown herein in “ - Rates and Charges” which are approximately 8% per year. The Projected Operating Results also assume that the Water District will continue to collect the drought surcharge through the end of Fiscal Year 2015-16. Any increases in adopted rates would be subject to the provisions of Proposition 218 and final approval by the Water District Board. See “CERTAIN RISK FACTORS — Certain Limitations on the Ability of the Water District to Impose Taxes, Fees and Charges.”

Connection Fees. Connection fee revenue is expected to increase from approximately \$3.5 million in Fiscal Year 2013-14, to approximately \$4.0 million in Fiscal Year 2015-16, and then stabilize at approximately \$3.5 million.

Operating Expenses. For purposes of the Projected Operating Results, the Water District has generally assumed that salaries and benefits will increase in accordance with existing contract requirements (2.5% for Fiscal Year 2015-16 and then approximately 3% annually thereafter). Overall benefits are projected to increase an average 9% annually over the next five years. Utilities are projected to increase annually by approximately 5% annually. All other general operating costs are projected to increase by about 3% annually.

The projection of costs for water purchased from the SFPUC is based on preliminary data recently provided by the SFPUC indicating a potential increase range of 17.8% to 31.3% for Fiscal Year 2015-16. (The SFPUC had previously projected a 17.8% increase.) The actual Fiscal Year 2015-16 SFPUC rate increase will not be determined until April 2015. The Projected Operating Results assume a 25% increase for Fiscal Year 2015-16, and 3% annually thereafter.

Capital Expenditures; Additional Parity Obligations. The Projected Operating Results assume the levels of expenditures for the Water District's capital improvement program set forth below. The Water District is financially structured into two major funds: the Facilities Improvement Fund that contains connections fee revenue to pay for growth related capital costs, and the General Fund. The projected capital related to both funds and the total Water District projected capital costs are shown below.

<b>Fiscal Year ended June 30</b>	<b>Projected Capital Expenditures</b>	<b>Projected General Fund Capital</b>	<b>Projected Facilities Improvement Fund Capital</b>
2014-15	\$38,385,400	\$32,598,700	\$5,786,700
2015-16	\$21,405,499	\$18,644,658	\$2,760,841
2016-17	\$23,768,847	\$20,857,221	\$2,911,626
2017-18	\$25,569,961	\$22,247,933	\$3,322,028
2018-19	\$32,939,027	\$29,246,802	\$3,692,225
2019-20	<u>\$36,233,429</u>	<u>\$32,238,624</u>	<u>\$3,994,805</u>
<b>Total</b>	<b>\$ 178,302,164</b>	<b>\$ 155,833,939</b>	<b>\$ 22,468,225</b>

Source: Alameda County Water District

Approximately \$30 million of the capital expenditures through Fiscal Year 2017-18 are expected to be funded from the proceeds of the 2015 Bonds. Other sources of funding are existing reserves as well as funds of the Water District available after the payment of Parity Obligations and other amounts payable in each Fiscal Year.

The Water District is contemplating the issuance of an additional Parity Obligation of approximately \$25 million as early as Fiscal Year 2017-18. However, such an issuance will depend on the rate of capital expenditures as well as the amount of other available funds, and the specific timing is therefore uncertain. As a result debt service with respect to this potential Parity Obligation is not included in the Projected Operating Results.

The actual level of capital expenditures will depend on a variety of factors, including procurement of permits and other necessary approvals as may be required for particular projects.

*Other Assumptions.* The Projected Operating Results also assume that there will not be any changes in applicable regulatory requirements which materially affect Water District finances or operations and no adverse environmental conditions will be discovered which materially affect the Water District finances or operations. See “CERTAIN RISK FACTORS.”

While the Water District believes these assumptions to be reasonable, the assumptions may vary significantly from actual future conditions due to unanticipated events and circumstances. Any projection is subject to uncertainties. Some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances could occur. Therefore there are likely to be differences between the projections and the actual results, and those differences may be material. To the extent that actual future conditions vary from those assumed by the Water District in the Projected Operating Results, the actual results will vary from those contained in the Table. Changes in circumstances could have a material adverse impact on the ability of the Water District to pay the principal of and interest on the 2015 Bonds.

**TABLE 10**  
**ALAMEDA COUNTY WATER DISTRICT**  
**HISTORICAL AND PROJECTED NET REVENUES AND DEBT SERVICE COVERAGE**  
**Fiscal Years Ending June 30 (in thousands)**

	Actual					Projected				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Revenues</b>										
Water Sales	\$56,744	\$62,596	\$70,098	\$76,903	\$81,081	\$84,882	\$93,681	\$97,988	\$110,624	\$119,986
Investment Income <sup>(1)</sup>	2,448	1,416	672	(46)	1,217	868	1,001	952	1,019	1,059
Property Taxes <sup>(2)</sup>	4,652	4,083	4,207	4,529	4,138	4,136	4,158	4,192	4,209	4,227
Connection Fees	1,768	1,892	2,118	1,977	3,494	2,557	4,035	3,396	3,541	3,551
Other Revenue <sup>(3)</sup>	1,738	1,559	1,877	1,982	2,156	6,835	1,811	1,777	1,666	1,673
Total Revenues	67,350	71,546	78,972	85,345	92,086	99,278	104,685	108,306	121,059	130,497
<b>Maintenance and Operation Costs</b>										
Pumping Power Costs	2,592	3,116	3,338	2,954	2,763	2,700	2,857	2,830	3,001	3,168
Other Operating Expenses <sup>(4)</sup>	9,283	7,642	7,272	7,841	10,252	15,674	17,174	19,967	25,314	28,668
Labor Costs <sup>(5)</sup>	31,069	32,571	35,744	37,868	38,403	39,077	41,258	43,298	45,425	47,594
Purchased Water	11,302	11,229	15,018	17,979	19,911	19,754	20,661	21,118	22,445	22,929
Aquifer Reclamation Costs	40	92	-	-	-	-	-	-	-	-
Total Expenses	54,286	54,650	61,372	66,642	71,329	77,206	81,950	87,213	96,185	102,360
Net Revenues	\$13,065	\$16,896	\$17,600	\$18,703	\$20,757	\$22,073	\$22,735	\$21,093	\$24,874	\$28,137
<b>Maximum Annual Debt Service on Revenue Certificates and Bond</b>										
2003 Certificates of Participation	\$1,203	\$1,203	\$822	\$-	\$-	\$-	\$-	\$-	\$-	\$-
2009 Refunding Revenue Bond	2,921	2,664	2,664	2,669	2,866	2,868	2,863	2,867	2,864	2,863
2012 Revenue Bond	-	-	523	1,891	1,893	1,891	1,893	1,893	1,887	1,885
2015 Revenue Bond	-	-	-	-	-	240	1,625	1,627	1,623	1,623
Total Debt Service	\$4,124	\$3,867	\$4,009	\$4,560	\$4,759	\$4,999	\$6,381	\$6,387	\$6,374	\$6,371
<b>Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Certificates</b>	3.17x	4.37x	4.39x	4.10x	4.36x	4.42x	3.56x	3.30x	3.90x	4.42x

- Notes:
- (1) Investment loss due to one-time portfolio restructuring.
  - (2) In accordance with the provisions of the 2015 Installment Purchase Contract, "Property Taxes" exclude the State Water Project property taxes collected by the Water District, and the equal amount in expenses paid from such taxes. See "State Water Project; State Water Project Tax Revenues
  - (3) Fiscal Year 2014-15 includes certain one-time reimbursements of shared projects, and property sales.
  - (4) For those relevant expenses, includes general annual inflationary increases of 3% beginning in 2015.
  - (5) Includes fringe benefits and annual inflationary increases as relevant beginning in 2015. MCP Bonus Program included beginning Fiscal Year 2011-12. OPEB and Other miscellaneous costs transferred to "Other Operating Expenses" beginning in Fiscal Year 2014-15.

Source: Alameda County Water District Finance Department. Totals may not add due to rounding.

## **Reserve Policy**

The Water District's adopted reserve policy provides for the establishment and maintenance of a number of reserves, including include the Operations & Maintenance (O&M) and Capital Reserve, the Emergency/Rate Stabilization Reserve and the Self Insurance Reserve, as described below. The Water District is not legally obligated to maintain reserves at the levels identified in the policy, and the actual amount of reserves varies from year to year.

*The Operations & Maintenance (O&M) and Capital Reserve* is established to maintain a level of funding to meet the daily cash needs for ongoing operations and maintenance and capital expenditures not funded from bond proceeds. The O&M and Capital Reserve have an established minimum target of 4 months operating and maintenance expense plus one year of the 50 year average historical cost of capital replacement. The component constituting 4 months operating and maintenance expense is approximately \$25 million. The 50 year annual average historical cost currently has a calculated level of \$12 million.

*The Emergency/Rate Stabilization Reserve* generally maintained at a target level of \$10 million. This is the calculated additional amount of funds needed to purchase water in a year of adverse water conditions. The Emergency/Rate Stabilization Reserve is to be used only with the authorization of the Board of Directors in the event of an unforeseen event such as a natural disaster, water shortage situation or other unanticipated adverse situation. The Water District expects that that it will utilize the Emergency/Rate Stabilization Reserve in Fiscal 2014-15 to offset negative impacts of the drought and the Projected Operating Results contemplate that the Emergency/Rate Stabilization Reserve will be gradually replenished in subsequent fiscal years.

*The Self Insurance Reserve* is initially maintained at a level equal to the highest amount paid for claims and/or expected losses in any one fiscal year under the Water District's Property and Liability Insurance Program during the past five years and under the Worker's Compensation Program during the past ten years. In subsequent years, the reserve balance will be adjusted based on actuarially determined reserves for future claims. Funds in the Self Insurance Reserve will be used exclusively for payment of unanticipated losses that are under the high deductible limits under each Program. Funding for this reserve will be from cost savings realized from higher level deductibles and resulting lower premiums, including discounts and premium savings from lower Worker's Compensation loss experiences.

## **Pension Plan Obligations**

The Water District contributes to the California Public Employee's Retirement System ("CalPERS"), an agent multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Certain summary information is presented below. See Note 10 in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE WATER DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014" for a detailed description of the retirement benefits, funding methods, actuarial assumptions, annual costs, unfunded liabilities and other matters.

The Water District's obligation to make annual payments to CalPERS is a significant financial obligation of the Water District, and annual required payments have increased significantly over the last several years and, as a result of changes in CalPERS' funding policies and actuarial assumptions, are expected to continue to increase in the future. There can be no assurances that actual investment returns, future changes in actuarial assumptions, or other circumstances will not result in additional significant increases.

**Annual Pension Cost.** For fiscal years 2013-14 and 2012-13, the Water District’s annual pension cost of approximately \$5.8 million and \$5.64 million, respectively, for CalPERS was equal to the Water District’s required and actual contributions. The expected contribution amount for fiscal year 2014-15 is approximately \$5.9 million, and the projected amounts for fiscal year 2015-16 is approximately \$6.4 million.

**Funding History.** The table below represents the Water District’s recent history of the accrued actuarial liability, the market value of assets, the funded ratio and the annual covered payroll, as reported by CalPERS.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Market Value of Assets</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
6/30/09	\$153,918,495	\$85,576,594	55.6%	\$18,645,680
6/30/10	162,813,558	97,067,267	59.6	19,873,661
6/30/11	171,512,932	117,222,557	68.3	20,985,494
6/30/12	183,910,202	116,973,165	63.6	22,508,551
6/30/13	198,526,444	132,118,898	66.5	22,279,252

**Other Post-Employment Benefits**

**Retiree Health Insurance.** The Water District provides health plan coverage under the CalPERS Health Benefits Program (“PEMHCA”) for eligible retirees and eligible dependents, or surviving spouse or registered domestic partner. To fund this coverage, the Water District contributes the minimum required amounts under the PEMHCA rules as determined by CalPERS on an annual basis. The Water District also provides other post employment benefits. See Note 11 in APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE WATER DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2014” for a detailed description of the various post-employment benefits, as well as additional information concerning annual costs and unfunded liabilities.

The Water District is involved in a class action lawsuit titled *Stanley P. McBride and Marilyn J. Wright, on behalf of themselves and all others similarly situated v. Alameda County Water District*, Civil Action No. 14-cv-02789 EDL. The plaintiffs allege that the Water District promised Water District retirees reimbursement for Medicare Part B premiums paid to Social Security, and seek prospective payment (currently approximately \$104 per month per retiree), as well as reimbursement for such amounts for the last four years. The Water District disputes the allegations, and intends to vigorously defend itself in this matter, which is still in the early stages of the litigation process. Alleged damages are speculative, and would generally be paid out over the lives of the retirees. In any event, the Water District does not believe that the outcome of this matter will have a material adverse impact on its ability to make the 2015 Installment Payments in a timely manner.

**General OPEB Costs.** For the years ended June 30, 2014 and 2013, the Water District paid approximately \$3.864 million and \$3.742 million, respectively, in post-employment health care and life insurance benefits. Of this amount, the Water District made a contribution amount of approximately \$2.111 million and \$1.902 million for retirees’ health premiums in 2014 and 2013, respectively. The remaining balance of approximately \$1.753 million and \$1.840 million was deposited with CalPERS in 2014 and 2013, respectively.

**Funding of Other Post-Employment Benefit Obligations.** Governmental Accounting Standards Board Statement No. 45 (“GASB 45”) became effective for the Water District’s fiscal year ended June 30, 2009. It requires that non-pension, post-employment benefits for retirees, such as post-retirement health care benefits, be disclosed as an accrued actuarial liability in the audit, similar to the current

treatment of pension benefits. GASB 45 requires only the identification and disclosure of the Water District's unfunded actuarial accrued liability ("UAAL") and funding status; it does not require the Water District or any other affected public agency to fully fund such liability. The Water District has undertaken biennial actuarial studies to estimate its other post-employment benefit obligations ("OPEB Obligations") since June 30, 2007, and received its June 30, 2013 valuation in March 2014. The June 30, 2013 GASB 45 Actuarial Valuation was updated for new assumptions, changes in discount rates and health benefits and reported that the Water District has an UAAL of approximately \$37.1 million at June 30, 2013. The funded ratio was 20.3%.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, interest on the 2015 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2015 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2015 Bonds is based upon certain representations of fact and certifications made by the Water District and others and is subject to the condition that the Water District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2015 Bonds to assure that interest on the 2015 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds. The Water District will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable 2015 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable 2015 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a 2015 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015 Bond to the Beneficial Owner. Purchasers of the 2015 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest on any 2015 Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest on the 2015 Bonds is excluded from gross income for federal income tax purposes provided that the Water District continue to comply with

certain requirements of the Code, the ownership of the 2015 Bonds and the accrual or receipt of interest with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2015 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2015 Bonds.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015 Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2015 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2015 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2015 BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE 2015 BONDS OR THE MARKET VALUE OF THE 2015 BONDS. LEGISLATIVE CHANGES HAVE BEEN INTRODUCED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME OR STATE TAX BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2015 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2015 BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2015 BONDS SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2015 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2015 BONDS.

A copy of the proposed form of opinion of Bond Counsel with respect to the 2015 Bonds is attached hereto in APPENDIX E.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES**

### **Article XIII B**

At the statewide special election of November 6, 1979, the voters approved an initiative entitled “Limitation of Government Appropriations” which added Article XIII B to the California Constitution. Under Article XIII B, State and local governmental entities have an annual “appropriations limit” which limits the ability to spend certain monies which are called “appropriations subject to limitation” (consisting of tax revenues, State subventions and certain other funds) in an amount higher than the “appropriations.” The “base year” for establishing such appropriations limit is the 1978-79 Fiscal Year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion required an expenditure for additional services or which unavoidably make the providing of existing services more costly.

It is the position of the Water District that the water fees and charges it imposes for use of the Water System do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B.

### **Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

*Article XIII C.* Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. In *Bighorn-Desert View Water Agency v. Beringson* ("Bighorn"), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency's water rates and fees and charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of "fee" or "charge" in Article XIII C suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIII D. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIII D are necessarily fees and charges within the meaning of Article XIII C. See "Article XIII D" below. The Court held that Article XIII C authorizes the use of the initiative process to reduce water rate and other delivery charges, but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases or new water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system expenses and debt service since that issue was not before the court.

Consequently, the voters of the Water District could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the Water District's water service fees and charges, which are the source of Net Revenues pledged to the payment of 2015 Installment Payments. Though the use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the fees and charges imposed by the Water District for services of the Water System that are pledged to the payment of the 2015 Bonds, there can be no assurance that the voters of the Water District will not seek to approve an initiative which attempts to reduce the fees and charges imposed by the Water System securing the 2015 Bonds.

**Article XIID.** Article XIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The Water District does not believe that its connection fees would be classified as standby charges or assessments for the Water System.

Article XIID conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and voter approval for fees and charges other than for sewer, water or refuse collection services. Article XIID defines “fee” or “charge” to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In *Richmond et al. v. Shasta Community Services District* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee and charge subject to Article XIID. However, in the opinion, the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the Bighorn case discussed above. In its decision, the court relied on its discussion in *Richmond* to reach the conclusion that fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The Water District believes it has complied with the procedures required by Article XIID in connection with the increase in the water fees and charges approved by the Board of Directors. See “DISTRICT AND WATER SYSTEM INFORMATION- Rates and Charges” herein.

In addition to the procedural requirements of Article XIID, under Article XIID, all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or

assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIID (relating to assessments).

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Article XIID provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Further interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

### **Future Initiatives**

Articles XIIB, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Water District's Net Revenues or ability to increase charges or connection fees.

One such initiative, approved by the electorate at the November 2, 2010 election, is Proposition 26. The initiative imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the [State/local government] of providing the service or product to the payor." The Water District believes that the fees and charges imposed are not "taxes" as defined by Proposition 26. The Authority and the Water District, however, are unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impacts will be.

### **Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies**

The ability of the Water District to comply with its covenants under the 2015 Installment Purchase Contract and to generate Net Revenues sufficient to pay the principal of and interest on the 2015 Bonds may be adversely affected by actions and events outside of the control of the Water District and may be adversely affected by actions taken (or not taken) under Article XIIC, Article XIID, or Proposition 26 by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the 2015 Bonds upon the occurrence of an event of default under the 2015 Installment Purchase Contract are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the Water District to comply with its covenants under the Trust Agreement, the rights and obligations under the 2015 Bonds and the 2015 Installment Purchase Contract 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 municipal utilities in the State.

Based on the foregoing, in the event the Water District fails to comply with its covenants under the 2015 Installment Purchase Contract, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIIC, Article XIID, or Proposition 26 or to pay principal of or interest on the 2015 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the 2015 Bonds.

## **RISK FACTORS**

The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2015 Bonds and does not necessarily reflect the relative importance of the various risks.

### **General; Failure to Meet Projections**

The payment of principal of and interest on the 2015 Bonds is secured solely by a pledge of the Authority Revenues, consisting of mainly 2015 Installment Payments and other payments paid by the Water District and received by the Authority pursuant to the 2015 Installment Purchase Contract. The obligation of the Water District to make the 2015 Installment Payments is a limited obligation of the Water District payable solely from a pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the Water District, the ability of the Water District to provide water services to its users, and the ability of the Water District to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the Water District.

In addition, the Projected Operating Results are based on a number of assumptions. Actual conditions may differ significantly from assumptions, and could have a material adverse impact on the ability of the Water District to make the 2015 Installment Payments and thereby pay the principal of and interest on the 2015 Bonds.

### **Environmental Regulation**

The kind and degree of water treatment effected through the Water System is regulated, to a large extent, by the federal government and the State. Treatment standards set forth in federal and State law control the operations of the Water System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Authority, or the State, acting through the Department of Health Services, or additional federal or State legislation, should impose stricter water quality standards upon the Water System, the Water District's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or State regulation will take with respect to drinking water quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

From a water supply perspective, environmental-related regulations and court rulings intended to protect endangered species in the Sacramento-San Joaquin River Delta have resulted in interruptions and pumping constraints to the Water District's State Water Project ("SWP") supply deliveries. Additional regulation and/or court rulings that negatively impact the Water District's State Water Project reliability could potentially be analogous to a drought and, thus, similarly adversely affect the amount of Net Revenues realized by the Water District.

## **Earthquakes, Floods and Other Natural Disasters**

Earthquakes, floods or other natural disasters could interrupt operation of the Water District's Water System and cause increased costs and thereby interrupt the ability of the Water District to realize Net Revenues. The Water District is located in a seismically active region within the vicinity of several active and inactive faults, including the San Andreas Fault, the Concorde-Green Valley Fault and the Calaveras Fault. The Hayward Fault, a seismically active fault, bisects the Water District's service area. The Water District could sustain extensive damage to its Water System in a major earthquake, both from ground motion and possible liquefaction of underlying soils. In October 1989, an earthquake measuring 7.1 on the Richter scale and with an epicenter approximately 50 miles south of the Water District struck the San Francisco Bay Area. There was no material structural damage to the Water District's facilities. The Water District is not obligated under the Trust Agreement to have earthquake or flood insurance. There can be no assurance that earthquakes or other natural disasters will not interrupt the ability of the Water System to realize Net Revenues sufficient to pay principal and interest of the 2015 Bonds.

## **System Demand**

There can be no assurance that the demand for water services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the covenants to fix rates and charges.

## **System Expenses**

There can be no assurance that the Water District's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require a significant increase in rates or charges in order to pay for Water District water projects and comply with the rate covenant.

## **Drought**

As described herein, the State is experiencing a significant drought, which has resulted in significant increases in the cost of water for the Water District. Although, as described herein in "DISTRICT AND WATER SYSTEM INFORMATION - California Drought and Response," the Water District has implemented water conservation programs to reduce water consumption as well as a rate surcharge to maintain revenues at required levels, there can be no assurances that a continuation of the drought will not materially adversely impact the operations and/or financial condition of the Water District.

## **Rate Process**

The passage of Proposition 218 by the California electorate potentially affects the Water District's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES - Articles XIII C and XIII D of the California Constitution."

## **Investment of Funds**

All moneys in the Water District Revenue Fund may be invested by the Water District from time to time in any investments which are legal for investment of Water District funds under California law. All moneys in any of the funds or accounts established with the Trustee pursuant to the Trust Agreement

will be invested by the Trustee solely in Permitted Investments. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Trust Agreement will be deposited in the fund or account from which such investment was made. For purposes of acquiring any investments, the Trustee may commingle funds held by it pursuant to the Trust Agreement upon the Request of the Water District. The Trustee may act as principal or agent in the acquisition of any investment. The Trustee will incur no liability for losses arising from any investments made in accordance with the Trust Agreement. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

### **Limitations on Remedies and Bankruptcy**

The ability of the Water District to increase water services charges and to comply with its covenants under the 2015 Installment Purchase Contract and to generate Net Revenues sufficient to pay principal of and interest on the 2015 Bonds may be adversely affected by actions and events outside of the control of the Water District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS AND CHARGES- Proposition 218.” Furthermore, any remedies available to the owners of the 2015 Bonds upon the occurrence of an event of default under the 2015 Installment Purchase Contract and the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the 2015 Installment Purchase Contract and the Trust Agreement, the rights and obligations under the 2015 Installment Purchase Contract, the 2015 Bonds and the Trust Agreement 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 cities in the State. Various legal opinions to be delivered concurrently with the issuance of the 2015 Bonds will be so qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto. In the event the Water District fails to comply with its covenants under the 2015 Installment Purchase Contract and the Trust Agreement or to pay principal of or interest on the 2015 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the 2015 Bonds.

The enforcement of the remedies provided in the 2015 Installment Purchase Contract and the Trust Agreement could prove both expensive and time consuming. In addition, the rights and remedies provided in the 2015 Installment Purchase Contract and the Trust Agreement may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the Water District were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the 2015 Installment Purchase Contract and the Trust Agreement.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the 2015 Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or

terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Parity Obligations**

As described in: “SECURITY FOR THE 2015 BONDS- Parity Obligations” above, the 2015 Installment Purchase Contract permits the Water District to execute any Installment Purchase Contract or issue any Bonds, as the case may be, to finance or refinance any Project the Debt Service on which Installment Purchase Contract or Bonds is payable on a parity with the payment by the Water District of the 2015 Installment Payments from the Net Revenues. In the event of a decline in Net Revenues available to pay debt service on the 2015 Bonds, the existence of Installment Purchase Contracts or additional Bonds could adversely affect the Water District’s ability to pay debt service on the 2015 Bonds. When and if issued, the 2015 Installment Purchase Contract will be secured by Net Revenues on a parity with the 2009 Bonds and the 2012 Installment Purchase Contract.

### **CERTAIN LEGAL MATTERS**

The validity of the 2015 Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement. Certain legal matters will be passed upon for the Water District by Hanson Bridgett LLP. Payment of the fees and expenses of Bond Counsel is contingent upon issuance of the 2015 Bonds.

### **LITIGATION**

To the best knowledge of the Authority and the Water District, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority to restrain or enjoin the authorization, execution or delivery of the 2015 Bonds, the pledge of the Authority Revenues or the collection of the payments to be made pursuant to the Trust Agreement, the obligation of the Water District to pay 2015 Installment Payments from the Net Revenues made pursuant to the 2015 Installment Purchase Contract, or in any way contesting or affecting the validity of the 2015 Bonds, the Trust Agreement, the 2015 Installment Purchase Contract or the agreement for the sale of the 2015 Bonds.

### **FINANCIAL ADVISOR**

Montague DeRose and Associates, LLC, Walnut Creek, California, has served as Financial Advisor to the Authority with respect to the sale of the 2015 Bonds. The Financial Advisor has assisted the Authority in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the 2015 Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Authority to determine the accuracy or completeness of this Official Statement. Due to their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein.

### **RATINGS**

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business (“S&P”), have assigned their municipal bond rating of “Aa2” and “AAA,” respectively, to the 2015 Bonds.

The ratings issued reflect only the view of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings obtained may have an adverse effect on the market price of the 2015 Bonds.

### **SALE OF THE 2015 BONDS**

The 2015 Bonds were sold at competitive bid on March 3, 2015. The 2015 Bonds were awarded to Citigroup Global Markets, Inc. (the "Purchaser"), who submitted the lowest true interest cost bid, at a purchase price of \$30,238,379.37. Under the terms of its bid, the Purchaser will be obligated to purchase all of the 2015 Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Bond Counsel, and certain other conditions to be satisfied by the Authority.

The Purchaser has certified the reoffering prices or yields for the 2015 Bonds set forth on the cover of this Official Statement, and neither the Authority nor the Water District take any responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the 2015 Bonds is \$2,741,289.65, and the Purchaser's gross compensation (or "spread") is \$312,910.28. The Purchaser may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the cover. The offering prices may be changed from time to time by the Purchaser.

### **INDEPENDENT AUDITOR**

The audited financial statements of the Water District for the years ended June 30, 2014 and June 30, 2013 are included in Appendix B attached hereto. The basic financial statements referred to in the preceding sentence have been audited by Macias Gini & O'Connell LLP, Walnut Creek, California, independent auditors, as stated in its Independent Auditor's Report included in Appendix B. Macias Gini & O'Connell LLP has consented to the inclusion of the basic financial statements and their Auditor's Report in Appendix B attached hereto. Macias Gini & O'Connell LLP has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Macias Gini & O'Connell LLP with respect to any event subsequent to its report dated October 3, 2014.

### **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the 2015 Bonds.

The summaries of certain provisions of the 2015 Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the Water District.

