



**BOARD OF DIRECTORS
EAST BAY MUNICIPAL UTILITY DISTRICT**

375 - 11th Street, Oakland, CA 94607

Office of the Secretary: (510) 287-0440

**AGENDA
Tuesday, January 28, 2014**

REGULAR CLOSED SESSION

11:00 a.m., Board Room

ROLL CALL:

PUBLIC COMMENT: The Board of Directors is limited by State law to providing a brief response, asking questions for clarification, or referring a matter to staff when responding to items that are not listed on the agenda.

ANNOUNCEMENT OF CLOSED SESSION AGENDA:

1. Significant exposure to litigation pursuant to Government Code section 54596.9(b): one matter.

(The Board will hold Closed Session in Conference Room 8A/B)

REGULAR BUSINESS MEETING

1:15 p.m., Board Room

ROLL CALL:

BOARD OF DIRECTORS:

- Pledge of Allegiance
- 2014 Board Committee Assignments

ANNOUNCEMENTS FROM CLOSED SESSION:

PRESENTATION:

- California Urban Water Conservation Council 2013 Liana Sherman Award

PUBLIC COMMENT: The Board of Directors is limited by State law to providing a brief response, asking questions for clarification, or referring a matter to staff when responding to items that are not listed on the agenda.

CONSENT CALENDAR: (Single motion and vote approving 9 recommendations, including 2 resolutions)

1. Approve the Regular Meeting Minutes of December 10, 2013 and January 14, 2014.
2. File correspondence with the Board.
3. Authorize an agreement with MWH Americas, Incorporated, in an amount not to exceed \$315,000 for consultant services related to completing the Mokelumne Aqueducts Delta Tunnel Study.
4. Authorize an agreement with AT&T in the estimated amount of \$1,400,000 annually for data and voice communication services for the District under the State of California's CALNET contract during the period January 30, 2014 to January 29, 2017, with 2 options to renew for an additional 1-year period.
5. Approve the Water Supply Assessment requested by the City of Oakland for the Oakland Coliseum Area Specific Plan pursuant to the California Water Code, Sections 10910-10915.
6. Amend Motion 010-14 authorizing an agreement for customer research services to correct an erroneous reference to the vendor by its previous legal name by replacing Evans/McDonough Company, Inc. with EMC Research, Inc.
7. Authorize the Office of General Counsel to continue the employment of the law firm of Trucker Huss for specialized legal services related to employee benefit plans, deferred compensation plans, related tax advice and litigation.
8. Appoint Assistant Attorney of the District with the title of Attorney II. (Resolution)
9. Approve required actions relating to compliance with the Dodd-Frank protocols:
 - 9.1. Amend Interest Rate Swap Policy 4.23 to allow compliance with the Dodd-Frank protocols. (Resolution)
 - 9.2. Accept the annual Swap Portfolio Summary Report in accordance with Policy 4.23.

DETERMINATION AND DISCUSSION:

10. Legislative Update:
 - Update on Legislative Issues of Interest to EBMUD
11. Authorize the development of a Project Labor Agreement for the construction of the Chabot Dam Seismic Upgrade project.
12. Authorize the issuance and sale of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G. (Resolution)
13. General Manager's Report:
 - Delta Update
 - Water Supply Update

REPORTS AND DIRECTOR COMMENTS:

14. Committee Reports:
- Sustainability/Energy
 - Finance/Administration
 - Legislative/Human Resources
15. Director Comments.

ADJOURNMENT:

The next Regular Meeting of the Board of Directors will be held at 1:15 p.m. on Tuesday, February 11, 2014 in the Administration Center Board Room, 375 Eleventh Street, Oakland, California.

Disability Notice

If you require a disability-related modification or accommodation to participate in an EBMUD public meeting please call the Office of the Secretary (510) 287-0404. We will make reasonable arrangements to ensure accessibility. Some special equipment arrangements may require 48 hours advance notice.

Document Availability

Materials related to an item on this Agenda that have been submitted to the EBMUD Board of Directors within 72 hours prior to this meeting are available for public inspection in EBMUD's Office of the Secretary at 375 11th Street, Oakland, California, during normal business hours.

BOARD CALENDAR

| Date | Meeting | Time/Location | Topics |
|-------------------------------|---|---------------------------------------|--|
| Tuesday, January 28 | Sustainability/Energy Committee Linney (Chair), Foulkes, Katz | 9:00 a.m. Training Resource Center | <ul style="list-style-type: none"> • Wastewater Energy Update • Water Conservation: Home Water Report Program Update |
| | Finance/Administration Committee Coleman (Chair), Linney, Patterson | 9:45 a.m. Training Resource Center | <ul style="list-style-type: none"> • Water Conservation Pay as You Save On-Bill Financing Pilot Study • Financial Quarterly Reports • Refunding of Wastewater System General Obligation Refunding Bonds, Series F • Dodd-Frank Protocol Amendment of the Interest Rate Swap Policy and Review of the Annual Swap Report • Semi-Annual Internal Audit Report • Viridis Project Update |
| | Board of Directors | 11:00 a.m. 1:15 p.m. | <ul style="list-style-type: none"> • Closed Session • Regular Meeting |
| Tuesday, February 11 | Planning Committee | TBD Training Resource Center | <ul style="list-style-type: none"> • Closed Session • Regular Meeting |
| | Legislative/Human Resources | TBD Training Resource Center | |
| | Board of Directors | 11:00 a.m. 1:15 p.m. | |
| Wednesday, February 12 | Lincoln's Birthday Holiday | | <ul style="list-style-type: none"> • District Offices Closed |
| Monday, February 17 | Washington's Birthday Holiday | | <ul style="list-style-type: none"> • District Offices Closed |
| Tuesday, February 25 | Water Supply Workshop | TBD Training Resource Center | <ul style="list-style-type: none"> • Closed Session • Regular Meeting |
| | Finance/Administration Committee | TBD Training Resource Center | |
| | Board of Directors | 11:00 a.m. 1:15 p.m. | |

MINUTES

Tuesday, December 10, 2013

**East Bay Municipal Utility District
Board of Directors
375 Eleventh Street
Oakland, California**

Regular Closed Session Meeting

President Andy Katz called to order the Regular Closed Session Meeting of the Board of Directors at 11:13 a.m. in the Administration Center Board Room.

ROLL CALL

Directors Katy Foulkes, Doug Linney, Lesa R. McIntosh, Frank Mellon, William B. Patterson, and President Andy Katz were present at roll call. Director John A. Coleman was absent (excused) to participate in District-related meetings in Washington, D.C.

Staff present included General Manager Alexander R. Coate, General Counsel Jylana Collins, Assistant General Counsel Craig S. Spencer (Items 1a & 2), Director of Finance Eric L. Sandler (Item 1a), Director of Water and Natural Resources Richard G. Sykes (Item 2), Attorney Frederick S. Etheridge (Item 2), Attorney Lourdes Matthew (Item 3), Manager of Human Resources Delores A. Turner (Item 3), and Manager of Employee Relations Michael K. Rich (Item 3).

PUBLIC COMMENT

There was no public comment.

ANNOUNCEMENT OF CLOSED SESSION AGENDA

President Katz announced the Closed Session agenda. The Board convened to Conference Room 8A/B for discussion.

Regular Business Meeting

President Andy Katz called to order the Regular Business Meeting of the Board of Directors at 1:20 p.m. in the Administration Center Board Room.

ROLL CALL

Directors Katy Foulkes, Doug Linney, Lesa R. McIntosh, Frank Mellon, William B. Patterson, and President Andy Katz were present at roll call. Director John A. Coleman was absent (excused) to participate in District-related meetings in Washington, D.C.

BOARD OF DIRECTORS

President Katz led the Pledge of Allegiance.

ANNOUNCEMENTS FROM CLOSED SESSION

There were no announcements required from closed session.

PUBLIC COMMENT

Addressing the Board were the following persons: 1) George Cleveland, Chief Steward, AFSCME Local 2019, commented that management and union relations were deteriorating citing recent interactions between staff and the union members; and 2) Ivette Rivera, Gardener Foreman, commented that she was denied fair representation during a job classification dispute and she requested that someone provide a response regarding her issues.

CONSENT CALENDAR

- Items 13, 15 and 16 were removed from the Consent Calendar for separate discussion.
 - Motion by Director McIntosh, seconded by Director Mellon, to approve Items 1-12 and 14 on the Consent Calendar, carried (6-0) by voice vote. Director Coleman was absent (excused).
1. **Motion No. 171-13** -- Approved the Regular Meeting Minutes of November 26, 2013.
 2. The following correspondence was filed with the Board: 1) Letter dated November 19, 2013, from Michael K. Rich, Manager of Employee Relations, to Brenda Wood, Business Agent, AFSCME Local 2019, regarding Network Analysts Charles Detzel and David Valenzuela; 2) Presentation entitled, "Estates Reservoir Replacement Project Supplemental EIR," dated December 10, 2013; 3) Email dated December 10, 2013, to Estates Supplemental EIR and Associate Civil Engineer Timothy Fvette, from Daniel Solli, regarding "Additional Exhibits in Reply to EBMUD's Responses to Comments – DSEIR Estates Reservoir Project" (with attachments); 4) Presentation entitled, "West of Hills Northern Pipelines, Environmental Impact Report Update," dated December 10, 2013; and 5) Presentation entitled, "Water Supply Briefing," dated December 10, 2013.
 3. **Motion No. 172-13** -- Awarded a contract to the lowest responsive/responsible bidder, Peterson Power Systems, in the amount after addition of taxes of \$286,318 for supplying one 300-kilowatt electrical generator for the Main Wastewater Treatment Plant under RFQ No. 1411.
 4. **Motion No. 173-13** -- Awarded a contract to the lowest responsive/responsible bidder, Insituform Technologies, LLC, in the amount of \$1,248,760 for construction of the Versailles Interceptor Rehabilitation under Specification SD 354.

5. **Motion No. 174-13** -- Awarded a sole source contract to Honeywell, Inc. in the total amount after the addition of taxes of \$956,000 for 14 Experion Distributed Control System Honeywell C200 controllers and associated hardware for the Orinda Water Treatment Plant Control System Improvements.
6. **Motion No. 175-13** -- Authorized an agreement with the Ashland Family Housing Limited Partnership (Ashland Partnership) to relocate approximately 340 feet of eight-inch diameter pipeline to accommodate street improvements and construction of the Ashland Family Housing Project, Ashland Township in Alameda County. Under the terms of the agreement, Ashland Partnership will reimburse the District fifty percent of the estimated \$202,000 total project cost.
7. **Motion No. 176-13** -- Considered the Addendum to the Environmental Impact Report for the Main Wastewater Treatment Plant (MWWTP) Land Use Master Plan and authorized an amendment to the existing Organic Material Processing and Feedstock Digestion Agreement with Recology, Inc. (Recology) for a 30-month pilot project for Recology to deliver and pre-process food waste and other organics-rich materials for digestion and renewable energy production by the District at the MWWTP.
8. **Motion No. 177-13** -- Authorized an agreement with Bayview Environmental, Inc., in an amount not to exceed \$134,000 for asbestos and lead abatement work at the Main Wastewater Treatment Plant West End Property.
9. **Motion No. 178-13** -- Authorized an agreement with CheckFree Services Corporation for an estimated annual amount of \$85,000 to provide customers with electronic bill presentment and payment services during the period December 31, 2013 through December 30, 2014, with two 1-year options to renew for a total estimated amount of \$255,000.
10. **Motion No. 179-13** -- Approved the Water Supply Assessment requested by the City of San Leandro for the San Leandro Downtown Technology Campus pursuant to California Water Code, Sections 10910-10915.
11. **Motion No. 180-13** -- Cancelled the December 24, 2013 Closed Session and Regular Meetings of the Board of Directors.
12. **Resolution No. 33953-13** -- Authorizing Acceptance Of A Grant Awarded By The United States Environmental Protection Agency Region IX Through Its San Francisco Bay Area Water Quality Improvement Fund.
13. **Resolution No. 33955-13** -- Authorizing The Sale Of The Redwood Filter Plant Property To The Hayward Area Recreation And Park District.
 - Director Mellon pulled Item 13 from the Consent Calendar for comment. He and Director Linney expressed their support for the sale of this property to the Hayward Area Recreation and Park District, and thanked staff for their efforts in reaching agreement on this issue.
 - Motion by Director Mellon, seconded by Director Patterson, to approve the recommended action for Item 13, carried (6-0) by voice vote. Director Coleman was absent (excused).

14. **Resolution No. 33954-13** -- Authorizing The Sale Of The Former Oakland Business Office Property To Alcatraz Capital I LLC.
15. **Resolution No. 33956-13** -- Amending The East Bay Municipal Utility District 401(a) Tax Deferred Savings Plan To Make Changes effective January 1, 2014.
15. **Resolution No. 33957-13** -- Amending The East Bay Municipal Utility District 401(k) Tax Deferred Savings Plan To Make Changes effective January 1, 2014.
15. **Resolution No. 33958-13** -- Amending The East Bay Municipal Utility District 457 Tax Deferred Compensation Plan And Trust To Make Changes effective January 1, 2014.
 - President Katz pulled Item 15 from the Consent Calendar for comment.
 - Motion by Director Linney, seconded by Director Foulkes, to approve the recommended actions for Item 15, carried (6-0) by voice vote. Director Coleman was absent (excused).
16. **Resolution No. 33959-13** -- Approve Implementation Of The 2013-2017 Memoranda Of Understanding And Other Special Agreements With AFSCME Locals 2019 And 444, And IUOE Local 39; Amend The Position Resolution And Revise Salary Ranges, Salaries And Wage Rates And Other Benefits For Employees Represented By AFSCME Locals 2019 And 444, And IUOE Local 39.
 - Item 16 was pulled for public comment.
 - Addressing the Board were the following persons: 1) Mark Foley, President, AFSCME Local 2019, commented that the 2013-2017 Memoranda of Understanding (MOU) presented in the Board's agenda packet is a draft and he noted that there are typographical errors and language corrections needed. Additionally, he noted that the action regarding flexibly staffing Network Analysts Charles Detzel and David Valenzuela positions is not included in the final MOU. In concluding, he requested meetings with Board members to discuss the labor negotiations process; and 2) M. Rosa Merced, representing AFSCME Local 2019, requested follow up meetings between the District and the union negotiating teams to evaluate the negotiating process.

There was considerable discussion by the Board about the desired approach for conducting debriefing meetings with union representatives. The Board provided direction to General Manager Coate for staff to meet with union representatives about the pros and cons of the negotiations process and to provide the Board with an information memo to summarize lessons learned.

Next, Director Linney asked for clarification about the letter regarding flexibly staffing Network Analyst positions to Senior Systems Programmer. Manager of Employee Relations Michael K. Rich provided background information on the November 19, 2013 letter that was sent to AFSCME Local 2019 and said that the letter was offered as an alternative to address concerns brought forward during the negotiation process. He noted that the District made this decision in response to discussions that took place during contract negotiations; however, the decision to flexibly staff the positions was not included in the MOU nor was it amended into

the current position resolution. Director Mellon discussed the November 19, 2013 letter from Manager of Employee Relations Michael K. Rich to Brenda Wood, Business Agent, AFSCME Local 2019. He acknowledged the concern raised by the union that the matter would be glossed over. However, Director Mellon pointed out the union's concerns were addressed by virtue of that letter being presented to the Board and it would be a permanent part of the MOU process and the minutes of the Board meeting.

- Motion by Director Linney, seconded by Director Foulkes to approve the recommended actions for Item 16, carried (6-0) by voice vote. Director Coleman was absent (excused).

The Board thanked union representatives and staff for their work in reaching this agreement.

DETERMINATION AND DISCUSSION

17. Legislative Update.

Special Assistant to the General Manager Marlaigne K. Dumaine reported that the state legislature is on vacation until the first week in January. At the federal level, she reported that discussions on a budget agreement are continuing, but the House will adjourn for the year at the end of the week. The Board asked about the status of the Bay Delta Conservation Plan (BDCP). Ms. Dumaine reported that the 120-day public review and comment period for the Draft BDCP and Associated Draft Environmental Impact Report/Environmental Impact Statement begins December 13, 2013. General Manager Coate said that District staff will return to the Board in March 2014 to present EBMUD's comments to the BDCP that focus on protecting our fish, flows, facilities, and finances.

18. Certify the Final Supplemental Environmental Impact Report for the Estates Reservoir Replacement Project and Approve the Proposed Revisions to the Project.

Engineering Manager William R. Kirkpatrick presented an overview of the Estates Reservoir Replacement Project Supplemental Environmental Impact Report (EIR). He reported that in January 2010, the Board of Directors certified the 2010 EIR for the project and approved the Estates Reservoir Replacement Project. Since then, the District has advanced the design and construction of the landscape plan component of the project and is proposing to modify the project as anticipated in the 2010 EIR via the Supplemental EIR to include the removal of 22 trees, make changes to the planned improved pedestrian path on District property, and to finalize the location of the interpretive sign. This work will take place in early 2014 in conjunction with the original landscape work, which also includes plantings inside the perimeter security chain link fence and the pruning of trees and thinning of bushes adjacent to Estates Drive. Consistent with the California Environmental Quality Act (CEQA), the Response to Comments (RTC) - Final Supplemental EIR evaluates environmental impacts associated with the proposed changes.

Director McIntosh announced that she had to leave the meeting to attend a medical appointment. She left the Board meeting at 2:28 p.m.

- Addressing the Board were Daniel and Nicholis Solli, Oakland residents, who presented objections to the project on behalf of neighbors living immediately adjacent to the reservoir.