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



## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

#### CERTAIN DEFINITIONS

The following are definitions of certain terms as used in this Official Statement.

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto.

“Authority” means the Alameda County Water District Financing Authority created pursuant to the Act and its successors and assigns in accordance with the Trust Agreement.

“Authority Revenue Fund” means the fund by that name established pursuant to the Trust Agreement.

“Authority Revenues” means all 2015 Installment Payments and other payments paid by the Water District and received by the Authority pursuant to the 2015 Installment Purchase Contract and all interest or other income from any investment of any money in any fund or account established pursuant to this Trust Agreement (other than the Rebate Fund).

“Approving Opinion” means an opinion of Bond Counsel addressed to the Trustee and the Authority, that an action being taken (i) is authorized by the Act and the Trust Agreement, and (ii) will not, in and of itself, adversely affect the tax exempt status of the 2015 Bonds.

“Board of Directors” means the Board of Directors of the Water District.

“Bond Counsel” means a firm of recognized standing in the field of obligations, the interest on which is excluded from gross income for purposes of federal income taxation.

“Bonds” means all water revenue bonds (including the Alameda County Water District 2009 Water System Refunding Revenue Bonds) of the Water District authorized, executed, issued and delivered by the Water District under and pursuant to the Law, the payments of which are on a parity with each other and with the payment of the Installment Payments and which are secured by a pledge of and lien on the Net Revenues.

“2015 Bonds” means the “Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2015.”

“Business Day” means any day other than a Saturday or Sunday or day upon which the Trustee is open for business at its Principal Office.

“Certificate of the Authority” means an instrument in writing signed by or on behalf of the Authority by its President, Vice President or Treasurer, or by any other officer of the Authority duly authorized by the governing board of the Authority to sign documents on its behalf under the Trust Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto, and any regulations promulgated thereunder.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed as of March 1, 2015, by the Water District, as originally executed and entered into and as it may from time to time be amended in accordance with its terms.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Water District and related to the authorization, the Continuing Disclosure Certificate, the 2015 Installment Purchase Contract and the Trust Agreement and the related sale of the 2015 Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing fees, initial fees and charges of the Trustee, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of the financial advisor, fees and charges for preparation, execution and safekeeping of the 2015 Bonds and any other charge, cost or fee in connection with the original issuances, sale and delivery of the 2015 Bonds.

“Debt Service” means, for any designated period, the sum of (1) the interest accruing during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Payments required to be made at the times provided in the Installment Purchase Contracts that would have accrued during such period if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding installment payment date of interest or principal or the date of the pertinent Installment Purchase Contract, as the case may be.

“Event of Default” means an event described in the Installment Purchase Contract.

“Federal Securities” means United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are pledged for the payment of interest and principal, or securities evidencing ownership interests in such obligations or in specified portions of the interest on or principal of such obligations.

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Water District as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor and the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Financial Accounting Standards Board or its successor.

“Holder” means any person who shall be the registered owner of any Outstanding Bond.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Authority, and who, or each of whom--

- (1) is in fact independent and not under the domination of the Authority;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the Authority; and
- (3) is not connected with the Authority as a member, officer or employee of the Authority, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority.

“Independent Engineer” means any firm of civil engineers of national reputation generally recognized to be well qualified in engineering matters relating to municipal water systems duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the Water District, and each of whom--

- (1) is in fact independent and not under the domination of the Water District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the Water District; and
- (3) is not connected with the Water District as a member of the Board of Directors or an officer or employee of the Water District, but may be regularly retained to make reports to the Water District.

“Information Services” means the Electronic Municipal Market Access system (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at [www.emma.msrb.org](http://www.emma.msrb.org); and, in accordance with the then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee, any other information services providing information with respect to called bonds that the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Installment Payments” means the installment payments of interest and principal scheduled to be paid by the Water District under and pursuant to the Installment Purchase Contracts.

“Installment Purchase Contracts” means all installment purchase contracts of the Water District authorized and executed by the Water District under and pursuant to the Law (including the Installment Purchase Agreement between the Water District and the Authority, dated as of January 24, 2012), the Installment Payments under which are payable on a parity with the payment of the 2015 Bonds and which are secured by a pledge of and lien on the Net Revenues.

“Interest Payment Date” means a date on which an interest installment of the 2015 Installment Payments is due and payable, being June 1 and December 1 of each year to which reference is made, commencing on June 1, 2015.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement by and between the Water District and the Union Sanitary District, dated November 14, 2011, as amended January 20, 2015,

and as it may from time to time be amended or supplemented pursuant to the provisions of the Trust Agreement and thereof.

“Law” means the County Water District Law of the State of California (constituting Sections 30000 et seq. of the Water Code of the State of California) and all laws amendatory thereof or supplemental thereto, including Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

“Maintenance and Operation Costs” means the reasonable and necessary costs paid or incurred by the Water District for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased for the Water System (except those costs paid from taxes), and including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water District that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the Water District or charges required to be paid by it to comply with the terms of the Installment Purchase Contract and of any resolution authorizing the execution of any Installment Purchase Contract or of such Installment Purchase Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller or lessor for any such Installment Purchase Contracts or Bonds and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

“Net Proceeds” means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Net Revenues” means, for any designated period, the Revenues during such period, less the Maintenance and Operation Costs during such period.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement all Bonds except

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of discharge of Bonds; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

“Permitted Investments” means any of the following to the extent then permitted by law:

- (1) Federal Securities;
- (2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board or the Tennessee Valley Authority, or obligations, participations or other instruments of or issued by, or fully guaranteed as to

interest and principal by, the Federal National Mortgage Association, or guaranteed portions of Small Business Administration notes, or obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise;

(3) Any obligations which are then legal investments for moneys of the Water District under the laws of the State of California; provided, that if such investments are not required to be collateralized or insured, such investments shall be issued by entities the debt securities of which are rated in one of the two highest short-term or long-term rating categories by Moody's Investors Service and by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.; and provided further, that any repurchase agreements must be fully secured by collateral security described in clauses (i) and (ii) of this definition, which collateral (A) is held by the Water District, the Trustee or a third party agent during the term of such repurchase agreement and in which collateral the Water District or the Trustee, as applicable, has a perfected first security interest, (B) has a market value determined at least every thirty (30) days at least equal to one hundred ten per cent (110%) of the amount so invested, and (C) may be liquidated within seven (7) days if the market value of such collateral is at any time less than the amount so invested;

(4) Investment contracts with entities the debt securities of which are rated in one of the two highest long-term rating categories by Moody's Investors Service and by Standard & Poor's;

(5) Units of a money-market fund portfolio rated in one of the two highest rating categories by Moody's Investors Service or by Standard and Poor's, including funds for which the Trustee or its affiliates provide investment advisory or other management services, and, with respect to investments of less than one hundred thousand dollars (\$100,000), time or demand deposits which are maintained by a banking department of the Trustee or its affiliates so long as the Trustee or its parent has a combined capital and surplus of at least fifty million dollars (\$50,000,000);

(6) Tax-exempt obligations of a state or a political subdivision thereof which are rated in one of the two highest short-term or long-term rating categories by Moody's Investors Service and by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.;

(7) Tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by Moody's Investors Service and by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.;

(8) Investments in the Local Agency Investment Fund maintained by the Office of the California State Treasurer, which such investments shall only be invested in the special portion of the Local Agency Investment Fund for bond proceeds that are not subject to arbitrage restrictions; provided, that the Finance Director shall be designated as the authorized authority to transact these investments; and

(9) "Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

"Principal Office" means the designated corporate trust office of the Trustee, located in San Francisco, California; provided, however, for transfer, registration, exchange, payment and surrender of 2015 Bonds, "Principal Office" means care of the corporate trust operations office of U.S. Bank National Association in St. Paul, Minnesota, or such other office designated by the Trustee from time to time.

“Principal Payment Date” means a date on which a principal installment of the 2015 Installment Payments is due and payable.

“Project” means any additions; betterments, extensions or improvements to the Water System designated by the Board of Directors as a designated Project, the financing or refinancing of which is to be paid for by the proceeds of any Installment Purchase Contracts or Bonds.

“Purchase Price” means the principal amount plus the interest thereon owed by the Water District to the Authority under the conditions and terms of the Installment Purchase Contract.

“Rebate Fund” shall have the meaning given in the Tax Certificate.

“Record Date” means with respect to an Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date.

“Representation Letter” means the blanket letter of representations of the Authority to The Depository Trust Company, New York, New York.

“Reserved Rights” means the rights of the Authority under the 2015 Installment Purchase Contract with respect to reimbursement of costs and indemnification.

“Revenues” means all gross income and revenue received or receivable by the Water District from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, charges and connection fees received by the Water District for water and the other services of the Water System and all proceeds of insurance covering business interruption loss relating to the Water System and all other income and revenue howsoever derived by the Water District from the ownership or operation of the Water System, but excluding all proceeds of taxes and all refundable deposits made to establish credit and advances or contributions in aid of construction.

“Securities Depositories” means: The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041 0099 Attn. Call Notification Department, Fax (212) 855 7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as designated by the Authority to the Trustee.

“State” means the State of California.

“Supplemental Trust Agreement” means any trust agreement then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Trust Agreement or supplemental thereto, but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

“Tax Certificate” means the Tax Certificate delivered by the Water District and the Authority at the time of the issuance and delivery of the 2015 Bonds, as the same may be amended or supplemented in accordance with its terms.

“Trust Agreement” means that certain Trust Agreement, executed and entered into as of March 1, 2015, by and between the Trustee and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

“Trustee” means U.S. Bank National Association, acting in its capacity as trustee under and pursuant to the Trust Agreement, and its successors and assigns as provided in the Trust Agreement.

“Water District” means the Alameda County Water District, a county water district duly organized and existing under and by virtue of the laws of the State.

“Water District Revenue Fund” means the Alameda County Water District Water Revenue Fund now existing in the treasury of the Water District.

“2015 Acquisition Fund” means the fund by that name established pursuant to 2015 Installment Purchase Contract.

“2015 Costs of Issuance Fund” means the fund by that name established pursuant to the Trust Agreement. “DTC” means The Depository Trust Company, New York, New York, or any successor thereto.

“2015 Installment Payment Date” means any date on which 2015 Installment Payments are scheduled to be paid by the Water District under and pursuant to the Installment Purchase Contract.

“2015 Installment Payments” means the Installment Payments scheduled to be paid by the Water District under and pursuant to the Installment Purchase Contract.

“2015 Installment Purchase Contract” means that certain 2015 Installment Purchase Contract executed and entered into as of March 1, 2015, by and between the Authority and the Water District, as originally executed and entered into and as it may from time to time be amended in accordance with the Trust Agreement and therewith.

“2015 Water Projects” means the design, engineering, permitting and construction of additions, betterments, extensions and improvements to the Water System listed on Exhibit A of the Installment Purchase Contract.

“Water System” means all facilities for the pumping, storage, transmission and treatment of water now owned by the Water District and all other properties, structures or works hereafter acquired and constructed by the Water District and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

“Written Request of the Authority” means an instrument in writing signed by or on behalf of the Authority by its President, Vice President or Treasurer, or by any other officer of the Authority duly authorized by the governing board of the Authority to sign documents on its behalf under the Trust Agreement.

**SUMMARY OF CERTAIN PROVISIONS OF THE 2015  
INSTALLMENT PURCHASE CONTRACT**

The following is a summary of certain provisions of the 2015 Installment Purchase Contract. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the 2015 Installment Purchase Contract. The purpose of the 2015 Installment Purchase Contract is to finance the design acquisition and construction of the 2015 Water Projects.

**Design, Acquisition, Construction and Sale of the 2015 Water Projects**

The Authority agrees to design, acquire and construct the 2015 Water Projects for, and to sell the 2015 Water Projects to, the Water District. In order to implement this provision, the Authority appoints the Water District as its agent for the purpose of such design, acquisition and construction, and the Water District agrees to enter into such engineering, design and construction contracts and purchase orders as may be necessary, as agent for the Authority, to provide for the complete design, acquisition and construction of the 2015 Water Projects. The Water District agrees that as such agent it will cause the acquisition and construction of the 2015 Water Projects to be diligently completed after the deposit of funds in the Acquisition Fund for such purpose pursuant to the Trust Agreement. The Authority agrees to sell, and sells, the 2015 Water Projects to the Water District. The Water District agrees to purchase, and purchases, the 2015 Water Projects from the Authority. Notwithstanding the foregoing, it is expressly understood and agreed that the Authority shall be under no liability of any kind of character whatsoever for the payment of any costs or expenses incurred by the Water District (whether as agent for the Authority or otherwise) for the engineering, design, acquisition or construction of the 2015 Water Projects and that all such costs and expenses shall be paid by the Water District, regardless of whether the funds deposited in the Acquisition Fund are sufficient to cover all such costs.

**2015 Acquisition Fund**

The Authority agrees to cause proceeds of the 2015 Bonds to be transferred to the Water District, as provided in the Trust Agreement, for deposit in the 2015 Acquisition Fund, which fund is established and which fund the Water District agrees to maintain until the 2015 Water Projects have been acquired and constructed by the Water District, or until all amounts therein are expended towards such acquisition and construction. All money in the 2015 Acquisition Fund shall be applied by the Water District for the payment of the costs of the acquisition and construction of the 2015 Water Projects, payment of interest on the 2015 Installment Payments during the period during which the 2015 Water Projects are being acquired and constructed, and the incidental costs and expenses related thereto (including reimbursement to the Water District for any such costs or expenses paid by it). When the acquisition and construction of the 2015 Water Projects has been completed, the Water District shall deposit any remaining balance in the 2015 Acquisition Fund in the Water District Revenue Fund.

**2015 Purchase Price**

The 2015 Purchase Price to be paid by the Water District to the Authority is the sum of the principal amount of the Water District's obligation under the 2015 Installment Purchase Contract plus the interest to accrue on the unpaid balance of such principal amount over the term of the 2015 Installment Purchase Contract.

The interest to accrue on the unpaid balance of the principal amount of the 2015 Purchase Price shall be paid by the Water District and shall constitute interest paid on the principal amount of the Water District's 2015 Purchase Price obligation under the 2015 Installment Purchase Contract.

## **Payment of the 2015 Installment Payments**

The Water District shall, subject to prepayment as provided in the 2015 Installment Purchase Contract, pay the Authority the Purchase Price, without offset or deduction of any kind, by paying the principal installments of the 2015 Installment Payments annually in the amounts and on June 1 in each of the years and in accordance with the Installment Purchase Contract, together with interest installments of the 2015 Installment Payments, which interest installments shall be paid on each applicable Interest Payment Date.

The obligation of the Water District to pay the Purchase Price by paying the 2015 Installment Payments is, subject to the provisions of the 2015 Installment Payments, absolute and unconditional, and until such time as the 2015 Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2015 Installment Payments), the Water District will not discontinue or suspend any 2015 Installment Payments required to be paid by it under the 2015 Installment Payments when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

## **Covenants of the Water District**

*Compliance with the 2015 Installment Purchase Contract and the Trust Agreement.* The Water District will punctually pay the 2015 Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be observed and performed by it, and will not terminate the 2015 Installment Purchase Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2015 Water Projects or the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including Acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The Water District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the 2015 Installment Purchase Contract and the Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the Water District to pay the Purchase Price pursuant to, and in accordance with, and as authorized under law and the 2015 Installment Purchase Contract.

## **Events of Default**

Each of the following events constitutes an Event of Default under the 2015 Installment Purchase Contract:

(1) the Water District shall default in the due and punctual payment of any 2015 Installment Payment when and as the same shall become due and payable;

(2) the Water District shall default in the performance of any of the agreements or covenants contained in the Installment Purchase Contract or in the Trust Agreement required to be performed by it, and such default shall have continued for a period of sixty (60) days after the Water District shall have been given notice in writing of such default by the Authority or the Trustee; and

(3) the Water District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Water District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Water District or of the whole or any substantial part of its property.

### **Remedies; No Acceleration**

Upon the occurrence of an Event of Default, the Trustee, as assignee of the Authority, shall have the right—

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Water District or any member of the Board of Directors, officer or employee thereof, and to compel the Water District or any such member of the Board of Directors, officer or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him under the 2015 Installment Purchase Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority or the Trustee; or

(c) by suit in equity upon the happening of an Event of Default to require the Water District and its members of the Board of Directors, officers and employees to account as the trustee of an express trust.

Notwithstanding the above, the Trustee shall have no right to declare the principal or interest component of any 2015 Installment Payment to be due and payable immediately.

### **Discharge of Obligations**

(a) If the Water District shall pay or cause to be paid all the 2015 Installment Payments at the times and in the manner provided in the Installment Purchase Contract, the right, title and interest of the Authority herein and the obligations of the Water District hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied, except only as provided in subsection (c).

(b) Any unpaid principal installment of the 2015 Installment Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the Water District makes payment of such 2015 Installment Payments and the prepayment premium, if applicable, in the manner provided in the 2015 Installment Purchase Contract.

(c) All or any portion of unpaid principal installments of the 2015 Installment Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section (except that the Water District shall remain liable for such 2015 Installment Payments, but only out of such money or securities deposited with the Trustee for such payment), if (i) notice is provided by the Water District to the Trustee as required by the Trust Agreement, and (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities or tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are then rated in the highest rating category by Moody's Investors Service, Inc., the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such 2015 Installment Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto.

(d) After the payment of all 2015 Installment Payments and prepayment premiums, if any, as provided in this section, and payment of all fees and expenses of the Trustee and the Certificate Insurer, the Trustee, upon request of the Water District, shall cause an accounting for such period or periods as may be requested by the Water District to be prepared and filed with the Water District, the Authority and shall execute and deliver to the Water District and the Authority all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the 2015 Installment Purchase Contract, and the Trustee shall pay over and deliver to the Water District, as an overpayment of 2015 Installment Payments, all such money or investments held by it pursuant to the Installment Purchase Contract other than such money and such investments as are required for the payment or prepayment of the 2015 Installment Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the 2015 Installment Payments and shall be applied by the Trustee pursuant to the Trust Agreement.

### **Liability of Water District Limited to Net Revenues**

The Water District is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the 2015 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the 2015 Installment Purchase Contract. The Water District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Water District for such purpose.

The obligation of the Water District to make the 2015 Installment Payments is a special obligation of the Water District payable solely from the Net Revenues as provided in the 2015 Installment Purchase Contract, and does not constitute a debt of the Water District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

### **Assignment**

The 2015 Installment Purchase Contract and the Authority's rights under the Installment Purchase Contract (except the rights of the Authority set forth in the Installment Purchase Contract with respect to reimbursement of costs and indemnification) shall be assigned by the Authority to the Trustee as provided in the Trust Agreement, to which assignment the Water District expressly acknowledges and consents.

## SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Certain provisions of the Trust Agreement setting forth the terms of the 2015 Bonds, the redemption provisions thereof and the use of the proceeds of the 2015 Bonds are set forth elsewhere in this Official Statement. See “THE 2015 BONDS.”

### **Revenues**

***Pledge of Authority Revenues.*** All Authority Revenues and any other amounts held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest and redemption premium, if any, on and principal of the 2015 Bonds as provided in the Trust Agreement, and the Authority Revenues shall not be used for any other purpose while any of the 2015 Bonds remain Outstanding; provided, however, that out of the Authority Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. This pledge shall constitute a first pledge of and charge and lien upon the Authority Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest and redemption premium, if any, on and principal of the 2015 Bonds in accordance with the terms of the Trust Agreement and the 2015 Bonds. In the Trust Agreement, the Authority assigned to the Trustee all of the Authority’s rights and remedies under the 2015 Installment Purchase Contract (other than the Reserved Rights); such assignment shall confer no duties or obligations of the Authority upon the Trustee and shall be subject to the provisions of the Trust Agreement.

***Receipt and Deposit of Authority Revenues in the Authority Revenue Fund.*** In order to carry out and effectuate the pledge, charge and lien contained in the Trust Agreement, the Authority agrees and covenants that all Authority Revenues when and as received shall be received by the Authority in trust under the Trust Agreement for the benefit of the Holders and shall be transferred when and as received by the Authority to the Trustee for deposit in the Authority Revenue Fund (the “Authority Revenue Fund”), which fund is created and which fund the Trustee agrees and covenants to maintain so long as any Bonds shall be Outstanding under the Trust Agreement. All Authority Revenues shall be accounted for through and held in trust in the Authority Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Authority Revenues except only as provided in the Trust Agreement. All Authority Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Trust Agreement, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses as set forth in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

***Establishment and Maintenance of Accounts for Use of Money in the Authority Revenue Fund.*** Subject to the Trust Agreement, all money in the Authority Revenue Fund shall be set aside by the Trustee in the following respective special accounts or funds within the Authority Revenue Fund (each of which is created and each of which the Trustee agrees to cause to be maintained) in the following order of priority:

- (a) Interest Account, and
- (b) Principal Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes thereafter authorized in the Trust Agreement.

***Interest Account.*** On each June 1 and December 1, commencing June 1, 2015, the Trustee shall set aside from the Authority Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such June 1 and December 1, as the case may be.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2015 Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

***Principal Account.*** On each June 1, the Trustee shall set aside from the Authority Revenue Fund and deposit in the Principal Account an amount of money equal to the principal amount of all Outstanding Serial Bonds maturing or becoming subject to mandatory sinking account redemption on such June 1.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing or becoming subject to mandatory sinking account redemption by their terms on such June 1.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the 2015 Bonds as they shall become due and payable, whether at maturity or redemption.

***Deposit and Investments of Money in Accounts and Funds.*** Subject to the Trust Agreement, all money held by the Trustee in any of the accounts or funds established pursuant to the Trust Agreement shall be invested in Permitted Investments at the Written Request of the Authority. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement. Subject to the Trust Agreement with respect to tax covenants, all interest or profits received shall be deposited in the Authority Revenue Fund.

The Trustee may commingle the funds and accounts established under the Trust Agreement for investment purposes, but shall account for each separately. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and shall be entitled to its customary fees therefor. In the absence of written investment instructions from the Authority, the Trustee shall (i) notify the Authority in writing that it does not have investment instructions, and (ii) until such instructions are received, invest in those investments described in clause (5) of the definition of Permitted Investments. The Trustee shall not be liable for any loss for any investment made in accordance with the Trust Agreement.

***Accounting Records and Statements.*** The Trustee shall keep proper books of record and account in accordance with industry standards in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, investment, disbursement, allocation and application of the Authority Revenues and the proceeds of the 2015 Bonds. Such records shall be open to inspection by the Authority, the Water District and by any Holder at any reasonable time during regular business hours on reasonable notice. Not later than the fifteenth (15th) day of each month, commencing April 15, 2015, and continuing so long as any Bonds are Outstanding, the Trustee will furnish to the

Authority and to the Water District a complete statement covering the receipts, deposits and disbursements of the funds held by the Trustee under the Trust Agreement for the preceding month.

### **Covenants of the Authority; Assignment to Trustee**

***Punctual Payment and Performance.*** The Authority will punctually pay out of the Authority Revenues the interest, redemption premium, if any, and principal to become due on every Bond issued under the Trust Agreement in strict conformity with the terms thereof and of the 2015 Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Authority contained in the Trust Agreement and in the 2015 Bonds.

***Against Encumbrances.*** The Authority will not make any pledge of or place any charge or lien upon the Authority Revenues except as provided in the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Authority Revenues or secured by a pledge of or charge or lien upon the Authority Revenues except the 2015 Bonds.

***Tax Covenants.*** (a) The Authority covenants that it shall not take any action, or fail to take any action, if such action or failure, to take such action would adversely affect the exclusion from gross income of the interest payable on the 2015 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority covenants that it will comply with the requirements of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth therein. This covenant shall survive payment in full or defeasance of the 2015 Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of this section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement, the Authority shall so instruct the Trustee under the Trust Agreement in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of this section, if the Authority shall provide to the Trustee an Opinion of Counsel of recognized standing in the field of law relating to municipal financing that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the 2015 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Trust Agreement with respect to tax covenants and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

***Accounting Records and Reports.*** The Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Authority Revenues, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the Authority shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year. The Authority shall also keep or cause to be kept such other information as required under the Tax Certificate. The Trustee shall have no duty to review or examine such statement.

***Prosecution and Defense of Suits.*** The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Authority Revenues or to the extent involving the failure of the Authority to fulfill its obligations under the Trust Agreement; provided that the Trustee or any affected

Holder at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the Authority, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Trust Agreement, except for any loss, cost, damage or expense resulting from the active or passive negligence or willful misconduct of the Trustee. Notwithstanding any contrary provision of the Trust Agreement, this covenant shall remain in full force and effect even though all Bonds secured by the Trust Agreement may have been fully paid and satisfied.

***Further Assurances.*** Whenever and so often as reasonably requested to do so by the Trustee or any Holder, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them under the Trust Agreement.

***Assignment to Trustee; Enforcement of Obligations.*** (a) Pursuant to the Trust Agreement, the Authority, for good and valuable consideration, unconditionally grants, transfers and assigns to the Trustee, without recourse, all of its rights, title and interest under the 2015 Installment Purchase Contract, except the Reserved Rights.

(b) Subject to the terms of the Trust Agreement, the Trustee also shall be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the 2015 Installment Purchase Contract and (2) to assure compliance with all covenants, agreements and conditions on the part of the Authority contained in the Trust Agreement with respect to the Authority Revenues.

### **Amendment of the Trust Agreement**

***Amendment of the Trust Agreement.*** The Trust Agreement and the rights and obligations of the Authority and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in aggregate principal amount of the 2015 Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Holder of such Bond, or (2) permit the creation by the Authority of any pledge of or charge or lien upon the Authority Revenues as provided in the Trust Agreement superior to or on a parity with the pledge, charge and lien created by the Trust Agreement for the benefit of the 2015 Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the Trustee, the Authority or the Water District without their prior written assent thereto, respectively.

The Trust Agreement and the rights and obligations of the Authority and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of the Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required under the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved therein to or conferred therein on the Authority;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising thereunder which the Authority may deem desirable or necessary and not inconsistent with the Trust Agreement; or

(c) to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939.

***Disqualified Bonds.*** Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided therein.

***Endorsement or Replacement of Bonds After Amendment.*** After the effective date of any action taken as provided in the Trust Agreement, the Authority may determine that the 2015 Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Holder of any Outstanding Bonds and presentation of the Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Holder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

***Amendment by Mutual Consent.*** The Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

### **Amendment of the 2015 Installment Purchase Contract**

The Authority shall not supplement, amend, modify or terminate any of the terms of the 2015 Installment Purchase Contract, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee, which consent shall be given only if the Trustee has been furnished an Opinion of Counsel or a Certificate of the Authority to the effect that such amendment or supplement is not materially adverse to the interests of the Holders, including, but not limited to, amendments or supplements (i) to add to the agreements and covenants of either party other agreements and covenants to be observed, or to surrender any right or power therein reserved to the Water District, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to resolve questions arising thereunder as the parties thereto may deem necessary or desirable and which do not adversely affect the interests of the Holders; provided, that the Trustee may consent to any amendment of or supplement to the 2015 Installment Purchase Contract if it first obtains the written consent of the Holders of at least a majority in aggregate principal amount of the 2015 Bonds then Outstanding to such amendment or supplement.

### **Events of Default and Remedies**

***Events of Default and Acceleration of Maturities.*** If one or more of the following events (therein called “Events of Default”) shall happen, that is to say:

(a) if default shall be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the Authority in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Authority in the performance of any of the other agreements or covenants required in the Trust Agreement to be performed by the Authority, and such default shall have continued for a period of thirty (30) days after the Authority shall have been given notice in writing of such default by the Trustee;

(d) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; or

(e) if an Event of Default has occurred under the 2015 Installment Purchase Contract;

then and in each and every such case during the continuance of such event of default the Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the 2015 Bonds then Outstanding shall, by notice in writing to the Authority, declare the principal of all 2015 Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the 2015 Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing.