The comments focused primarily on construction of an ADA path, plans to install interpretive signage, and the removal of trees. He pointed out that neighbors provided additional comments regarding:

- Plans to install permanent interpretive signage were not described in the original EIR; therefore, impossible for the public to make informed comments on this when the EIR was written.
- Plans to install permanent interpretive signage materials on the reservoir will require the removal of trees and bushes further decimating the beauty and charm of the site and making the unsightly chain-link perimeter fence more visible from the neighborhood. The neighbors believe that interpretive signage should not be constructed on the reservoir grounds.
- Construction of the concrete base and retaining wall has already attracted late night activity, noise, trash, and graffiti. Although EBMUD has decided to move the signage to the other side of the perimeter fence, the signage will also still get tagged through the fence. Both the path and the signage will be unwanted attractions.
- Tree removal wasn't analyzed in the original EIR. The statements regarding the health of the trees have been grossly overstated. An independent arborist brought in by the neighbors found that the trees were in good to excellent health.
- Creation of roadside parking at the reservoir has the potential to create a public nuisance based on past history when hangout areas were installed by EBMUD.
- Weekend work is a nuisance to neighbors.

Mr. Kirkpatrick noted that Mr. Solli had submitted comments to staff, and he provided the following response to some of the comments:

- Tree removal is not a significant environmental impact and will not create "vast" areas for dumping or parking.
- Clarified that the interpretive sign was not identified in the original EIR, but it was added to the project as a result of comments from the Landmark Preservation Advisory Board.
- EBMUD did receive 14 comments from neighbors about the biological impacts from tree removal and the EIR determined that visual quality is not impacted. Additionally, he said that fencing is not an issue.
- Weekend work occurred on three dates and started at 9 a.m. and concluded at 5 p.m.

Mr. Kirkpatrick said that EBMUD has completed the project planning and design and 90% of the construction. Director Foulkes noted that she attended all of the public meetings and said that while the trees have been a topic of discussion, most neighbors were more concerned with the path and the monument because of the public nuisance history. She suggested that staff contact the Landmark Preservation Advisory Board and see if they would be willing to consider changing the requirement for interpretive signage to online information. She pointed out that the project is almost finished, the trees need to be finished, and said that EBMUD does need to certify the Supplemental EIR. Director Patterson commented that EBMUD should make plans to address vandalism and safety concerns because these problems are common at most public facilities. Director Mellon commented that EBMUD should impress upon contractors the need to be considerate of the neighbors in the evening

and on weekends. President Katz expressed support for going back to the Landmark Preservation Advisory Board to have them reassess the modifications to the interpretive signage.

- Motion by Director Foulkes and seconded by Director Mellon, to certify the Supplemental Environmental Impact Report, adopt the Mitigation Monitoring and Reporting Program, as revised, and approve the proposed revisions to the Estates Reservoir Project with the understanding that staff will explore with the Landmark Preservation Advisory Board an alternative to the interpretive signage. The motion carried (4-0) by voice vote. Director Patterson abstained from voting. Directors Coleman and McIntosh were absent (excused).

Resolution No. 33960-13 -- Certifying The Final Supplemental Environmental Impact Report For The Estates Reservoir Replacement Project, Making Findings, Approving Modifications To The Mitigation Monitoring And Reporting Program, And Approving Modification To The Project.

Mr. Kirkpatrick said that staff would explore with the Landmark Preservation Advisory Board the pros and cons of alternative signage and a path given the concerns of the neighbors and report back to the Board on the findings.

19. **Certify the Final Environmental Impact Report for the West of Hills Northern Pipelines Project; Adopt the Mitigation Monitoring and Reporting Program In Accordance With CEQA; and Approve the West of Hills Northern Pipelines Project.**

General Manager Coate announced that staff provided a presentation on this item to the Planning Committee earlier today. Director Foulkes said that the Planning Committee voted to recommend approval of the project. President Katz asked for public comment and no speakers came forward. President Katz commended staff for their public outreach on this project.

- Motion by Director Mellon, seconded by Director Patterson, to Certify the Final Environmental Impact Report for the West of Hills Northern Pipelines Project and make findings in accordance with the CEQA including a Statement of Overriding Considerations; adopt the Mitigation Monitoring and Reporting Program in accordance with CEQA; and approve the West of Hills Northern Pipelines Project, carried (5-0) by voice vote. Directors Coleman and McIntosh were absent (excused).

Resolution No. 33961-13 -- Certifying The Final Environmental Impact Report For The West Of Hills Northern Pipelines Project, Making Findings, Approving The Mitigation Monitoring And Reporting Program, And Approving And Authorizing The Project.

20. **General Manager's Report.**

- Addressing the Board was Brenda Wood, Business Agent, representing AFSCME Local 2019, who announced that she would be retiring after 23 years of service effective December 31, 2013. She thanked the Board for the work on the new MOU and said would be available for debriefing discussions. The Board offered its best wishes in retirement to Ms. Woods.

Operations and Maintenance Department Manager Eileen M. White presented the water supply update. She reported that in December 2013 the Mokelumne watershed received 21 inches of precipitation and ended the water year with 33.96 inches of precipitation. The East Bay watershed received over 13 inches of precipitation in November and December 2013 while January through June 2013 received less than 3.5 inches. Ms. White pointed out that January through June 2013 was the driest on record in the East Bay, the Mokelumne, and the state of California.

Ms. White reported that reservoir storage for the water year beginning October 1, 2013 is 542,000 acre feet, which is 71% of capacity. She also reported that today the East Bay received 2.57 inches of precipitation, the Mokelumne received 4.54 inches, and the snow depth is 18 inches. She noted that November and December have been significantly dry and the two-week forecast calls for continued dry conditions. However, because of the very dry conditions, Ms. White said that water production for November and December has been averaging about 30 million gallons per day (mgd) higher than last year at this time, with average water production at 211 mgd. She noted that the long-range forecast is uncertain at this point.

Next, General Manager Coate reported that the November 2013 Monthly Report had been provided in the Board's packet. Mr. Coate also reported that the PG&E gas line ruptured which occurred today had been resolved. He notified the Board that staff would be contacting them to coordinate meetings with Oakland City Councilmembers about including the EBMUD food waste collection facilities in the City's solid waste collection proposal.

REPORTS AND DIRECTOR COMMENTS

21. Committee Reports.

- Filed with the Board were the Minutes of the November 26, 2013 Planning Committee.

22. Director Comments.

- Director Coleman submitted written comments. He reported attending/participating in the following events: ACWA/JPIA conference on December 2-3 in Los Angeles; ACWA 2013 Fall Conference from December 3-6 in Los Angeles; ACWA Executive Committee teleconference meeting on December 9; Presentation to National Association of Flood & Stormwater Management Agencies for ACWA on December 9 in San Francisco; and ACWA Executive Committee teleconference meeting on December 9 in Oakland. He reported on future plans to attend/participate in the following: Water Resources Development Act Conference from December 10-12 in Washington, D.C.; ACWA Executive Committee teleconference meeting on December 17 in Oakland; ACWA luncheon on December 18 in Sacramento; Interview with Ed Baxter of Talk Radio 910 AM for ACWA and EBMUD on December 27; ACWA President's teleconference meeting (approval of Chairs and Vice-Chair) on January 6, 2014 in Oakland; Interview with Matt Williams from ACWA on January 6, 2014; ACWA Executive Committee teleconference meeting on January 7, 2014 in Oakland; meeting with Tom Koch on January 8, 2014 in Lafayette; CASA teleconference call on January 8, 2014; presentation to the Contra Costa Leadership Group on January 9, 2014 in Walnut Creek; meeting for Rianne Mikkelsen for paper on "Leadership" on January 9, 2014; moderator of Northern Waterfront Economic

Development Initiative on January 10, 2014 in Antioch; and meeting with Sunne McPeak regarding ACWA/EBMUD matters on January 12, 2014 in Pleasanton.

- Director Foulkes had no comment.
- Director Linney reported attending the Black Elected Officials Dinner on December 4 in Oakland; giving a presentation at the Kiwanis lunch meeting on December 4 in Alameda; and attending the Alameda County Building Trades Luncheon on December 6 in Oakland.
- Director McIntosh reported attending the ACWA Conference, as well as meetings with representatives from Placer, Yuba, and San Joaquin Counties, December 3-6 in Los Angeles.
- Director Mellon commended District staff on its handling of a main break event on in Castro Valley on December 6.
- Director Patterson called attention to the death of Nelson R. Mandela, President of South Africa from 1994-1998, and suggested that today's meeting be closed in Mr. Mandela's memory. He also reported attending the ACWA Conference from December 3-6 in Los Angeles.
- President Katz had no comment.

ADJOURNMENT

President Katz adjourned the meeting in memory of former South African President Nelson R. Mandela who passed away on December 5, 2013.

The meeting adjourned at 3:24 p.m.

SUBMITTED BY:

Lynelle M. Lewis, Secretary of the District

APPROVED: January 14, 2014

Andy Katz, President of the Board

MINUTES

Tuesday, January 14, 2014

**East Bay Municipal Utility District
Board of Directors
375 Eleventh Street
Oakland, California**

Regular Closed Session Meeting

Vice-President Foulkes called to order the Regular Closed Session Meeting of the Board of Directors at 11:05 a.m. in the Administration Center Board Room.

ROLL CALL

Directors John A. Coleman, Doug Linney, Lesa R. McIntosh, Frank Mellon, William B. Patterson, and Vice-President Katy Foulkes were present at roll call. President Andy Katz arrived at 11:10 a.m.

Staff present included General Manager Alexander R. Coate, General Counsel Jylana Collins, and Attorney Derek McDonald (Item1).

PUBLIC COMMENT

Addressing the Board were the following persons: 1) Keith Beckwith, Associate Civil Engineer, provided written materials to the Board of Directors regarding the District's deferred compensation programs and referenced grievances that were filed by IFPTE Local 21 and AFSCME Local 2019; 2) M. Rosa Merced, representing AFSCME Local 2019, commented that the District should reconsider funding the customer survey and save the money for other District priorities; and 3) Mark Foley, representing AFSCME Local 2019, commented on a letter written by Employee Relations Manager Michael Rich, dated November 19, 2013, and said it was in fact part of the Memoranda of Understanding (MOU) negotiated by the parties and should be adopted by the Board of Directors. He presented a letter from Sharon McAleavey AFSCME Business Agent, requesting that Mr. Rich provide a letter to the Union saying that his November 19, 2013 letter to Mr. Foley is subject to the grievance procedure in the MOU.

BROWN ACT BRIEFING

Attorney Saji Pierce presented the annual Brown Act and ethics update. She highlighted the Ethics Policy of the EBMUD Board of Directors (Policy 6.04). She summarized recent legal developments related to AB 408 (Bonta) which amends the Municipal Utility District Act and changes how EBMUD elections are conducted. AB 408 provides the Board with appointment authority when one candidate runs for election or when no candidate runs for election. It allows (but does not require) the Board to use the appointment process in lieu of holding an election. Ms. Pierce pointed out that its purpose is to reduce election-related costs for unopposed elections. She noted that the Office of General Counsel will be providing ongoing advice on how this legislation will affect EBMUD's 2014 election. Ms. Pierce also summarized provisions of SCA 3 (Leno) which will go to the voters in the June 2014 primary election. If approved, local governments will have to fund the entire cost of Brown Act and Public Records Act compliance, with no state reimbursement.

Next, Ms. Pierce highlighted three new laws that will expand the Fair Political Practices Commission (FPPC) authority. AB1090 (Fong) will give the FPPC authority to provide written or telephonic advice; AB 552 (Fong) will give the FPPC more enforcement of and collection authority for delinquent fines; and AB 409 (Quirk-Silva) will allow the FPPC to develop a system for electronic filing of official's statements of economic interests (Form 700). In concluding, Ms. Pierce summarized a recent legal ruling on Lassen Municipal Utility District v. Kinross Gold USA, Inc. regarding Brown Act compliance.

ANNOUNCEMENT OF CLOSED SESSION AGENDA

President Katz announced the Closed Session agenda. The Board convened to Conference Room 8A/B for discussion.

Regular Business Meeting

President Andy Katz called to order the Regular Business Meeting of the Board of Directors at 1:15 p.m. in the Administration Center Board Room.

ROLL CALL

Directors John A. Coleman, Katy Foulkes, Doug Linney, Lesa R. McIntosh, Frank Mellon, William B. Patterson, and President Andy Katz were present at roll call.

BOARD OF DIRECTORS

President Katz led the Pledge of Allegiance.

Election of President of the Board

President Katz opened the floor for nominations for President of the Board for 2014.

- Motion by Director McIntosh, seconded by Director Foulkes, to nominate Director Andy Katz for President of the Board of Directors.

President Katz called for additional nominations, none came forward, and he closed the nomination period.

The motion to elect Director Katz for President of the Board of Directors for 2014 carried (7-0) by the following roll call vote: AYES (Coleman, Foulkes, Linney, McIntosh, Mellon, Patterson, and Katz); NOES (None); ABSTAINED (None); ABSENT (None).

- **Motion No. 001-14** -- Elected Director Andy Katz as President of the Board of Directors for 2014.

Director Katz thanked the Board for the opportunity to serve as the Board's President for the coming year and said he looks forward to working with the Board.

Election of Vice-President of the Board

President Katz opened the floor for nominations for Vice-President of the Board.

- Motion by Director Coleman, seconded by Director McIntosh, to nominate Director Katy Foulkes for Vice-President of the Board.

President Katz called for additional nominations, none came forward, and he closed the nomination period.

The motion to elect Director Katy Foulkes for Vice-President of the Board of Directors carried (7-0) by the following voice vote: AYES (Coleman, Foulkes, Linney, McIntosh, Mellon, Patterson, and Katz); NOES (None); ABSTAINED (None); ABSENT (None).

Motion No. 002-14 -- Elected Director Katy Foulkes as Vice-President of the Board of Directors for 2014.

Committee Assignments

President Andy Katz announced that a memorandum had been provided regarding 2014 Committee Assignment preferences. He requested that Board members submit their committee assignment preferences to Secretary Lewis by January 21 and that committee assignments would be presented for Board approval on January 28.

ANNOUNCEMENTS FROM CLOSED SESSION

There were no announcements required from closed session.

PRESENTATION

General Manager Coate announced that the District is the proud recipient of the Business Recovery Managers Association (BRMA) Award of Excellence for Business Continuity for 2013. He pointed out that each year BRMA recognizes corporations or individuals who excelled in the areas of contingency planning, emergency management, and business recovery. The award was presented on December 5, 2013 as part of the BRMA Annual Luncheon. General Manager Coate acknowledged Information Services Supervisor Dick Evans and Manager of Business Continuity Julia Halsne for their involvement in BRMA. The Board and staff congratulated and acknowledged them on their work in helping the District receive this award.

PUBLIC COMMENT

Addressing the Board were the following persons: 1) Daniel Solli, Oakland resident, spoke on behalf of neighbors who oppose the proposed work covered in the Supplemental Environmental Impact Report (EIR) for the Estates Reservoir Replacement Project. Specifically they opposed removal of trees and bushes, installation of an interpretive sign, and creation of a path. He said the work conflicts with the original EIR, the path would create a public nuisance, and the neighbors asked the Board to stop this work; 2) Nicholas Solli, Oakland resident, commented that the path is a waste of money, is not needed, and would create a hazard. Additionally, he said that there is no

need to destroy the bushes and trees and asked if EBMUD would grant permission to the neighbors to pay for pruning of the trees; and 3) Jane Sinton, Oakland resident, said she concurred with the comments of the previous speakers. Director Foulkes said she had received email on this matter and asked General Manager Coate to provide an update. Mr. Coate said that EBMUD will be relocating the signage based on information received from the Oakland Landmark Preservation Advisory Board and will be proceeding to remove the trees that are identified for removal except the two trees identified for removal to allow the path. He went on to say that staff will continue to explore EBMUD's options regarding the requirements for the path since it currently is identified as mitigation in the EIR; and 4) Ivette Rivera, EBMUD Gardner Foreman, provided the Board with a packet of materials regarding her concerns that: a) she is performing the same duties as supervisors; b) District Policy 2.21 and District Procedure 216 violate the Meyers-Milias-Brown Act by denying represented employees the right to individual representation; and c) a 1985 arbitration award is being misinterpreted and applied to deny due process rights. President Katz said that staff would provide her with a response and copy the Board. General Manager Coate commented that on January 9, 2014 staff provided the Board with an information memo on this issue.

CONSENT CALENDAR

- Items 1, 6 and 10 were removed from the Consent Calendar for discussion.
 - Motion by Director Coleman, seconded by Director Foulkes, to approve Items 2-5, 7-9 and 11 on the Consent Calendar, carried (7-0) by the following voice vote: AYES (Coleman, Foulkes, Linney, McIntosh, Mellon, Patterson, and Katz); NOES (None); ABSTAIN (None); ABSENT (None).
1. **Motion No. 003-14** -- Postponed approval of the December 10, 2013 Regular Meeting Minutes (for corrections).
- Director Mellon pulled Item 1 from the Consent Calendar to comment that he did not receive the Minutes in his board packet. He expressed concern that the Minutes had not reflected discussion and comments about the letter from Michael K. Rich, Manager of Employee Relations, to Brenda Wood, Business Agent, AFSCME Local 2019, regarding flex-staffing two Network Analysts positions. President Coleman pointed out that the Minutes were posted online and President Katz pointed out that the letter was filed in the Minutes as Item No. 2 (Correspondence Filed with the Board). Director Foulkes recalled that she had mentioned saying the letter would be referenced in the Minutes. She suggested postponing the approval of the Minutes so that Director Mellon can provide language to be inserted in the Minutes for approval at the January 28 meeting. Director Mellon concurred with this suggestion. Additionally, Director Coleman pointed out that although he was absent (excused) from the December 10 meeting, he electronically submitted his comments, but they were not reflected in the Minutes. President Katz said that Board members should file corrections with the Secretary before the end of the week.
 - Motion by Director Foulkes, seconded by Director Mellon, to postpone approval of the Minutes to allow corrections, carried (7-0) by the following voice vote: AYES (Coleman, Foulkes, Linney, McIntosh, Mellon, Patterson, and Katz); NOES (None); ABSTAINED (None); ABSENT (None).

2. The following correspondence was filed with the Board: 1) Booklet entitled “Annual Ethics Policy & Brown Act Update,” dated January 2014; 2) Presentation entitled “Annual Brown Act and Ethics Update,” dated January 2014; 3) Speaking notes from Keith Beckwith along with materials regarding the Deferred Compensation Advisory Committee; 4) Letter dated January 3, 2014 to Michael Rich, Manager of Employee Relations, from Sharon McAleavey, AFSCME Business Agent, regarding interpretation and implementation of the November 19, 2013 letter agreement related to the flex-staffing of two Network Analyst positions; 5) Memorandum dated January 9, 2014 to Board of Directors from Andy Katz, President, regarding 2013 Committee Assignment Preferences; 6) Various correspondence submitted by Ivette Rivera regarding a classification issue and disparate treatment; 7) Presentation entitled “Fact Finding Regarding Meter Reader/Mechanic” dated January 14, 2014; 8) Memorandum dated January 14, 2014 to Board of Directors, from Xavier J. Irias, Director of Engineering and Construction, regarding Estates Reservoir Replacement Project – Signage and Path Update; 9) Memorandum dated January 14, 2014 to Board of Directors, from Nicholas J. Irias, Manager of Information Systems, regarding Customer Information System Outage; 10) Newspaper article dated January 11, 2014, from the Las Vegas Sun, entitled “Conservation Falls Short for Waterways; 11) Presentation entitled “Water Supply Briefing” January 14, 2014; and 12) Presentation entitled “Dry Year Planning Water Year 2014” dated January 14, 2014.
3. **Motion No. 004-14** -- Awarded a contract to the lowest responsive/responsible bidder Southland Pipe Corporation in the estimated annual amount after the addition of taxes of \$207,371.00 for supplying various sized steel mortar-lined pipe fittings for various District sites for the period beginning February 1, 2014, and ending January 31, 2017, with two options to renew for additional one-year periods for a total cost of \$1,036,855.00 under Request for Quotation No. 1412.
4. **Motion No. 005-14** -- Awarded a contract to the lowest responsive/responsible bidder, GSE Construction Company, Inc., in the amount of \$2,390,000 for construction of the Wet Weather Facilities Chemical Systems Improvements Phase 2 Project under Specification SD 348.
5. **Motion No. 006-14** -- Awarded a contract to the lowest responsive/responsible bidder, C. Overaa & Co., in the amount of \$830,000 for construction of the Main Wastewater Treatment Plant Site Utility Improvements and Guard Structure Installation Project under Specification SD 359.
6. **Motion No. 010-14** -- Authorized an agreement with Evans/McDonough Company Inc. (EMC) in an amount not to exceed \$96,150 for customer research services during the period January 14, 2014 through December 30, 2016.
 - Director Mellon pulled Item 6 from the Consent Calendar for discussion. He expressed concern about the number and content of proposed survey questions. He said that he was not prepared to vote on this item without a sense of what questions will be asked of customers. Special Assistant to the General Manager Cheryl A. Farr commented that the

list of 200 questions was a comprehensive list of all the questions that had been asked over a ten-year period, and was not meant to be an example of the upcoming survey questions. President Katz asked about the time sensitivity of this contract and whether the survey would assist in the decision making process on drought response. Ms. Farr said that if the contract is approved today, the survey would be conducted in mid-February and full data would be available in late March or early April. She pointed out that she had reviewed the questions with the Manager of Customer & Community Services and also took input received from the Board over the last couple of meetings. Ms. Farr said that staff would provide the Board with a preview of the questions before the survey is finalized. Director Linney expressed concern about delaying the survey in light of a potential drought this year and recommended moving forward with the contract. Director Coleman also recommended moving forward with the contract.

- Motion by Director Coleman, seconded by Director Linney, to approve the recommended action for Item 6, carried (6-1) by the following roll call vote: AYES (Coleman, Foulkes, Linney, McIntosh, Patterson, and Katz); NOES (Mellon); ABSTAINED (None); ABSENT (None).
- 7. **Motion No. 007-14** – Authorized an agreement with Montgomery, Watson, Harza Americas, Incorporated, in an amount not to exceed \$599,908, for consultant services related to completing the Mokelumne Aqueducts Corrosion Optimization Study.
- 8. **Motion No. 008-14** – Authorized agreements with 19 vendors and various public agencies in our services area in an aggregate estimated amount of \$1,000,000 annually for paving, striping, sealing, concrete repair and other related services at locations throughout the District's service area during the period January 15, 2014 through December 31, 2019 (AJW Construction; American Asphalt Repair; Black Gold Paving & Sealing; Bond Black Top, Inc.; Bruce Enterprises, Inc.; California Pavement Maintenance Company; Carone & Co., Inc.; Cliff Swisher Custom Concrete; Coastal Paving; County Paving Co., Inc.; John W. Hertzog, Contractor; JV Lucas Paving, Inc.; MCE Corporation; MCK Services, Inc.; Morgan-Bonnano Development; O.C. Jones & Sons, Inc.; Pacific General Engineering; Ransome Co.; VSS-International; and Public Agencies) and authorized additional agreements with companies that meet District standards and offer pricing at or below the range described in the current proposed contracts to increase flexibility and ensure vendor availability pursuant to this recommendation.
- 9. **Motion No. 009-14** – Authorized an amendment to an agreement with RMC Water and Environment in an amount not to exceed \$180,000, increasing the agreement value from \$1,692,000 to \$1,872,000, for confidential hydrologic and hydraulic modeling and other specialized technical assistance in support of the District's ongoing negotiations with state and federal regulatory agencies concerning discharges from the District's wet weather facilities.
- 10. **Motion No. 011-14** – Adjusted the Board of Directors' monthly compensation effective January 31, 2014 by \$34 per month or 3 percent and, beginning in January 2015, conduct a review of Board compensation annually during the first Board meeting of the calendar year.
- Director Mellon pulled Item 10 from the Consent Calendar to say that he cannot justify the increase at this time for the following reasons: a) board performance in handling the issues

over the past year; b) public perception of how boards are rewarding themselves particularly when they are in a part-time capacity; and c) displeasure with how the collective bargaining process was handled over the past year.

- Motion by Director Mellon, seconded by Director Coleman, to take no action this year on Board salaries.

Director Linney commented that the proposed adjustment is better than a large increase in subsequent years. He went on to say that the compensation helps attract people who want to be public servants and not just those who have the means to get into office. Director Linney said that the Board has done a very good job of making sure there aren't excesses at the District. Director Patterson commented that the Board has enormous responsibility far beyond what happens during the collective bargaining process. He also commented the adjustment is not an enormous amount of money, but if the Board comes back later with a 10% increase it will look out of line.

- Director Linney presented an "amendment" to approve the recommend action for Item 10 which was seconded by Director McIntosh. The motion carried (5-2) by the following roll call vote: AYES (Foulkes, Linney, McIntosh, Patterson, and Katz); NOES (Coleman and Mellon); ABSTAINED (None); ABSENT (None).

President Katz announced that the amendment passed and that the Board would vote on the motion to adopt the staff recommended action on Item 10.

- Motion by Director Mellon to reduce the monthly compensation to \$30 instead of \$34 to make the monthly compensation \$1,150 per month. The motion "failed" for lack of a second.

Next, the Board voted on the motion by Director Linney to approve the recommended action for Item 10. The motion carried (5-2) by the following roll call vote: AYES (Foulkes, Linney, McIntosh, Patterson, and Katz); NOES (Coleman and Mellon); ABSTAINED (None); ABSENT (None).

General Counsel Collins pointed out that the staff recommendation included a recommendation that the Board return to conducting a regular annual review of its compensation during the first Board meeting of the calendar year commencing in January 2015. Additionally, the Board's approval would amend prior Board motion 230-03 by changing the schedule to the Board's annual review and use COLA information from the prior year as the basis for the Board's discussion. The Board concurred.

11. **Resolution No. 33962-14** – Revising Authority Of General Manager To Sell Electric Power.

DETERMINATION AND DISCUSSION

12. Legislative Update.

Legislative/Human Resources Committee Chair Lesa R. McIntosh announced that the committee met this morning and voted unanimously to support all four federal initiatives proposed by staff.

- Motion by Director Mellon, seconded by Director Coleman, to approve the staff recommended initiatives, carried (7-0) by the following voice vote: AYES (Coleman, Foulkes, Linney, McIntosh, Mellon, Patterson, and Katz); NOES (None); ABSTAINED (None); ABSENT (None).

Motion No. 012-14 -- Approved four EBMUD 2014 Federal Initiatives: 1) Seek federal funding opportunities for infrastructure projects via any new and existing federal programs; 2) Pursue federal funding for EBMUD's three Water Resources Development Act (WRDA) authorized projects - the San Ramon Valley Recycled Water Project, the Integrated Regional Recycled Water Program, and the Bay Area Regional Desalination Project; 3) Maintain WRDA authorization requests and seek funding for the Regional EBMUD Seismic Component Upgrade Program and the San Ramon Valley Recycled Water Project; and 4) Advance EBMUD's Delta needs with its congressional delegation and appropriate federal agencies.

Manager of Legislative Affairs Marlaigne K. Dumaine presented an overview of federal and state legislative issues. She reported that in late 2013, Congress reached agreement on a budget framework and approved a general budget bill. However, specific program spending levels must still be decided upon and Congress continues to work to complete the spending bills that will essentially implement the budget. In addition to these fiscal issues, she noted that Congress' domestic policy agenda is likely to focus on issues of interest to EBMUD, such as infrastructure, water supply reliability, and the Sacramento-San Joaquin Delta. Next, she reported that congressional efforts to reauthorize the WRDA gained momentum in 2013, with a final WRDA bill expected to be brought forward in 2014, provided differences surrounding project authorizations and the creation of a Water Infrastructure Financing and Innovation Act (WIFIA) are resolved. A new WRDA bill is not expected to contain traditional earmarks and will likely require enhanced interaction with the administration to seek support for project assistance.

Ms. Dumaine reported that at the state level Governor Brown presented his budget last week and announced that the state has a \$3 billion surplus. A constitutional amendment will go on the November 2014 ballot to decide how the surplus revenue will be managed. In concluding, she reported that water bond discussions have started. There was discussion about Congressman George Miller's decision to retire after 40 years of service in Congress and possible replacements.

13. Adopt a Resolution Implementing the District's Last, Best And Final Offer Regarding The Salary For The Job Classification Of Meter Reader/Mechanic Pursuant To The Recommendations Of The Fact Finding Panel.

Manager of Employee Relations Michael K. Rich presented background information on the findings and recommendations regarding the salary for the Meter Reader/Mechanic job classification. He reported that District staff met and conferred with AFSCME Local 444 regarding the Meter Reading & Maintenance Division, including the salary for two new job classifications. The meet and confer concluded with the parties at impasse on the salary for the new job classification of Meter Reader/Mechanic. Local 444's position is Salary 55, which pays a monthly rate of \$5,147 to \$5,958. The District's position is Salary 54, which pays a monthly rate of \$5,023 to \$5,815. The difference between Salary 55 and Salary 54 is 2.5 percent. Mr. Rich said the non-binding recommendation of the Fact Finding Panel is Salary 54, which is consistent with the District's last, best and final offer prior to declaration of impasse. The parties went through impasse proceedings, including Fact Finding, which resulted in findings and recommendations from the Fact Finding Panel that adopted the District's position on the salary for the Meter Reader/Mechanic job classification.

- Motion by Director Mellon, seconded by Director Linney, to accept the staff recommendation on Item 13, carried (7-0) by the following voice vote: AYES (Coleman, Foulkes, Linney, McIntosh, Mellon, Patterson, and Katz); NOES (None); ABSTAINED (None); ABSENT (None).

Resolution No. 33963-14 – Implement The District's Last, Best And Final Offer Regarding The Salary For Meter Reader/Mechanic Class Pursuant To The Recommendations Of The Fact Finding Panel.

14. General Manager's Report.

General Manager Coate reported that staff provided a summary of committee topics covered in 2013 along with a forecast of topics staff proposes for the first six months of 2014. He also reported that staff provided the 2013 Interdepartmental Committees Annual Reports in the packet. Next, Mr. Coate reported that staff provided a memorandum at the Board's places regarding the Customer Information System and Financial Information System outage that took place on Wednesday, January 8. During the outage web self-service was not available and the Contact Center's ability to assist customers was limited. Information Systems Manager Nicholas J. Irias provided an update on the cause of the outage, actions taken by the District to inform customers of the problem, and resolution of the problem. He reported that both systems are fully operable again but the District will continue to analyze the root cause of the outage and assess the effectiveness of the District's response.

Operations and Maintenance Department Manager Eileen M. White presented the water supply update. She reported that from January through June 2013 the Mokelumne watershed received 9.8 inches of precipitation and the East Bay received 3.5 inches of precipitation. The water year ended with 33.96 inches of precipitation. Ms. White reported that total

system storage for the water year beginning October 1, 2013 is 542,130 acre feet. Since that time the East Bay received 2.57 inches of precipitation, the Mokelumne received 4.6 inches, the snow depth is 9 inches, and snow water content is 2.1 inches. Ms. White pointed out that January through June 2013 was the driest on record in the East Bay and the Mokelumne watersheds. Ms. White noted that because of the very dry conditions, water production for November and December has been averaging about 30 million gallons per day (mgd) higher than last year at this time, with average water production at 211 mgd.

In concluding, Ms. White presented an overview of water year 2014 planning. She said that staff will be presenting planning options at the January 28 meeting on voluntary or mandatory rationing and potential use of the Freeport facility. In February staff will be presenting planning options regarding drought rates and customer outreach. Board members suggested that staff provide the board with speaking points on the current water shortage, water conservation and recycling.

General Manager Coate reported that the December 2013 Monthly Report had been provided in the Board's packet. Lastly, he announced that Director of Administration Carol Y. Nishita would be retiring effective January 24, 2014.

REPORTS AND DIRECTOR COMMENTS

15. Committee Reports.

- Filed with the Board were the Minutes of the December 10, 2013 Planning and Legislative/Human Resources Committees.

16. Director Comments.

- Director Foulkes reported meeting with Oakland City Councilmember Patricia Kernighan regarding food waste for the Wastewater Treatment Plant on January 6; meeting with Oakland City Councilmember Noel Gallo regarding food waste for the Wastewater Treatment Plant on January 8; and participating in the Freeport Regional Water Authority teleconference on January 9.
- President Katz had no comment.
- Director Linney had no comment.
- Director McIntosh had no comment.
- Director Mellon reported visiting the Molokai Water Authority during his visit to Hawaii from December 11-17, 2013. He reminded the Board of their upcoming campaign filing obligation.
- Director Patterson had no comment.

- Director Coleman reported attending/participating in the following events: Executive Committee meeting of the Boy Scouts of America, Mount Diablo Silverado Council, on January 13 in Pleasant Hill; and the ACWA Executive Committee teleconference call on January 14 in Oakland. He reported on upcoming plans to attend/participate in the following: ACWA sustainability teleconference meeting on January 15; ACWA Executive Committee teleconference call on January 16; CASA Mid-Year Conference on January 17 in Palm Desert; ACWA Executive Committee teleconference call on January 21 in Oakland; and a Rotary Club speaking engagement on January 22 in San Ramon.

ADJOURNMENT

The meeting was adjourned at 3:09 p.m.

SUBMITTED BY:

Lynelle M. Lewis, Secretary of the District

APPROVED: January 28, 2014

Andy Katz, President of the Board

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AGENDA NO. _____

3

MEETING DATE _____

January 28, 2014

TITLE MOKELUMNE AQUEDUCTS DELTA TUNNEL STUDY

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Authorize an agreement with MWH Americas, Incorporated (MWH), in an amount not to exceed \$315,000 for consultant services related to completing the Mokelumne Aqueducts Delta Tunnel Study. In awarding this contract, the Board of Directors finds that this work cannot be satisfactorily performed under civil service.

SUMMARY

The California Department of Water Resources and several public water agencies, collectively referred to as The Bay Delta Conservation Plan (BDCP), prepared a final environmental impact report/environmental impact statement (EIR/EIS) released for public review in December 2013. The EIR/EIS includes plans for construction of large twin tunnels crossing under the Mokelumne Aqueducts. The District owns the subsurface property rights below the Mokelumne Aqueducts and has long-term plans for a tunnel to replace the aqueducts in the future. The District must provide comments within 120 days of issuance of this EIR/EIS. Preparation of the response comments requires geotechnical analysis and expertise with the design of soft ground tunneling using a tunnel boring machine (TBM).

MWH will review existing geotechnical data and develop a conceptual design and vertical alignment for a future tunnel to replace the three Mokelumne Aqueducts within the Delta, in the event of a major disaster. MWH will also prepare a response to the BDCP EIR/EIS related to the proposed BDCP tunnels, and its potential impact on the District's future Delta tunnel, and develop a scope of work and cost estimates for the subsequent planning, design and construction of the District's tunnel.

DISCUSSION

The Mokelumne Aqueducts are vulnerable to failure in the Delta due to flood and earthquake hazards. The 2007 District report titled *Strategy for Protecting the Aqueducts in the Delta* (SPAD), which was presented to the Board, recommended and adopted a tunnel across the Delta as the long-term mitigation for risks to the aqueducts within the Delta. The conceptual design and vertical alignment for the

| | | |
|---|---|--|
| Funds Available: FY14-15, CIP #1000810; Page 38 | | Budget Code: WSC/532/7999/5231/2009003 |
| DEPARTMENT SUBMITTING Engineering and Construction | DEPARTMENT MANAGER or DIRECTOR Xavier J. Irias | APPROVED General Manager |

Contact the Office of the District Secretary with questions about completing or submitting this form.

Mokelumne Aqueducts Delta Tunnel will serve as a basis for responding to the Final BDCP EIR/EIS, with the objective being to safeguard the District's future Delta tunnel plans.