This provision, however, is subject to the condition that if at any time after the principal of the 2015 Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the 2015 Bonds and all principal of 2015 Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on .and principal of the 2015 Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than fifty-one percent (51%) in aggregate principal amount of 2015 Bonds then Outstanding, by written notice to the Authority and to the Trustee, may on behalf of the Holders of all the 2015 Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Upon the occurrence of an Event or Default of the 2015 Installment Purchase Contract, the Trustee may exercise any of the remedies provided for therein, which remedies do not include any right to declare any 2015 Installment Payments to be due and payable immediately.

***Application of Funds Upon Acceleration.*** All moneys in the accounts and funds provided in the Trust Agreement upon the date of the declaration of acceleration by the Trustee as provided in the Trust Agreement with respect to events of default and acceleration of maturities and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order--

First, to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel, and to the payment of the fees, costs and expenses of the Trustee, if any, in carrying out the provisions of the Trust Agreement relating to Events of Default, including reasonable compensation to its accountants and counsel; and

Second, upon presentation of the several Bonds and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the 2015 Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such 2015 Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the 2015 Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

***Institution of Legal Proceedings by Trustee.*** If one or more of the events of default shall happen and be continuing, the Trustee may, and upon the written request of the Holders of a majority in principal amount of the 2015 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power therein or therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

***Non-Waiver.*** Nothing in the Trust Agreement or in any other provision thereof or in the 2015 Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest and redemption premiums, if any, on and principal of the 2015 Bonds to the respective Holders of the 2015 Bonds at the respective dates of maturity or upon prior redemption as provided in the Trust Agreement from the Authority Revenues as provided therein pledged for such payment, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Trust Agreement and in the 2015 Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Holders by the Act or by the Trust Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Authority, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

***Actions by Trustee as Attorney-in-Fact.*** Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is appointed (and the any successive Holders, by taking and holding the 2015 Bonds issued under

the Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

***Remedies Not Exclusive.*** No remedy conferred in the Trust Agreement upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

***Limitation on Bondholders' Right to Sue.*** No Holder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined under the Trust Agreement; (b) the Holders of at least a majority in aggregate principal amount of all the 2015 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) said Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any owner of Bonds of any remedy under the Trust Agreement; it being understood and intended that no one or more owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided therein, and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner provided therein and for the equal benefit of all Holders of the Outstanding 2015 Bonds.

## **Defeasance**

***Discharge of Bonds.*** (a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding 2015 Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Trust Agreement and therein, then the Holders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Authority Revenues as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Authority to the Holders of such 2015 Bonds under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and redemption premium, if any, on and principal of such 2015 Bonds.

(b) Any Outstanding 2015 Bond shall prior to their dates or their dates of redemption prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (1) in case any of such are to be redeemed on any date prior to their maturity dates, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption in accordance with the Trust Agreement to the Holders of such 2015 Bonds of the redemption of such 2015 Bonds on such redemption dates, (2) there shall have been deposited with the Trustee

pursuant to an escrow agreement either money in an amount which shall be sufficient, or Federal Securities or tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a Division of The McGraw- Hill Companies, Inc., the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the interest on and prior to their maturity date or date of redemption prior thereto, and redemption premium, if any, on and the principal of such 2015 Bonds, and (3) in the event such 2015 Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice to the Holders of such 2015 Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Trust Agreement and stating their maturity dates or their dates of redemption prior thereto upon which money is to be available for the payment of the interest and redemption premium, if any, on and principal of such 2015 Bonds. Upon satisfaction of the foregoing conditions with respect to any Bond, the Trustee shall deliver to the Authority a certificate evidencing the discharge of the Authority's obligations with respect thereto.

(c) After the payment of all interest on and principal of all Outstanding 2015 Bonds as provided in subsections (a) or (b) above, and the payment of all fees and expenses of the Trustee, the Trustee, upon receipt of a Request of the Authority, shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the agency and the Water District and shall execute and deliver to the Authority and the Water District all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the Authority all money or investments held by it pursuant to the Trust Agreement which are not required for the payment of interest redemption premium, if any, or principal which money and investments shall be used by the Authority for any lawful purpose.

## **Miscellaneous**

***Liability of Authority Limited to Authority Revenues.*** Notwithstanding anything contained in the Trust Agreement, the Authority shall not be required to advance any money derived from any source other than the Authority Revenues as provided in the Trust Agreement for the payment of the interest on or principal of or redemption premiums, if any, on the 2015 Bonds or for the performance of any agreements or covenants contained therein. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The 2015 Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Authority Revenues as provided in the Trust Agreement, and the Authority is not obligated to pay them except from the Authority Revenues. All the 2015 Bonds are equally secured by a pledge of and charge and lien upon the Authority Revenues, and the Authority Revenues constitute a trust fund for the security and payment of the interest and redemption premium, if any, on and principal of the 2015 Bonds as provided in the Trust Agreement. The 2015 Bonds are not a debt of the Water District or the State or any of its political subdivisions, and neither the Authority, the Water District, said State nor any of its political subdivisions is liable thereon, nor in any event shall the 2015 Bonds be payable out of any funds or properties other than those of the Authority as provided in the Trust Agreement. The 2015 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

***Benefits of the Trust Agreement Limited to Parties.*** Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Authority, the Trustee and the

Holders any right, remedy or claim under or by reason of the Trust Agreement; provided, the Water District shall be a third party beneficiary of the Trust Agreement. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee, the Holders and the Water District.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE WATER DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



Alameda County Water District  
Fremont, California

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended ~ June 30, 2014 and June 30, 2013

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**OF THE**

**ALAMEDA COUNTY WATER DISTRICT**

**FOR THE YEARS ENDED**

**JUNE 30, 2014 and JUNE 30, 2013**

**P.O. Box 5110  
43885 South Grimmer Boulevard  
Fremont, California 94537**

PREPARED BY THE FINANCE DEPARTMENT

**Alameda County Water District  
 Comprehensive Annual Financial Report  
 For the years ended June 30, 2014 and 2013**

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# INTRODUCTORY SECTION

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**DIRECTORS**

**PAUL SETHY**  
President

**MARTIN L. KOLLER**  
Vice President

**JAMES G. GUNTHER**

**JUDY C. HUANG**

**JOHN H. WEED**

October 3, 2014

43885 SOUTH GRIMMER BOULEVARD • P.O. BOX 5110, FREMONT, CALIFORNIA 94537-5110  
(510) 668-4200 • FAX (510) 770-1793 • [www.acwd.org](http://www.acwd.org)

**MANAGEMENT**

**WALTER L. WADLOW**  
General Manager

**ROBERT SHAVER**  
Assistant General Manager-Engineering

**SHELLEY BURGETT**  
Manager of Finance

**STEVE PETERSON**  
Manager of Operations and Maintenance

To the Board of Directors and Our Customers:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Alameda County Water District (District) for the years ended June 30, 2014 and 2013.

We believe the report presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position, the changes in financial position and the cash flows of the District and that all disclosures necessary to enable the reader to gain the maximum understanding of the District's financial activity have been included. Additionally, the financial section of the report includes a detailed discussion and analysis by management of the District's financial performance for fiscal years ended June 30, 2014 and 2013. Responsibility for both the accuracy of the presented data and the completeness and the fairness of the presentation, including all disclosures, rests with the District.

The CAFR follows the financial reporting guidelines recommended by the Government Finance Officers Association of the United States and Canada.

**THE REPORTING ENTITY**

The District was established as a special district in 1913 by a vote of the people to ensure a continuous supply of quality water for agricultural and urban purposes. The District was the first agency formed under the State of California's County Water District Act. Since its founding, the District has been a water conservation agency. It is responsible for maintaining the groundwater supply in the Niles Cone Groundwater Basin, which underlies southern Alameda County, including the cities of Fremont, Newark and Union City.

Since 1930, the District has also been a water distribution agency. From the purchase of a small water distribution system in Alvarado (now part of Union City), the District has expanded to serve almost all of the area covered by its conservation activities. The District produces, stores, treats and distributes water for a population of approximately 340,000 people in southern Alameda County. The District covers approximately 100 square miles and, as of June 2014, provided water service through over 81,200 connections.

The District's current water production is approximately 47,600 acre-feet per year. Water is provided to the District from four sources: 1) groundwater from the Niles Cone Groundwater Basin (including fresh groundwater from two wellfields and desalination of brackish groundwater); 2) surface water from the Del Valle Reservoir; 3) water imported from the State of California's State Water Project; and 4) water imported from the San Francisco Regional Water System. The amount of water available from each of these sources is highly variable in any given year due to hydrologic conditions and other factors. Assuming wet local conditions and full delivery of imported water supplies, these four sources may provide up to a maximum of approximately 90,000 acre-feet per year.

The District is governed by a five-member Board of Directors elected at-large from within the District's service area. The Board of Directors appoints the General Manager who is responsible for the administration of the District through its five departments - Office of the General Manager, Administrative Services, Engineering, Finance, and Operations & Maintenance. The General Manager's Office organizes and directs District activities in accordance with the Board's policies. The District has an authorized staff of 239 full-time employees.

The Alameda County Water District Public Facilities Financing Corporation, a component unit of the District, was established in 1992 to issue debt for the benefit of the District. In addition, the Alameda County Water District Financing Authority, a joint powers authority with Union Sanitary District, was formed in 2011 to enable the issuance of the 2012 Water System Revenue Bonds.

### **Alameda County Water District Mission Statement**

It is the mission of the District to provide a reliable supply of high quality water at a reasonable price to our customers. To fulfill this mission, the District will:

- Provide prompt, courteous and responsive customer service.
- Ensure that sound, responsible financial management practices are observed in the conduct of District business.
- Plan, design and operate facilities efficiently, effectively and safely, bearing in mind the District's responsibility to be a good neighbor and a good steward of the environment.
- Promote ethical behavior in the conduct of District affairs, and facilitate the public's involvement in the planning and development of District policy.
- Recruit and retain a qualified, productive workforce and maintain a workplace environment where diversity and excellence are valued and where creativity, teamwork, and open communication are actively encouraged.

### **SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**

#### ***Successfully Managed the Impacts of the Worst Drought in 150 Years***

The ongoing drought, the most severe dry spell in California's 164 year history, ranked as the number one challenge faced by the District during the fiscal year ended June 30, 2014. The District has tackled the drought head-on, with the Board of Directors, the management team, and all employees engaged in efforts to keep the water flowing to customers at the most reasonable cost given the short supply.

The District began tracking dry year conditions in late 2013 and convened a dry year planning team to identify specific actions that could be taken to reduce the impact of the drought on the District's customers. This group met frequently to discuss the scheduling of water deliveries, water transfers, water rates, drought communication, and the District's drought contingency planning. Concrete actions soon followed.

In early January 2014, as a result of continued dry conditions, the District requested that customers be diligent with their conservation efforts. Then, on January 17, 2014, Governor Brown declared a State of Drought Emergency. In response, the District immediately sent a mailer not only to its customers, but to every address in its service area, requesting a voluntary 20% reduction in water use. Less than two months later, on March 13, 2014, the District adopted a Water Shortage Emergency Ordinance that prohibited wasteful uses of water and limited landscape irrigation in order to achieve a 20% service area-wide reduction in water use. All residents and businesses in the Tri-City area were notified of the Ordinance through a mailer. Postcards, presentations to civic groups and governmental entities, and press releases were also used to inform the public of their responsibilities in combating the effects of the drought. These efforts have been successful, for the District has achieved its goal of a 20% overall reduction in water use.

These successful efforts, however, required the hiring of several temporary staff people to handle a fivefold increase in customer inquiries related to the Ordinance and the District's water conservation programs. The Turf Replacement Program saw a three-fold increase in participation from 2013 to 2014, while four times as many water conservation kits were distributed in the first half of 2014, as compared to the first half of 2013. All other programs have also experienced a significant increase in activity compared to the previous fiscal year. Additional staff also assisted with responding to water waste reports and Ordinance violation reports from the public. To date, over 800 notices have been sent to customers regarding possible violations of the Ordinance.

While Water Conservation and Public Outreach staff endeavored to change water use behavior, Water Resources Planning and Operations and Maintenance staff endeavored to secure and maintain an adequate water supply. Suspension of discretionary water uses by the District, such as routine water main cleaning to minimize discolored water complaints, was one of the first actions taken by the District.

On the supply side of the equation, purchases of San Francisco Public Utilities Commission (SFPUC) water were increased to offset the State Department of Water Resources' (DWR) initial allocation of 5% of the District's 42,000 acre feet of Table A contract water. The 5% allocation was subsequently reduced to a 0% allocation. DWR then began to identify how much water would be required to meet health and safety needs, and in early spring raised the State Water Project (SWP) allocation back to 5% for deliveries starting September 1, 2014.

In January 2014, a pilot water exchange involving the purchase of 1,000 acre feet of Contra Costa Water District's Los Vaqueros Reservoir water was expanded to 5,000 acre feet just before Governor Brown proclaimed a Drought State of Emergency. The purchased water helped to maintain water treatment capacity at needed levels of production and enabled groundwater recharge in the late summer. Also in early 2014, the District was successful in transferring a modest amount of Semitropic banked water (412 AF) before Delta pumping necessary for such transfers was suspended by DWR due to the drought. Semitropic banked water is also scheduled to be delivered to the District throughout the fall months.

Managing demands and ensuring an adequate water supply form only one side of the drought challenge. The other side is determining the financial impacts of increased water supply costs and significantly reduced demands, and then determining the best financial path to follow. The District's Board members, staff, and outside consultants worked diligently over almost half a year, starting in February 2014, analyzing and discussing the financial ramifications of the drought and ways to mitigate its negative impact on cash flow. The Board held two workshops, a public hearing, and met a number of times in committee regarding these matters. These meetings were open to the public and a number of people from the service area participated in them. The District utilized the nationally recognized consulting firm, Raftelis Financial Consultants (RFC) to help research, model, and review numerous scenarios, options, and alternatives.

After careful deliberation and discussion, the Board adopted a drought surcharge in July of 2014. This new rate structure includes a drought surcharge in a three-tier inclining block format for all single-family residential customers and a uniform surcharge for all other distribution customer classes. To help offset the negative cash flow effects of the drought, the District made budget cuts, including eliminating or holding open positions; deferred construction of lower priority capital projects over the next several years; and will utilize an existing \$10 million Emergency/Rate Stabilization Fund. A new bond issuance of approximately \$25 million is being considered to fund high priority capital projects as borrowing rates are still at historically low levels.

Overall, the District has pulled together to meet the challenge of this unprecedented drought and to mitigate, as much as possible, its effects on the customers of the District.

### ***Improved Customer Service***

The District's website features interactive elements and enables customers to access District information and link to a new Customer Information System with self-service options such as enrolling for paperless billing and viewing bills on-line. The District maintains Facebook and Twitter accounts and monitors several local blogs, using this technology to regularly disseminate information and communicate with customers.

A program offering exterior pipeline insurance coverage to residential customers through Home Emergency Insurance Solutions (HEIS) continued in the fiscal year ended June 30, 2014. HEIS is responsible for all aspects of the program: marketing, billing, claims, and conflict resolutions. The District has received \$141,900 of non-commodity revenue from the program since its inception two years ago. A part of this non-commodity revenue is used to help fund the Water Savings Assistance Program for low-income customers. Through June of 2014, 6,700 customers had signed up for the program and 184 repairs/replacements had been completed, with a customer overall satisfaction rating of 93%.

### ***Maintained High Water Quality***

Local groundwater, on average, accounts for approximately 40% of the District's water supply. To ensure the quality of this important source of supply, the District maintains one of the most comprehensive groundwater protection programs in the State.

During the fiscal year ended June 30, 2014, the District accomplished the following groundwater quality initiatives:

- Closed 15 cases in the Groundwater Protection Program as part of its effort to protect the quality of the District's groundwater resources.
- Conducted 823 inspections of drilling operations to ensure compliance with the District's Ordinance "to Regulate Wells, Exploratory Holes, and Other Excavations Within the Cities of Fremont, Newark, and Union City."
- Finalized an agreement with the State Department of Water Resources for a \$225,000 Local Groundwater Management Assistance Grant to construct 6 groundwater monitoring wells and collect groundwater samples for chemical characterization analysis (Niles Cone Saltwater Intrusion and Aquifer Characterization Project).
- Designated as a Groundwater Guardian Affiliate by the Groundwater Foundation for the 16<sup>th</sup> year in a row.

Over the past twenty years, the District has made significant capital investments to its production facilities and distribution system. These improvements now allow the District to serve all of its customers with water that, on average, does not exceed hardness levels of 150 ppm. In addition, the District assured the quality of the Tri-City area water by conducting approximately 31,600 water quality analyses and by complying with all state and federal water quality monitoring regulations. In 2014, the District's Mission San Jose Water Treatment Plant achieved the 15 Year Director's Award from the *Partnership for Safe Water*, demonstrating our ongoing commitment to protecting public health.

### ***Ensured Water Supply, Production, and Distribution Reliability***

During the fiscal year ended June 30, 2014, the District produced 46,700 acre feet of water for use by the residents and businesses in Fremont, Newark, and Union City.

Much of the District's water infrastructure is aging and susceptible to damage as a result of ground shaking and ground failure due to earthquakes. Accordingly, the District has embarked on a Main Replacement and Seismic Upgrade Program (MRSUP) which will 1) improve the overall seismic reliability of the District's distribution system by strategically making improvements in areas of potential seismic induced-earth movement, 2) improve fire flows in the older portions of the service area that are currently served by

mains that do not meet current standards, and 3) improve the seismic reliability of its distribution storage and production facilities. As part of the MRSUP, the District, over the past year, has seismically retrofitted 6 of 15 large diameter pipelines planned for seismic strengthening along 8.5 miles of the Hayward Fault; replaced approximately 4,500 feet of pipeline to improve flows and ensure better fire protection in one of the older residential areas of Fremont; replaced the existing roof of a 4.3 million gallon water storage reservoir to meet current seismic codes and increase the likelihood the reservoir can remain operational after an earthquake; and completed the installation of a backup power system at the District's 45 million gallon per day blended water production facility.

The District also improved the reliability of distribution storage by replacing the existing roof on the Mayhew Reservoir. Mayhew Reservoir is one of the District's upper zone storage facilities and has a capacity of 4.3 million gallons. The new roof is designed to compensate for movement in a seismic event.

The District improved the reliability of the disinfection process at Water Treatment Plant 2 (WTP2) by upgrading an air fed 20 year old ozone generation system to a liquid oxygen fed system (LOX). The original equipment had reached the end of its useful life. The new state-of-the-art LOX system will save energy, reduce maintenance costs, and has higher reliability, which will enable WTP2 to continue to produce high quality water that meets or exceeds all state and federal drinking water standards for years to come.

#### ***Improved Agency Productivity and Efficiency***

During the fiscal year ended June 30, 2014, the Advanced Metering Infrastructure (AMI) pilot completed a number of tasks used to evaluate the system. Almost 400 meter transmitter units (MTU) were installed on 1-1/2 and 2 inch meters to be able to transmit hourly meter readings on a daily basis. The AMI transmittal as well as collection systems have shown to be very reliable. A sample customer portal has been developed and is ready to be tested and the billing system interface with the meter readings has been programmed in the Customer Information System, Cayenta Utilities. An evaluation report will be completed once the customer portal, as well as billing interface is demonstrated, and testing of the AMI monitoring system by Meter Reading is completed. The AMI capital project to install ~6,800 MTUs on commercial and industrial meters has been deferred for up to four years by the Board of Directors as part of the capital project deferral portion of the Drought Response Plan.

The District upgraded its Enterprise Asset Management System (EAMS) to the JD Edwards 9.1 version for vertical assets and structures throughout the District. The new system gives staff greater accessibility and capability to update equipment and maintenance records, thus increasing overall efficiency and productivity.

The District started the process of implementing a Graphical Interface System (GIS) based EAMS to manage horizontal assets, i.e., pipelines, valves and other appurtenances and the system is scheduled to "go-live" during the first quarter of 2015 and will enable the mapping of work orders and mobile dispatching of work to help enhance response to customer calls and water leaks.

Through its "Future of ACWD" program, the District began implementing 27 employee-generated ideas to increase productivity and develop new revenue streams. Over \$540,000 of savings or additional revenue have been realized so far. The overall goal of the program is to allow employees to help create a more resilient business model for the District.

Additionally, in the fiscal year ended June 30, 2014, the District received the Certificate of Achievement of Excellence in Financial Reporting for the 15<sup>th</sup> consecutive year.

### ***Promoted Conservation and Improved Public Awareness of Water Issues***

Water Conservation extends water supplies, benefits the environment, helps keep water rates down, and allows the District to “bank” water for dry years. To encourage customers to save water, the District continued the following ongoing water conservation programs during the fiscal year ended June 30, 2014:

- Water savings assistance was offered to low income single-family residential homeowner customers through a no-cost water survey and water-efficient fixture and toilet installation program.
- On-site indoor and outdoor water use efficiency surveys were offered to residential, business, and industrial customers.
- Rebates for replacing turf grass with water efficient landscaping were offered to residential and commercial customers.
- Rebates for the purchase of water conserving clothes washers were offered to residential and commercial customers.
- Rebates for the purchase of weather-based irrigation controllers were offered to commercial customers.
- Water conserving devices and measures (showerheads, faucet aerators, flappers and leak detection tablets) were distributed to residential and commercial customers in the District’s service area.
- Water saving tips and other conservation-related information were distributed to customers through the District’s customer newsletter, the ACWD *Aqueduct*, the website and through the new, redesigned customer water bill.
- Water conservation literature was distributed to all customers as requested.
- Additional information about a customer’s water usage, as compared to the average in their lot size grouping, was provided on the redesigned water bill.
- Rebates for the purchase of High Efficiency Toilets (HETs) and Urinals (HEUs) were offered to commercial, institutional and industrial customers.
- Through the Designated Landscape Program, which provides landscape water use reports and on-site landscape surveys, District staff worked with large landscape accounts to improve irrigation efficiency. Awards were offered to participants that demonstrated water use efficiency.
- Water efficient landscape planning and conversion workshops and classes were held in partnership with other agencies.
- Renovations to the District’s Drought Tolerant Demonstration Garden began and employee composting program continued. These activities were promoted to customers to encourage water efficient landscaping.
- Leak detection through meter reader alerts was performed.
- Press releases were distributed to promote conservation and the conservation programs available to District customers.
- Conservation staff presented conservation and drought related information to the public through community group meetings and events.
- Drought related activities began in early January and ramped up throughout the first part of 2014. Activities included declaring a water shortage emergency and adopting an Ordinance with water use restrictions geared toward wasteful and non-essential use including limitations on landscape irrigation. A targeted mailing was sent to landscape contractors and large landscape sites.
- Began development on a Home Water Use reporting program through WaterSmart Software to be launched late summer 2014.

### ***School Education Program***

The District’s School Education Program provides local school classrooms with educational resources that stress the various facets of water science and water management, with the objective of producing citizens capable of making informed decisions regarding state and local water resources. During the fiscal year ended June 30, 2014, the District continued its educational outreach within its service area by:

- Presenting water education programs to over 4,500 students in 152 classrooms.

- Promoting Groundwater Awareness Week by giving a presentation to four Advanced Placement Environmental Science classes at two local high schools.
- Conducting a tour of ACWD's groundwater facilities for a California State University, East Bay Environmental Hydrogeology class.
- Distributing more than 62,000 pieces of printed educational material to teachers and students.
- Sponsoring 55 performances of ZunZun's latest water conservation theater program which was viewed by over 14,000 students at 27 schools.
- Training teachers in the use of popular water education curriculum guides.
- Sponsoring its annual Water Conservation Poster and Slogan Contest in which over 1,770 students vied for the opportunity to have their creations included in the 2014-2015 ACWD Water Conservation Calendar.
- Conducting a Water Conservation Video Contest for local high school students.
- Offering Water Education Mini-Grants to local teachers for the development of water-related curricula, the planting of xeriscape gardens, the funding of water-related field trips, etc.
- For adults, the District is a sponsor for Leadership Fremont, a program which allows a diverse group of individuals from all sectors of our community to increase their understanding of the complex issues facing the region and how various governing bodies interact and affect solutions. More specifically, the District leverages the Leadership Fremont program to build an understanding of water-related issues with emerging leaders in the community.

### ***Public Information***

- A contract was established with WaterSmart Software to provide home water reports to approximately 72,000 single family residential customers. The one-year contract will provide one mailed report and welcome letter and up to five bi-monthly emailed reports.
- Twenty press releases were written and distributed to Bay Area media outlets. These resulted in 36 newspaper articles/letters to the editor/columns, 18 television reports, and 6 radio reports.
- Drought-related public information efforts included:
  - Production and distribution of two drought fliers - one publicizing the Governor's request for a 20% reduction in water use and one publicizing ACWD's mandatory water use restrictions.
  - Production and distribution of one drought-related postcard reminding customers of the mandatory water use restrictions.
  - Addition of a "Drought Resource Center" section to the ACWD website and creation of a telephone drought hotline.
  - Seven community presentations and 11 outreach meeting to local cities and school districts regarding the drought.
- The District began contributing a monthly column - Reflections on Water - to the Tri-City Voice. Ten columns ran during the fiscal year ended June 30, 2014.
- In celebration of the District's centennial, development of two ACWD history books began. The books will be published during the fiscal years ending June 30, 2015 and 2014.

### ***Environmental Stewardship***

The District recognizes that water agencies must balance the needs of people and the environment in order to be sustainable. To ensure the reliability of the water supply from Alameda Creek and restore steelhead trout, a federally listed species, the District and a number of Bay Area agencies, including the Alameda County Flood Control District, have worked for more than a decade to make the creek a more fish-friendly waterway. To date, several facilities have been constructed towards this goal: the removal of one rubber dam; construction of fish ladders at two rubber dams; and the installation of fish screens at off-stream diversions. The District anticipates that this work will be completed in 2020.

## **FINANCIAL INFORMATION**

### ***Local Economy***

The local economy of the District service area has been a reflection of the nearby Silicon Valley and of the greater Bay Area. Economic activity across the service area appears to be improving. For example, San Francisco Bay Area technology-related businesses have been increasing their level of hiring (Fremont's unemployment rate is a low 4.1%), and there are indications that housing prices (which have increased about 10.1% since last year) are increasing in value once again.

Fremont is growing, both with new developments and in existing commercial and industrial areas. Tesla Motors is increasing production, and Thermo Fisher Scientific is nearing completion of a new 275,000 square foot facility on 22 acres, adjacent to the Tesla Motors site. There is currently a study related to the strategic development of 850 acres around the South Fremont/Warm Springs area that will include a new BART station opening in 2015. It is projected that development of this area could create approximately 12,300 jobs and 3,900 residential units. Another major initiative has been the development of a Fremont downtown area with approximately 5.2 million square feet of new mixed-use buildings. In addition, the Pacific Commons area continues to be active and growing with new shops and restaurants.

In Union City, there are plans to develop a 200 acre Intermodal Station District which would include high-density housing, retail shopping, commercial business, open space, and a major transportation station.

Similarly, in Newark, a new \$40 million remodel of the NewPark Mall is planned that will include a new 12-screen movie complex with an IMAX screen and a new expansive glass-walled restaurant pavilion. Additionally, Newark is planning a transit-oriented development consisting of up to 2,500 new residential units, a new train station, and other amenities to serve both the greater region as well as neighboring residents.

### ***Technology Improvement Initiative***

A major upgrade/re-implementation of the District's Enterprise Resource Planning (ERP) system, JD Edwards (JDE), started in September 2012 and "went-live" in July 2014. The improvements made as part of the JDE Upgrade Implementation Project included a redesigned chart of accounts, redesigned and more efficient business processes, use of electronic timesheets, redesigned expense management and purchase requisition workflows, implementation of the Human Resource module, several improvements to the Enterprise Asset Management module for plant and facilities, and implementation of a new end-user ad-hoc reporting tool.

The District initiated the implementation of Cityworks, a Geographic Information System (GIS) based Enterprise Asset Management System (EAMS), for managing the District's distribution system assets. The system is expected to go-live in the first quarter of calendar year 2015 and will allow use of paperless Work Orders in the field, improve response to customer calls and dispatch, and allow enhanced map based analysis for leaks and water quality issues.

A Customer Information System (CIS) Improvement Project was initiated to review key business processes and identify areas of system improvement for the District's new CIS which was implemented in 2012. Several recommendations for increased efficiency of system utilization and improved business processes were identified as part of this project and work is ongoing to design new business processes and implement many of the recommendations. It is expected that the implementation of the recommendations will result in greater efficiency and eliminate the need for some temporary staff in Customer Service.

The District started a software requirements discovery process for the replacement of the custom Development and Customer Job Estimating and Tracking System (DCJETS). This application is used primarily by the Development Services division for core business processes related to customer requests for

new and modified water services and extensions to the water distribution system required to serve new developments. The DCJETS replacement software will be developed and implemented based upon the functional and technical requirements developed in the discovery phase.

Improvements to the District's IT infrastructure continued during the fiscal year ended June 30, 2014, with additions and upgrades to the District's virtual server infrastructure, storage, and backup and recovery systems. The District completed the cyber-security vulnerability assessment project and started work on implementing the recommendations for IT and Supervisory Control and Data Acquisition (SCADA) systems identified in the cyber-security vulnerability assessment report. The District also started the development of an IT Disaster Recovery program as part of the District's overall Business Continuity Project.

### ***Rates and Charges***

Water rates and charges are reviewed annually and reflect the District's overall cost-of-service requirements. The District's water rates are just above the lower third of 30 Bay Area retail water purveyors surveyed each year. Additionally, because of the on-going state-wide and local drought and corresponding water supply emergency, the Board, staff, and consultants developed a drought surcharge structure to help mitigate the negative cash effects of both decreased consumption revenue from conservation efforts and increased cost for water supplies and conservation administrative costs. This was adopted by the Board and became effective in July 2014.

### ***Internal Control***

The District's financial reporting system and business processes have been designed with an emphasis on the importance of strong internal financial controls, including the proper recording of revenues and expenditures and maintenance of budgetary control for the allocation of available resources. Existing internal controls are monitored and changes are implemented as needed. These controls are designed to provide reasonable, but not absolute, assurance that (1) assets are safeguarded against waste, fraud and inefficient use and (2) the District's financial records can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of maintaining the system of internal controls should not exceed benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### ***Budgetary Control***

The District has a two-year budget cycle which is a detailed operating plan that identifies estimated costs in relation to estimated revenues over the span of two fiscal years. The budget includes the projects, services and activities to be carried out during the two fiscal years and the estimated revenue available to finance these operating and capital costs. The District's operating and capital budgets are approved by the Board of Directors. The budget represents a process wherein policy decisions made by the Board of Directors are adopted, implemented and controlled. Budget control is maintained by monitoring budget activity on a monthly basis and adjusting activities, if needed, to ensure that the annual budgeted amounts are not exceeded.

### ***Long-Term Financial Planning***

The District utilizes three main comprehensive long range integrated planning models: the Integrated Resources Plan (IRP), Capital Improvement Program (CIP) and the Financial Planning Model (FPM). The IRP process evaluates a wide range of water supply and water conservation options as well as land use projections in the District's service area to develop the District's long range water supply strategy necessary to meet projected demands. The CIP includes project schedules and projected costs for production facilities and other projects identified in the IRP needed to support and maintain water supply and system reliability, public health and water quality, and environmental compliance over a 25-year planning horizon.

The FPM includes short and long range projections of the District's revenues, operating and maintenance expenses, capital expenditures, and reserves over the next number of years. The District has implemented a financial planning cycle that typically includes:

- Overall review of the operating and capital plan in March;
- Budget development during late spring;
- Adoption of the budget in June;
- Rate design and processing through the fall;
- Rate adoption in February.

## **OTHER INFORMATION**

### ***Independent Audit***

An independent audit by certified public accountants is important in determining the reliability of the District's financial statements. The importance of such verification has been recognized by the federal and state governments, the District's bond holders and the general public. The District contracted with the accounting firm of Macias Gini and O'Connell LLP for this audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. The firm's report has been included in the financial section of this report.

### ***Award***

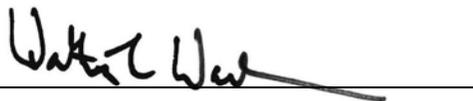
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the 15<sup>th</sup> consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual 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.

### ***Acknowledgments***

The preparation of this report has been accomplished due to the dedicated and professional efforts of the staff of the Finance Department along with the cooperation of staff from the District's other departments, and guidance from the accounting firm of Macias Gini and O'Connell LLP. We would also like to thank the Board of Directors for their continued support in planning and conducting the District's financial affairs in a responsible and progressive manner.

Respectfully submitted,



Walter Wadlow  
General Manager



Shelley Burgett  
Manager of Finance



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Alameda County Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

*Alameda County Water District*

*Board of Directors*

*Paul Sethy* President

*Martin L. Koller*  
Vice President

*Judy C. Huang*  
Director

*James G. Gunther*  
Director

*John H. Weed*  
Director

*Principal Management Personnel*

*Walter Wadlow*  
General Manager

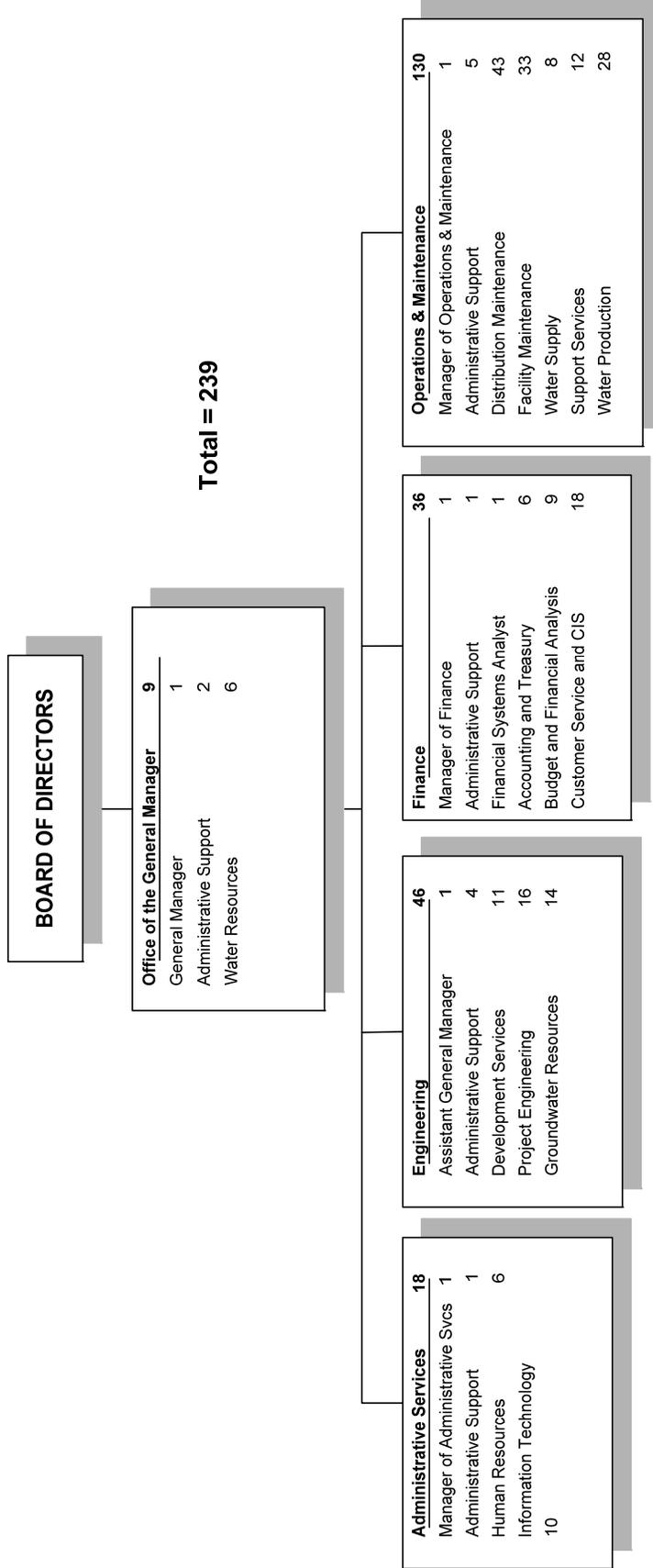
*Robert Shaver*  
Assistant General Manager -Engineering

*Steven Peterson*  
Manager of Operations & Maintenance

*Altarine Vernon*  
Manager of Administrative Services

*Shelley Burgett*  
Manager of Finance

**ALAMEDA COUNTY WATER DISTRICT  
FUNCTIONAL ORGANIZATIONAL CHART  
FY 14/15**



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# FINANCIAL SECTION

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## **Independent Auditor's Report**

The Board of Directors of the  
Alameda County Water District  
Fremont, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Alameda County Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District'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 financial position of the District as of June 30, 2014 and 2013, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress, and the schedules of employer contributions identified in the accompanying 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

*Macias Gini & Connell LLP*

Walnut Creek, California  
October 3, 2014

# **Alameda County Water District**

## **Management's Discussion and Analysis (Unaudited)**

### **For the Years Ended June 30, 2014 and 2013**

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This section of the Alameda County Water District's (District) comprehensive annual financial report presents an analysis of the District's financial performance during the years ended June 30, 2014 and 2013. This information is presented in conjunction with the audited basic financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2014**

- The District's net position increased by \$9.3 million or 2.2 percent from \$415.6 million to \$424.9 million.
- Operating revenues increased by \$5.9 million or 7.3 percent from \$80.8 million to \$86.7 million.
- Operating expenses increased by \$4.7 million or 5.7 percent from \$82.8 million to \$87.5 million.
- Capital contributions to the District decreased by \$2.7 million or 49.1 percent from \$5.5 million to \$2.8 million.
- The District implemented a 7% percent increase to its commodity rate and service charges effective February 1, 2014.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The financial statements include notes which explain in detail some of the information included in the financial statements.

#### **REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets, deferred outflow of resources, and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal years ended June 30, 2014 and 2013. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the changes in the cash and cash equivalents balance for each of the last two fiscal years.

## FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Position (page 10) and the Statements of Revenues, Expenses and Changes in Net Position (page 11) provide an indication of the District's financial condition and also indicate whether the financial condition of the District improved during the last fiscal year. The District's net position reflects the difference between assets, deferred outflows of resources, and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A summary of the District's Statements of Net Position is presented below.

Table 1  
Condensed Statements of Net Position  
(In millions of dollars)

	2014	2013	2014 vs. 2013		2012	2013 vs. 2012	
			\$ Change	% Change		\$ Change	% Change
Current and other assets	\$ 115.5	\$ 136.8	\$ (21.3)	-15.6%	\$ 135.7	\$ 1.1	0.8%
Capital assets	386.3	358.8	27.5	7.7%	348.8	10.0	2.9%
<b>Total assets</b>	<b>501.8</b>	<b>495.6</b>	<b>6.2</b>	<b>1.3%</b>	<b>484.5</b>	<b>11.1</b>	<b>2.3%</b>
<b>Deferred outflows of resources</b>	<b>2.7</b>	<b>3.0</b>	<b>(0.3)</b>	<b>-10.0%</b>	<b>3.3</b>	<b>(0.3)</b>	<b>-9.1%</b>
Long-term debt	63.5	66.3	(2.8)	-4.2%	68.8	(2.5)	-3.6%
Other liabilities	16.1	16.7	(0.6)	-3.6%	12.6	4.1	32.5%
<b>Total liabilities</b>	<b>79.6</b>	<b>83.0</b>	<b>(3.4)</b>	<b>-4.1%</b>	<b>81.4</b>	<b>1.6</b>	<b>2.0%</b>
Net investment in capital assets	325.5	310.8	14.7	4.7%	305.0	5.8	1.9%
Restricted for debt service	2.7	2.6	0.1	3.8%	2.6	-	0.0%
Unrestricted	96.7	102.2	(5.5)	-5.4%	98.8	3.4	3.4%
<b>Total net position</b>	<b>\$ 424.9</b>	<b>\$ 415.6</b>	<b>\$ 9.3</b>	<b>2.2%</b>	<b>\$ 406.4</b>	<b>\$ 9.2</b>	<b>2.3%</b>

As the above table indicates, total assets increased by \$6.2 million from \$495.6 million to \$501.8 million during the fiscal year ended June 30, 2014. This is comprised of an increase of \$27.5 million in capital assets offset by a decrease of \$21.3 million in current and other assets. The change in capital assets and current and other assets is primarily due to the District's acceleration of high priority construction projects that are mainly being funded with the proceeds of the 2012 Water System Revenue Bonds. The decrease in current and other assets is due to the utilization of bond proceeds and cash from operations to fund the capital projects. For the fiscal year ended June 30, 2013, total assets increased by \$11.1 million from \$484.5 million to \$495.6 million. This is comprised of a slight increase in current and other assets and an increase of \$10.0 million in capital assets. The increase in capital assets is primarily due to the 2012 Water System Revenue Bonds bond proceeds being utilized to accelerate the construction of projects in the area of seismic reliability and system maintenance and the completion of several capital projects during the year.

Deferred outflows of resources is the amount of the unamortized deferred loss on refunding. The District's deferred outflows of resources at June 30, 2014 and 2013 were \$2.7 million and \$3.0 million, respectively. The \$0.3 million decrease is primarily due to the annual amortization of the deferred loss on refunding.

## FINANCIAL ANALYSIS OF THE DISTRICT, Continued

For fiscal year ended June 30, 2014, total liabilities reflect a decrease of \$3.4 million due mainly to scheduled long-term debt principal payments during the year, and a decrease in contractor and customer deposits. For fiscal year ended June 30, 2013, total liabilities reflect an increase of \$1.6 million due mainly to an increase in contractor and customer deposits because of increased construction levels in the community and an increase in payables due to the District's acceleration of construction projects. This has been offset by a decrease in long term debt due to the annual debt payment.

Table 1 also indicates that total net position increased by \$9.3 million from \$415.6 million to \$424.9 million for fiscal year ended June 30, 2014. This increase consists of an increase of \$14.7 million in net investment in capital assets, an increase of \$0.1 million in restricted for debt service, and a decrease of \$5.5 million in unrestricted net position. For fiscal year ended June 30, 2013, total net position increased by \$9.2 million due to increases of \$5.8 million in net investment in capital assets, and a \$3.4 million increase in unrestricted net position. The overall increase in total net position reflects the District's continued emphasis on improving its capital infrastructure and prudent long range financial planning.

Table 2  
Condensed Statements of Revenues, Expenses  
and Changes in Net Position  
(In millions of dollars)

	2014	2013	2014 vs. 2013		2012	2013 vs. 2012	
			\$ Change	% Change		\$ Change	% Change
Operating revenues							
Water sales	\$ 81.1	\$ 76.9	\$ 4.2	5.5%	\$ 70.1	\$ 6.8	9.7%
Other operating revenues	5.6	3.9	1.7	43.6%	3.8	0.1	2.6%
<b>Total operating revenues</b>	<b>86.7</b>	<b>80.8</b>	<b>5.9</b>	<b>7.3%</b>	<b>73.9</b>	<b>6.9</b>	<b>9.3%</b>
Nonoperating revenues							
Property taxes	7.7	7.9	(0.2)	-2.5%	7.9	-	0.0%
Other nonoperating revenues	1.3	-	1.3	n/a	1.0	(1.0)	-100.0%
<b>Total nonoperating revenues</b>	<b>9.0</b>	<b>7.9</b>	<b>1.1</b>	<b>13.9%</b>	<b>8.9</b>	<b>(1.0)</b>	<b>-11.2%</b>
<b>TOTAL REVENUES</b>	<b>95.7</b>	<b>88.7</b>	<b>7.0</b>	<b>7.9%</b>	<b>82.8</b>	<b>5.9</b>	<b>7.1%</b>
Depreciation and amortization expense	12.6	12.8	(0.2)	-1.6%	12.3	0.5	4.1%
Other operating expenses	74.9	70.0	4.9	7.0%	65.2	4.8	7.4%
Nonoperating expenses	1.7	2.2	(0.5)	-22.7%	3.9	(1.7)	-43.6%
<b>TOTAL EXPENSES</b>	<b>89.2</b>	<b>85.0</b>	<b>4.2</b>	<b>4.9%</b>	<b>81.4</b>	<b>3.6</b>	<b>4.4%</b>
<b>Income before capital contributions</b>	<b>6.5</b>	<b>3.7</b>	<b>2.8</b>	<b>75.7%</b>	<b>1.4</b>	<b>2.3</b>	<b>164.3%</b>
Capital contributions	2.8	5.5	(2.7)	-49.1%	2.9	2.6	89.7%
<b>Changes in net position</b>	<b>9.3</b>	<b>9.2</b>	<b>0.1</b>	<b>1.1%</b>	<b>4.3</b>	<b>4.9</b>	<b>114.0%</b>
Beginning net position, as restated	415.6	406.4	9.2	2.3%	402.1	4.3	1.1%
<b>Ending net position</b>	<b>\$ 424.9</b>	<b>\$ 415.6</b>	<b>\$ 9.3</b>	<b>2.2%</b>	<b>\$ 406.4</b>	<b>\$ 9.2</b>	<b>2.3%</b>

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position. As the information in Table 2 indicates, income before capital contributions of \$6.5 million and capital contributions of \$2.8 million resulted in an overall increase of \$9.3 million in net position for the end of the fiscal year ended June 30, 2014.

## **FINANCIAL ANALYSIS OF THE DISTRICT, Continued**

In the previous fiscal year ended June 30, 2013, income before capital contributions of \$3.7 million and capital contributions of \$5.5 million resulted in an overall increase of \$9.2 million in net position.

For fiscal year ended June 30, 2014, Table 2 indicates that the District's total revenues increased by \$7.0 million or 7.9 percent to \$95.7 million from \$88.7 million in the prior year. Operating revenues increased by \$5.9 million or 7.3 percent to \$86.7 million from \$80.8 million due to a rate increase on the commodity rate and service charges and also an increase in the facilities connection charges. There was also an increase in the number of facilities connection charges collected and there were a few more of the larger volume meters installed as development has increased over the past year. Non-operating revenues increased by \$1.1 million or 13.9 percent which was mainly due to an increase in investment income as a result of higher interest rates and better market conditions resulting in gains on investment buy/sell transactions.

Total expenses increased by \$4.2 million or 4.9 percent primarily due to an increase in purchased water unit costs plus the effects of increased water purchases from higher priced sources due to the impacts of the drought and the unavailability of the lower priced sources. In addition administration and general expenses increased for the year ended June 30, 2014 mainly due to an increase in annual OPEB contributions and increases in pension and medical costs.

For fiscal year ended June 30, 2013, Table 2 indicates that the District's total revenues increased by \$5.9 million or 7.1 percent to \$88.7 million from \$82.8 million in the prior year. Operating revenues increased by \$6.9 million or 9.3 percent to \$80.8 million from \$73.9 million due to the dual effects of water demand minimally increasing coupled with the effects of an annual rate increase. Non-operating revenues decreased by \$1.0 million or 11.2 percent which was mainly due to a decrease in investment income because the market value of investments declined as interest rates increased over the past year.

Total expenses increased by \$3.6 million or 4.4 percent primarily due to an increase in purchased water cost and employee benefit expenses for the year ended June 30, 2013.

## **CAPITAL ASSETS**

As of June 30, 2014, the District's investment in capital assets totaled \$386.3 million, which is an increase of \$27.5 million or 7.7 percent over the capital asset balance of \$358.8 million at June 30, 2013. The increase in capital assets was primarily the result of the completion of several capital projects during the year plus many projects in construction work in progress funded by the 2012 Water System Revenue Bonds.

As of June 30, 2013, the District's investment in capital assets totaled \$358.8 million, which is an increase of \$10.0 million or 2.9 percent over the capital asset balance of \$348.8 million at June 30, 2012. The increase in capital assets was primarily the result of the completion of several capital projects during the year plus many projects in construction work in progress due to the funding provided by the 2012 Water System Revenue Bonds. A comparison of the District's capital assets over the past three fiscal years is presented in Table 3.

Table 3  
Capital Assets  
(In millions of dollars)

	2014	2013	2014 vs. 2013		2012	2013 vs. 2012	
			\$ Change	% Change		\$ Change	% Change
Land	\$ 9.6	\$ 9.7	\$ (0.1)	-1.0%	\$ 9.7	\$ -	0.0%
Construction in progress	31.9	21.6	10.3	47.7%	10.3	11.3	109.7%
Source of supply	57.8	51.1	6.7	13.1%	51.1	-	0.0%
Pumping plant	24.2	21.5	2.7	12.6%	21.3	0.2	0.9%
Water treatment	157.3	152.3	5.0	3.3%	152.3	-	0.0%
Transmission and distribution	275.0	263.0	12.0	4.6%	253.9	9.1	3.6%
General	48.2	48.1	0.1	0.2%	46.1	2.0	4.3%
Supplemental water supply storage	20.9	20.9	-	0.0%	20.8	0.1	0.5%
Subtotal	624.9	588.2	36.7	6.2%	565.5	22.7	4.0%
Less accumulated depreciation/amortization	(238.6)	(229.4)	(9.2)	4.0%	(216.7)	(12.7)	5.9%
Capital assets, net	\$ 386.3	\$ 358.8	\$ 27.5	7.7%	\$ 348.8	\$ 10.0	2.9%

There were several capital projects completed during the fiscal year 2014, including the J.D. Edwards Upgrade Project, Warren Avenue Pipeline Replacement, Kaiser Pond Fish Screen, Water Treatment Plant 2 Liquid Oxygen Conversion, Peralta Tyson Wellfield Generator, and various water main replacements, upgrades and relocations. In addition to these and other completed projects, there were also major capital projects that were under construction or in progress as of June 30, 2014. Those projects included Main Relocation for SFPUC Project, Hayward Fault Crossing Seismic Project, Rubber Dam Improvements, Mayhew Reservoir Roof, and various other capital projects related to water main and meter replacements.

There were several capital projects completed during the fiscal year 2013, including the Niles Boulevard Pipeline Project, Headquarters Computer Room Improvements, Alameda Reservoir Lining Replacement, Kato Road Pipeline Relocation, and various water main replacements, upgrades and relocations. In addition to these and other completed projects, there were also major capital projects that were under construction or in progress as of June 30, 2013. Those projects included Rubber Dam Improvements, Fish Screen Projects, Main Relocation for SFPUC Project, Peralta Tyson Wellfield Generator, Hayward Fault Crossing Main Replacement Project, JD Edwards Software Upgrade and various other capital projects related to water main and meter replacements.

Additional information on the District's capital assets and construction commitments is provided in Note 5 (page 27) of the financial statements.

Projects scheduled for the upcoming fiscal year 2015 include Appian Tank Seismic Upgrades, Stevenson Pond-Lago Los Osos Diversion Repair, City Works Work Order Software Implementation, Water Treatment Plant 2 Power Facility Turbine Upgrade and continuing work on the Hayward Fault Seismic Upgrade and various other smaller main relocations and capital upgrades.

## **LONG-TERM DEBT**

As of June 30, 2014, the District had \$63.5 million in outstanding debt compared to \$66.3 million on June 30, 2013 and \$68.8 million on June 30, 2012. The decrease in 2014 and 2013 was primarily due to scheduled debt service payments.

Additional information on the District's long-term debt is provided in Note 7 (page 30) of the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Board of Directors adopted the District's two-year budget on June 13, 2013. The approval of a two-year budget provides funding for the District's operating, capital and debt service costs for fiscal years 2013 and 2014. The fiscal year 2014 budget was updated with more current information and was approved by the Board of Director's in June 2014. The District's water rates are reviewed by management and the Board of Directors on an annual basis. Base water rates were adjusted in February 2014 with the implementation of a 7.0 percent increase in the service charge and the commodity rate. Rate increases over the past five years have resulted in the District's rates being just above the lower one-third of thirty other water agencies surveyed in the Bay Area.

In addition the District is facing the challenge of the worst drought in 150 years which impacts water supply costs along with the costs of increased conservation programs and public information efforts. The District is responding with implementation of drought surcharges, delaying capital projects, issuing a bond, reducing costs and utilizing a rate stabilization fund.

## **ADDITIONAL FINANCIAL INFORMATION**

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Alameda County Water District's Manager of Finance at 43885 South Grimmer Boulevard, Fremont, CA 94538.