CONSULTANT SELECTION

Requests for proposals were sent to 64 firms on the Engineering Consultant Roster with expertise in geotechnical engineering and water infrastructure engineering. One firm submitted a proposal and was evaluated by District staff. After proposal review, MHW was selected based on their qualifications, experience, and approach to the project. MWH has demonstrated expertise in geotechnical analysis, designing soft ground TBM tunnels and the preparation of EIR/EIS response comments.

CONTRACT EQUITY PROGRAM EFFORTS

The completed P-035 and P-061 forms are attached.

FISCAL IMPACT

This item is included in the FY14-15 Capital Improvement Program for the Raw Water Infrastructure Studies.

UNION NOTIFICATION

Locals 2019 and 21 were notified of the contract on November 18, 2013. Locals 2019 and 21 did not raise any specific issues related to this contract.

ALTERNATIVES

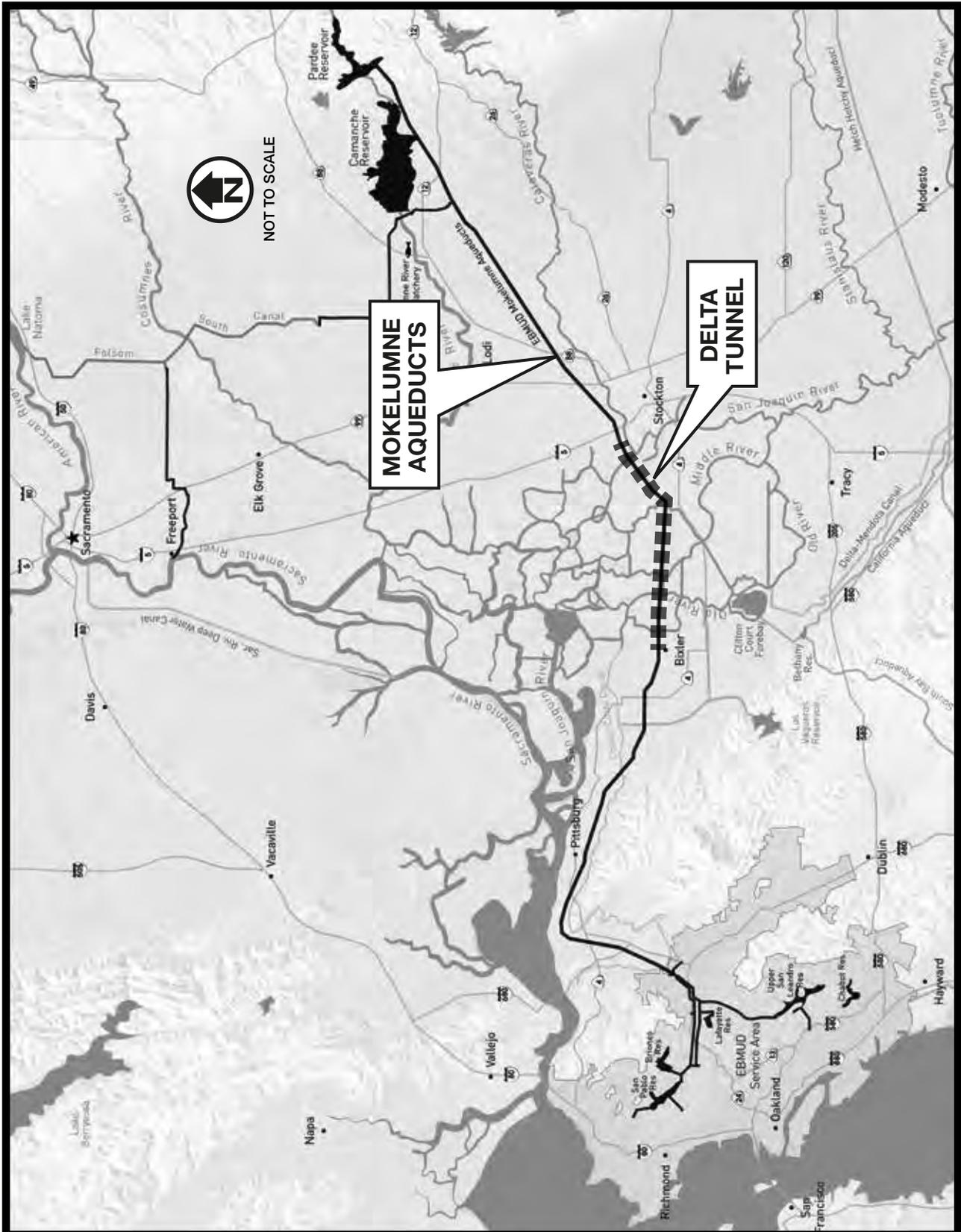
Perform the work with District staff. This is not recommended as providing the geotechnical analysis and design for soft ground tunnels using a TBM is a specialized field and the District does not have staff with the necessary expertise to perform these tasks.

Do not perform the work. This is not recommended as the Mokelumne Aqueducts are critical to maintaining the District's water supply and the long term plan for a Delta tunnel needs to be safeguarded by ensuring that sufficient mitigation measures are included during the design and construction of the BDCP tunnels.

Attachments: Location Map
Contract Equity Program Summary (P-035)
Affirmative Action Summary (P-061)

Mokelumne Aqueducts Delta Tunnel Study

Location Map





CONTRACT EQUITY PROGRAM SUMMARY (P-035)

This summary contains information on the contractor's workforce and contract equity participation. (Completed by District)

| | |
|---|---|
| TITLE Professional Services Agreement - Engineering Consulting Roster Mokelumne Aqueducts Delta Tunnel Study | DATE: <p style="text-align: center; font-size: 1.2em;">January 22, 2013</p> |
|---|---|

| CONTRACTOR: | | PERCENTAGE OF CONTRACT DOLLARS | | | |
|--|------------------|--------------------------------|--------------------|------------------------|---------------|
| MWH Americas, Inc. Walnut Creek, CA | | Sole Proposer | | | |
| BID/PROPOSER'S PRICE: | FIRM'S OWNERSHIP | | Availability Group | Contracting Objectives | Participation |
| \$315,000 | Ethnicity | Gender | White Men | 25% | 94.9% |
| | White | Men | White Women | 6% | 0.0% |
| | | | Ethnic Minorities | 25% | 5.1% |

| CONTRACT EQUITY PARTICIPATION | | | | | | | | | | | |
|-------------------------------|------------------|-----------|--------|---|---------------------------|-------------|-------------------|--------------|---------------------|------------------|-------------|
| COMPANY NAME | ESTIMATED AMOUNT | ETHNICITY | GENDER | | CONTRACTING PARTICIPATION | | | | | | |
| | | | M | F | White-Men | White-Women | Ethnic Minorities | Unclassified | Publicly Held Corp. | Gov't/Non Profit | Foreign |
| PRIME: | | | | | | | | | | | |
| MWH Americas, Inc. | \$299,000 | White | X | | 94.9% | --- | --- | --- | --- | --- | --- |
| SUBS: | | | | | | | | | | | |
| AGS, Inc. | \$16,000 | Asian | | X | --- | --- | 5.1% | --- | --- | --- | --- |
| TOTAL | \$315,000 | | | | 94.9% | 0.0% | 5.1% | 0.0% | 0.0% | 0.0% | 0.0% |

| CONTRACTOR'S WORKFORCES PROFILE (From P-025 Form) | | | | |
|---|-----------|-------------|-------------------|-----------------|
| | White Men | White Women | Ethnic Minorities | Total Employees |
| No. of Employees: | 1,184 | 561 | 474 | 2,219 |
| Percent of Total Employees: | 53.4% | 25.3% | 21.4% | |
| MSA Labor Market %: | 39.0% | 33.7% | 27.2% | |
| MSA Labor Market Location: | USA | | | |

COMMENTS

Contract Equity Participation - 94.9% White Men participation and 5.1% Ethnic Minority participation.

| | | |
|---|--|-----------------------------------|
| Workforce Profile & Statement of Nondiscrimination Submitted | Good Faith Outreach Efforts Requirement Satisfied | Award Approval Recommended |
| NA | NA | |



AFFIRMATIVE ACTION SUMMARY (P-061)

(Completed by District)

This summarizes information provided by the contractor(s)' P-025 Form regarding their workforce.

| Title: | | Ethnic Minority Percentages From U.S. Census Data | | | | | | | |
|--|--------------------------|---|------|------|--------------------------------------|-------|-------------------|---------|-------|
| | | | B | H | A/PI | AI/AN | TOTAL | | |
| Mokelumne Aqueducts Delta Tunnel Study | | National | 10.5 | 10.7 | 3.7 | 0.7 | 27.3 | | |
| | | 9 Bay Area Counties | 5.5 | 16.2 | 14.2 | 0.4 | 39.9 | | |
| | | Alameda/CC Counties | 10.7 | 15.6 | 15.4 | 0.5 | 46.2 | | |
| Professional Services Agreement | DATE: | Number of Ethnic Minority Employees | | | | | | | |
| | 1/22/2013 | | | | | | | | |
| R=Recommnd P=Prime S=Sub | Composition of Ownership | | | | | | | | |
| Company Name, Owner/Contact Person, Address, and Phone Number | | | B | H | A/PI | AI/AN | TOTAL | PERCENT | MSA % |
| RP | WM | Company Wide | 60 | 184 | 195 | 11 | 450 | 20.3% | 27.2% |
| MWH Americas, Inc. Joseph D. Adams 2121 N. California Blvd., Suite 600 Walnut Creek, CA 94596 925-627-4500 | | Manager/Prof | 42 | 110 | 173 | 6 | 331 | 18.8% | |
| | | Technical/Sales | 2 | 14 | 10 | 1 | 27 | 20.1% | |
| | | Clerical/Skilled | 15 | 60 | 12 | 4 | 91 | 31.0% | |
| | | Semi/Unskilled | 1 | - | - | - | 1 | 3.7% | |
| | | Bay Area | - | - | - | - | - | NA | |
| | | AA Plan on File: | NA | | Date of last contract with District: | | 4/16/2012 | | |
| | | Co. Wide MSA: | USA | | # Employees-Co. Wide: | | 2,219 Bay Area: 0 | | |
| | | Company Wide | | | | | | | |
| | | Manager/Prof | | | | | | | |
| | | Technical/Sales | | | | | | | |
| | | Clerical/Skilled | | | | | | | |
| | | Semi/Unskilled | | | | | | | |
| | | Bay Area | | | | | | | |
| | | Co. Wide MSA: | | | # Employees-Co. Wide: | | Bay Area: | | |
| | | Company Wide | | | | | | | |
| | | Manager/Prof | | | | | | | |
| | | Technical/Sales | | | | | | | |
| | | Clerical/Skilled | | | | | | | |
| | | Semi/Unskilled | | | | | | | |
| | | Bay Area | | | | | | | |
| | | Co. Wide MSA: | | | # Employees-Co. Wide: | | Bay Area: | | |
| | | Company Wide | | | | | | | |
| | | Manager/Prof | | | | | | | |
| | | Technical/Sales | | | | | | | |
| | | Clerical/Skilled | | | | | | | |
| | | Semi/Unskilled | | | | | | | |
| | | Bay Area | | | | | | | |
| | | Co. Wide MSA: | | | # Employees-Co. Wide: | | Bay Area: | | |
| | | Company Wide | | | | | | | |
| | | Manager/Prof | | | | | | | |
| | | Technical/Sales | | | | | | | |
| | | Clerical/Skilled | | | | | | | |
| | | Semi/Unskilled | | | | | | | |
| | | Bay Area | | | | | | | |
| | | Co. Wide MSA: | | | # Employees-Co. Wide: | | Bay Area: | | |
| | | Company Wide | | | | | | | |
| | | Manager/Prof | | | | | | | |
| | | Technical/Sales | | | | | | | |
| | | Clerical/Skilled | | | | | | | |
| | | Semi/Unskilled | | | | | | | |
| | | Bay Area | | | | | | | |
| | | Co. Wide MSA: | | | # Employees-Co. Wide: | | Bay Area: | | |

WM=White Male, WW=White Women, EM=Ethnic Minority (Ethnicities: B=Black, H=Hispanic, A/PI=Asian/Pacific Islander, and AI/AN=American Indian/Alaskan Native)



AGENDA NO.

4

MEETING DATE

January 28, 2014

TITLE DATA AND VOICE COMMUNICATION SERVICES

MOTION RESOLUTION ORDINANCE

RECOMMENDED ACTION

Authorize an agreement with AT&T in the estimated amount of \$1,400,000 annually for data and voice communication services for the District under the State of California's CALNET contract during the period January 30, 2014 to January 29, 2017, with 2 options to renew for an additional 1-year period.

SUMMARY

The District depends on reliable telecommunication services from AT&T for connecting the majority of the District locations and field personnel. The data communication services include all high-speed links from remote sites to the Administration Building for computer access and Internet services while the voice communication services include inbound and outbound telephone calls. This agreement will allow AT&T to continue to meet the critical communication needs of the District and will leverage the buying power of the State of California.

DISCUSSION

Since 2002, telecommunications services offered by contracts through the State of California's CALNET contract have been favorable as compared to pricing the District has been able to obtain through its own competitive bid process. The CALNET agreements are competitively bid every few years. The current CALNET contract, CALNET 3, was awarded by the State of California on November 15, 2013. The estimated cost is \$1.4 million per year over the 3 year period. Actual cost is determined by usage with 2013 costs totaling \$1.3 million.

SERVICE PROVIDER SELECTION

Public Contract Code, Section 10298, specifically allows agencies to purchase directly from the state competitively awarded contracts without pursuing separate competitive bidding. This provides a typical savings of 10-15 percent over pricing the District would get if bidding on our own. The State of California has competitively awarded contracts to AT&T and staff has confirmed with the vendor that the state

| | | |
|--|---|---------------------------------|
| Funds Available: FY 14 | | Budget Code: WSO/252/8583/5372 |
| DEPARTMENT SUBMITTING Information Systems | DEPARTMENT MANAGER or DIRECTOR Nicholas J. Irias | APPROVED General Manager |

Contact the Office of the District Secretary with questions about completing or submitting this form.

pricing is the lowest available to the District. For some District facility locations, AT&T is the only service provider available.

The District currently uses AT&T for services proposed under this agreement and is satisfied with their cost, experience, knowledge, and ability to meet District requirements. Finally, AT&T has the lowest overall rates for the District's specific requirements when considering telemetry and data requirements.

CONTRACT EQUITY PROGRAM EFFORTS

The completed P-035 and P-061 forms are attached.

FISCAL IMPACT

Funds are available for these services in the FY14 operating budget.

ALTERNATIVES

Discontinue these services. This alternative is not recommended because these services are required to conduct almost every aspect of the District's business.

Conduct a competitive process to obtain pricing and vendors. This alternative is not recommended because the District will likely spend higher amounts, typically 10-15 percent, for the telecommunication services and incur additional costs of replacing equipment for each telecommunication circuit. Further, only AT&T provides the service at some District locations, and installation of each replacement circuit can take months, causing a massive disruption to the District operations.

Attachments



CONTRACT EQUITY PROGRAM SUMMARY (P-035)

This summary contains information on the contractor's workforce and contract equity participation. (Completed by District)

| | |
|--|---|
| TITLE <i>Amendment to General Services Agreement</i> Data and Voice Communications Service - Three-Year Contract with 2 One-Year Renewal Options | DATE: <p style="text-align: center;">January 22, 2014</p> |
|--|---|

| | | | | | |
|--|-------------------------|---------------------------------------|------------------------|---------------|------|
| CONTRACTOR: | | PERCENTAGE OF CONTRACT DOLLARS | | | |
| AT&T Mobility National Accounts LLC Hanover, MD | | Availability Group | Contracting Objectives | Participation | |
| BID/PROPOSER'S PRICE: | FIRM'S OWNERSHIP | | White Men | 25% | 0.0% |
| | Ethnicity | Gender | White Women | 6% | 0.0% |
| \$1,400,000 /year | Publicly Held Corp. | | Ethnic Minorities | 25% | 0.0% |

| CONTRACT EQUITY PARTICIPATION | | | | | | | | | | | | |
|-------------------------------------|------------------|---------------------|--------|---|---------------------------|-------------|-------------------|--------------|---------------------|------------------|---------|--|
| COMPANY NAME | ESTIMATED AMOUNT | ETHNICITY | GENDER | | CONTRACTING PARTICIPATION | | | | | | | |
| | | | M | W | White-Men | White-Women | Ethnic Minorities | Unclassified | Publicly Held Corp. | Gov't/Non Profit | Foreign | |
| PRIME: | | | | | | | | | | | | |
| AT&T Mobility National Accounts LLC | \$1,400,000 | Publicly Held Corp. | | | --- | --- | --- | --- | 100.0% | --- | --- | |
| SUBS: | | | | | | | | | | | | |
| None | | | | | --- | --- | --- | --- | --- | --- | --- | |
| TOTAL | \$1,400,000 | | | | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | 0.0% | 0.0% | |

| CONTRACTOR'S WORKFORCES PROFILE (From P-025 Form) | | | | |
|---|-----------|-------------|-------------------|-----------------|
| | White Men | White Women | Ethnic Minorities | Total Employees |
| No. of Employees: | 86,753 | 41,819 | 78,237 | 206,809 |
| Percent of Total Employees: | 41.9% | 20.2% | 37.8% | |
| MSA Labor Market %: | 39.0% | 33.7% | 27.2% | |
| MSA Labor Market Location: | USA | | | |

COMMENTS

Contract Equity Participation - Zero Contract Equity participation since firm is a publicly held corporation and no subcontract opportunities exist.

| | | |
|---|--|-----------------------------------|
| Workforce Profile & Statement of Nondiscrimination Submitted | Good Faith Outreach Efforts Requirement Satisfied | Award Approval Recommended |
| NA | NA | |



AFFIRMATIVE ACTION SUMMARY (P-061)

(Completed by District)

This summarizes information provided by the contractor(s)' P-025 Form regarding their workforce.

| Title: Data and Voice Communications Service - Three-Year Contract with 2 One-Year Renewal Options | | Ethnic Minority Percentages From U.S. Census Data | | | | | | | | |
|---|---------------------------|---|--------------------------------------|--------|--------|-------|-----------|-----------|-------|-------|
| | | | B | H | A/PI | AI/AN | TOTAL | | | |
| General Services Agreement | | DATE: | 1/22/2014 | | | | | | | |
| | | National | | 10.5 | 10.7 | 3.7 | 0.7 | 27.3 | | |
| | | 9 Bay Area Counties | | 5.5 | 16.2 | 14.2 | 0.4 | 39.9 | | |
| Alameda/CC Counties | | 10.7 | 15.6 | 15.4 | 0.5 | 46.2 | | | | |
| R=Recmmd P=Prime S=Sub | Composition of Ownership | Number of Ethnic Minority Employees | | | | | | | | |
| Company Name, Owner/Contact Person, Address, and Phone Number | | | B | H | A/PI | AI/AN | TOTAL | PERCENT | MSA % | |
| RP | Publicly Held Corporation | Company Wide | 28,517 | 26,354 | 11,880 | 1,190 | 67,941 | 32.9% | 27.2% | |
| AT&T Mobility National Accounts LLC Matthew H. Phillips 7229 Parkway Drive Hanover, MD 21076 501-633-5443 | | Manager/Prof | 9,410 | 5,511 | 6,801 | 397 | 22,119 | 29.9% | | |
| | | Technical/Sales | 1,942 | 9,894 | 2,499 | 289 | 14,624 | 23.8% | | |
| | | Clerical/Skilled | 16,955 | 10,901 | 2,554 | 501 | 30,911 | 43.9% | | |
| | | Semi/Unskilled | 210 | 48 | 26 | 3 | - | - | | |
| | | Bay Area | 2,517 | 1,362 | 671 | 227 | 4,777 | 51.8% | | 39.9% |
| AA Plan on File: | | NA | Date of last contract with District: | | | | 6/22/2011 | | | |
| Co. Wide MSA: | | USA | # Employees-Co. Wide: | | | | 206,809 | Bay Area: | 9,217 | |
| | | Company Wide | | | | | | | | |
| | | Manager/Prof | | | | | | | | |
| | | Technical/Sales | | | | | | | | |
| | | Clerical/Skilled | | | | | | | | |
| | | Semi/Unskilled | | | | | | | | |
| | | Bay Area | | | | | | | | 39.9% |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | | | Bay Area: | | |
| | | Company Wide | | | | | | | | |
| | | Manager/Prof | | | | | | | | |
| | | Technical/Sales | | | | | | | | |
| | | Clerical/Skilled | | | | | | | | |
| | | Semi/Unskilled | | | | | | | | |
| | | Bay Area | | | | | | | | 39.9% |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | | | Bay Area: | | |
| | | Company Wide | | | | | | | | |
| | | Manager/Prof | | | | | | | | |
| | | Technical/Sales | | | | | | | | |
| | | Clerical/Skilled | | | | | | | | |
| | | Semi/Unskilled | | | | | | | | |
| | | Bay Area | | | | | | | | 39.9% |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | | | Bay Area: | | |
| | | Company Wide | | | | | | | | |
| | | Manager/Prof | | | | | | | | |
| | | Technical/Sales | | | | | | | | |
| | | Clerical/Skilled | | | | | | | | |
| | | Semi/Unskilled | | | | | | | | |
| | | Bay Area | | | | | | | | 39.9% |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | | | Bay Area: | | |
| | | Company Wide | | | | | | | | |
| | | Manager/Prof | | | | | | | | |
| | | Technical/Sales | | | | | | | | |
| | | Clerical/Skilled | | | | | | | | |
| | | Semi/Unskilled | | | | | | | | |
| | | Bay Area | | | | | | | | 39.9% |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | | | Bay Area: | | |

WM=White Male, WW=White Women, EM=Ethnic Minority (Ethnicities: B=Black, H=Hispanic, A/PI=Asian/Pacific Islander, and AI/AN=American Indian/Alaskan Native)



AGENDA NO. 5
 MEETING DATE January 28, 2014

**TITLE WATER SUPPLY ASSESSMENT FOR THE OAKLAND COLISEUM AREA
 SPECIFIC PLAN**

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Approve the Water Supply Assessment (WSA) requested by the City of Oakland (City) for the Oakland Coliseum Area Specific Plan pursuant to the California Water Code, Sections 10910-10915.

SUMMARY

The proposed Oakland Coliseum Area Specific Plan is bounded by 66th Avenue on the north, San Leandro Street on the east, Hegenberger Road on the south, and San Leandro Bay and Oakland International Airport on the west (see Attachment A). The project area consists of approximately 800 acres. The Oakland Coliseum Area Specific Plan is proposed to provide for up to three new sport venues (totaling approximately 130,000 seats), 5,750 new multi-family residential units, and 7,900,000 square feet of new non-residential space at build out.

The existing land use consists of mixed-use office, light industrial, business, hotel, retail, restaurant, and sport event venue space, including the existing Oakland Coliseum and Arena and the Oakland Airport Edgewater Business Park with a current average annual water use of approximately 700,000 gallons per day (gpd). The estimated increase in the average annual water demand for the Area Specific Plan at build out is approximately 3,000,000 gpd. This demand is accounted for in the District's Urban Water Management Plan (UWMP). Approval of the assessment by the Board of Directors is required prior to its submittal to the City. The assessment is described in the attached letter (Attachment B) and, upon Board approval, will be sent to the City.

DISCUSSION

On November 7, 2013, the City submitted a formal request for the consultation between the District and the City for a WSA for the Oakland Coliseum Area Specific Plan pursuant to California Water Code, Sections 10910-10915. The project, for which an Environmental Impact Report is being prepared, meets the threshold requirement for an assessment of water supply availability based on the amount of water this project would require, a mixed-use project that would demand an amount of water equivalent to or greater

| | | |
|---|---|-------------------------------------|
| Funds Available: FY | | Budget Code: |
| DEPARTMENT SUBMITTING Engineering and Construction | DEPARTMENT MANAGER or DIRECTOR Xavier J. Irias | APPROVED General Manager |

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than the amount of water required by a 500 dwelling unit project. The City is required to consult with the public water supplier to determine whether the water demand associated with the proposed project was included in its last UWMP, and to assess whether its 20-year water supply (available during normal, single-dry and multiple-dry water years) will meet the water demand associated with the proposed project.

The 2010 UWMP concludes that the District has, and will have, adequate water supplies to serve existing and projected demand within the Ultimate Service Boundary during normal and wet years, but that deficits are projected for drought years. The District's Water Supply Management Plan includes up to a 15 percent water conservation requirement in a severe drought. The project will be subject to the same drought restriction as all District customers.

The WSA letter requests that the City comply with the California Code of Regulations concerning water-efficient landscapes and District water service regulations in force at the time the application is made. The letter also requests a meeting to discuss water conservation opportunities in the project area. A key objective of this discussion will be to explore timely opportunities to maximize conservation via early consideration of the District's conservation programs and State and Federal best management practices applicable to the project.

The Oakland Coliseum Area Specific Plan is located within the District's San Leandro Recycled Water Project serving Alameda's Golf Courses and other sites. The size and nature of the proposed development will present several opportunities for the use of recycled water for landscape irrigation, commercial and industrial process uses, toilet and urinal flushing in sports arenas and other applications. As part of the long term water supply planning, the District will investigate expanding the recycled water infrastructure to provide recycled water to the project. The District will maintain continued coordination and consultation with the City and their developers as they plan and implement the various projects as identified within the specific plan area regarding the feasibility of providing recycled water for appropriate non-potable uses.

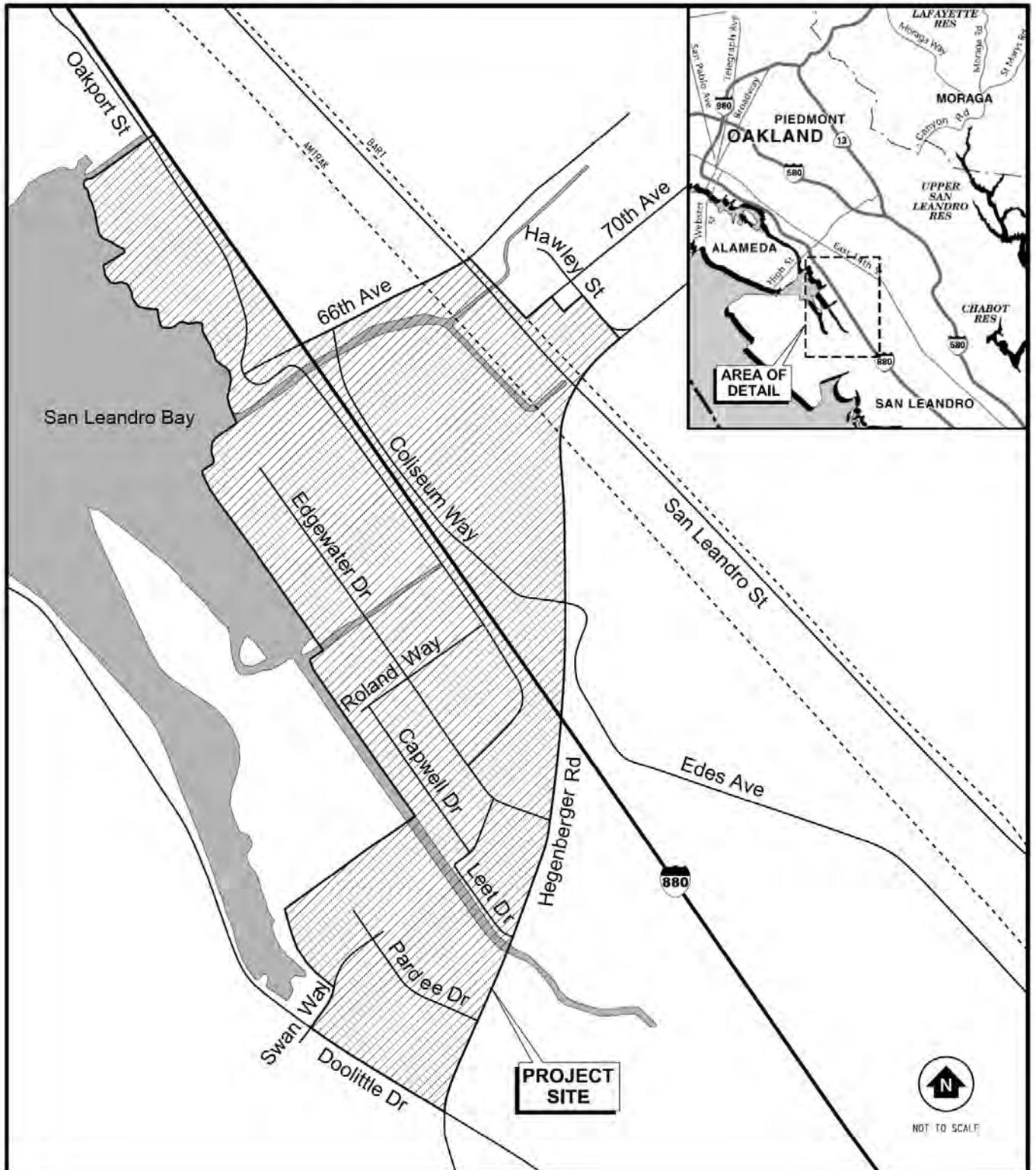
ALTERNATIVES

Do not submit a response. This alternative is not recommended. This assessment has been prepared pursuant to California Water Code Sections 10910-10915. It is consistent with the law and the District's past WSAs.

Attachments: A. Map – Oakland Coliseum Area Specific Plan
B. District's Response to November 7, 2013 Water Supply Assessment Request

OAKLAND COLISEUM AREA SPECIFIC PLAN

Attachment A



January 28, 2014

Devan Reiff, AICP, Planner III
City of Oakland
Planning, Building and Neighborhood Preservation Department
250 Frank Ogawa Plaza, Suite 3315
Oakland, CA 94612

Re: Water Supply Assessment – Oakland Coliseum Area Specific Plan

Dear Mr. Reiff:

This letter responds to the City of Oakland's (City) request on November 7, 2013, for water agency consultation concerning the Oakland Coliseum Area Specific Plan (Enclosure 1) located in Oakland, which is within the East Bay Municipal Utility District's (EBMUD) Ultimate Service Boundary. EBMUD appreciates the opportunity to provide this response.

Pursuant to Sections 10910-10915 (SB-610) of the California Water Code, the project meets the threshold requirement for an assessment of water supply availability based on the amount of water this project would require, a mixed-use project that would demand an amount of water equivalent to or greater than the amount of water required by a 500 dwelling unit project.

Please note that this assessment addresses the issue of water supply only and is not a guarantee of service, and future water service is subject to rates and regulations in effect at the time.

Project Demand

The water demand for the Oakland Coliseum Area Specific Plan area is accounted for in EBMUD's water demand projections as published in EBMUD's 2010 Urban Water Management Plan (UWMP/Enclosure 2). EBMUD's water demand projections account for anticipated future water demands within EBMUD's service boundaries and for variations in demand-attributed changes in development patterns. The proposed project site currently consists of mixed-use office, light industrial, business, hotel, retail, restaurant, and sport event venue space, including the existing Oakland Coliseum and Arena and the Oakland Airport Edgewater Business Park. Current average annual water use is about 700,000 gallons per day (gpd). The increase in the projected average annual water demand for the project at build out is approximately 3,000,000 gpd.

EBMUD's demand projections indicate both densification and land use changes in a few existing land use classifications, including commercial and residential land use areas, thus increasing EBMUD's overall demand. EBMUD's 2010 UWMP projects water demands over time, accounting for estimated variations in demand usage less conservation and recycled supply sources as noted in Table 4-1, Water Demand Projections for Each Water Use Sector, of the

2010 UWMP. EBMUD's water demand projections are based on the 2040 Demand Study (Demand Study), which was completed in 2009. For planning purposes, the demands are estimated in five year increments, but it is recognized that actual incremental amounts may occur stepwise in shorter time increments. An increase in usage by one customer in a particular customer class does not require a strict gallon-for-gallon increase in conservation by other customers in that class as, in actuality, EBMUD-wide, the amount of potable demand, conservation and recycled water use will vary somewhat. Future versions of the UWMP, which is updated every five years, will include an updated assessment of customer demand and water supply.

Project Area

The Oakland Coliseum Area Specific Plan Project consists of approximately 800 acres bounded by 66th Avenue on the north, San Leandro Street on the east, Hegenberger Road on the south, and San Leandro Bay and Oakland International Airport on the west. As described in the City's WSA request, the Oakland Coliseum Area Specific Plan will provide for up to three new sport venues, significant transportation and transit enhancements, and development of new retail, housing and employment space; this will include approximately 5,750 new housing units and 7,900,000 square feet of new non-residential space within the Area Specific Plan.

EBMUD Water Demand Projections

Since the 1970s, water demand within EBMUD's service area has ranged from 200 to 220 million gallons per day (mgd) in non-drought years. The 2040 water demand forecast of 312 mgd for EBMUD's service area can be reduced to 230 mgd with the successful implementation of water recycling and conservation programs, as outlined in the 2010 UWMP. Although current demand is lower than estimated in the Demand Study, as a result of the recent multi-year drought and the downturn in the economy, the Demand Study still reflects a reasonable expectation for growth over the long term for demand in year 2040. The Oakland Coliseum Area Specific Plan will not change EBMUD's 2040 demand projection.

EBMUD Water Supply and Water Rights

EBMUD has water rights permits and licenses that allow for delivery of up to a maximum of 325 mgd from the Mokelumne River, subject to the availability of Mokelumne River runoff and the senior water rights of other users. EBMUD's position in the hierarchy of Mokelumne River water users is determined by a variety of agreements between Mokelumne River water right holders, and the terms of the appropriative water rights permits and licenses, which have been issued by the State, pre-1914 rights, and riparian rights.

Conditions that could, depending on hydrology, restrict EBMUD's ability to receive its full entitlement include:

- Upstream water use by prior right holders.
- Downstream water use by riparian and senior appropriators and other downstream obligations, including protection of public trust resources.
- Variability in rainfall and runoff.

During prolonged droughts, the Mokelumne River supply cannot meet EBMUD's projected customer demands. To address this, EBMUD has completed construction of the Freeport Regional Water Facility and the Bayside Groundwater Facility, which are discussed below in the Supplemental Water Supply and Demand Management section of this assessment. EBMUD has obtained and continues to seek supplemental supplies.

EBMUD UWMP

The 2010 UWMP, adopted on June 28, 2011, by EBMUD's Board of Directors by Resolution No. 33832-11, is a long-range planning document used to assess current and projected water usage, water supply planning and conservation and recycling efforts. A summary of EBMUD's demand and supply projections, in 5-year increments for a 25-year planning horizon is provided in Table 4-3, EBMUD Demand and Supply Projections of the 2010 UWMP (Enclosure 3).

EBMUD's evaluation of water supply availability accounts for the diversions of both upstream and downstream water right holders and fishery releases on the Mokelumne River. Fishery releases are based on the requirements of a 1998 Joint Settlement Agreement (JSA) between EBMUD, United States (U.S.) Fish and Wildlife Service, and the California Department of Fish and Game. The JSA requires EBMUD to make minimum flow releases from its reservoirs to the lower Mokelumne River to protect and enhance the fishery resources and ecosystem of the river. As this water is released downriver, it is, therefore, not available for use by EBMUD's customers.