## **BASIC FINANCIAL STATEMENTS**

Alameda County Water District  
 Statements of Net Position  
 Business-Type Activity - Enterprise Fund  
 June 30, 2014 and 2013  
 (In thousands)

	2014	2013
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and investments (Note 3)	\$ 94,698	\$ 96,593
Customer and other accounts receivable, net (Note 4)	5,917	7,470
Accrued unbilled revenue	7,635	8,162
Taxes receivable	94	840
Grants receivable	28	1,012
Interest receivable	218	357
Material and supplies	2,274	2,401
Prepaid items	8	29
<b>Total unrestricted assets</b>	<b>110,872</b>	<b>116,864</b>
Restricted investments (Note 3)	2,846	18,112
<b>Total current assets</b>	<b>113,718</b>	<b>134,976</b>
<b>Noncurrent assets:</b>		
Net other postemployment benefits asset (Note 11)	1,826	1,872
<b>Capital assets: (Note 5)</b>		
Nondepreciable	41,540	31,339
Depreciable, net	344,746	327,425
<b>Total capital assets</b>	<b>386,286</b>	<b>358,764</b>
<b>Total noncurrent assets</b>	<b>388,112</b>	<b>360,636</b>
<b>Total assets</b>	<b>501,830</b>	<b>495,612</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred loss on refunding debt	2,714	3,021
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses (Note 6)	7,330	6,876
Accrued payroll and related liabilities (Note 6)	3,011	2,829
Contractor and customer deposits	3,697	4,983
Interest payable	176	181
Unearned revenue	-	40
Long-term debt - due within one year (Note 7)	2,864	2,799
<b>Total current liabilities</b>	<b>17,078</b>	<b>17,708</b>
<b>Noncurrent liabilities:</b>		
Accrued payroll and related liabilities (Note 6)	1,918	1,788
Long-term debt - due in more than one year (Note 7)	60,639	63,504
<b>Total noncurrent liabilities</b>	<b>62,557</b>	<b>65,292</b>
<b>Total liabilities</b>	<b>79,635</b>	<b>83,000</b>
<b>NET POSITION</b>		
Net investment in capital assets	325,497	310,757
Restricted for debt service	2,669	2,656
Unrestricted	96,743	102,220
<b>Total net position</b>	<b>\$ 424,909</b>	<b>\$ 415,633</b>

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Revenues, Expenses and Changes in Net Position  
 Business-Type Activity - Enterprise Fund  
 For the Years Ended June 30, 2014 and 2013  
 (In thousands)

	2014	2013
<b>OPERATING REVENUES:</b>		
Water sales	\$ 81,081	\$ 76,903
Facilities connection charges	3,494	1,977
Fees and rental	1,039	823
Other	1,070	1,091
<b>Total operating revenues</b>	<b>86,684</b>	<b>80,794</b>
<b>OPERATING EXPENSES:</b>		
Sources of supply:		
Water purchases	23,427	21,367
Pumping	2,763	2,954
Other	10,215	8,828
<b>Total sources of supply</b>	<b>36,405</b>	<b>33,149</b>
Water treatment	12,584	12,586
Transmission and distribution	10,934	10,650
Administration of customer accounts	1,832	1,680
Administration and general	13,090	11,965
Depreciation and amortization	12,624	12,845
<b>Total operating expenses</b>	<b>87,469</b>	<b>82,875</b>
<b>Operating loss</b>	<b>(785)</b>	<b>(2,081)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Investment income	1,217	(46)
Property taxes	7,654	7,917
Other nonoperating revenues	12	-
Other settlements	35	68
Gain on disposal of capital assets	85	39
Loss on abandonment of capital projects	(117)	-
Interest expense	(1,592)	(2,172)
<b>Total nonoperating revenues (expenses)</b>	<b>7,294</b>	<b>5,806</b>
Income before capital contributions	6,509	3,725
Capital contributions	2,767	5,529
<b>Changes in net position</b>	<b>9,276</b>	<b>9,254</b>
<b>NET POSITION</b>		
Beginning of year	415,633	406,379
End of year	<b>\$ 424,909</b>	<b>\$ 415,633</b>

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Cash Flows  
 Business-Type Activity - Enterprise Fund  
 For the Years Ended June 30, 2014 and 2013  
 (In thousands)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers	\$ 87,478	\$ 81,316
Cash receipts from others	47	68
Cash payments to suppliers for goods and services	(36,328)	(32,704)
Cash payments to employees for services	(38,045)	(37,971)
<b>Net cash provided by operating activities</b>	<b>13,152</b>	<b>10,709</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property taxes received	8,400	8,050
<b>Net cash provided by noncapital financing activities</b>	<b>8,400</b>	<b>8,050</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisitions of capital assets	(36,416)	(15,403)
Capital grants received restricted for capital purposes	972	521
Proceeds from sale of capital assets	134	58
Principal paid on debt	(2,585)	(2,315)
Interest paid on debt	(2,174)	(2,245)
<b>Net cash used in capital and related financing activities</b>	<b>(40,069)</b>	<b>(19,384)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	54,949	82,403
Purchases of investments	(47,691)	(100,429)
Investment income received	1,409	1,316
<b>Net cash provided by (used in) investing activities</b>	<b>8,667</b>	<b>(16,710)</b>
<b>Net change in cash and cash equivalents</b>	<b>(9,850)</b>	<b>(17,335)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	26,754	44,089
End of year	\$ 16,904	\$ 26,754

See accompanying notes to basic financial statements.

Alameda County Water District  
 Statements of Cash Flows  
 Business-Type Activity - Enterprise Fund  
 For the Years Ended June 30, 2014 and 2013  
 (In thousands)

	2014	2013
<b>RECONCILIATION TO STATEMENTS OF NET POSITION:</b>		
Cash and investments	\$ 94,698	\$ 96,593
Restricted cash and investments	2,846	18,112
Less investments not meeting the definition of cash equivalents	(80,640)	(87,951)
<b>Total cash, restricted cash and investments</b>	<b>\$ 16,904</b>	<b>\$ 26,754</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (785)	\$ (2,081)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	12,624	12,845
Other nonoperating revenues	47	68
Changes in operating assets and liabilities:		
Customer and other accounts receivable	1,553	(2,684)
Accrued unbilled receivable	527	849
Materials and supplies	127	(113)
Prepaid items	21	21
Net other postemployment benefit asset	46	37
Accounts payable and accrued expenses	(34)	(513)
Accrued payroll and related liabilities	312	(77)
Contractor and customer deposits	(1,286)	2,357
Net cash provided by operating activities	<b>\$ 13,152</b>	<b>\$ 10,709</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Amortization of premiums and loss on debt refunding	\$ 91	\$ 93
Capital contributions	2,739	4,921
Capital assets trade ins	8	32
Capitalized interest	669	159
Changes in capital related assets and liabilities:		
Grants receivable	984	(127)
Accounts payable and retention payable	488	2,316
Unearned revenues	(40)	40
<b>NONCASH INVESTING ACTIVITIES:</b>		
Change in fair value of investments	53	1,196

See accompanying notes to basic financial statements.

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**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the Years Ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

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**1. DESCRIPTION OF THE REPORTING ENTITY**

*A. Description of Operations*

The Alameda County Water District (the District) was organized under the California Water Act of 1913 and is governed by a five-person Board of Directors. Principal functions of the District include the importation, conservation, and distribution of water. District operations are conducted under the State Water Code of California.

*B. Reporting Entity*

The financial reporting entity consists of the Alameda County Water District (the primary government) and its component unit, which is discussed below. A component unit is a legally separate organization for which the Board of Directors is financially accountable, or an organization whose nature and significant relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

As required by accounting principles generally accepted in the United States (GAAP), these basic financial statements present the District and its component unit, an entity for which the District is considered to be financially accountable. A blended component unit, although a legally separate entity is, in substance, part of the District's operations and data from this unit is combined with data of the District. The following entity is reported as a blended component unit:

- The Alameda County Water District Financing Authority (the Authority) is a joint powers authority with Union Sanitary District established in 2011 for the sole purpose of issuing debt for the benefit of the District. The 2012 Water System Revenue Bonds were enabled by the formation of this entity.

Additional financial data for the Authority may be obtained from the Alameda County Water District office at 43885 South Grimmer Boulevard, Fremont, California, 94538.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Basis of Presentation and Measurement Focus*

The basic financial statements provide information about the District's enterprise fund. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenues from operating activities are recognized in the fiscal year that the operations were provided; revenues from property taxes are recognized in the fiscal year for which the taxes are levied and revenue from investments is recognized when earned, while expenses are recognized in the period in which the liability is incurred.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Basis of Presentation and Measurement Focus, Continued**

The accounts of the District are reported in a proprietary fund type, specifically, an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, deferred outflow of resources, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**B. Cash and Investments**

The District's cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturity of three months or less from the date of acquisition.

The District considers highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Restricted investments, which consist of U.S. government securities designated for specific projects and required to be segregated pursuant to debt covenants, and restricted cash, which consists of money market accounts and CAMP funds, are presented as restricted cash and investments.

**C. Accrued Unbilled Revenue**

During the year, customer water meters are read and billed on monthly or bi-monthly periods. Because not every meter is read on the same date, revenue for water distributed but not yet billed is accrued at fiscal year-end to match revenues with related expenses.

**D. Materials and Supplies**

Materials and supplies inventory consisted principally of spare parts that are recorded when purchased and expensed when used and is recorded at weighted average cost.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Capital Assets*

The cost of additions to the utility plant and major replacements of retired units of property is capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$5 and an estimated useful life of more than one year. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits and overhead. In 2014 and 2013, the District funded certain capital projects and interest in the amount of \$669 and \$159 was capitalized in 2014 and 2013, respectively, in relation to these tax-exempt bond funded capital expenditures. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Structures, reservoirs, pumps and other improvements	5-50 years
Office furniture, tools, shop furniture, lab furniture and equipment	10 years
Motor vehicles	5 years

*F. Customer Deposits*

Customer deposits for new customer installation jobs are retained by the District and are reported as a current liability. The customer deposit is applied to the cost of the job when the job is complete.

*G. Long-Term Debt and Related Costs*

Long-term debt is reported at face value, net of applicable premium and discounts. Costs related to the issuance of debt are reported as an expense. Losses occurring from advance refundings of debt are classified as a deferred outflow of resources and are amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

*H. Operating Revenues and Expenses*

Operating revenues and expenses consisted of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consisted primarily of charges for services. Nonoperating revenues and expenses consisted of those revenues and expenses that are related to financing and investing type of activities and resulted from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Property Tax Revenue**

Assessed values are determined annually by the Alameda County Assessor (the County) as of January 1, and become a lien on real property as of the January 1. Taxes are due November 1, and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The District receives two different types of property tax revenue from the County.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can only increase the property's assessed valuation by reappraisals of property due to new construction or change. The County can also increase the property's assessed valuation for cost of living increases up to a maximum of 2% per year. Property taxes collected by the taxing authority, but not remitted to the District at year-end, are accrued as revenue and included as taxes receivable. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. The District receives approximately \$4.8 million of this 1% ad valorem tax.

The District also receives an override property tax amount that helps pay for the groundwater portion of both the fixed and variable costs of State water purchased by the District. The District projects such costs annually and request that the County collect that amount, approximately \$3 to \$4 million. The annual request to the County is adjusted for prior year over or under collections of tax revenue, and actual prior year's State water purchase cost.

**J. Capital Contributions**

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs, which approximated fair value at the time of the District's acquisition, and recorded as capital contributions when received. Customers also provide funds for capital projects to install and repair service lines to their premises. In addition, the District, at various times, receives Federal and State grants and other funds from external sources for construction and/or rehabilitation of its facilities. These contributed assets and cash funds are reported as capital contributions on the statement of revenues, expenses and changes in net position.

**K. Net Position**

In the statements of net position, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted - This amount is all remaining amounts in net position that do not meet the definition of "net investment in capital assets" or "restricted net position."

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

*M. New GASB Pronouncements Adopted*

During the year, the District implemented the following accounting standards:

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment to GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This statement did not have a significant impact to the District’s financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities and requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement did not have a significant impact to the District’s financial statements.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Implementation of New GASB Pronouncements*

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2012, the GASB issued new standard, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27*, to improve the guidance for accounting for and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
  - Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
  - Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA-or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
  - Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
  - Recording of a liability in the financial statements of employers for defined-benefit plans.
  - Requiring more extensive note disclosures and required supplementary information.
  - The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in audited financial reports. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014.
- In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement is intended to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. Application of this statement is effective for the District's year ending June 30, 2015.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Implementation of New GASB Pronouncements, Continued*

- In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which resolves transition issues in GASB Statement No. 68. This statement eliminates a potential source of understatement of restated beginning net position and expense in a government’s first year of implementing Statement 68. This statement requires that when a state or local government is transitioning to the new pension standards, that it recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014.

**3. CASH AND INVESTMENTS**

The District maintains an internal cash and investment pool in a single enterprise fund. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled, and are reported as restricted cash. Restricted investments are the reserve funds required by the District’s debt issuance holders in order to secure the District’s obligation to pay the principal and interest due for one year.

*A. Summary of Cash and Investments*

	2014	2013
Unrestricted cash and bank deposits	\$ 5,706	\$ 6,682
Unrestricted investments	88,992	89,911
Unrestricted cash and investments	94,698	96,593
Restricted investments	2,846	18,112
Total	<u>\$ 97,544</u>	<u>\$ 114,705</u>

*B. Authorized Investments*

The District’s investment policy is adopted by the District’s Board, in accordance with California Government Code Section 53601. The latest investment policy was adopted in July 2013 and has the following objectives (in order of priority):

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification by issuer and type and maturity of securities will be made to avoid or minimize loss on individual securities.
- **Liquidity:** The portfolio will remain sufficiently liquid to enable the District to meet all operating and capital cash requirements, which might be reasonably anticipated.
- **Yield:** The portfolio shall be designed with the objective of providing a market rate of return while conforming to the safety and liquidity criteria above.

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**3. CASH AND INVESTMENTS, Continued**

***B. Authorized Investments, Continued***

Under provisions of the District's investment policy, the District may invest in the following types of investments:

- Certificates of deposit that are FDIC-insured or fully collateralized time certificates of deposit in a financial institution issued by federally chartered or state-chartered banks or associations.
- United States Treasury notes, bonds, bills or other obligations for which full faith and credit of the United States are pledged for payment of principal and interest.
- Obligations issued by agencies or instrumentalities of the U.S. Government.
- Obligations issued by State of California or any agency within the State.
- Registered treasury notes or bonds of any of the other 49 United States in addition to California.
- Bankers' acceptances with a term not to exceed 180 days.
- Prime commercial paper with a term not to exceed 270 days and the highest rating issued by Moody's Investors Service or Standard & Poor's Corporation, on the date of purchase.
- Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or a federally licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated with one of the three highest ratings categories of a NRSRO.
- Medium-term notes issued by corporations organized and operating in the United States.
- The Local Agency Investment Fund (LAIF) maintained by the State of California.
- The California Asset Management Program (CAMP).
- Shares of beneficial interest issued by diversified management companies that are money market fund registered with the Securities and Exchange Commission under the Investment Company Act of 1940.

A five year maximum maturity for each investment is allowed. In addition, the investment policy requires that no more than 5% of the District's surplus funds may be deposited with or invested in securities issued by any one corporate, financial, or municipal issuer with the exception of the U.S. Treasury, federal agency institutions, and government sponsored enterprises.

In accordance with Section 53651 of the California Government Code, the District cannot invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued under the Investment Company Act of 1940 that are authorized investments under Section 53601 of the California Government Code.

***C. Deposits***

The carrying amount of the District's demand deposits balances were \$3,575 and \$1,597 and the bank balances were \$6,725 and \$3,868 at June 30, 2014 and 2013, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. The District's bank balances (demand deposits and non-negotiable certificates of deposit) were insured by the Federal Deposit Insurance Corporation (FDIC) and if over the FDIC limit collateralized by the pledging financial institutions as required by California Government Code at June 30, 2014.

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**3. CASH AND INVESTMENTS, Continued**

*C. Deposits, Continued*

The California Government Code requires California banks and savings and loans associations to secure the District's deposits not covered by federal depository insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits or 150% of mortgage-backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the District's name.

*D. Investments*

The District's cash and investments are invested pursuant to investment policy guidelines established by the Board of Directors. The policy addresses the soundness of financial institutions in which the District deposits funds and the types of investments instruments as permitted by the California Government Code.

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) which is regulated by California Government Code and is under the oversight of the Treasurer of the State of California. The value of the pool shares in LAIF, which may be withdrawn at anytime, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool. The District's investments with LAIF at June 30, 2014 and 2013 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

- **Structured Notes** are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- **Asset-Backed Securities, the bulk of which are mortgage-backed securities**, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2014 and 2013, the District had unrestricted cash and investments of \$13,211 and \$16,343, respectively, invested in LAIF, which had invested 1.86% and 1.96% of the pooled investment funds in Structured Notes and Asset-Backed Securities. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of \$64.8 billion and \$58.8 billion in its investment portfolio as of June 30, 2014 and 2013, respectively. As of June 30, 2013, the District had restricted cash and investments of \$8,263 invested in LAIF which related to the 2012 Water System Revenue Bonds issued in February 2012. The District had a total of \$13,211 and \$24,606 invested in LAIF as of June 30, 2014 and 2013, respectively. The District valued its investments in LAIF as of June 30, 2014 and 2013, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 1.00029875 and 1.000273207 as of June 30, 2014 and 2013, respectively.

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**3. CASH AND INVESTMENTS, Continued**

***D. Investments, Continued***

As of June 30, 2014 and 2013, the District had unrestricted cash and investments in the CAMP pool of \$10 and \$10, respectively. As of June 30, 2014 and 2013, the District had restricted cash and investments of \$1 and \$464, respectively, invested in the CAMP pool which related to the 2012 Water System Revenue Bonds issued in February 2012. The District had a total of \$11 and \$474 invested in the CAMP pool as of June 30, 2014 and 2013, respectively. The District had restricted cash and investments of \$0 and \$6,548 invested in the medium-term notes which were held by the CAMP managed account on June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the total amount invested by all public agencies in CAMP at that date was \$1,764,433 and \$2,158,773, respectively. A board of five trustees who are officials or employees of public agencies has oversight responsibility for CAMP. The value of the pool shares in CAMP, which may be withdrawn at anytime, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool.

***E. Investment Risks***

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy provides that final maturities of securities cannot exceed five years. At June 30, 2014 and 2013, the District's investment pool had a weighted average maturity of 2.39 years and 2.61 years, respectively. At June 30, 2014, the District invested \$5,539 in callable bonds, which comprised of \$2,930 in U.S. government agency securities and \$2,609 in corporate medium-term notes which includes \$590 in floating rate securities from corporate medium-term notes. At June 30, 2013, the District invested \$5,086 in callable bonds, which included \$2,496 in U.S. government agency securities and \$2,590 in corporate medium-term notes. These investments are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

*Credit Risk.* Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. According to the District's investment policy, no more than 25% of the total portfolio may be invested in commercial paper, no more than 30% of the total portfolio may be invested in medium term corporate notes and no more than 40% of the total portfolio may be invested in bankers' acceptances other than the U.S. Government, its agencies and instrumentalities and LAIF. If a security is downgraded by either Moody's or S&P to a level below the minimum quality required by the District, the District will determine whether to retain or liquidate the security based upon criteria set forth in the District's Investment Policy.

*Concentration of Credit Risk.* The District's Investment Policy does not contain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code and/or its investment policy. U.S. Treasury and agency securities explicitly guaranteed by the U.S. Government are not subject to single issuer limitation. As of June 30, 2014 and 2013, the District has investments in U.S. government agencies and medium term notes that represent 5% or more of the District's unrestricted and restricted investment portfolios as denoted on pages 25 and 26.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments, with the exception of the money market funds, LAIF and CAMP, are held by two third-party custodians in the District's name, which are Bank of the West and U. S. Bank.

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**3. CASH AND INVESTMENTS, Continued**

**F. Cash and Investments Composition**

As of June 30, 2014, the District had the following investments and maturities:

Investment Type	Credit Ratings Moody's/S&P	Fair Value	Maturities (in years)				
			1 year or less	1-2 years	2-3 years	3-4 years	4-5 years
<b>Enterprise Fund:</b>							
Unrestricted cash and investments:							
Non-negotiable certificates of deposit with:							
Bank of the West	n/a	\$ 141	\$ 141	\$ -	\$ -	\$ -	\$ -
Fremont Bank	n/a	990	990	-	-	-	-
JP Morgan Chase	n/a	1,000	1,000	-	-	-	-
Demand deposits	n/a	3,575	3,575	-	-	-	-
Total unrestricted cash and bank deposits		<u>5,706</u>	<u>5,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Negotiable certificates of deposit							
Credit Suisse NY	P-1 / A-1	1,802	1,802	-	-	-	-
Rabobank Nederland NV NY	P-1 / A-1+	1,793	-	1,793	-	-	-
Skandinaviska Enskilda NY	P-1 / A-1	1,727	-	1,727	-	-	-
Municipal Bond							
CA State DWR Taxable Rev Bond	Aa1 / AAA	300	-	-	300	-	-
CA State Taxable Go Bonds	A1 / AA-	413	-	413	-	-	-
CA State Taxable Go Bonds	Aa3 / A	1,487	-	-	-	1,487	-
Univ of CA Taxable Rev Bonds	Aa2 / AA	1,200	-	-	-	1,200	-
U.S. Government agencies securities:							
Federal Home Loan Bank*	Aaa / AA+	2,930	-	1,525	1,405	-	-
Fannie Mae Global Notes*	Aaa / AA+	14,193	-	3,667	3,367	5,951	1,208
Freddie Mac Global Notes*	Aaa / AA+	7,502	-	660	4,741	2,101	-
U.S. Treasury Securities	Aaa / AA+	21,479	-	8,437	10,499	1,502	1,041
Medium-term notes:							
American Honda Finance Global	A1 / A+	634	-	-	634	-	-
Apple Inc. Corp.	Aa1 / AA+	2,580	-	-	1,803	777	-
Bank of New York Mellon	A1 / A+	1,254	-	1,254	-	-	-
Berkshire Hathaway Finance Corp.	Aa2 / AA	1,185	-	-	533	652	-
Chevron Corp Global	Aa1 / AA	1,587	-	-	-	1,587	-
Walt Disney Co. Corp.	A2 / A	1,266	-	-	1,266	-	-
General Electric Capital Corp.	A1 / AA+	1,978	-	-	1,978	-	-
HSBC Finance Corp Global	A2 / A+	481	-	-	481	-	-
IBM Corp	Aa3 / AA-	607	-	-	-	607	-
John Deere Capital Corp.	A2 / A	1,679	-	552	1,127	-	-
JP Morgan Chase & Co.	A3 / A	1,455	-	502	953	-	-
Microsoft Corp.	Aaa / AAA	429	-	-	-	429	-
PepsiCo Inc. Corp.	A1 / A-	401	-	401	-	-	-
Procter & Gamble Co. Corp.	Aa3 / AA-	864	-	-	864	-	-
Texas Instruments Inc. Corp.	A1 / A+	1,034	-	1,034	-	-	-
Toyota Motor Credit Corp.	Aa3 / AA-	769	-	769	-	-	-
U.S. Bancorp	A1 / A+	1,031	-	-	1,031	-	-
Wal-Mart Stores	Aa2 / AA	617	-	-	-	617	-
Wells Fargo & Co	A2 / A+	1,094	-	-	1,094	-	-
Local Agency Investment Funds	Unrated / Unrated	13,211	13,211	-	-	-	-
California Asset Management Program	Unrated / AAAm	10	10	-	-	-	-
Total unrestricted investments		<u>88,992</u>	<u>15,023</u>	<u>22,734</u>	<u>32,076</u>	<u>16,910</u>	<u>2,249</u>
Total unrestricted cash and investments		<u>\$ 94,698</u>	<u>\$ 20,729</u>	<u>\$ 22,734</u>	<u>\$ 32,076</u>	<u>\$ 16,910</u>	<u>\$ 2,249</u>
Restricted investments:							
First American Treasury Obligation Fund	Aaa / AAAm	\$ 107	\$ 107	\$ -	\$ -	\$ -	\$ -
U.S. Government Agencies securities:							
Federal Home Loan Bank*	Aaa / AA+	2,738	2,738	-	-	-	-
California Asset Management Program	Unrated / AAAm	1	1	-	-	-	-
Total restricted investments		<u>\$ 2,846</u>	<u>\$ 2,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\*Investments of a single issuer that exceeded 5% of the individual portfolio.

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**3. CASH AND INVESTMENTS, Continued**

**F. Cash and Investments Composition, Continued**

As of June 30, 2013, the District had the following investments and maturities:

Investment Type	Credit Ratings Moody's/S&P	Fair Value	Maturities (in years)				
			1 year or less	1-2 years	2-3 years	3-4 years	4-5 years
<b>Enterprise Fund:</b>							
Unrestricted cash and investments:							
Non-negotiable certificates of deposit with:							
Fremont Bank	n/a	\$ 1,085	\$ 1,085	\$ -	\$ -	\$ -	\$ -
JP Morgan Chase	n/a	2,000	1,000	1,000	-	-	-
U.S. Bank	n/a	2,000	2,000	-	-	-	-
Demand deposits	n/a	1,597	1,597	-	-	-	-
Total unrestricted cash and bank deposits		<u>6,682</u>	<u>5,682</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Negotiable certificates of deposit							
Bank of Nova Scotia	P-1 / A-1	1,001	-	1,001	-	-	-
Rabobank Nederland NV NY	Aa2 / AA-	1,791	-	1,791	-	-	-
Skandinavisda Enskilda NY	A1 / A+	1,729	-	1,729	-	-	-
Standard Chartered BK NY	P-1 / A-1+	1,000	1,000	-	-	-	-
Svenska Handelsbanken NY	P-1 / A-1+	1,501	-	1,501	-	-	-
Municipal Bond							
CA State DWR Taxable Rev Bond	Aa1 / AAA	299	-	-	-	299	-
CA State Taxable Go Bond	A1 / A	409	-	-	409	-	-
U.S. Government agencies securities:							
Federal Home Loan Mortgage Corp	Aaa / AA+	4,798	-	-	656	2,072	2,070
Federal National Mortgage Association*	Aaa / AA+	14,551	-	-	6,961	4,570	3,020
U.S. Treasury Securities	Aaa / AA+	30,301	-	13,993	14,816	1,492	-
Medium-term notes:							
Apple Inc. Corp.	Aa1 / AA+	763	-	-	-	-	763
Bank of New York Mellon	Aa3 / A+	1,257	-	-	1,257	-	-
Berkshire Hathaway Finance Corp.	Aa2 / AA	1,160	-	-	-	523	637
Chevron Corp Global	Aa1 / AA	1,559	-	-	-	-	1,559
Colgate Palmolive Corp	Aa3 / AA-	1,294	-	-	-	-	1,294
Walt Disney Co. Corp.	A2 / A	1,261	-	-	-	1,261	-
General Electric Capital Corp.	A1 / AA+	1,392	-	-	-	1,392	-
IBM Corp	Aa3 / AA-	594	-	-	-	-	594
John Deere Capital Corp.	A2 / A	547	-	-	547	-	-
JP Morgan Chase & Co.	A2 / A	1,242	-	-	1,242	-	-
Microsoft Corp.	Aaa / AAA	421	-	-	-	-	421
PepsiCo Inc. Corp.	A1 / A-	397	-	-	397	-	-
Procter & Gamble Co. Corp.	Aa3 / AA-	860	-	-	-	860	-
Texas Instruments Inc. Corp.	A1 / A+	1,037	-	-	1,037	-	-
Toyota Motor Corp.	Aa3 / AA-	761	-	-	761	-	-
U.S. Bancorp	A1 / A+	1,026	-	-	-	1,026	-
Wal-Mart Stores	Aa2 / AA	607	-	-	-	-	607
Local Agency Investment Funds	Unrated / Unrated	16,343	16,343	-	-	-	-
California Asset Management Program	Unrated / AAAm	10	10	-	-	-	-
Total unrestricted investments		<u>89,911</u>	<u>17,353</u>	<u>20,015</u>	<u>28,083</u>	<u>13,495</u>	<u>10,965</u>
Total unrestricted cash and investments		<u>\$ 96,593</u>	<u>\$ 23,035</u>	<u>\$ 21,015</u>	<u>\$ 28,083</u>	<u>\$ 13,495</u>	<u>\$ 10,965</u>
Restricted investments:							
First American Treasury Obligation Fund	Aaa / AAAm	\$ 78	\$ 78	\$ -	\$ -	\$ -	\$ -
U.S. Government Agencies securities:							
Federal Home Loan Bank	Aaa / AA+	2,759	2,759	-	-	-	-
Medium-term notes:							
Caterpillar Financial	A2 / A	2,174	2,174	-	-	-	-
General Electric Capital Corp	A1 / AA+	2,173	2,173	-	-	-	-
JP Morgan Chase & Co.	A2 / A	2,201	2,201	-	-	-	-
Local Agency Investment Funds	Unrated / Unrated	8,263	8,263	-	-	-	-
California Asset Management Program	Unrated / AAAm	464	464	-	-	-	-
Total restricted investments		<u>\$ 18,112</u>	<u>\$ 18,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\*Investments of a single issuer that exceeded 5% of the individual portfolio.