The available supply shown in the attached table (Enclosure 3) was derived from EBMUD's hydrologic model with the following assumptions:

- EBMUD Drought Planning Sequence is used for 1976, 1977 and 1978;
- Total system storage is depleted by the end of the third year of the drought;
- EBMUD will implement its Drought Management Program when necessary;
- The diversions by Amador and Calaveras Counties upstream of Pardee Reservoir will increase over time, eventually reaching the full extent of their senior rights;
- Releases are made to meet the requirements of senior downstream water right holders and fishery releases are made according to the JSA;
- Dry-year supply of Central Valley Project (CVP) water, through the Freeport Regional Water Facility, is available; and
- Bayside Groundwater Project, Phase 1, is available.

As discussed under the Drought Management Program section in Chapter 3 of the 2010 UWMP, EBMUD's system storage generally allows it to continue serving its customers during dry-year events. EBMUD imposes rationing based on the projected storage available at the end of September. By imposing rationing in the first dry year of potential drought periods, EBMUD attempts to minimize rationing in subsequent years if a drought persists while continuing to meet its current and subsequent-year fishery flow release requirements and obligations to downstream agencies. Table 3-2, Long-Term Drought Management Program Guidelines, in the 2010 UWMP summarizes the Drought Management Program guidelines for consumer water reduction goals based on projected system storage.

In Table 4-3, EBMUD Demand and Supply Projections (Enclosure 3), "Single Dry Water Year" (or Year 1 of "Multiple Dry Water Years") is determined to be a year that EBMUD would implement Drought Management Program elements at the "moderate" stage with the goal of achieving a reduction between 0 to 10 percent in customer demand. Year 2 of "Multiple Dry Years" is determined to be a year that EBMUD would implement Drought Management Program elements at the "severe" stage with the goal of achieving between 10 to 15 percent reduction in customer demand. Year 3 of "Multiple Dry Years" is a year in which EBMUD would implement Drought Management Program elements at the "critical" stage. Despite water savings from EBMUD's aggressive conservation and recycling programs and rationing of up to 15 percent, additional supplemental supplies beyond those provided through the Freeport Regional Water Facility and the Bayside Groundwater Facility will be needed during Years 2 and 3 of a three-year drought. Therefore, supplemental supplies are needed in a multiple-year drought period while continuing to meet the requirements of senior downstream water right holders and the provisions of the 1998 JSA.

Supplemental Water Supply and Demand Management

The goals of meeting projected water needs and increased water reliability rely on supplemental supplies, improving reliability of existing water supply facilities, water conservation and recycled water programs.

By 2011, EBMUD completed construction of the Freeport Regional Water Facility and the Bayside Groundwater Facility to augment its water supply during drought periods. However, additional supplemental supplies beyond those provided through these facilities will still be needed, as noted above. Chapter 2 of the 2010 UWMP describes potential supplemental water supply projects that could be implemented to meet projected long-term water demands during multi-year drought periods.

The Freeport Regional Water Facility became operational in February 2011. EBMUD's ability to take delivery of water through the Freeport facility is based on its Long Term Renewal Contract (LTRC) with the U.S. Bureau of Reclamation. The LTRC provides for up to 133,000 acre-feet in a single dry-year, not to exceed a total of 165,000 acre-feet in three consecutive dry years. Under

the LTRC, the CVP supply is available to EBMUD only in dry years when EBMUD's total stored water supply is forecast to be below 500,000 total acre feet on September 30 of each year.

Construction of the Bayside Groundwater Project, Phase 1, was completed in 2010. A permit from the Department of Public Health, which is pending, is required before the groundwater can be extracted and treated for municipal use. The project is designed to yield 2 mgd over a 6-month period, resulting in an average annual production capacity of 1 mgd per year.

Chapter 2 of the 2010 UWMP also lists other potential supplemental water projects, including northern California water transfers, Bayside Groundwater Project Expansion, Los Vaqueros Expansion and others that could be implemented as necessary to meet the projected long-term water supplemental need during multi-year drought periods. The 2010 UWMP identifies a broad mix of projects, with inherent scalability and the ability to adjust implementation schedules for a particular component, so that EBMUD will be able to continue to pursue the additional supplemental supplies that are projected to be necessary, while also minimizing the risks associated with future uncertainties such as project implementation challenges and global climate change. The Environmental Impact Report that EBMUD certified for the Water Supply Management Program 2040 examined the impacts of pursuing these supplemental supply projects at a program level. Separate project-level environmental documentation will be prepared, as appropriate, for specific components as they are developed in further detail and implemented in accordance with EBMUD's water supply needs.

In addition to pursuing supplemental water supply sources, EBMUD also maximizes resources through continuous improvements in the delivery and transmission of available water supplies, and investments in ensuring the safety of its existing water supply facilities. These programs, along with emergency interties and planned water recycling and conservation efforts, would ensure a reliable water supply to meet projected demands for current and future EBMUD customers within the current service area.

Individual developments within the project area may present opportunities to incorporate water conservation measures. EBMUD requests that the City include in its conditions of approval a requirement that the project sponsors comply with the California Model Water Efficient Landscape Ordinance (Division 2, Title 23, California Code of Regulations, Chapter 2.7, Sections 490 through 495). EBMUD staff would appreciate the opportunity to meet with the project sponsor to discuss water conservation programs and best management practices applicable to the integrated projects. A key objective of this discussion will be to explore timely opportunities to expand water conservation via early consideration of EBMUD's conservation programs and best management practices applicable to the project.

The Area Specific Plan is located within EBMUD's San Leandro Recycled Water Project serving Alameda's Golf Courses and other sites. The size and nature of the proposed development will present several opportunities for the use of recycled water for landscape irrigation, commercial and industrial process uses, toilet and urinal flushing in sports arenas and

Devan Reiff, Planner III
January 28, 2014
Page 6

other applications. As part of the long term water supply planning, EBMUD will investigate expanding the existing recycled water infrastructure or constructing a localized satellite facility that treats onsite wastewater to provide recycled water to the project. The existing San Leandro Recycled Water Project could potentially expand in the future should the treatment level be upgraded to a tertiary level and if additional distribution pipelines are extended towards the project's area. EBMUD recommends that the City and their developers maintain continued coordination and consultation with EBMUD as they plan and implement the various projects as identified within the Area Specific Plan regarding the feasibility of providing recycled water for appropriate non-potable uses.

The project sponsor should contact David J. Rehnstrom, Senior Civil Engineer, at (510) 287-1365 for further information.

Sincerely,

William R. Kirkpatrick
Manager of Water Distribution Planning Division

WRK:KSG:sb
sb13_277a

Enclosures: 1. Letter of Request for Water Supply Assessment dated November 7, 2013
2. EBMUD 2010 Urban Water Management Plan
3. EBMUD Demand and Supply Projections Table

cc: Board of Directors w/o Enclosure 2

CITY OF OAKLAND



DALZIEL BUILDING • 250 FRANK H. OGAWA PLAZA, SUITE 3315 • OAKLAND, CALIFORNIA 94612-2032

Department of Planning, Building and Neighborhood Preservation
 Planning & Zoning Services Division

(510) 238-3941
 FAX (510) 238-6538
 TDD (510) 238-3254

November 7, 2013

Mr. David Rehnstrom
 East Bay Municipal Utility District
 Water Distribution Planning Division
 375 11th Street, MS 701
 Oakland, CA 94607

RECEIVED
 NOV 13 2013
 WATER SERVICE PLANNING

Re: Request for Water Supply Assessment for the Proposed Oakland Coliseum Area Specific Plan

Dear Mr. Rehnstrom:

Pursuant to Section 10910 and 10912 of the California Water Code implemented by Senate Bill 610, the City of Oakland is submitting this request to EBMUD for a Water Supply Assessment (WSA). The assessment is required in order to determine whether adequate water supply is available to meet the projected water demand of the proposed Oakland Coliseum Area Specific Plan. A Notice of Preparation (NOP) for an Environment Impact Report (EIR) was sent to you on April 19, 2013.

The proposed Oakland Coliseum Specific Plan would provide for up to three new sport venues (totaling approximately 130,000 seats), approximately 5,750 net new housing units and 7,900,000 square feet of net new non-residential space within the Planning Area. This development would result in an estimated +/-10,400 new residents and roughly 20,000 new jobs. Although development facilitated by the Specific Plan would occur incrementally over many years, the EIR conservatively assumes that all of this projected growth would occur by 2035. The attached Notice of Preparation contains more detailed existing land use information, build-out projections by land use type, and associated population and employment estimates. To aid in the assessment, proposed water demand for the Plan Area has been estimated. An electronic file of the proposed demands will be provided for your use.

The City respectfully requests that EBMUD prepare a Water Supply Assessment for the project. The City acknowledges that this request for a Water Supply Assessment is a required part of the environmental documentation for the project. We appreciate your prompt response to this request.

Please contact me at (510) 238-3550 or at dreiff@oaklandnet.com, or the City's planning and environmental consultant, Scott Gregory at Lamphier-Gregory at (510) 535-6690, if you require additional information in regard to this request. Thank you for your cooperation in this matter.

Sincerely,

Devan Reiff, AICP
 Planner III

Attachments:

Notice of Preparation (April 19, 2013)

Coliseum Area Specific Plan -- WSA Support

Proposed Water Demand -- Sub Areas A, AA, B, C, D, and E

22-Oct-13

| Projected Water Demand Summary | | | | | |
|-------------------------------------|-----------------------|------------------------|--|--------------------------------|--------------------------------|
| Land Use ¹ | Quantity ¹ | Units | Water Demand Factor ³ (gal/unit/day) | Water Demand (gallons/year) | Water Demand (acre ft/year) |
| NFL Football | 1,715,000 | Seat Days ² | 3.0 | 5,145,000 | 15.8 |
| MLB Ball Park | 2,025,000 | Seat Days | 3.0 | 6,075,000 | 18.6 |
| NBA Arena | 1,505,500 | Seat Days | 3.0 | 4,516,500 | 13.9 |
| Office | 1,067,573 | SF | 0.17 | 47,368,214 | 145.4 |
| Science & Tech | 4,714,780 | SF | 0.17 | 209,194,789 | 642.0 |
| Science & Tech Industrial Support | 4,658,321 | SF | 0.17 | 206,689,703 | 634.3 |
| Light Industrial Support | 26,300 | SF | 0.088 | 604,058 | 1.9 |
| Airport-related Warehouse/Logistics | 1,142,213 | SF | 0.03 | 8,943,528 | 27.4 |
| Government/Utility | 4,000 | SF | 0.05 | 52,200 | 0.2 |
| Government/Transp | 12,900 | SF | 0.05 | 168,345 | 0.5 |
| Institutional | 0 | SF | 0.17 | 0 | 0.0 |
| Auto-Related | 209,500 | SF | 0.17 | 9,295,515 | 28.5 |
| Hotel | 1,383 | Rooms | 300 | 151,438,500 | 464.7 |
| Retail/Restaurant | 731,884 | SF | 0.11 | 29,385,143 | 90.2 |
| Residential | 5,750 | DU | 190 | 398,762,500 | 1,223.8 |
| Parking spaces ⁵ | 26,939 | Spaces | 0 | 0 | 0.0 |
| Irrigation ⁴ | 3,163,253 | SF | 0.06 | 46,120,224 | 141.5 |
| TOTAL | | | | 1,173,760,000 | 3,448.7 |

Notes:

- 1 Land Use designations and quantities are based on the upper limit values provided in the "Updated COL Area Development Program Summary 10-02-13" workbook. Irrigation quantities based on landscaping shown in the conceptual plan.
- 2 "Seat Days" represent units of single event attendance at the specified sports venue. Attendance quantities (projected attendance and number of days during the year) are based on "Stadium Revenue Buildup Scenario 7" provided by the City of Oakland, August 29, 2013.
- 3 Demand Factors are based on industry standards, comparable studies provided by EBMUD, and information contained in the 49er Stadium DEIR.
- 4 Irrigation quantities assumes: 30' landscaped buffers around open space and creek restoration areas, park areas as shown on the master plan, 4% of impervious areas for stormwater treatment, and required landscape for parking and roadways. Water demand assumes 21 gal/SF/year based on "Guidelines for Estimating Unmetered Landscaping Water Use" by FEMP, July 2010, and industry standards for Oakland area.
- 5 Parking water demands are included in the irrigation section and are associated with SF of parking, not number of spaces.

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WATER SERVICE PLANNING

EAST BAY MUNICIPAL UTILITY DISTRICT DEMAND AND SUPPLY PROJECTION

(Reference: Table 4-3, UWMP 2010 – EBMUD)

| | 2010 | 2015 | 2020 | 2025 | 2030 | 2035 ¹ | 2040 |
|--|------|------|------|------|------|-------------------|------|
| PROJECTED DEMAND (MGD) | | | | | | | |
| CUSTOMER DEMAND ² | 251 | 266 | 280 | 291 | 304 | 308 | 312 |
| ADJUSTED FOR CUMULATIVE CONSERVATION ³ | (26) | (32) | (43) | (49) | (56) | (59) | (62) |
| ADJUSTED FOR RECYCLED WATER ⁴ | (9) | (11) | (16) | (18) | (19) | (20) | (20) |
| PLANNING LEVEL OF DEMAND | 216 | 223 | 221 | 224 | 229 | 229 | 230 |
| PROJECTED AVAILABLE SUPPLY AND NEED FOR SUPPLEMENTAL SUPPLY (MGD)⁵ | | | | | | | |
| NORMAL YEAR | >216 | >223 | >221 | >224 | >229 | >229 | >230 |
| SUPPLEMENTAL SUPPLY NEED | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SINGLE DRY YEAR (MULTIPLE DRY YEARS – YEAR 1) | | | | | | | |
| AVAILABLE SUPPLY | 211 | 217 | 215 | 218 | 223 | 222 | 222 |
| CUSTOMER RATIONING ⁶ | 2% | 3% | 3% | 3% | 3% | 3% | 4% |
| SUPPLEMENTAL SUPPLY NEED ⁷ | 5 | 6 | 6 | 7 | 7 | 8 | 8 |
| MULTIPLE DRY YEARS – YEAR 2 | | | | | | | |
| AVAILABLE SUPPLY | 183 | 189 | 188 | 190 | 194 | 194 | 195 |
| CUSTOMER RATIONING ⁶ | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| SUPPLEMENTAL SUPPLY NEED ⁷ | 21 | 21 | 21 | 21 | 22 | 22 | 22 |
| MULTIPLE DRY YEARS – YEAR 3 | | | | | | | |
| AVAILABLE SUPPLY | 183 | 189 | 188 | 190 | 183 | 164 | 144 |
| CUSTOMER RATIONING ⁶ | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| SUPPLEMENTAL SUPPLY NEED ⁷ | 21 | 21 | 21 | 21 | 33 | 53 | 73 |
| THREE-YEAR DROUGHT | | | | | | | |
| TOTAL SUPPLEMENTAL SUPPLY NEED (TAF) ⁷ | 53 | 54 | 54 | 55 | 69 | 93 | 115 |

¹ Projected demand for 2035 is interpolated.

² Customer demand values are based on the demand projections from the "2040 Demand Study," Feb 2009. These projected water demands are based on land use in EBMUD's ultimate service area and is unadjusted for conservation and non-potable water. The values are also unadjusted for the current suppressed demand due to the 2007-2010 rationing period and the economic downturn.

³ Existing conservation saving from the "1994 Water Conservation Master Plan" and planned conservation program savings based on the "2011 Water Conservation Master Plan".

⁴ Existing recycled water achieved per the "1993 Water Supply Management Program" and planned recycled water program savings as outlined in Chapter 5 of the UWMP 2010.

⁵ Projected available supply data includes dry year supply deliveries from the Freeport Regional Water Project (FRWP) and Bayside Groundwater Project, Phase 1. Delivery rules for the FRWP follow the rules as developed in the Freeport EIR, 2003.

⁶ Rationing reduction goals are determined according to projected system storage levels in the Long-Term Drought Management Program guidelines per Table 3-2 in Chapter 3 of the UWMP 2010.

⁷ The supplemental supply need is based on EBMUDSIM modeling studies. It is the amount of water needed based on EBMUD's updated demand projections, the provisions of the 1998 Joint Settlement Agreement and the rationing policy stated in Table 3-2, Chapter 3 of the UWMP 2010. The actual need will be dependent on antecedent conditions and the severity of actual drought conditions. Supplemental supply stored during the initial year of the drought could be later released, diminishing supplemental supply needs. During the drought that continued into 2010, the combined effects of water rationing and an economic downturn suppressed demand below the planning level of demand to maintain a sufficient water supply and deferred the need for supplemental water. However, if the drought had continued into its second year, most likely supplemental supplies would have been obtained from the Freeport Regional Water facility as anticipated in the Interim Drought Management Program Guidelines discussed in Appendix G-2.



AGENDA NO. 6

MEETING DATE January 28, 2014

TITLE AMEND MOTION 010-14 AUTHORIZING A CUSTOMER RESEARCH AGREEMENT TO CORRECTLY STATE THE VENDOR NAME AS EMC RESEARCH, INC.

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Amend Motion 010-14 authorizing an agreement for customer research services to correct an erroneous reference to the vendor by its previous legal name by replacing "Evans/McDonough Company, Inc." with "EMC Research, Inc."

DISCUSSION

On January 14, 2014, the Board of Directors authorized staff to execute an agreement with Evans/McDonough, Inc., a company that has performed customer surveys for the District in the past. The new agreement authorized the performance of customer research during the period January 14, 2014 through December 30, 2016. Evans/McDonough legally changed its name to EMC Research, Inc. (EMC) and while EMC is the same legal entity as Evans/McDonough, Inc. the company no longer uses its prior name.

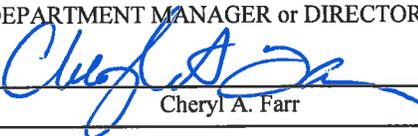
Because the BD-1 and agenda referred to EMC by its prior name, "Evans/McDonough Company Inc.", and because the record of Motion 010-14 in the January 14, 2014 action summary reflects the use of the prior name, it is recommended that the Board amend Motion 010-14 to replace "Evans/McDonough, Inc." with "EMC Research, Inc." No other modification is requested.