**Alameda County Water District**  
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**4. CUSTOMER AND OTHER ACCOUNTS RECEIVABLE**

Customer and other accounts receivable were as follows:

	2014	2013
Utility service	\$ 5,029	\$ 6,408
Groundwater replenishment	-	53
Other	913	1,041
Allowance for doubtful accounts	(25)	(32)
Total customer and other accounts receivable, net	<u>\$ 5,917</u>	<u>\$ 7,470</u>

Other accounts receivable balance of \$913 and \$1,041 for June 30, 2014 and 2013, respectively, represents accrued receivables for customer installation jobs and other miscellaneous receivables.

**5. CAPITAL ASSETS**

*A. Summary of Capital Asset Activity*

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Capital assets, not being depreciated/amortized:					
Land	\$ 9,727	\$ -	\$ (117)	\$ -	\$ 9,610
Construction in progress	21,612	38,567	-	(28,249)	31,930
Capital assets, not being depreciated/amortized	<u>31,339</u>	<u>38,567</u>	<u>(117)</u>	<u>(28,249)</u>	<u>41,540</u>
Capital assets, being depreciated/amortized					
Source of supply	51,092	7	-	6,683	57,782
Pumping plant	21,469	-	-	2,683	24,152
Water treatment	152,296	-	-	5,097	157,393
Transmission and distribution	262,957	1,443	(134)	10,735	275,001
General	48,114	303	(3,296)	3,051	48,172
Supplemental water supply storage	20,860	-	-	-	20,860
Capital assets, being depreciated/amortized	<u>556,788</u>	<u>1,753</u>	<u>(3,430)</u>	<u>28,249</u>	<u>583,360</u>
Less accumulated depreciation/amortization					
Source of supply	(37,401)	(1,221)	-	-	(38,622)
Pumping plant	(14,570)	(611)	-	-	(15,181)
Water treatment	(43,781)	(3,030)	-	-	(46,811)
Transmission and distribution	(106,573)	(4,981)	86	-	(111,468)
General	(20,773)	(2,147)	3,287	-	(19,633)
Supplemental water supply storage	(6,265)	(634)	-	-	(6,899)
Less accumulated depreciation/amortization	<u>(229,363)</u>	<u>(12,624)</u>	<u>3,373</u>	<u>-</u>	<u>(238,614)</u>
Capital assets, being depreciated/amortized, net	<u>327,425</u>	<u>(10,871)</u>	<u>(57)</u>	<u>28,249</u>	<u>344,746</u>
Total capital assets, net	<u>\$ 358,764</u>	<u>\$ 27,696</u>	<u>\$ (174)</u>	<u>\$ -</u>	<u>\$ 386,286</u>

**Alameda County Water District**  
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**5. CAPITAL ASSETS, Continued**

**A. Summary of Capital Asset Activity, Continued**

The District had various active construction projects as of June 30, 2014 including the following:

Appian Tank Seismic Upgrade (Bond Job)	\$ 2,142
Blending Facility Chemical Feed Upgrade (Bond Job)	812
Customer Installation Jobs	1,115
Development of Main Replacement Criteria	849
Hayward Fault Crossing Phase 1 Seismic Project (Bond Job)	11,091
Headquarter Frontage & Demonstration	245
Kaiser Pond Fish Screen (Bond Job)	4,628
Main Relocation for SFPUC Bay Division Pipeline Seismic Project	1,472
Rubber Dam #1 Fish Ladder	2,903
Rubber Dam #1 Seismic Upgrade	252
Rubber Dam #3 Fish Ladder	1,130
Shinn Pond Fish Screen	924
Stevenson Pond-Lagos Los Osos Division Repair Project	289
Vallecitos Channel Improvement	291
Various Other Active Projects (individually less than \$200)	3,105
WTP2 Power Facility Turbine Upgrade (Bond Job)	682
Total	<u>\$31,930</u>

At June 30, 2014, the District had construction commitments for the acquisition and construction of capital assets in the amount of \$18,188.

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Capital assets, not being depreciated/amortized:					
Land	\$ 9,727	\$ -	\$ -	\$ -	\$ 9,727
Construction in progress	10,282	19,312	-	(7,982)	21,612
Capital assets, not being depreciated/amortized	<u>20,009</u>	<u>19,312</u>	<u>-</u>	<u>(7,982)</u>	<u>31,339</u>
Capital assets, being depreciated/amortized					
Source of supply	51,092	-	-	-	51,092
Pumping plant	21,324	-	(4)	149	21,469
Water treatment	152,302	-	(6)	-	152,296
Transmission and distribution	253,908	2,885	(79)	6,243	262,957
General	46,075	634	(185)	1,590	48,114
Supplemental water supply storage	20,860	-	-	-	20,860
Capital assets, being depreciated/amortized	<u>545,561</u>	<u>3,519</u>	<u>(274)</u>	<u>7,982</u>	<u>556,788</u>
Less accumulated depreciation/amortization					
Source of supply	(35,985)	(1,416)	-	-	(37,401)
Pumping plant	(13,783)	(788)	1	-	(14,570)
Water treatment	(40,089)	(3,023)	1	(670)	(43,781)
Transmission and distribution	(102,451)	(4,844)	52	670	(106,573)
General	(18,802)	(2,140)	169	-	(20,773)
Supplemental water supply storage	(5,631)	(634)	-	-	(6,265)
Less accumulated depreciation/amortization	<u>(216,741)</u>	<u>(12,845)</u>	<u>223</u>	<u>-</u>	<u>(229,363)</u>
Capital assets, being depreciated/amortized, net	<u>328,820</u>	<u>(9,326)</u>	<u>(51)</u>	<u>7,982</u>	<u>327,425</u>
Total capital assets, net	<u>\$ 348,829</u>	<u>\$ 9,986</u>	<u>\$ (51)</u>	<u>\$ -</u>	<u>\$ 358,764</u>

Depreciation and amortization expense for capital assets for the years ended June 30, 2014 and 2013 were \$12,624 and \$12,845, respectively.

**Alameda County Water District**  
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**5. CAPITAL ASSETS, Continued**

*B. Supplemental Water Supply Storage*

In 1996 and in 2001, the District entered into two agreements for a water banking and exchange program with Semitropic Water Storage District and its Improvement District (Semitropic). The entities are used for storage, withdrawal, and exchange rights for the District's State Water Project supplies. Under the 1996 agreement (for 5% of the Semitropic program capacity), the District pays the capital component when storing and recovering water. Under the 2001 agreement (for an additional 10% of the program capacity), the District has paid for the capital costs through fixed annual payments. Payments used for the construction of capital assets, such as pipelines, pumping facilities, storage facilities, etc., are capitalized and amortized over the life of the agreements.

The agreements terminate in November 2035. The costs of the District's water storage in the amount of \$20,860 at June 30, 2014 and 2013 are amortized over the remaining life of the agreement. The District recognized amortization expense in the amount of \$634 for the years ended June 30, 2014 and June 30, 2013.

The District had a storage allocation of 150,000 acre-feet and had approximately 138,397 and 140,397 acre feet of water at June 30, 2014 and 2013, respectively.

**6. ACCOUNTS PAYABLE AND ACCRUED PAYROLL**

Accounts payable and accrued expenses were as follows:

	2014	2013
Vendors	\$ 4,938	\$ 5,002
Retention payable	331	246
Installer's reimbursement	1,758	1,299
Other	303	329
Total	<u>\$ 7,330</u>	<u>\$ 6,876</u>

Prior to April 1, 2013, the District assessed and collected separate acreage and footage fees from developers which are included in accounts payable and accrued expenses as installers' reimbursement. Effective April 1, 2013, the District replaced the separated fee structure and combined them into a single meter size based fee. Installers' reimbursement funds are designated to reimburse certain developers for a portion of the cost as defined by the District, of oversized mains, main extensions, and storage tanks constructed or installed by them at the request of the District. The terms of the agreements provide that such costs are reimbursable over a period of up to ten years out of certain cash receipts collected from contractors subsequently connecting to those previously installed mains. Such receipts are deposited in a cash deposits account separately for transmittal to the developers. The amount of such receipts, which had not been remitted as of June 30, 2014 and 2013, were \$1,758 and \$1,299, respectively. In the event that the designated future cash receipts from contractors are not adequate to fully reimburse the developers for the eligible construction cost incurred by the end of the ten-year period, the District will have no future obligation to the developers.

**Alameda County Water District**  
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**6. ACCOUNTS PAYABLE AND ACCRUED PAYROLL, Continued**

Accrued payroll and related liabilities were as follows:

	2014	2013
Accrued payroll	\$ 610	\$ 547
Accrued vacation	2,016	1,903
MCP Bonus Program (see Note 12)	1,802	1,697
Accrued leave and other	501	470
Total	<u>4,929</u>	<u>4,617</u>
Less current portion	<u>(3,011)</u>	<u>(2,829)</u>
Long-term portion	<u>\$ 1,918</u>	<u>\$ 1,788</u>

Accrued vacation activity is as follows:

	2014	2013
Balance, beginning of year	\$ 1,903	\$ 2,002
Additions	1,740	1,758
Reduction	<u>(1,627)</u>	<u>(1,857)</u>
Balance, end of year	<u>\$ 2,016</u>	<u>\$ 1,903</u>

Current portion of accrued vacation, leave and other is approximated by averaging the compensation balances paid out over the past three fiscal years.

**7. LONG-TERM DEBT**

Long-term debt activities for the year ended June 30, 2014 were as follows:

Description	Beginning	Reductions	Ending Balance	Current	Noncurrent
	Balance July 1, 2013		June 30, 2014		
2009 Water System Refunding					
Revenue Bonds	\$ 17,780	\$ (2,335)	\$ 15,445	\$ 2,395	\$ 13,050
Unamortized premium	828	(119)	709	118	591
2012 Water System Revenue Bonds	45,000	(250)	44,750	255	44,495
Unamortized premium	2,696	(97)	2,599	96	2,503
Total	<u>\$ 66,304</u>	<u>\$ (2,801)</u>	<u>\$ 63,503</u>	<u>\$ 2,864</u>	<u>\$ 60,639</u>

Long-term debt activities for the year ended June 30, 2013 were as follows:

Description	Beginning	Reductions	Ending Balance	Current	Noncurrent
	Balance July 1, 2012		June 30, 2013		
2009 Water System Refunding					
Revenue Bonds	\$ 19,855	\$ (2,075)	\$ 17,780	\$ 2,335	\$ 15,445
Unamortized premium	946	(118)	828	118	710
2012 Water System Revenue Bonds	45,240	(240)	45,000	250	44,750
Unamortized premium	2,792	(96)	2,696	96	2,600
Total	<u>\$ 68,833</u>	<u>\$ (2,529)</u>	<u>\$ 66,304</u>	<u>\$ 2,799</u>	<u>\$ 63,504</u>

**Alameda County Water District**  
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**7. LONG-TERM DEBT, Continued**

**Water System Revenue Bonds**

The Water System Revenue Bonds are issued primarily to finance the construction of capital improvements related to the District's water system. The bonds are payable solely from and secured by the revenues received from the operation of the District's water system. The District has covenanted that it will fix, prescribe and collect rates, fees and charges for use of the District's water system during each fiscal year which are least sufficient to yield in each fiscal year net revenues equal to 125% of the debt service for such fiscal year, plus any amount necessary to restore the bond reserve fund to the reserve requirement. The total principal and interest remaining to be paid from the bonds is \$86,802. Principal and interest paid for the year ended June 30, 2014 and total net revenues as defined in the bond indentures were \$4,759 and \$20,757, respectively. Principal and interest paid for the year ended June 30, 2013 and total net revenues as defined in the bond indentures were \$4,560 and \$18,703, respectively.

The debt service requirements for the Water System Revenue Bonds at June 30, 2014 were as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,650	\$ 2,109	\$ 4,759
2016	2,720	2,036	4,756
2017	2,800	1,960	4,760
2018	2,880	1,871	4,751
2019	2,980	1,768	4,748
2020 - 2024	12,825	7,238	20,063
2025 - 2029	12,470	4,620	17,090
2030 - 2034	7,635	3,085	10,720
2035 - 2039	9,100	1,702	10,802
2040 - 2041	4,135	218	4,353
Total	<u>\$ 60,195</u>	<u>\$ 26,607</u>	<u>\$ 86,802</u>

**Arbitrage**

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. The District has evaluated each debt issue subject to the arbitrage rebate requirements and does not have a rebatable arbitrage liability as of June 30, 2014 and 2013.

**Alameda County Water District**  
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**8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Special District Risk Management Authority Property and Liability Insurance Program for risk of loss. The program provides general liability, property, commercial auto, boiler and machinery, employment practices, employee dishonesty coverage, employment benefits liability, public official errors and omissions and public official personal liability insurance coverage.

Prior to August 1, 2002, the District managed and financed some of these risks by purchasing commercial insurance for their worker’s compensation and employer’s liability. On August 1, 2002, the District joined the Special Districts Workers Compensation Authority (Authority). The Authority is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500, et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insurance losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance and administrative services. The Authority’s pool began covering claims of its members in 1982. The Board of Directors is composed of three members appointed by the Board of Directors of the California Special Districts Association and four members elected by the districts who are participating in the Authority.

The District did not have settled claims that exceeded the District’s insurance coverage in any of the past three years.

The District’s deductibles and maximum coverage as of June 30, 2014 are as follows:

Coverage Description	Deductibles	Insurance Coverage
General Liability	\$ 50	\$ 10,000
Automobile	50	10,000
Excess Liability	-	10,000
Property	50	1,000,000
Workers' Compensation	-	Statutory
Employee Dishonesty	-	400

**9. COMMITMENTS**

**State of California** - In 1961, the District entered into a contract with the State of California (the State) to purchase water through the year 2035. After the initial term, the contract is renewable indefinitely by the District under essentially the same conditions as the original contract upon six months prior written notice to the State. The District’s actual water usage for fiscal years 2014 and 2013 were approximately 19,242 and 23,646 acre-feet, respectively. The maximum entitlement will be 42,000 acre-feet during fiscal year 2012 and thereafter. In any year when the entitlement is in excess of the District’s needs, the State will attempt to sell such excess and credit the District. The costs to the District for water purchased under this contract for fiscal years 2014 and 2013 were approximately \$6,271 and \$7,008, respectively, and were charged to operations as incurred.

**Alameda County Water District**  
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**9. COMMITMENTS, Continued**

The District’s water is delivered to it through facilities operated and constructed by the State. The cost of the water is determined annually by the State and includes reimbursement to the State for the District’s portion of the costs of construction and operation of these facilities.

The District’s commitment under the State water contract will remain in effect until 2036 or until the cost of the State’s facilities is recovered, whichever is longer. The commitment is subject to increase in future years as a result of additional improvements and higher-than-anticipated operating costs, and is projected by the State to be \$176,041 as of June 30, 2014 which was based on June 30, 2014 amount provided by the State.

Year Ending June 30,	State Water Purchase Commitment (in thousands)
2015	\$ 8,011
2016	8,529
2017	8,435
2018	8,249
2019	8,218
2020 - 2024	41,469
2025 - 2029	41,319
2030 - 2034	39,643
2035 - 2036	12,168
Total Water Purchase	<u>\$ 176,041</u>

**San Francisco Water Department** - The District entered into a contract with the San Francisco Water Department (SFWD) in June 1984. That contract was renewed in July 2009 to purchase certain minimum amounts of water over another 25-year period. The costs to the District for water purchased under this contract for fiscal years 2014 and 2013 were approximately \$15,963 and \$13,259, respectively, and were charged to operations as incurred. The District is obligated under the term of the agreement to make a minimum purchase of 8,567 acre-feet of water per year through 2034 at the then-current cost of water. In the event that the SFWD is unable to supply sufficient water to all users, the available water will be apportioned among the users ratably, with the District liable only for water actually delivered. For fiscal year 2014, the estimated cost of the minimum purchase commitment was approximately \$10,896. In fiscal year 2015, the District expects to purchase 8,762 acre-feet of water for a total price of approximately \$14,081.

**Bay Area Water Supply and Conservation Agency** - The District belongs to the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interests of 24 cities and water districts, and two private utilities that purchase water wholesale from the San Francisco regional water system. On January 31, 2013, BAWSCA issued bonds in the amount of \$335.8 million to raise the funds necessary to prepay capital commitments owed to the City and County of San Francisco by BAWSCA member agencies thereby realizing a present value savings of approximately \$62.3 million over all member agencies. For the District, this translates into an annual net savings of purchased water cost of approximately \$197.

**Alameda County Water District**  
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**9. COMMITMENTS, Continued**

Prior to the bond issuance, there were \$356 million in capital cost recovery payments that were outstanding and being repaid as a part of San Francisco's wholesale commodity charge. The capital cost recovery payments were being repaid at a fixed interest rate of 5.13% and were part of the Wholesale Revenue Requirement to the Water Supply Agreement negotiated with San Francisco in 2009. The bonds refinanced this debt at an average interest rate of 3.14%.

The BAWSCA issued revenue bonds are secured by a surcharge on BAWSCA member agencies. San Francisco will collect the surcharge and send the amount to BAWSCA for payment to bond holders. The surcharge would be in place for the term of the bonds which end in 2034. The surcharge is on the San Francisco wholesale water bill and is accounted for by the District as water purchases expense.

BAWSCA's annual debt service amount is \$24,675. The District's annual bond surcharge is estimated to be \$1,972 based on all member agencies actual wholesale water use in fiscal year ended June 30, 2014. The annual surcharge for each agency will be based on the actual wholesale water purchase percentage from the last full year for which data is available with an annual reconciliation based on the actual water purchased. A true-up adjustment based on the actual fiscal year ending June 30, 2014 water use will be included in the fiscal year ending June 30, 2016 bond surcharge. The current best projection on the District's annual surcharge for the future would be \$1,972. Audited financial statements for BAWSCA may be obtained from the BAWSCA at 155 Bovet Road, San Mateo, California, 94402.

**10. PENSION PLANS**

**A. Plan Description**

The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolution. Copies of CalPERS' annual financial report may be obtained from their Executive Office at 400 Q Street, Sacramento, California 95814 or by visiting [www.calpers.ca.gov](http://www.calpers.ca.gov). A separate report for the District's Plan within CalPERS is not available.

Effective January 1, 2009, the District implemented an employer paid member contribution (EPMC) plan for employees in its Management, Confidential and Professional group. Under this plan, the District picks up 2.5% of the eligible employees normal contribution to CalPERS (8%) and reports it as additional contribution. For fiscal years 2014 and 2013, the District's EPMC was \$300 and \$297, respectively.

The State passed the California Employees' Pension Reform Act (PEPRA) which became effective on January 1, 2013. PEPRA changes include the classification of active employees into two distinct classifications: classic members and new members. Classic members represent active members hired before January 1, 2013, and retain the pension plan benefits in effect. New members are active members hired on or after January 1, 2013, and are subject to PEPRA.

**Alameda County Water District**  
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**10. PENSION PLANS, Continued**

**B. Funding Policy**

Active plan members are required by state statute to contribute 8% of their annual covered salary for classic members and 7% for new members. The District was required to contribute for fiscal years 2014 and 2013 at an actuarially determined rate of 24.533% and 24.597% of annual covered payroll for the District's employees, which amounted to \$5,793 and \$5,642 for the years ended June 30, 2014 and 2013.

In March 2013, CalPERS reduced the discount rate from 7.75% to 7.50% with its 2011 actuarial valuation. This decrease implies lower returns on future CalPERS investments. Consequently, member agencies will need to contribute more to make up for the shortfall. CalPERS gave agencies a choice of whether to phase-in this increase in their contribution rate in either one, or two years. This rate increase would be effective over the fiscal year ended June 30, 2014. In the District's case, it was a choice of contributing at an increased overall rate of either 24.533% for a one-year phase-in, or 24.465% for a two-year phase-in. The difference between the two contribution rates for the fiscal year ended June 30, 2014, is 0.068% or approximately \$16. Given the small difference and greater simplicity of the one-year phase-in, the District chose the one-year phase-in option at the overall contribution rate of 24.533% for the fiscal year ended June 30, 2014.

**C. Annual Pension Cost**

For fiscal years 2014 and 2013, the District's annual pension cost of \$5,793 and \$5,642 for CalPERS was equal to the District's required and actual contributions. The required contributions were determined as part of the June 30, 2011 and June 30, 2010 actuarial valuations using the entry age normal actuarial cost method. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability.

Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains or losses each year.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentages of APC Contributed	Net Pension Obligation
2012	\$ 5,547	100%	\$ -
2013	5,642	100%	-
2014	5,793	100%	-

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

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**10. PENSION PLANS, Continued**

*D. Funding Status as of the Most Recent Actuarial Date*

As of the June 30, 2011 actuarial valuation, the economic assumptions changed as a result of a study and independent evaluation conducted by CalPERS. Changes to the economic assumptions included the investment rate of return, salary increase assumptions, inflation factor and payroll growth. As of the June 30, 2012 actuarial valuation, there were no changes made to the actuarial assumptions since the prior year's actuarial valuation.

*E. Funding Status as of the Most Recent Actuarial Date, Continued*

The other significant actuarial assumptions used to prepare the District's actuarial valuations include the following:

Valuation date:	June 30, 2012	June 30, 2011
Annual Required Contribution:	2014/2015	2013/2014
Actuarial Cost Method:	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Amortization Method:	Level percent of payroll	Level percent of payroll
Average Remaining Period	20 Years as of the Valuation Date	21 Years as of the Valuation Date
Asset Valuation Method:	15 Year Smoothed Market	15 Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return:	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)
Projected Salary Increases:	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation:	2.75%	2.75%
Payroll Growth:	3.00%	3.00%
Individual Salary Growth:	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**10. PENSION PLANS, Continued**

*E. Funding Status as of the Most Recent Actuarial Date, Continued*

The District contributes to the CalPERS, as an agent multiple - employer public employee defined benefit pension plan. The amounts reflected herein represent the District's portion as reported by CalPERS.

Valuation Date	Entry Age	Actuarial Value of Assets	(Unfunded)	Funded Ratio	Annual Covered Payroll	(UAAL)/
	Normal Accrued Liability		Liability - (UAAL)			Annual Covered Payroll
6/30/2012	\$ 183,910	\$ 139,102	\$ (44,808)	75.6%	\$ 22,509	-199.1%

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Internal Revenue Code Section 401(a) Plan*

Effective January 1, 1997, the District established and administered the Alameda County Water District 401(a) Plan (the Plan), a defined contribution plan. The Plan provides retirement benefits to District employees. The employees vest upon joining the Plan. The District has agreed to contribute to the employee's accounts to match the employees' Internal Revenue Code Section 457 contributions up to a specified amount.

The District contributed \$60 and \$57 in fiscal years 2014 and 2013, respectively, as required under the District's Management, Confidential and Professional (MCP) employee compensation schedule. Effective January 1, 2004, the District's matching calendar year contribution to the 401(a) plan was discontinued in accordance with the Memorandum of Understanding (MOU) for United Public Employees Local 1021, AFL-CIO employees.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

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**11. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE**

*A. Plan Description*

In addition to the pension benefits described in Note 10, the District provides health plan coverage for eligible retirees and their dependents pursuant to CalPERS Health Benefit Program eligibility requirements. In May 2012, the District entered into an agreement with CalPERS to participate in the California Employer’s Retiree Benefit Trust Fund Program (CERBT), a single employer postemployment health plan, to prefund the District’s other postemployment benefits through CalPERS.

For employees hired before August 1, 2002, the District’s contribution for each retired employee and all eligible dependents and eligible survivors shall be equal to the greater of the full cost of his/her enrollment, including the enrollment of his/her family members in the highest cost HMO medical plan with a traditional network or PERS Choice Plan offered by the CalPERS Health Benefits Program in the Bay Area/Sacramento Region.

For employees hired on or after August 1, 2002, the percentage of employer contribution payable for post retirement health benefits for each retired employee shall be based on the employee’s completed years of credited service with the District and CalPERS as described below. The credited service for purposes of determining the percentage of employer contributions shall mean a minimum of ten years of service with a California PERS participating agency, and a minimum of five years of service, of the ten years of service must be performed exclusively for the District. The District contributes the minimum employer contribution (MEC) required amounts under the Public Employee’s Medical and Hospital Care Act Minimum Employer Contribution rules as determined by CalPERS on an annual basis.

Credited Years of Service	Percentage of Employer Contributions
1-9	MEC
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20+years	100

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

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**11. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE, Continued**

*A. Plan Description, Continued*

For employees hired on or after January 1, 2009, the District’s contribution for each retired employee and all eligible dependents and eligible survivors shall be equal to the lesser of the full cost of his/her enrollment, including the enrollment of his/her family members in the lowest cost HMO medical plan with a traditional network or PERS Choice Plan offered by the CalPERS Health Benefit Program in the Bay Area/Sacramento Region. The percentage of employer contribution payable for post-employment health benefits shall be based on the employee’s completed years of service exclusively with the District as described below.

Credited Years of Service	Percentage of Employer Contributions
0-9	MEC
10-14	25
15-19	50
20-24	75
25+years	100

The District provides dental benefits to employees who retired from District service, and to their eligible dependents at the same cost as for active employees. Union employees hired after April 1, 1984 must have at least 10 years of service with the District and be at minimum age 50 at retirement to receive this benefit. Employees hired after April 1, 1988 must have 15 years of service with the District and be at minimum age 50 at retirement to receive this benefit. MCP employees hired on or after August 1, 2002, must have 15 years of service with the District and be at minimum age 50 at retirement in order to receive this retiree benefit.

Union employees hired on or after January 1, 2009 shall not be eligible to participate in the District’s retiree dental plan upon their retirement from the District. MCP employees hired on or after April 1, 2009 shall not be eligible to participate in the District’s retiree dental plan upon their retirement from the District.

The District provides Vision benefits to employees who retire from District service and to their eligible dependents at the same cost as for active employees. Union employees hired after April 2, 1984 must have at least 10 years of service with the District and be at minimum age 50 at retirement to receive this benefit. Union employees hired after April 1, 1988 must have 15 years of service with the District and be at minimum age 50 at retirement to receive this benefit. MCP employees hired on or after August 1, 2002 must have 15 years of service with the District and be at minimum age 50 at retirement in order to receive this retiree benefit. All employees hired on or after April 1, 2009, shall not be eligible to participate in the District’s retiree vision plan upon retirement from the District.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**11. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE, Continued**

*A. Plan Description, Continued*

The District provides health care benefits as described above for the surviving spouse and eligible dependents of a retiree so long as they meet the eligibility requirements. The District provides life insurance at a flat \$2,000 benefit for union retirees and a flat \$4,000 benefit for other retirees. All employees hired on or after April 1, 2009, shall not be eligible for retiree life insurance.

*B. Funding Policy*

The CERBT is funded through District contributions and any gains/losses as a result of investments. The District is required to disclose the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) as a level percentage of payroll over a period not to exceed 30 years.

The District's funding policy is to fund the ARC. As of June 30, 2011 actuarial valuation, the District's fiscal years 2014 and 2013 ARC rate is 16.9% of covered payroll.

*C. Annual OPEB Cost (AOC) and Net OPEB Asset*

The District's annual OPEB cost (AOC) is equal to (a) the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, less (b) one year's interest on the beginning balance of the net OPEB asset, and plus (c) an adjustment to ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actual liabilities or funding excess amortized over thirty years. The District's annual ARC and AOC were determined as part of the June 30, 2011 actuarial valuation.

The following table shows the components of the District's annual OPEB cost, the amount contributed to the Plan and changes in the District's Net OPEB Asset:

	2014	2013
Normal Cost	\$ 1,357	\$ 1,314
UAAL Amortization	2,507	2,428
Annual Required Contribution	3,864	3,742
Interest on Net OPEB Asset	(136)	(138)
Adjustments to Net OPEB Asset	182	176
Annual OPEB Cost (AOC)	3,910	3,779
Contributions made	(3,864)	(3,742)
Change in Net OPEB Asset	46	37
Net OPEB Asset, beginning of year	(1,872)	(1,909)
Net OPEB Asset, end of year	\$ (1,826)	\$ (1,872)

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**11. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE, Continued**

*C. Annual OPEB Cost (AOC) and Net OPEB Asset, Continued*

The total ARC for 2014 and 2013 is \$3,864 and \$3,742, respectively. Of this amount, the District made a contribution amount of \$2,111 and \$1,902 for retirees' health premiums in 2014 and 2013, respectively. The remaining balance of the ARC of \$1,753 and \$1,840 was deposited in CERBT in 2014 and 2013 respectively.

The following table represents annual OPEB cost, the amount actually contributed to the Plan, and the District's Net OPEB Asset:

Year Ended	Annual OPEB Cost	Contributions Made	Percentage of OPEB Cost Contributed	Net OPEB Asset
6/30/2012	\$ 2,890	\$ 2,856	99%	\$ 1,909
6/30/2013	3,779	3,742	99%	1,872
6/30/2014	3,910	3,864	99%	1,826

*D. Funded Status and Funding Progress*

As of June 30, 2013, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability (AAL)	\$ 46,519
Actuarial value of plan assets	9,436
Unfunded actuarial accrued liability	<u>\$ 37,083</u>
Funded ratio (actuarial value of plan assets/AAL)	20.3%
Annual covered payroll (active plan members)	\$ 21,979
UAAL as a percentage of annual covered payroll	168.7%

*E. Actuarial Methods and Assumptions*

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**11. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE, Continued**

*E. Actuarial Methods and Assumptions, Continued*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial assumptions are as follows:

Valuation date:	June 30, 2013	June 30, 2011
ARCs:	2014/2015 and 2015/2016	2012/2013 and 2013/2014
Discount rate:	Prefunded with CERBT investment option #1. 7.25%. Sensitivity 5% & 5.75%	Prefunded with CERBT investment option #1. 7.25%
General inflation:	3.00%	3.00%
Payroll increase:	3.25%	3.25%
Healthcare trend:	Rates of 8.0% trending to 5.0% in 2021+	Rates of 8.0% to 9.4% trending to 5.0% in 2020+
Cost method:	Entry Age Normal	Entry Age Normal
Amortization method:	Level percentage of payroll	Level percentage of payroll
Funding policy:	District contributes full ARC to Trust	District contributes full ARC to Trust
Actuarial value of assets:	Assets gains/losses recognized over 5 years; Shorter period but same method as CalPERS Pension; and Corridor 80% of 120% of market value.	Assets gains/losses recognized over 5 years; Shorter period but same method as CalPERS Pension; and Corridor 80% of 120% of market value.
Amortization period:	Initial UAAL 30 year fixed (closed) period (26 years remaining for 2014/15 ARC). Assumption Changes, Experience Gains/Losses & Contribution Gains/Losses-15 year fixed (closed) period. Maximum 30 year combined period.	Initial UAAL 30 year fixed (closed) period (28 years remaining for 2012/13 ARC). Assumption Changes, Experience Gains/Losses & Contribution Gains/Losses-15 year fixed (closed) period. Maximum 30 year combined period.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**12. OTHER POST EMPLOYMENT BENEFITS - MCP BONUS PROGRAM**

**Plan Description** - The District provided a bonus to eligible employees in the Management/ Confidential/ Professional (MCP) group hired by the District before 2001. The bonus is paid upon termination of the employee's District employment, but only if one of the following conditions is satisfied: (1) the employee retires from service under CalPERS, (2) the termination is due to the employee's death, or (3) upon terminating, the employee retires under CalPERS due to disability. The program is a deferred-compensation arrangement subject to Internal Revenue Code sections 457(f) and 409A.

At retirement, members of the MCP group that were hired before July 1, 1994 are eligible for a retirement bonus calculated at the rate of 3 working days per each full 6 months of continuous service to the District. The bonus is based on the employee's pay rate at the time of retirement. If an employee who is eligible for service retirement dies, his/her designated beneficiary will receive the employee's retirement bonus. Employees hired on or after July 1, 1994, shall receive the retirement bonus based on the following: 2 days per year after 10 years' service; 4 days per year after 15 years' service; and 6 days per year after 20 years' service. At June 30, 2014 and 2013, the District had 28 and 29 eligible members in this closed program.

**Funding Policy** - Contribution requirements may be amended through negotiations between the District and members of the MCP group. The District contributes on a pay-as-you-go basis upon the retirement date of the eligible employee. For the years ended June 30, 2014 and 2013, the District contributed \$100 and \$268, respectively, towards this program for 1 and 4 retired members, respectively.

**Annual OPEB Cost and Net OPEB Obligation** - The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers when plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost, the amount contributed to the MCP Bonus Program and changes in the District's Net OPEB Obligation:

	2014	2013
Annual Required Contribution	\$ 171	\$ 134
Interest on Net OPEB Obligation	34	70
Annual OPEB Cost (expense)	205	204
Contributions made	(100)	(268)
Change in Net OPEB Obligation	105	(64)
Net OPEB Obligation, beginning of year	1,697	1,761
Net OPEB Obligation, end of year	<u>\$ 1,802</u>	<u>\$ 1,697</u>

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**12. OTHER POST EMPLOYMENT BENEFITS - MCP BONUS PROGRAM, Continued**

The following table represents annual OPEB cost, the amount actually contributed to the MCP Bonus Program, and the District's Net OPEB Obligation:

Year Ended	Annual OPEB Cost	Contributions Made	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 234	\$ 114	49%	\$ 1,761
6/30/2013	204	268	131%	1,697
6/30/2014	205	100	49%	1,802

**Funded Status and Funding Programs** - As of June 30, 2014 and 2013, the actuarial accrued liability for MCP Bonus Program benefits was \$1,802 and \$1,697, respectively, all of which was unfunded. At June 30, 2014 and 2013, the covered payroll (annual payroll of active employees covered by the MCP Bonus Program) was \$4,647 and \$4,560, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was -38.8 percent and -37.2 percent, respectively.

The projections of future benefit payments for this closed plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities. The following simplifying assumptions were made:

- Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 58, or at the first subsequent year in which the member would qualify for benefits.
- Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 19W9 United States Life Tables for Males and Females were used.
- Turnover - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age.
- Inflation and payroll growth rates - The inflation and payroll growth rates assumption of 2.0 percent was based on projected wage increases of the MCP Bonus Program participants.

**Alameda County Water District**  
**Notes to Basic Financial Statements**  
**For the years ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

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**12. OTHER POST EMPLOYMENT BENEFITS - MCP BONUS PROGRAM, Continued**

In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

**13. LITIGATION**

In the normal course of business, the District is a defendant in various lawsuits. Defense of the lawsuits is being handled by the District's insurance carriers and losses, if any, are expected to be covered by insurance. District officials are of the opinion that none of these lawsuits will have a material adverse effect on the District's financial position.

**14. DROUGHT STATE OF EMERGENCY**

The District is facing a number of challenges due to the worst drought in 150 years. The Governor of California declared a Drought State of Emergency on January 17, 2014. The District responded by adopting a drought ordinance on March 13, 2014 that mandates a 20% reduction in water usage and by increasing communications with customers about the necessity for conservation. Our customers responded immediately and have been achieving the 20% reduction. The District has been working on securing an adequate water supply at the best possible cost given the challenging circumstances. The District is facing the financial impacts by delaying capital projects, reducing operating costs, utilizing a rate stabilization fund, considering a new bond issuance for essential capital projects and implementing a drought surcharge which was adopted on July 22, 2014.

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**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

**Alameda County Water District**  
**Required Supplemental Information (Unaudited)**  
**Schedules of Funding Progress and Employer Contributions (OPEB)**  
**For the Years Ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**1. DEFINED BENEFIT PENSION PLAN**

The District contributes to CalPERS, as an agent multiple-employer public employee defined benefit pension plan. The amounts reflected herein represent the District's portion as reported by CalPERS.

*Schedule of Funding Progress*

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	(Unfunded) Liability - (UAAL)	Funded Ratio	Annual Covered Payroll	(UAAL)/ Annual Covered Payroll
6/30/2010	\$ 162,814	\$ 123,302	\$ (39,512)	75.7%	\$ 19,874	-198.8%
6/30/2011	171,513	130,852	(40,661)	76.3%	20,985	-193.8%
6/30/2012	183,910	139,102	(44,808)	75.6%	22,509	-199.1%

Actuarial valuations as of June 30, 2014 and 2013 are not available.

**2. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE**

*Schedule of Funding Progress*

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	(Unfunded) Liability - (UAAL)	Funded Ratio	Annual Covered Payroll	(UAAL) / Annual Covered Payroll
6/30/2009	\$ 32,915	\$ 3,496	\$ (29,419)	10.6%	\$ 19,001	-154.8%
6/30/2011	41,565	5,620	(35,945)	13.5%	22,175	-162.1%
6/30/2013	46,519	9,436	(37,083)	20.3%	21,979	-168.7%

**Alameda County Water District**  
**Required Supplemental Information (Unaudited)**  
**Schedules of Funding Progress and Employer Contributions (OPEB)**  
**For the Years Ended June 30, 2014 and 2013**  
**(Dollars in thousands)**

**2. OTHER POST EMPLOYMENT BENEFITS - RETIREE HEALTH CARE, Continued**

*Schedule of Employer Contributions*

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
June 30, 2009	\$ 2,592	\$ 5,000	192.9%
June 30, 2010	2,676	2,406	89.9%
June 30, 2011	2,638	2,658	100.8%
June 30, 2012	2,856	2,856	100.0%
June 30, 2013	3,742	3,742	100.0%
June 30, 2014	3,864	3,864	100.0%

**3. OTHER POST EMPLOYMENT BENEFITS - MCP BONUS PROGRAM**

*Schedule of Funding Progress*

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	(Unfunded) Liability - (UAAL)	Funded Ratio	Annual Covered Payroll	(UAAL) / Annual Covered Payroll
6/30/2012	\$ 1,761	\$ -	\$ (1,761)	0.0%	\$ 4,859	-36.2%
6/30/2013	1,697	-	(1,697)	0.0%	4,560	-37.2%
6/30/2014	1,802	-	(1,802)	0.0%	4,647	-38.8%

*Schedule of Employer Contributions*

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
June 30, 2012	\$ 168	\$ 114	67.9%
June 30, 2013	134	268	200.0%
June 30, 2014	171	100	58.5%

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# STATISTICAL SECTION

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# STATISTICAL SECTION

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This part of the Alameda County Water District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Index</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	52
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the District's most significant local revenues source, the water revenues. Also included in this section is information on the District's second significant source of local revenues, the property tax.	54
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	59
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	61
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	63

**Table 1**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF REVENUES, EXPENSES, and RATE INCREASES (Unaudited)**  
**(in thousands)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
<b>OPERATING REVENUES:</b>										
Water Sales	\$ 47,469	\$ 53,355	\$ 57,285	\$ 58,087	\$ 56,778	\$ 56,744	\$ 62,596	\$ 70,098	\$ 76,903	\$ 81,081
Development Fees	3,864	3,589	3,276	3,874	5,703	1,768	1,892	2,118	1,977	3,494
Other Revenue	3,691	1,963	4,021	2,090	1,576	1,737	1,559	1,662	1,914	2,109
<b>TOTAL OPERATING REVENUES</b>	<b>55,024</b>	<b>58,907</b>	<b>64,582</b>	<b>64,051</b>	<b>64,057</b>	<b>60,249</b>	<b>66,047</b>	<b>73,878</b>	<b>80,794</b>	<b>86,684</b>
<b>OPERATING EXPENSES:</b>										
Source of Supply										
Water Purchases	9,529	9,616	12,985	14,211	14,129	14,128	14,402	18,747	21,367	23,427
Pumping	2,980	2,617	2,666	2,574	2,583	2,592	3,116	3,338	2,954	2,763
Other	6,523	6,002	6,303	6,783	9,707	7,511	8,819	8,875	8,828	10,215
Water Treatment	8,786	9,936	9,732	10,097	11,022	11,297	12,464	12,119	12,586	12,584
Transmission and Distribution	9,423	9,753	10,311	10,089	11,285	11,997	11,343	10,953	10,650	10,934
Administration of Customer Accounts	995	957	1,056	1,076	1,163	1,252	1,507	1,390	1,680	1,832
Administration and General	4,151	5,310	5,286	6,210	7,605	8,335	6,172	9,679	11,965	13,090
Depreciation and Amortization	9,926	10,402	10,698	10,811	10,968	10,942	12,462	12,262	12,845	12,624
<b>TOTAL OPERATING EXPENSES</b>	<b>52,313</b>	<b>54,593</b>	<b>59,037</b>	<b>61,851</b>	<b>68,462</b>	<b>68,054</b>	<b>70,285</b>	<b>77,363</b>	<b>82,875</b>	<b>87,469</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>										
Investment Income	1,608	2,524	4,537	5,344	4,032	2,448	1,416	672	(46)	1,217
Property Taxes	1,778	2,575	5,820	6,657	7,381	7,479	7,256	7,936	7,917	7,654
Other Revenues (1)	-	-	-	-	-	10,934	450	215	68	47
Other Expenses/Loss on Disposal	(3,287)	(2,827)	(2,943)	(2,897)	(2,915)	(2,373)	(2,060)	(3,879)	(2,133)	(1,624)
<b>TOTAL NONOPERATING REVENUES (EXPENSES):</b>	<b>99</b>	<b>2,272</b>	<b>7,414</b>	<b>9,104</b>	<b>8,498</b>	<b>18,488</b>	<b>7,062</b>	<b>4,944</b>	<b>5,806</b>	<b>7,294</b>
<b>Capital Contributions</b>	<b>2,547</b>	<b>4,185</b>	<b>4,796</b>	<b>3,988</b>	<b>6,237</b>	<b>5,491</b>	<b>3,677</b>	<b>2,849</b>	<b>5,529</b>	<b>2,767</b>
<b>Increase in Net Positions</b>	<b>\$ 5,357</b>	<b>\$ 10,771</b>	<b>\$ 17,755</b>	<b>\$ 15,292</b>	<b>\$ 10,330</b>	<b>\$ 16,174</b>	<b>\$ 6,501</b>	<b>\$ 4,308</b>	<b>\$ 9,254</b>	<b>\$ 9,276</b>
% Water Rate Increase (of latter of FY)	7.00*	5.00*	9.00	4.50	6.00	8.80	8.00	8.00**	17.1***	7.00
<b>Number of Employees (2)</b>	<b>218</b>	<b>218</b>	<b>212</b>	<b>214</b>	<b>214</b>	<b>219</b>	<b>226</b>	<b>225</b>	<b>229</b>	<b>238</b>

(1) LA VWMA termination of 1998 MOU Agreement and Polybutylene Settlement in FY 2009/10.

(2) Active employees as of June 30, 2014.

Source: Alameda County Water District Finance Department

\*Excludes 6.5% Supplemental Temporary Water Rate Increase

\*\*Average Residential Customer Increase. Actual Commodity Rate Increase was 6.0% and Actual Service Charge Increase was 19.0%.

\*\*\*Average Residential Customer Increase. Actual Commodity Rate Increase was 0.0% and Actual Service Charge Increase was 100.0%.

Table 2  
ALAMEDA COUNTY WATER DISTRICT  
TEN YEAR SUMMARY OF NET POSITION (Unaudited)  
(in thousands)

	2004/05	2005/06	2006/07	2007/08	2008/09 <sup>(1)</sup>	2009/10	2010/11 <sup>(2)</sup>	2011/12 <sup>(2)</sup>	2012/13	2013/14
<b>NET POSITION:</b>										
Net investment in capital assets	\$ 249,646	\$ 252,840	\$ 255,535	\$ 260,757	\$ 275,844	\$ 292,179	\$ 298,301	\$ 304,983	\$ 310,757	\$ 325,497
Restricted for debt service	7,679	7,768	7,781	7,662	7,701	2,515	2,436	2,639	2,656	2,669
Unrestricted	86,797	94,287	109,334	119,523	98,124	103,149	101,334	98,757	102,220	96,743
<b>TOTAL NET POSITION</b>	<b>\$ 344,122</b>	<b>\$ 354,895</b>	<b>\$ 372,650</b>	<b>\$ 387,942</b>	<b>\$ 381,669</b>	<b>\$ 397,843</b>	<b>\$ 402,071</b>	<b>\$ 406,379</b>	<b>\$ 415,633</b>	<b>\$ 424,909</b>

Note: <sup>(1)</sup> The District restated its 2008/09 net position balance to reflect an impairment of its Water Treatment Plant 1, the impact of GASB Statement No. 51 implementation and an adjustment to the District's accumulated supplemental water supply storage capitalized costs.

<sup>(2)</sup> The District restated its 2010/11 and 2011/12 net position balances to record its obligation related to the Management, Confidential and Professional Bonus Program and the impact of the GASB Statement No. 65 implementation.

Source: Alameda County Water District Finance Department

Table 3  
ALAMEDA COUNTY WATER DISTRICT  
TEN YEAR SUMMARY OF PROPERTY TAX LEVIES/COLLECTIONS (Unaudited)  
(in thousands)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
<b>Levies:</b>										
1% Tax Allocation	\$ 286 *	\$ 488 *	\$ 3,418	\$ 3,615	\$ 3,622	\$ 3,541	\$ 3,537	\$ 3,500	\$ 3,569	\$ 3,769
State Water Contract Tax	1,182	1,696	2,079	2,516	3,071	2,595	2,803	3,010	3,189	3,194
Total	\$ 1,468	\$ 2,184	\$ 5,497	\$ 6,131	\$ 6,693	\$ 6,136	\$ 6,340	\$ 6,510	\$ 6,758	\$ 6,963
<b>Collections:</b>										
Percentage of Collection of Levies (%)	\$ 1,778	\$ 2,575	\$ 5,820	\$ 6,670	\$ 7,788	\$ 6,217	\$ 7,164	\$ 8,317	\$ 8,050	\$ 8,400
	121%	118%	106%	109%	116%	101%	113%	128%	119%	121%

Source: Alameda County Water District Finance Department

\* Portions of District's allocation of countywide 1% tax levy (\$ 2,817) transferred to Educational Revenue Augmentation Fund (ERAF) by State.

**Table 4**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF ASSESSED VALUATION (Unaudited)**  
**(in thousands)**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2004/05	\$ 34,731,705	\$ 21,598	\$ 2,418,796	\$ 37,172,099
2005/06	37,453,609	20,099	2,556,504	40,030,212
2006/07	40,105,912	17,559	2,559,158	42,682,628
2007/08	42,888,414	5,812	2,616,332	45,510,558
2008/09	44,849,292	5,620	2,750,418	47,605,330
2009/10	43,825,950	5,620	3,047,425	46,878,995
2010/11	43,522,656	5,755	3,093,752	46,622,164
2011/12	43,072,743	5,755	2,975,251	46,053,748
2012 /13	43,846,946	70,042	3,053,241	46,970,229
<b>2013 /14</b>	<b>46,275,494</b>	<b>61,871</b>	<b>2,950,912</b>	<b>49,288,277</b>

Source: California Municipal Statistics, Inc. and Alameda County Auditor-Controller's Office

**Table 5**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF SECURED TAX CHARGES AND DELINQUENCIES (Unaudited)**  
(in thousands)

Fiscal Year	Secured Tax Charge (1)	Amount		Percent Delinquent June 30
		Delinquent	June 30	
2003/04	\$ 1,455	\$ 23		1.61 %
2004/05	1,110	17		1.56
2005/06	1,665	28		1.67
2006/07	2,037	61		3.00
2007/08	2,460	93		3.80
2008/09	2,998	109		3.65
2009/10	2,544	64		2.51
2010/11	2,771	56		2.01
2011/12	3,180	59		1.87
<b>2012/13</b>	<b>3,048</b>	<b>29</b>		<b>0.95</b>

(1) The figures above include only information provided by the County, which is the State Water Project override "debt service" levy.

Data for FY 2013-14 is not yet available.

Source: Alameda County Auditor-Controller

**Table 6**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF SCHEDULE OF WATER RATES-BIMONTHLY READINGS AND BILLINGS (Unaudited)**

	2005	Eff. 1/1	2006	Eff. 2/1	2007	Eff. 2/1	2008	Eff. 2/1	2009	Eff. 2/1	2010	Eff. 3/1	2011	Eff. 2/1	2012	Eff. 2/1	2013	Eff. 2/1	2014
<b>COMMODITY CHARGE/HCF:</b>																			
Inside District	\$ 1,997	\$ 2,096	\$ 2,285	\$ 2,388	\$ 2,531	\$ 2,754	\$ 2,974	\$ 3,152	\$ 3,373	\$ 3,624	\$ 3,878								
Outside District	2,296	2,410	2,627	2,745	2,910	3,166	3,419	3,624	3,878										
San Francisco	2,002	2,102	2,292	2,395	2,682	2,918	3,242	3,673	- <sup>(1)</sup>										
<b>BIMONTHLY METER SERVICE CHARGE:</b>																			
Inside District & SF Water Service	\$ 9.60	\$ 10.08	\$ 10.08	\$ 10.08	\$ 10.68	\$ 11.62	\$ 12.55	\$ 14.93	\$ 29.86	\$ 31.95									
5/8" & 3/4 "	13.75	14.44	14.44	14.44	15.31	16.66	17.99	21.41	42.82	45.82									
1-1/2	24.30	25.52	25.52	25.52	27.05	29.43	31.78	37.82	75.64	80.93									
2	34.85	36.59	36.59	36.59	38.79	42.20	45.58	54.24	108.48	116.07									
3	132.15	138.76	138.76	138.76	147.09	160.03	172.83	205.67	411.34	440.13									
4	191.40	200.97	200.97	200.97	213.03	231.78	250.32	297.88	595.76	637.46									
6	462.00	485.10	485.10	485.10	514.21	559.46	604.22	719.02	1,438.04	1,538.70									
8	676.50	710.33	710.33	710.33	752.95	819.21	884.75	1,052.85	2,105.70	2,253.10									
10	1,209.00	1,269.45	1,269.45	1,269.45	1,345.62	1,464.03	1,581.15	1,881.57	3,763.14	4,026.56									
<b>Outside District Water Service</b>																			
5/8" & 3/4 " or less	\$ 11.00	\$ 11.59	\$ 11.59	\$ 11.59	\$ 12.28	\$ 13.36	\$ 14.43	\$ 17.17	\$ 34.34	\$ 36.74									
1	15.80	16.61	16.61	16.61	17.61	19.16	20.69	24.62	49.24	52.69									
1-1/2	27.90	29.35	29.35	29.35	31.11	33.84	36.55	43.49	86.99	93.07									
2	40.05	42.08	42.08	42.08	44.61	48.53	52.41	62.37	124.75	133.48									
3	151.95	159.57	159.57	159.57	169.15	184.03	198.75	236.52	473.04	506.15									
4	220.10	231.12	231.12	231.12	244.98	266.55	287.87	342.56	685.12	733.08									
6	531.30	557.87	557.87	557.87	591.34	643.38	694.85	826.87	1,653.75	1,769.51									
8	778.00	816.88	816.88	816.88	865.89	942.09	1,017.46	1,210.78	2,421.56	2,591.07									
10	1,390.35	1,459.87	1,459.87	1,459.87	1,547.46	1,683.63	1,818.32	2,163.81	4,327.61	4,630.54									
<b>BIMONTHLY CHARGE FOR PRIVATE FIRE SERVICES:</b>																			
4 " or less	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40									
6	19.20	19.20	19.20	19.20	19.20	19.20	19.20	19.20	19.20	19.20									
8	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00									
10	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80	28.80									
12	33.60	33.60	33.60	33.60	33.60	33.60	33.60	33.60	33.60	33.60									
16	43.20	43.20	43.20	43.20	43.20	43.20	43.20	43.20	43.20	43.20									

Source: Alameda County Water District Finance Department

Note: <sup>(1)</sup> The District approved a 100% increase on bi-monthly meter service charge and stopped offering special rate for water purchased from San Francisco to customers effective February 1, 2013.

Table 7  
**ALAMEDA COUNTY WATER DISTRICT**  
**LARGEST DISTRIBUTION WATER REVENUE ACCOUNTS (Unaudited)**  
**TEN YEAR HISTORY**  
 (1=Highest to 10=Lowest)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
City of Fremont	2	2	2	3	2	2	1	2	1	1
Fremont Unified School District	3	3	3	2	1	1	2	3	2	2
Prologis Trust	6	6	5	4	3	3	4	4	3	3
Western Digital Technologies	5	4	4	5	5	5	3	1	4	4
City of Union City	9	8	6	6	6	6	5	6	6	5
Contempo Homeowners Association	7	5	7	7	9	7	7	8	7	6
Tesla Motors, Inc.	-	-	-	-	-	-	-	-	-	7
Ardenwood Forest Apartments	-	-	-	-	-	-	10	-	8	8
New Haven School District	-	-	-	-	-	-	-	10	9	9
Newark Unified School District	8	9	8	8	7	9	8	5	5	10
City of Newark	4	-	10	10	10	-	-	-	10	-
Equity Residential Properties Trust	10	10	9	9	8	8	-	-	-	-
MMC Technology	-	7	-	-	-	-	-	-	-	-
New United Motor Manufacturing, Inc.	1	1	1	1	4	4	-	-	-	-
School for the Deaf	-	-	-	-	-	-	6	7	-	-
Seagate Magnetics	-	-	-	-	-	-	-	9	-	-
Solyndra Inc.	-	-	-	-	-	10	9	-	-	-

Source: Alameda County Water District Finance Department

**Table 8**  
**ALAMEDA COUNTY WATER DISTRICT**  
**HISTORICAL and PROJECTED NET REVENUES and DEBT SERVICE COVERAGE**  
**Fiscal Years 2009/10 - 2018/19 (Unaudited)**  
(in thousands)

	Actual										Projected			
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19				
<b>Revenues</b>														
Water Sales	\$ 56,744	\$ 62,596	\$ 70,098	\$ 76,903	\$ 81,081	\$ 85,802	\$ 92,237	\$ 96,698	\$ 109,564	\$ 118,858				
Investment Income (1)	2,448	1,416	672	(46)	1,217	1,007	1,023	972	932	1,023				
Property Taxes (2)	7,479	7,256	7,936	7,917	7,654	8,208	8,422	8,538	8,586	8,607				
Development Fees	1,768	1,892	2,118	1,977	3,494	2,553	4,256	3,596	3,678	3,650				
Other Revenue (3)	1,738	1,559	1,877	1,982	2,156	1,667	1,802	1,768	1,656	1,664				
<b>Total Revenues</b>	<b>70,177</b>	<b>74,719</b>	<b>82,701</b>	<b>88,733</b>	<b>95,602</b>	<b>99,237</b>	<b>107,739</b>	<b>111,572</b>	<b>124,417</b>	<b>133,801</b>				
<b>Maintenance and Operation Costs</b>														
Pumping Power Costs	2,592	3,116	3,338	2,954	2,763	2,700	2,272	2,421	2,579	2,732				
Other Operating Expenses (4)	9,283	7,642	7,272	7,841	10,252	11,370	11,084	11,849	13,514	14,936				
Labor Costs (5)	31,069	32,571	35,744	37,868	38,403	45,086	47,968	50,589	56,328	60,117				
Purchased Water (6)	14,128	14,402	18,747	21,367	23,427	22,722	24,154	24,328	26,019	28,029				
Aquifer Reclamation Costs	40	92	-	-	-	-	-	-	-	-				
<b>Total Expenses</b>	<b>57,112</b>	<b>57,823</b>	<b>65,101</b>	<b>70,030</b>	<b>74,845</b>	<b>81,878</b>	<b>85,478</b>	<b>89,188</b>	<b>98,441</b>	<b>105,813</b>				
<b>Net Revenues</b>	<b>\$ 13,065</b>	<b>\$ 16,896</b>	<b>\$ 17,600</b>	<b>\$ 18,703</b>	<b>\$ 20,757</b>	<b>\$ 17,359</b>	<b>\$ 22,261</b>	<b>\$ 22,384</b>	<b>\$ 25,976</b>	<b>\$ 27,987</b>				
<b>Maximum Annual Debt Service on Revenue Certificates and Bond</b>														
2003 Certificates of Participation	\$ 1,203	\$ 1,203	\$ 822	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
2009 Refunding Revenue Bond	2,921	2,664	2,664	2,669	2,866	2,868	2,863	2,867	2,864	2,863				
2012 Revenue Bond	-	-	523	1,891	1,893	1,891	1,893	1,893	1,887	1,885				
<b>Total Debt Service</b>	<b>\$ 4,124</b>	<b>\$ 3,867</b>	<b>\$ 4,009</b>	<b>\$ 4,560</b>	<b>\$ 4,759</b>	<b>\$ 5,497</b>	<b>\$ 6,231</b>	<b>\$ 6,235</b>	<b>\$ 6,226</b>	<b>\$ 6,223</b>				
<b>Ratio of Net Revenues to Maximum Annual Debt Service on Revenue Certificates</b>	3.17x	4.37x	4.39x	4.10x	4.36x	3.16x	3.57x	3.59x	4.17x	4.50x				

Notes:

- (1) Negative interest due to one-time portfolio restructuring.
- (2) This table demonstrates historical and projected debt service coverage taking into account the inclusion of property taxes collected by the District, while also taking into account expenses paid for by such taxes.
- (3) Excludes certain one-time grants, reimbursements of shared projects, property sales, and a mitigation payment.
- (4) Includes annual inflationary increase of 3.00% beginning in 2015.
- (5) Includes fringe benefits and annual inflationary increase as relevant beginning in 2015. OPEB cost included beginning FY 2008/09 and MCP Bonus Program beginning FY 2011/12.
- (6) Per contract schedule.