FISCAL IMPACT

There is no fiscal impact in making this change.

CONTRACT EQUITY EFFORTS

The information in the existing Contract Equity Program documentation is accurate and there is no effect on the Contract Equity Program efforts.

| | | |
|--|--|---|
| Funds Available FY14 | | |
| DEPARTMENT SUBMITTING: <u>Office of the General Manager</u> | DEPARTMENT MANAGER or DIRECTOR:  Cheryl A. Farr | APPROVED:  General Manager |

Contact the Office of the District Secretary with questions about completing or submitting this form.



AGENDA NO. 7
 MEETING DATE January 28, 2014

TITLE AUTHORIZE CONTINUED EMPLOYMENT OF TRUCKER HUSS FOR SPECIALIZED LEGAL SERVICES

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Authorize the Office of General Counsel to continue the employment of the law firm of Trucker Huss for specialized legal services related to employee benefit plans, deferred compensation plans, related tax advice and litigation in an amount not to exceed \$80,000.

DISCUSSION

The firm of Trucker Huss has been retained to assist the Office of General Counsel in employee benefit plans, deferred compensation plans, related tax advice and litigation matters. The Office of General Counsel is now requesting authorization for additional funds for services described in a separate confidential memorandum to the Board of Directors.

CONTRACT EQUITY PROGRAM EFFORTS

The completed P-035 and P-061 forms are attached.

FISCAL IMPACT

Sufficient monies have been budgeted in FY 2014 for this request for specialized legal assistance.

Attachments

| | | |
|---|---|--|
| Funds Available: FY 2014 | | Budget Code: WSO 130 8511 5231 |
| DEPARTMENT SUBMITTING <u>Office of General Counsel</u> | DEPARTMENT MANAGER or DIRECTOR  Jylana Collins | APPROVED  General Manager |

Contact the Office of the District Secretary with questions about completing or submitting this form.



CONTRACT EQUITY PROGRAM SUMMARY (P-035)

This summary contains information on the contractor's workforce and contract equity participation. (Completed by District)

| | |
|---|---|
| TITLE <i>Amendment to Professional Services Agreement</i> Authorize Continued Employment of Trucker Huss for Special Legal Services | DATE: <p style="text-align: center; font-size: 1.2em;">January 15, 2014</p> |
|---|---|

| CONTRACTOR: | | PERCENTAGE OF CONTRACT DOLLARS | | | |
|--|------------------|--------------------------------|--------------------|------------------------|---------------|
| Trucker Huss, APC San Francisco, CA | | Sole Source | Availability Group | Contracting Objectives | Participation |
| BID/PROPOSER'S PRICE: | FIRM'S OWNERSHIP | | White Men | 25% | 100.0% |
| \$80,000 | Ethnicity | Gender | White Women | 6% | 0.0% |
| | White | Men | Ethnic Minorities | 25% | 0.0% |

| CONTRACT EQUITY PARTICIPATION | | | | | | | | | | | |
|------------------------------------|------------------|-----------|--------|---|---------------------------|-------------|-------------------|--------------|---------------------|------------------|---------|
| COMPANY NAME | ESTIMATED AMOUNT | ETHNICITY | GENDER | | CONTRACTING PARTICIPATION | | | | | | |
| | | | M | F | White-Men | White-Women | Ethnic Minorities | Unclassified | Publicly Held Corp. | Gov't/Non Profit | Foreign |
| PRIME: Trucker Huss, APC | \$80,000 | White | | | 100.0% | --- | --- | --- | --- | --- | --- |
| SUBS: None | | | | | --- | --- | --- | --- | --- | --- | --- |
| TOTAL | \$80,000 | | | | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

| CONTRACTOR'S WORKFORCES PROFILE (From P-025 Form) | | | | |
|---|---------------|-------------|-------------------|-----------------|
| | White Men | White Women | Ethnic Minorities | Total Employees |
| No. of Employees: | 24 | 14 | 15 | 53 |
| Percent of Total Employees: | 45.3% | 26.4% | 28.3% | |
| MSA Labor Market %: | 30.8% | 25.1% | 44.0% | |
| MSA Labor Market Location: | San Francisco | | | |

COMMENTS

Contract Equity Participation - 100% White Men Participation.

| | | |
|---|--|-----------------------------------|
| Workforce Profile & Statement of Nondiscrimination Submitted | Good Faith Outreach Efforts Requirement Satisfied | Award Approval Recommended |
| NA | NA | |



AFFIRMATIVE ACTION SUMMARY (P-061)

(Completed by District)

This summarizes information provided by the contractor(s)' P-025 Form regarding their workforce.

| Title: | | Ethnic Minority Percentages From U.S. Census Data | | | | | | | | |
|---|--------------------------|---|-----------------------|--------------------------------------|-----------------------|-----------|---------|-----------|-------|--|
| | | B | H | A/PI | AI/AN | TOTAL | | | | |
| Authorize Continued Employment of Trucker Huss for Special Legal Services | | National | | 10.5 | 10.7 | 3.7 | 0.7 | 27.3 | | |
| | | 9 Bay Area Counties | | 5.5 | 16.2 | 14.2 | 0.4 | 39.9 | | |
| | | Alameda/CC Counties | | 10.7 | 15.6 | 15.4 | 0.5 | 46.2 | | |
| Professional Services Agreement | DATE: | Number of Ethnic Minority Employees | | | | | | | | |
| R=Recmmd P=Prime S=Sub | Composition of Ownership | | | | | | | | | |
| Company Name, Owner/Contact Person, Address, and Phone Number | | B | H | A/PI | AI/AN | TOTAL | PERCENT | MSA % | | |
| RP | WM | | | | | | | | | |
| Trucker Huss, APC Clarissa A. Kang One Embarcadero Center, 12th Floor San Francisco, CA 94111-3628 415-788-3111 | | Company Wide | 7 | 1 | 12 | - | 20 | 37.7% | 44.0% | |
| | | Manager/Prof | 2 | - | 5 | - | 7 | 19.4% | | |
| | | Technical/Sales | - | - | - | - | - | NA | | |
| | | Clerical/Skilled | 5 | 1 | 1 | - | 7 | 700.0% | | |
| | | Semi/Unskilled | - | - | 6 | - | - | NA | | |
| | | Bay Area | 7 | 1 | 12 | - | 20 | 38.5% | 39.9% | |
| | | AA Plan on File: | NA | Date of last contract with District: | | 8/19/2010 | | | | |
| | | Co. Wide MSA: | San Francisco | | # Employees-Co. Wide: | | 53 | Bay Area: | 52 | |
| | | Company Wide | | | | | | | | |
| | | Manager/Prof | | | | | | | | |
| Technical/Sales | | | | | | | | | | |
| Clerical/Skilled | | | | | | | | | | |
| Semi/Unskilled | | | | | | | | | | |
| Bay Area | | | | | | | | 39.9% | | |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | Bay Area: | | | | |
| Company Wide | | | | | | | | | | |
| Manager/Prof | | | | | | | | | | |
| Technical/Sales | | | | | | | | | | |
| Clerical/Skilled | | | | | | | | | | |
| Semi/Unskilled | | | | | | | | | | |
| Bay Area | | | | | | | | 39.9% | | |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | Bay Area: | | | | |
| Company Wide | | | | | | | | | | |
| Manager/Prof | | | | | | | | | | |
| Technical/Sales | | | | | | | | | | |
| Clerical/Skilled | | | | | | | | | | |
| Semi/Unskilled | | | | | | | | | | |
| Bay Area | | | | | | | | 39.9% | | |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | Bay Area: | | | | |
| Company Wide | | | | | | | | | | |
| Manager/Prof | | | | | | | | | | |
| Technical/Sales | | | | | | | | | | |
| Clerical/Skilled | | | | | | | | | | |
| Semi/Unskilled | | | | | | | | | | |
| Bay Area | | | | | | | | 39.9% | | |
| Co. Wide MSA: | | | # Employees-Co. Wide: | | | Bay Area: | | | | |

WM=White Male, WW=White Women, EM=Ethnic Minority (Ethnicities: B=Black, H=Hispanic, A/PI=Asian/Pacific Islander, and AI/AN=American Indian/Alaskan Native)



AGENDA NO. 8

MEETING DATE January 28, 2014

TITLE APPOINTMENT OF RACHEL JONES TO THE POSITION OF ASSISTANT ATTORNEY

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Appoint Rachel Jones to the position of Assistant Attorney of the District with the title of Attorney II effective February 10, 2014.

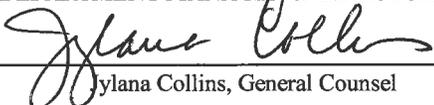
DISCUSSION

Rachel Jones is recommended for appointment as Assistant Attorney of the District with the title of Attorney II to be effective February 10, 2014. This appointment will fill an existing position in the Office of General Counsel that became vacant in July 2013 when Karen Donovan left the District for a position with the Bureau of Reclamation in Washington D.C.

Ms. Jones received her law degree with a certificate in environmental law from the University of California, Berkeley School of Law, Boalt Hall. She also has a Bachelor's Degree in Natural Resources Management and a Master's Degree in Wildlife Biology. Prior to entering law school, Ms. Jones worked as a Park Ranger, Fish and Wildlife Technician, and Wildlife Biologist for the U.S. Fish and Wildlife Service and the Alaska Department of Fish and Game, and was a Research Associate with the University of Alaska Fairbanks, Institute of Arctic Biology. Following law school, Ms. Jones clerked for the Honorable Gregory J. Hobbs, Jr., on the Colorado Supreme Court and then worked as an Associate Attorney for the law firm of Cox, Castle and Nicholson in San Francisco in its land use and natural resources group, where a primary focus of her practice has been assisting clients with the preparation and review of NEPA and CEQA environmental projects. As an attorney, she has also worked on a wide range of legal issues in the environmental and natural resources area as well as in various areas of municipal law.

Ms. Jones' legal training in environmental and natural resources law, combined with a demonstrated interest in public agency law, make her an excellent candidate for the position of Attorney II.

Attachment

| | | | |
|----------------------------------|--|--------------|--|
| Funds Available FY: | | Budget Code: | |
| DEPARTMENT SUBMITTING: | DEPARTMENT MANAGER or DIRECTOR: | | APPROVED: |
| <u>Office of General Counsel</u> |  Jylana Collins, General Counsel | |  General Manager |

Contact the Office of the District Secretary with questions about completing or submitting this form.

RESOLUTION NO. _____

APPOINTING RACHEL R. JONES TO THE POSITION OF
ASSISTANT ATTORNEY OF THE DISTRICT
WITH THE TITLE OF ATTORNEY II

Introduced by Director _____ ; Seconded by Director _____

WHEREAS, the Board of Directors has heretofore established the position of Assistant Attorney of the District with the title of Attorney II and said position has been assigned a salary range under the Management Salary Plan heretofore established for District officers, assistant officers, civil service exempt and certain civil service classes;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of East Bay Municipal Utility District that Rachel R. Jones is hereby appointed to the position of Assistant Attorney of the District with the title of Attorney II, effective February 10, 2014.

ADOPTED this 28th day of January, 2014 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

President

ATTEST:

Secretary

APPROVED AS TO FORM AND PROCEDURE:

General Counsel



AGENDA NO. 9.1 & 9.2
 MEETING DATE January 28, 2014

TITLE DODD-FRANK PROTOCOL AMENDMENT OF THE INTEREST RATE SWAP POLICY, AND REVIEW OF THE ANNUAL SWAP REPORT

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Adopt a resolution (i) authorizing the District to adhere to the Dodd-Frank (DF) March 2013 Protocol and any subsequent protocols required to facilitate the amendment, novation or termination (full or partial) of the District's existing swap agreements, (ii) approving an amendment to the Interest Rate Swap Policy 4.23 to provide for compliance with policies and reporting requirements specified in the DF Protocol, including the August 2012 Protocol, the March 2013 Protocol and any subsequent protocols and similar agreements to be adhered to by the District and (iii) accepting the annual report for the District's swap portfolio.

SUMMARY

The District's Interest Rate Swap Policy 4.23 addresses the implementation and ongoing monitoring of swap transactions. The Board amended the policy on April 23, 2013 as a result of new regulations governing the derivatives market. Additional regulations continue to be promulgated. The Board is being asked to amend Policy 4.23 to comply with the most recent new regulation, as well as to allow for compliance on an ongoing basis, as discussed below. Policy 4.23 also calls for annual reporting to the Board on the status of all outstanding swaps and compliance with the policy. The attached report demonstrates that the District is in compliance with the policy, as discussed below.

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") imposed new regulations governing the derivatives markets. The Securities and Exchange Commission and the Commodity Futures Trading Commission have issued proposed and final rules to implement Title VII of the Dodd-Frank Act, many of which have taken effect this year. The rules most relevant to the District focus primarily on "external business conduct" by swap dealers. These rules govern a swap dealer's duty to determine suitability of their swap recommendations to a counterparty, impose heightened suitability requirements for counterparties like the District, and provide swap dealers a safe harbor from the requirements under certain circumstances. In addition, the rules impose certain swap reporting requirements on

| | | |
|-----------------------|--|--|
| Funds Available FY: | | Budget Code: |
| DEPARTMENT SUBMITTING | DEPARTMENT MANAGER or DIRECTOR | APPROVED |
| Finance Department |  Eric L. Sandler |  General Manager |

Contact the Office of the District Secretary with questions about completing or submitting this form.

swap dealers and require, subject to certain exceptions, that “standard” swaps be cleared by approved Derivatives Clearing Organizations.

In response to the Dodd-Frank Act, the International Swaps and Derivatives Association, Inc. (“ISDA”) published the ISDA August 2012 DF Protocol (the “August 2012 Protocol”). ISDA represents the interests of swap dealers and the August 2012 Protocol is intended to assist swap dealers with meeting their safe harbor requirements. As authorized by the Board on April 23, 2013, the District has completed the necessary filing and is currently in compliance with the requirements of the ISDA August 2012 DF Protocol.

Subsequent to the August 2012 Protocol, ISDA initiated a second protocol initiative, commonly referred to as the March 2013 Protocol, which is intended to formalize swap valuation and reporting delivery and verification requirements by swap dealers and their counterparties as well as provide for certain non-dealer end-users such as the District to elect not to have existing swaps transferred to a Derivatives Clearing Organization. In order to allow our swap counterparties to continue to work with us, the District must comply with the DF Protocols. Therefore, staff recommends that the Board authorize the District’s adherence to the March 2013 Protocol and approve an amendment to the District’s Interest Rate Swap Policy 4.23. The proposed amendment to the Swap Policy allows for compliance with current and future protocols and similar amendments in order to enable the District to satisfy ISDA requirements and to facilitate compliance with Dodd-Frank Act swap regulations.

Also included, consistent with the requirements of Policy 4.23, is a report prepared by the District’s financial advisor regarding the mark-to-market and the aggregate peak termination value or “peak exposure” for each of the twelve interest rate swaps included in the District’s swap portfolio. The financial advisor reports that the District’s swap portfolio continues to be in full compliance with the policy. A presentation on this topic was provided to the Finance/Administration Committee on January 28, 2014.

DISCUSSION

District swap counsel has informed the District’s financial advisor that it is unlikely existing swap counterparties will enter into any type of swap transaction with the District (including the amendment, novation or termination, full or partial, of existing swap transactions) unless the District first adheres to the March 2013 Protocol. In order for the District to be positioned to engage in full or partial swap terminations without delay, staff recommends that the Board authorize the General Manager or the Director of Finance (or a duly authorized designee of the General Manager) to adhere to the March 2013 Protocol and any subsequent protocols and similar agreements.

Also attached is a report from the District's financial advisor that shows the status of all the District's outstanding swap agreements. The District's current swap portfolio consists of twelve swaps totaling \$559.21 million in notional amount. As of December 31, 2013, the mark-to-market value of the portfolio is approximately negative \$71.35 million. The negative \$71.35 million means that the District would have to pay its swap counterparties approximately that amount to terminate its entire interest rate swap portfolio. This is an improvement over the negative \$129.4 million as of December 31, 2012. The improvement results from the fact that interest rates have risen over the past year and swap mark-to-market valuations move in the District's favor with rising interest rates. As more fully disclosed in the attached report, the aggregate peak termination value of the Water System swaps (\$136.5 million) and the aggregate peak termination value of the Wastewater System swaps (\$27.6 million) are well within Swap Policy limits, which are equal to 20 percent of total outstanding debt of each System.

Because of the District's high credit ratings, the District was able to negotiate high collateral thresholds and currently does not have to post collateral for any of its swaps in spite of the negative mark-to-market values. In addition, the District has set up a weekly credit monitoring process to actively manage its credit exposure to counterparties and financial institutions. The weekly credit monitoring process enables the District to quickly assess and respond to any credit events that might trigger swap terminations or changes in collateral posting thresholds. Our swap counterparties are all rated investment grade by both Moody's Investors Service and Standard & Poor's.

FISCAL IMPACT

The policy changes have no fiscal impact.

ALTERNATIVE

Do not update this policy. This alternative is not recommended because the District would not be able to assure swap dealers that their communications and transactions with the District would fall within the relevant Dodd-Frank regulatory safe harbors, which may cause delays in future amendments or terminations of the District's existing swaps.

Attachments

1. Interest Rate Swap Policy 4.23R
2. Interest Rate Swap Annual Review –December 31, 2013 from Montague DeRose and Associates



Policy 4.23R

EFFECTIVE ~~01 MAY 13~~
28 JAN 14

SUPERSEDES ~~27 SEP 11~~
01 MAY 13

INTEREST RATE SWAP POLICY

IT IS THE POLICY OF THE EAST BAY MUNICIPAL UTILITY DISTRICT TO:

Use swaps, caps, floors, collars, options and other derivative financial products (collectively referred to herein as "swaps") in conjunction with the District's management of its assets and liabilities. This policy is intended to serve as a source of information and guidance on the implementation and ongoing monitoring of swaps for the District and the rating agencies, as well as the general public and financial institutions wishing to do business with the District. See Glossary of Terms at the end of the policy.