Source: Alameda County Water District Finance Department. Total may not add up due to rounding.

**Table 9**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF OUTSTANDING DEBT (Unaudited)**  
**(in thousands)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
<b>Certificates of Participation</b>										
1998 Refunding Revenue Bonds 3.5% - 4.63% Maturity: FY 2019-20*	\$ 34,044	\$ 32,520	\$ 30,918	\$ 29,245	\$ 27,498	-	-	-	-	-
2003 Revenue COP's 4.6% - 5.25% Maturity: FY 2027-28**	\$ 25,223	\$ 25,213	\$ 25,203	\$ 25,194	\$ 25,184	\$ 25,174	\$ 25,165	-	-	-
2009 Refunding Revenue Bonds 2.0% - 5.0% Maturity: FY 2019-20	-	-	-	-	-	\$ 23,083	\$ 21,172	\$ 20,801	\$ 18,608	\$ 16,154
2012 Revenue Bonds 3.0% - 5.0% Maturity: FY 2040-41	-	-	-	-	-	-	-	\$ 48,032	\$ 47,696	\$ 47,349
<b>Total</b>	<b>\$ 59,267</b>	<b>\$ 57,733</b>	<b>\$ 56,121</b>	<b>\$ 54,439</b>	<b>\$ 52,682</b>	<b>\$ 48,257</b>	<b>\$ 46,337</b>	<b>\$ 68,833</b>	<b>\$ 66,304</b>	<b>\$ 63,503</b>

**Total Outstanding Debt to**

**Personal Income**

**Total Debt Per Capita**

	95.34	87.05	79.31	74.41	73.58	66.33	61.04	80.96	N/A	N/A
	\$ 183.49	\$ 178.19	\$ 171.62	\$ 164.97	\$ 157.73	\$ 148.03	\$ 141.27	\$ 207.95	\$ 197.92	\$ 186.77

\* 1998 Refunding Revenue Bonds were refunded by the 2009 Refunding Revenue Bonds.

\*\* 2003 Revenue COP's were refunded by the 2012 Revenue Bonds.

Note: Total outstanding debt was adjusted to include any discounts, premiums, or adjustments starting in FY 2004/05.

Sources: (1) State of California, Department of Finance.

(2) U.S. Department of Commerce, Bureau of Economic Analysis. Most recent data is for 2010.

(3) Alameda County Water District Finance Department

**Table 10**  
**ALAMEDA COUNTY WATER DISTRICT**  
**LARGEST EMPLOYERS WITHIN THE DISTRICT (Unaudited)**

CITY OF FREMONT <sup>(1)</sup>					
2013 *			2004		
Employer	Number of Employees	Percent of Total Employment	Employer	Number of Employees	Percent of Total Employment
Fremont Unified School District	3,000	2.81 %	New United Motor Mfg., Inc.	5,407	5.21 %
Tesla	3,000	2.81	Fremont Unified School District	3,104	2.99
Washington Hospital	1,817	1.70	Lam Research Corp	1,378	1.33
Lam Research Corp.	1,500	1.41	Washington Hospital	1,300	1.25
Western Digital	1,300	1.22	Smart Modular Technologies	1,278	1.23
Boston Scientific/Target Therapeutics, Inc.	1,200	1.13	MMC Technology, Inc.	1,200	1.16
Seagate Magnetics	1,050	0.98	Office Depot	1,064	1.02
AXT Incorporated	972	0.91	Solectron	779	0.75
Kaiser Permanente	880	0.83	Boston Scientific	770	0.74
City of Fremont	832	0.78	Western Digital Corporation	740	0.71
Total City Employment	<u>106,761</u>		Total City Employment	<u>103,835</u>	

CITY OF UNION CITY <sup>(2)</sup>					
2013 *			2004		
Employer	Number of Employees	Percent of Total Employment	Employer	Number of Employees	Percent of Total Employment
Southern Wine and Spirits	1,150	3.54 %	New Haven School District	1,228	3.83 %
New Haven Unified School District	998	3.07	Southern Wine & Spirits	650	2.02
Wal-Mart	780	2.40	Wal-Mart	450	1.40
Axygen Scientific, Inc.	370	1.14	Office Depot Corp	450	1.40
Abaxis, Inc.	370	1.14	Sysco Avarad Food Services	375	1.17
Kaiser Permanente	330	1.02	American Licorice	365	1.14
City of Union City	319	0.98	Apria Healthcare	350	1.09
Ajax Custom Manufacturing	300	0.92	City of Union City	336	1.05
OSI, Inc.	300	0.92	San Francisco Newspaper Agency	300	0.93
Blommer Chocolate, Inc.	290	0.89	Shin-Etsu Polymer America, Inc.	225	0.70
Total City Employment	<u>32,500</u>		Orcon Corp.	225	0.70
			Coca-Cola Bottling Company	225	0.70
			Young's Market	225	0.70
			Total City Employment	<u>32,100</u>	

CITY OF NEWARK <sup>(3)</sup>					
2013 *			2004		
Employer	Number of Employees	Percent of Total Employment	Employer	Number of Employees	Percent of Total Employment
Newark Unified School District	700	3.27 %	Sun Microsystems	3,700	17.74 %
Logitech	689	3.22	Newark Unified School District	700	3.36
WorldPac	280	1.31	Staples (formerly Corporate Express)	600	2.88
Full Bloom Baking Company	280	1.31	ModusLink	300	1.44
Risk Management Solutions	270	1.26	WorldPac	290	1.39
Smart Modular Technologies	249	1.16	City of Newark	280	1.34
Morpho Detection	208	0.97	Valassis (formerly ADVO)	270	1.29
Cargill Salt	182	0.85	Nancy's Specialty Foods	250	1.20
City of Newark	176	0.82	Cargill Salt	230	1.10
Valassis (formerly ADVO)	166	0.78	Risk Management Solutions	200	0.96
Total City Employment	<u>21,400</u>		Total City Employment	<u>20,852</u>	

Note: \* Number of Employees and Percent of Total Employment unavailable for 2014.

Source: (1) Year 2013 - City of Fremont, CAFR FY 2012/13, Year 2004 - Fremont Chamber of Commerce, Oct 2004

(2) City of Union City, CAFR FY 2012/13

(3) City of Newark, CAFR FY 2012/13

Total City Employment - U.S. Department of Labor, Bureau of Labor Statistics

**Table 11**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF DEMOGRAPHIC AND ECONOMIC STATISTICS (Unaudited)**  
**(in thousands)**

Calendar Year	Population As of 1/1 (1)	Personal Income (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
2004	322	\$ 59,339	\$ 41	4.6 %
2005	323	62,166	43	4.0
2006	324	66,325	46	3.5
2007	327	70,761	49	3.7
2008	330	73,160	50	4.9
2009	334	71,596	48	8.5
2010	326	72,757	48	9.0
2011	328	75,908	50	8.3
2012	331	85018	55	7.2
<b>2013</b>	<b>335</b>	<b>N/A*</b>	<b>N/A*</b>	<b>5.9</b>

\* Personal income and per capita personal income shown are for Alameda County. Data for Alameda County Water District's service area is not available.

Sources: (1) State of California, Department of Finance  
(2) U.S. Department of Commerce, Bureau of Economic Analysis  
(3) U.S. Department of Labor, Bureau of Labor Statistics

**Table 12**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF PROPERTY, PLANT & EQUIPMENT (Unaudited)**  
**(in thousands)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
<b>UTILITY PLANT:</b>										
Land	\$ 9,628	\$ 9,668	\$ 9,654	\$ 9,677	\$ 9,701	\$ 9,725	\$ 9,725	\$ 9,727	\$ 9,727	\$ 9,610
Source of Supply	42,190	42,572	43,152	43,783	43,852	50,116	50,125	51,092	51,092	57,782
Pumping Plant	18,284	18,313	18,803	18,946	19,255	19,647	20,191	21,324	21,469	24,152
Water Treatment	109,157	114,030	114,777	115,024	115,833	138,112	151,445	152,302	152,296	157,393
Transmission and Distribution	205,417	211,317	218,371	219,098	228,418	235,460	244,864	253,908	262,957	275,001
General	27,781	32,613	33,274	33,818	34,661	35,909	37,234	46,075	48,114	48,172
Construction in Progress	36,846	31,112	34,908	42,788	49,281	21,570	12,265	10,282	21,612	31,930
	449,303	459,625	472,939	483,134	501,001	510,539	525,849	544,710	567,267	604,040
Less Accumulated Depreciation	141,019	149,976	161,939	168,605	178,051	189,258	199,863	211,110	223,098	231,715
<b>NET UTILITY PLANT</b>	<b>\$ 308,284</b>	<b>\$ 309,649</b>	<b>\$ 311,000</b>	<b>\$ 314,529</b>	<b>\$ 322,950</b>	<b>\$ 321,281</b>	<b>\$ 325,986</b>	<b>\$ 333,600</b>	<b>\$ 344,169</b>	<b>\$ 372,325</b>

Note:

Land: District owned land including easements and rights of way.

Source of Supply: covers all costs of plant used in connection with the source of water supply.

Pumping Plant: covers all costs of plant and equipment in connection with pumping operations.

Water Treatment: covers all costs of plant and equipment used in connection with water treatment operations.

Transmission and Distribution: includes all costs of plant and equipment used in connection with the transmission and distribution of water such as reservoirs, pipelines, meters and fire hydrants.

General: includes all costs of general plant and equipment used for general water utility purposes.

Construction in Progress: includes all costs incurred during construction for capital projects not yet completed or placed in service.

Source: Alameda County Water District Finance Department

**Table 13**  
**ALAMEDA COUNTY WATER DISTRICT**  
**TEN YEAR SUMMARY OF WATER DEMAND**  
**(Unaudited)**

<u>Fiscal Year</u>	<u>Million Gallons Per Day (MGD)</u>
2004/05	43.22
2005/06	44.23
2006/07	44.66
2007/08	43.80
2008/09	42.80
2009/10	38.43
2010/11	38.52
2011/12	39.23
2012/13	41.68
<b>2013/14</b>	<b>40.52</b>

Source: Alameda County Water District Finance Department

## APPENDIX C

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

#### ALAMEDA COUNTY WATER DISTRICT FINANCING AUTHORITY WATER SYSTEM REVENUE BONDS, SERIES 2015

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Alameda County Water District (the “Water District”) in connection with the issuance of the above-named bonds (the “Bonds”). The Bonds are being issued pursuant to that certain Trust Agreement dated as of March 1, 2015 (the “Trust Agreement”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Water District covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the Water District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

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

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

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

“Holder” shall mean the person in whose name any Bond shall be registered.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement, dated March 3, 2015, executed and delivered by the Authority and the Water District in connection with the initial offering of the Bonds.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

SECTION 3. Provision of Annual Reports.

(a) The Water District shall, not later than seven months after the end of the Water District's fiscal year (which shall be February 1 of each year, so long as the Water District's fiscal year ends on June 30), commencing with the report for the 2014-15 fiscal year (which is due not later than February 1, 2016) provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the Water District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Water District's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) If the Water District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Water District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The Water District's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Water District for the preceding fiscal year, prepared in accordance with the laws of the State of California. If the Water District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the Water District, the Annual Report shall also include the following:

(b) The total number of accounts during the previous fiscal year (as measured by meters installed) in the form of Table 2 of the Official Statement.

(c) The ten largest distribution water accounts during the previous fiscal year estimated according to annualized calendar year billings in the form of Table 3 of the Official Statement.

(d) The Water District's current bi-monthly water charge in the form of Table 4 of the Official Statement.

(e) Revenues from connection fees during the most recent fiscal year in the form of Table 6.

(f) Total Net Revenues received by the Water District during the prior fiscal year, and the amount of debt service coverage provided thereby (expressed as a percentage of total Net Revenues to total debt service on the Bonds and any parity debt in such fiscal year).

SECTION 5. Reporting of Significant Events.

(a) The Water District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Water District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the 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; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Water District obtains knowledge of the occurrence of a Listed Event described in subsection (b), the Water District shall as soon as possible determine if such event would be material under applicable federal securities laws. If the Water District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Water District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

SECTION 6. CUSIP Numbers. Whenever providing information pursuant to the MSRB pursuant to this Certificate, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and voluntary reports filed pursuant to Section 11, the Water District shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 7. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 8. Termination of Reporting Obligation. The Water District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Water District shall give notice of such termination in a filing with the MSRB.

SECTION 9. Dissemination Agent. The Water District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Water District pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing thirty (30) days written notice to the Water District. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Water District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Water District in a timely manner.

SECTION 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Water District may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), 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, 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, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Water District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Water District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 11. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Water District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the Water District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the Water District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 12. Default. In the event of a failure of the Water District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Water District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Alameda or in U.S. District Court in or nearest to the County. The sole remedy under this Disclosure Certificate in the event of any failure of the Water District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 13. Authority Not an Obligated Person. The Authority is not an “obligated person” (as defined in the Rule) with respect to the Bonds.

IN WITNESS WHEREOF, the undersigned has executed and delivered this CONTINUING DISCLOSURE CERTIFICATE as of the date hereof.

Date: March 17, 2015.

ALAMEDA COUNTY WATER DISTRICT

By: \_\_\_\_\_  
Manager of Finance

**CONTINUING DISCLOSURE EXHIBIT A**

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

Name of Issuer: Alameda County Water District Financing Authority  
Name of Bond Issue: Alameda County Water District Financing Authority Water System  
Revenue Bonds, Series 2015  
Date of Issuance: March 17, 2015  
Name of Obligated Party: Alameda County Water District

NOTICE IS HEREBY GIVEN that the Water District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate, dated the Date of Issuance, by the Alameda County Water District [The Water District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

ALAMEDA COUNTY WATER DISTRICT

By: \_\_\_\_\_  
[to be signed only if filed]

cc: Alameda County Water District

## APPENDIX D

### INFORMATION ON THE WATER DISTRICT'S SERVICE AREA

The Alameda County Water District (the "Water District") covers approximately 100 square miles in southwestern Alameda County. The Water District includes the City of Union City and most of the incorporated boundaries of the City of Fremont and the City of Newark (collectively, the "Cities"). The center of the Water District is located about 30 miles south of Oakland and 35 miles southeast of San Francisco.

The Water District forms part of the highly urbanized and industrialized East Bay, which in turn is part of the nine-county San Francisco Bay Area. Two main line railroads serve the Water District. Stations of the Bay Area Rapid Transit District (BART) are located at Fremont and Union City, providing convenient transportation for Water District residents to points in Alameda, Contra Costa, San Mateo and San Francisco Counties. Connecting bus lines serve Marin and Santa Clara Counties from BART terminals.

The Water District's economy is based largely on manufacturing and distribution. Access to highly developed transportation facilities has resulted in the development of numerous distribution plants. A number of nurseries, orchards and vegetable farms throughout the Water District provide an agricultural base. The Water District has benefited from the rapid growth in southern Alameda County, discussed in the following sections of this Appendix.

#### Population

The Water District serves virtually all of the developed areas of Fremont, Newark and Union City. The combined population of these three Cities as of January 1, 2014 totaled 339,983, according to estimates by the State Department of Finance.

#### POPULATION GROWTH, 2005-2014 County of Alameda

Year	County of Alameda	
	Population	% Change
2005	1,462,736	-----
2006	1,462,371	- 0.02
2007	1,470,622	0.56
2008	1,484,085	0.92
2009	1,497,799	0.92
2010	1,509,240	0.76
2011	1,521,157	0.79
2012	1,530,206	0.59
2013	1,550,119	1.30
2014	1,573,254	1.50

Source: California Department of Finance for January 1.

**POPULATION DATA FOR THE CITIES**

<u>Year</u>	<u>City of Fremont</u>	<u>City of Newark</u>	<u>City of Union City</u>
2010	213,659	42,589	69,539
2011	215,391	42,700	69,746
2012	217,420	42,986	70,555
2013	220,133	43,383	71,396
2014	223,972	43,856	72,155

Source: California Department of Finance for January 1.

**Employment**

The following table summarizes wage and salary employment in the County from 2009 to 2013. Total wage and salary employment within the County increased by 5.8% between 2009 and 2013. Services and government are the largest employment sectors in the County.

**ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT  
Alameda County  
2009-2013<sup>(1)</sup>**

<u>Industry</u>	<u>Employment<sup>(2)</sup></u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total Farm	700	700	700	700	500
Manufacturing	64,100	60,500	60,900	60,900	62,800
Services	549,300	545,900	561,800	579,800	600,200
Wholesale Trade	35,900	34,500	34,200	35,400	36,400
Retail Trade	60,900	59,800	60,500	62,600	65,800
Transportation, Warehousing and Utilities	24,900	24,000	24,100	24,800	25,100
Finance and Insurance	13,100	13,700	14,100	14,300	14,700
Government	121,200	118,200	116,100	114,900	115,300
<b>Total</b>	<b>870,100</b>	<b>857,300</b>	<b>872,400</b>	<b>893,400</b>	<b>920,800</b>

<sup>(1)</sup> Most recent data available.

<sup>(2)</sup> Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred.

Source: California Employment Development Department.

The following table summarizes civilian labor force, employment and unemployment in the County from 2009 to 2013. The County's employed labor force increased by 6% from 2009 to 2013.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**Alameda County**  
**Annual Averages, 2009-2013**

Year	Civilian Labor Force	Employed Labor Force <sup>(1)</sup>	Unemployed Labor Force <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2009	761,500	681,600	79,900	10.5
2010	762,600	676,600	86,000	11.3
2011	765,700	686,700	79,000	10.3
2012	778,300	708,600	69,700	9.0
2013	783,100	725,000	58,000	7.4

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department.

**LARGEST EMPLOYERS WITHIN THE WATER DISTRICT**

<b>Employer</b>	<b>Type of Business</b>	<b>Employment</b>
<b>Fremont:</b>		
Tesla	Automotive	1000-5000
Fremont Unified School District	Education	1000-5000
Washington Hospital	Healthcare	1000-5000
Western Digital	External Hard Drive Manufacturer	1000-5000
Lam Research Corporation	Semiconductor Equipment Manufacturing	1000-5000
Boston Scientific/Target Therapeutics, Inc.	Medical Device Manufacturer	1000-5000
Seagate Magnetics	Research & Development Engineering	1000-5000
Kaiser Permanente	Healthcare	500-999
City of Fremont	Municipal Government	864
Thermo Fisher Scientific		500-999

Source: City of Fremont, Comprehensive Annual Financial Report, June 2014.

<b>Newark:</b>		
Newark Unified School District	Education	700
Logitech	PC Manufacturers	689
WorldPac	Auto Parts Distribution	280
Full Bloom Baking Company	Food Manufacturer	280
Risk Management Solutions	Risk Management	270
Smart Modular Technologies	Memory Module Manufacturer	249
Morpho Detection	Security Solutions	208
Cargill Salt	Salt Manufacturer	182
City of Newark	Municipal Government	174
Valassis (formerly ADVO)	Bulk Mailing Facility	166

Source: City of Newark, Comprehensive Annual Financial Report, June 2014.

<b>Union City:</b>		
Southern Wine & Spirit	Liquor Distributor	1,150
New Haven Unified School District	Education	998
Wal-Mart	Retailer	780
Axygen Scientific, Inc.	Laboratory Manufacturer	370
Abaxis, Inc.	Medical Diagnostics	370
Kaiser Permanente	Healthcare	330
City of Union City	Municipal Government	319
Ajax Custom Manufacturing	Candy Manufacturing	300
OSI, Inc.		300
Blommer Chocolate, Inc.	Chocolate Manufacturer	290

Source: City of Union City, Comprehensive Annual Financial Report, June 2013.

## Commerce

Retail sales in the Cities accounted for [18.8]% of the total retail sales in the County in 2013. The following tables show annual taxable sales in the Cities and the County from 2009 to 2013.

### TAXABLE SALES County of Alameda (Dollars in Thousands) 2009-2013<sup>(1)</sup>

	2009	2010	2011	2012	2013
Motor Vehicles and Parts	\$ 1,949,009	\$ 2,183,709	\$ 2,405,412	\$ 2,823,697	\$ 2,305,097
Home Furnishings & Appliances	981,946	988,353	1,021,603	1,100,538	829,160
Building Materials	1,085,191	1,091,857	1,153,236	1,230,013	1,057,838
Food and Beverage Stores	866,117	884,033	928,190	990,964	742,509
Health and Personal Care	415,203	419,672	434,353	440,239	347,182
Service Stations	1,491,427	1,716,376	2,135,182	2,291,985	1,119,211
Apparel	878,290	926,611	995,486	1,084,439	923,426
Sporting, Hobby, Book & Music	502,870	489,954	484,909	487,666	354,576
General Merchandise	1,629,370	1,710,291	1,810,195	1,887,477	1,332,971
Misc. Store Retailers	845,915	900,038	955,440	988,889	694,313
Nonstore Retailers	70,906	68,868	74,685	136,755	195,737
Eating and Drinking	1,925,171	1,994,522	2,121,065	2,318,686	1,855,003
<b>Total Retail &amp; Food Services</b>	<b>\$12,641,415</b>	<b>\$13,374,283</b>	<b>\$14,519,756</b>	<b>\$15,781,349</b>	<b>\$12,237,943</b>
All Other Outlets	7,788,780	8,167,458	8,911,043	9,400,222	7,075,710
<b>Total All Outlets</b>	<b>\$20,430,195</b>	<b>\$21,541,741</b>	<b>\$23,430,799</b>	<b>\$25,181,571</b>	<b>\$19,403,652</b>

<sup>(1)</sup> First, Second, and Third quarter of 2013.  
Source: California State Board of Equalization.

The table below provides a history of outlets and taxable sales for the past five years in each of the Cities.

### TAXABLE TRANSACTIONS ALAMEDA COUNTY WATER DISTRICT CITIES (Dollars in Thousands) 2009-2013<sup>(1)</sup>

Calendar Year	City of Fremont		City of Newark		City of Union City	
	Permits	Sales	Permits	Sales	Permits	Sales
2009	4,713	\$2,446,240	1,087	\$706,336	1,112	\$687,658
2010	4,804	2,596,245	1,145	752,166	1,144	731,806
2011	4,584	2,835,327	1,113	796,054	1,127	753,751
2012	4,649	3,024,543	1,129	816,920	1,139	759,366
2013	4,671	2,318,215	1,157	642,256	1,137	582,354

<sup>(1)</sup> First, Second, and Third quarter of 2013.  
Source: California State Board of Equalization.

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**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

Upon delivery of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the 2015 Bonds in substantially the following form:

[Closing Date]

Alameda County Water District Financing Authority  
Fremont, California

*Re: Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2015*

Ladies and Gentlemen:

We have acted as bond counsel to the Alameda County Water District Financing Authority (the “Agency”) in connection with the issuance of \$27,810,000 aggregate principal amount of Alameda County Water District Financing Authority Water System Revenue Bonds, Series 2015 (the “Bonds”), issued pursuant to the Trust Agreement, dated as of March 1, 2015 (the “Trust Agreement”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are secured by a pledge of Authority Revenues, consisting primarily of installment payments to be made by the Alameda County Water District (the “Water District”), pursuant to the 2015 Installment Purchase Contract, dated as of March 1, 2015 (the “2015 Installment Purchase Contract”), by and between the Water District and the Authority. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the 2015 Installment Purchase Contract, the Tax Certificate of the Authority, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Authority, the Water District, and the Trustee, certificates of the Authority, the Water District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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 Authority or the Water District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Authority Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement (other than amounts on deposit in the Rebate Fund), subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.
3. The 2015 Installment Purchase Contract has been duly executed and delivered by the Water District and the Authority, and constitutes the valid and binding obligation of the Water District and the Authority. The obligation of the Water District to make the 2015 Installment Payments (as that term is defined in the 2015 Installment Purchase Contract) in accordance with the terms of the 2015 Installment Purchase Contract is a valid and binding special obligation of the Water District, payable solely from Net Revenues (as that term is defined in the 2015 Installment Purchase Contract).
4. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.
5. Interest on the Bonds is exempt from State of California personal income tax.
6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Code that must be satisfied

subsequent to the issuance of the Bonds to assure that such interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial 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. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We call attention to the fact that the rights and obligations under the 2015 Installment Purchase Contract, the Tax Certificate, the Indenture and the Bonds and their enforceability are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the 2015 Installment Purchase Contract or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC's book entry system has been obtained from DTC and the Authority and the initial Purchaser take no responsibility for the completeness or accuracy thereof. The Authority and the initial Purchaser cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Holders (a) payments of interest, principal or premium, if any, with respect to the 2015 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2015 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2015 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. 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.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2015 Bonds. The 2015 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 2015 Bond will be issued for each maturity of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2015 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 2015 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 2015 Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 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 2015 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 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2015 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 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 2015 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 issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2015 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 Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

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