Scope This policy describes the circumstances and methods by which swaps will be used, the guidelines to be employed when swaps are used, and the responsibilities of the Finance Director in carrying out these policies. This policy applies to swaps entered into after April 10, 2007.

Authority The District's legal authority for using swaps is based on Section 12875 of the Municipal Utility District Act of the State of California and the California Government Code Section 5922. Under this authority, the District may enter into swaps in connection with, or incidental to, the issuance or carrying of bonds or the acquisition or carrying of any investment or program of investment. In order to enter into swaps, the Board of Directors must determine that the swaps are designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk, result in a lower cost of borrowing, or that the swaps enhance the relationship between risk and return of the District's investments.

Upon entering into any swap transaction, the District shall receive an opinion acceptable to it from counsel to the effect that the District has the power and authority to execute the agreements relative to the swap, that the agreements are legal, valid and binding obligations of the District, and that they and their execution and delivery are not inconsistent with applicable laws.

Considerations The District shall consider entering into swaps based on the following analysis:

- (i) The appropriateness of the transaction for the District based on the balance of risks and rewards presented by the proposed transaction, including a detailed description of the transactional structure, a description of the risks it presents, and risk mitigation measures, where applicable;
- (ii) The legal framework for the transaction within the context of California statutes, Board authorization, and relevant indenture and contractual requirements (including those contained in credit agreements), as well as any implications of the transaction under federal tax regulations;
- (iii) The potential effects that the transaction may have on the credit ratings of any District obligations assigned by the rating agencies;
- (iv) The potential impact of the transaction on any areas where the District's capacity may be constrained, now or in the future, including the availability of credit facilities such as bank liquidity facilities, letters of credit, and bond insurance;

- (v) The impact on the District's policy limitation on variable rate exposure, taking into account the degree of variability in the District's net debt service payments that may be caused by basis risk, and specifically, by the form of basis risk known as tax risk (i.e., when a taxable index like LIBOR is used to hedge underlying tax-exempt floating rate debt);
- (vi) The ability of the District and its professional staff to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements; and
- (vii) Other implications of the proposed transaction as warranted.

Approval to enter into a swap will be subject to appropriate legal authorization from the Board of Directors. The swap authorization will authorize the swap and its provisions, and establish authorized parameters for notional amount, swap maturity, source of payments, minimum or maximum rate as applicable and other relevant provisions. The swap authorization will specify the District officials, to whom authority is delegated to enter into, monitor and administer the swap, and the parameters within which their delegated authority may function. In the event of a conflict between a swap authorization and this Interest Rate Swap Policy, the terms and conditions of the swap authorization will govern.

Permitted Uses

Because of the effects of continual innovation in the financial markets, this Interest Rate Swap Policy recognizes that the reasons for use of swaps may change over time, taking advantage of market developments as they evolve and are tested. Among the strategies which the District may consider in applying swaps are:

- (i) Managing the District's exposure to floating and fixed interest rates, through interest rate swaps, caps, floors, collars, and other option products;
- (ii) Hedging variable rate risk with caps, collars, basis swaps, and other instruments;
- (iii) Locking in fixed rates in current markets for use at a later date through the use of forward swaps, swaptions, rate locks, options, and forward delivery products;
- (iv) Reducing the cost of fixed or variable rate debt, through swaps and related products to create a "synthetic" fixed or variable rate debt;
- (v) More rapidly accessing the capital markets than may be possible with conventional debt instruments;
- (vi) Managing the District's exposure to the risk of changes in the legal and regulatory treatment of tax-exempt bonds, including changes in federal marginal tax rates and other changes in tax laws that may affect the value of tax-exempt bonds relative to other investment alternatives;
- (vii) Managing other forms of interest rate and basis risk, such as the performance of its obligations under various interest rate environments;
- (viii) Managing the District's credit exposure to financial institutions and other entities through the use of offsetting swaps and other credit management products; and
- (ix) Other applications to enable the District to increase income, lower costs, or strengthen the District's balance sheet.

When a swap is being used in connection with a refunding rather than a new-money bond issue in order to produce savings, as a general rule the level of savings should exceed the District's fixed rate refunding savings target for conventional debt. The analysis of savings should take into account the presence or absence of call options and advance refunding restrictions on both the bonds and the swap. When a swap is used in connection with a new-money financing, a similar analysis may be used, comparing the savings produced through use of a swap with a hypothetical conventional fixed rate financing.

Swap exposure will not be measured only on its "notional" or stated amount, but will also be measured based on the amount of actual existing and potential exposure to payments required to be made by the District in the event of a termination. Maximum potential exposure, also referred to as "peak exposure," will be determined by a standard quantitative measurement that reflects the size, term, and projected volatility of the swaps¹. Exposure measurement will take into account offsetting swaps. The maximum potential exposure of all District swaps should be no more than 20% of outstanding debt for each enterprise i.e., Water system bonds and Wastewater system bonds. The District will also regularly evaluate its exposure to tax risk based on current legislative, regulatory and market developments.

While the District may use swaps to increase or decrease the amount of variable rate exposure on the District's balance sheet, the District will not enter into swaps under any of the following circumstances:

- The swap will expose the District to extraordinary leverage or risk;
- The swap serves a purely speculative purpose, such as entering into a swap for the sole purpose of trading gains;
- The District is unable to reasonably anticipate that it will have sufficient liquidity or financing capacity to terminate the swap at market rates, if it should need to;
- There is insufficient pricing data available to allow the District and its advisors to adequately value the swap.

**Counterparty
Credit Standards**

Unlike conventional debt instruments, swap products can create for the District a continuing exposure to the creditworthiness of financial institutions that serve as the District's counterparties on swap transactions. To protect the District's interests in the event of a counterparty credit problem, swaps entered into by the District will adhere to the following standards:

¹ Peak exposure (also referred to as "value at risk") provides a quantification of the District's reasonable "worst case" swap exposure, i.e. the risk to the District in the event of a swap termination. It is calculated by applying stress tests to the District's swaps to show how large the potential termination cost of the swaps could be if markets moved in an extremely adverse manner. Market movements are typically calculated assuming two standard deviation changes in interest rates, based on historic and/or implied volatilities, to provide a better than 95% degree of confidence or an instantaneous 200 basis point change in rates as used by Standard & Poor's in its Derivative Debt Policy ratings. Note that an instantaneous 200 basis point change generally encompassed the extreme market moves observed over three month periods during the 2008/2009 credit crisis.

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- (i) **Use of highly rated counterparties:** Standards of creditworthiness, as measured by credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size, and interest-rate sensitivity of a transaction, types of counterparty, and potential for impact on the District's credit ratings. The District will enter into swaps only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency at the time the swap is entered into. In cases where the counterparty's obligations are rated based on a guarantee or specialized structure to achieve the required credit rating, the District shall thoroughly investigate the nature and legal structure of the guarantee or structure.
- (ii) **Collateralization on downgrade:** If the counterparty's credit rating is downgraded below the double-A rating category, the District shall require that its exposure to the counterparty be reduced by the posting of collateral by the counterparty.
- (iii) **Termination:** If the counterparty's credit is downgraded below an A-level rating, the District may exercise the right to terminate the transaction prior to its scheduled termination date notwithstanding the counterparty's posting of collateral. The District will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the District, and which would allow the District to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the District.
- (iv) **Notice:** The District's swap counterparties will be required to notify the District in the event a credit agency takes negative action with regard to the counterparty's credit rating, including both an actual downgrading of the credit rating as well as the publication of a notice by a rating agency that the counterparty's rating is in jeopardy of a downgrading (i.e., being placed on Standard & Poor's Credit Watch or being assigned a negative outlook by Moody's).
- (v) **Exposure limits:** In order to limit the District's counterparty risk, the District will avoid excessive concentration of exposure to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty will be measured based on the termination value of any swap contracts entered into with the counterparty, as well as such other measurements as the District may deem suitable to measure potential changes in exposure, such as peak exposure. Termination value will be determined at least annually and reported to the Board, based on a current market calculation of the cost of terminating the swap contract given the market conditions on the valuation date. Aggregate swap termination value for each counterparty should take into account netting of offsetting transactions (i.e., fixed-to-floating vs. floating-to-fixed). The District may require counterparties to provide regular current market valuations of swaps they have entered into with the District, and may also seek independent valuations from third-party professionals.

Method of Procurement

The District may choose counterparties for entering into swap contracts on either a negotiated or competitive basis. As a general rule, a competitive selection process is preferred. Negotiated procurement may be used for original or proprietary products, for original ideas of applying a specified product to a District need, or to avoid market-pricing effects that would be detrimental to the District's interests. To provide safeguards on negotiated transactions, the District shall secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to render an opinion that a fair price was obtained. In all transactions, regardless of procurement method, the counterparty shall be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who assisted the counterparty in securing business with the District and all payments made to third parties for the benefit of the District in connection with the swap transaction (such as fees to a broker or other intermediary). In addition, upon request of counsel to the District, the counterparty shall be required to disclose the terms of any "mirror" or "back-up" swap or other hedging relationship entered into by the counterparty in connection with the District's swap.

Documentation Guidelines

The District will use one of the forms of the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement as a framework for swap documentation. The swap agreement between the District and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the District, in consultation with its advisors and legal counsel, deems necessary or desirable.

Subject to the provisions contained herein, the terms of any new District swap agreement shall adhere to the following guidelines:

- (i) Downgrade provisions triggering termination shall be reflective of the relative credit strength of the District in comparison with the swap provider. This comparison should give weight to the prevailing greater credit strength of public sector entities as compared with the credit strength and higher corporate-equivalent ratings assigned to private sector financial institutions. For example, downgrade provisions affecting the District would be triggered at a BBB- level, while downgrade provisions affecting the swap provider would be triggered at an A- level.
- (ii) The District shall minimize or avoid cross default provisions. The specific indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of the District that could have a materially adverse effect on the District's ability to perform its obligations under the swap. Debt shall only include obligations within the same or superior lien as the swap obligation.
- (iii) Collateral thresholds for the swap provider shall be set on a sliding scale reflective of credit ratings². Collateral requirements should be established and based upon the credit ratings of the swap provider or its guarantor. District collateral thresholds, if any, will be negotiated on a transaction-by-transaction basis.

² Collateral thresholds are used to determine the amount of securities that a swap counterparty must post as collateral to secure their potential payment if there were an early termination. The threshold is generally expressed as a specified dollar amount. If the current value of the swap exceeds the dollar amount, the counterparty is required to post collateral equal to the amount of the excess. As counterparty's credit ratings decline, the threshold amount should shrink, requiring collateral posting even for smaller mark-to-market values. If ratings drop far enough, the threshold will fall to zero, meaning the counterparty must post collateral equal to the full amount of the market-to-market value.

- (iv) Eligible collateral shall be limited to cash, Treasuries and obligations of Federal Agencies, excluding interest-only, principal-only, and other complex securities.
- (v) The District shall have the right to optionally terminate a swap agreement "at market" at any time over the term of the agreement. The swap provider shall have no similar right.

The District will agree to ~~comply with~~ adhere to the ISDA August 2012 DF Protocol (the "August 2012 DF Protocol"), the ISDA March 2013 DF Protocol (the "March 2013 Protocol") and any subsequent protocols and similar agreements established in response to Dodd-Frank Act swap regulations subject to such modifications as the officers of the District may deem to be in the best interest of the District, based upon the advice of the District's Financial Advisor or Bond Counsel, in order to facilitate future swap transactions, including the amendment, novation or termination (full or partial) of existing swap transactions. To that end, among other things, the District will comply with the policies and selection procedures for Qualified Independent Representatives specified in the DF Protocol and developed and implemented by District staff.

Risk Management

As a general rule, the District will manage the risks of its swap exposure on a District-wide or "macro" basis, and will evaluate individual transactions within the larger context of their impact across the District. Because of the size and complexity of the assets and liabilities of the District and its established financial systems and controls, the District will manage the risks and rewards of a swap program alongside its overall financial risks and rewards. As part of its risk management process, the District will evaluate the aggregate risk of its swap exposure as measured by value at risk, peak exposure, and/or realistic worst-case scenarios.

Among the risks that the District will monitor, evaluate, and seek to mitigate are the following, listed in the order of greatest potential impact:

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|--------------------|---|--|---|
| Counterparty Risk | The risk of a failure of one of the District's swap providers to perform as required under a swap contract. | The District will evaluate the swap providers' credit ratings and existing exposure on other transactions. | The District will diversify its exposure, impose minimum credit rating standards and require protective documentation provisions. (See above, "Counterparty Credit Standards") |
| Termination Risk | The risk that a swap may be terminated prior to its scheduled maturity due to factors outside the District's control. | The District will review potential causes of early termination, including those resulting from documentation provisions and the likelihood of credit downgrade that could precipitate an early termination. | The District will use protective documentation provisions and will evaluate sources of internal liquidity and market access that could be used in the event a termination payment were required to be made. |
| Interest Rate Risk | The risk that the District's costs associated with variable-rate exposure increase and negatively affects budgets, coverage ratios and cash flow margins. Variable-rate exposure may be created by a swap from fixed to | Prior to taking on interest rate risk, the District will measure its capacity for floating rate exposure, based on policy targets for its mix of fixed and variable rate debt and investments, taking into consideration future variable rate needs. | The District will maintain variable rate exposure within the 25% limitation specified in its Cash Reserves and Debt Management Policy 4.02, and will make selected use of interest rate hedges, like caps and collars, to reduce that risk. In evaluating its variable rate |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|--------------------------|--|---|--|
| | <p>variable, or a swap that otherwise creates some type of variable liability, such as basis risk, tax risk or yield curve risk (described below). The interest rate risk presented by such a swap may be increased as interest rates increase generally, as intra-market relationships change, or because of credit concerns relating to the District or a credit enhancer.</p> | | <p>exposure, the District will consider the residual risks of variable rate debt that is not fully hedged by swaps, such as basis and tax risk.</p> |
| <p>Basis Risk</p> | <p>The risk that the floating rate on the swap fails to offset the variable rate on the associated asset or liability. Because swaps generally include cash flows based on a floating-rate index, the chosen index should correlate with the floating rate on the underlying instrument, but may not match exactly.</p> | <p>The District will measure and review the historic variation between the variable rate index used in the swap and the underlying variable rate instrument it is hedging. In the absence of a sufficient history of underlying instrument, it will use relevant comparable variable rate instruments. The degree of risks should be evaluated in comparison with degree of benefit provided.</p> | <p>The District will analyze historic relationships and consider mitigation techniques as warranted. When used in connection with an advanced refunding, mitigation techniques could include maintaining a cushion between the floating rate index and the expected trading level of the floating rate instrument, creating a reserve to cover potential basis risk mismatches, and including provisions for optional termination.</p> |
| <p>Tax Risk</p> | <p>A common type of basis risk on swaps used in conjunction with floating-rate tax-exempt debt is often referred to as "tax risk", or the risk of a mismatch between the floating rate on the tax-exempt debt and a swap index based on a taxable index like LIBOR. The correlation between the LIBOR-based rate and the floating rate on the debt may change based on changes in tax law, for example, changes in marginal tax rates, or other market events that change the trading pattern between tax-exempt and taxable securities. This risk can also be created by "basis swaps," where-in both parties pay a variable rate, but only one is based on a tax-exempt index.</p> | <p>The District will assess the risk of a significant tax law change that could reduce the benefits of a swap or generate unanticipated losses. Because this assessment requires judgment about future actions by the Federal government, the rewards for taking this risk should be deemed to be significantly greater than the risks, based on a careful assessment.</p> | <p>The District should monitor its tax risk position, including taking steps to reduce tax risk when favorable market opportunities present themselves, limiting tax risk to within acceptable bounds, and considering the use of financial mechanisms to cap tax risk exposure.</p> |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|---------------|--|--|--|
| Yield-curve | Yield curve risk may be present in swaps where a longer-term variable rate is used to hedge a shorter-term variable, creating different potential gain and loss depending on the steepness of the yield curve. This form of swap, often called a "constant maturity swap" to reflect the fact that one party continues to receive payment based on a rolling long-term rate, is considered when the shape of the yield curve is flat, in anticipation of a steepening in the future. | The District policy forbids the use of swaps purely for the purpose of obtaining trading gains. In addition to an examination of historic yield curves and the probability of net positive receipts, the District will also evaluate how the use of this swap fits into its overall risk management goals. For example, yield-curve swaps can help mitigate the underperformance of other structures in certain markets. | The District will identify offsetting transactions that mitigate the effect of continued or renewed flattening of yield curves. Also, the District will consider forward-starting instruments to limit negative cash-flows that might otherwise occur while the yield curve remains flat. |
| Rollover Risk | When a swap is used in conjunction with underlying variable rate debt that allows the investor to redeem the debt with the District on a regular interval, bank facility rollover risk exists if the term of a needed liquidity or credit facility on the debt is shorter than the term of the swap. The District is at risk as to both the availability and the price of successive bank facilities. | The District will evaluate the likelihood of unavailability of bank facilities based on the underlying credit of the debt as well as the general market for liquidity facilities. | These are risks shared generally by variable-rate debt structures. The District may use any of the following mitigation techniques: purchasing longer term facilities for credits where rollover risk is greatest; including alternative floating rate mechanisms, like SIFMA Index Bonds, in the bond documents; and staggering the maturity dates of different liquidity facility programs to diversify points of market re-entry. |
| Pricing Risk | The risk that the swap may not be priced fairly in comparison to the market for comparable swap transactions. | Prior to entering into a swap, the District will make a determination that the transaction can be priced with reasonable transparency and confidence. | The District will not enter into overly complex or illiquid transactions where fair pricing cannot be ascertained. Where it meets District objectives (as outlined above in Section 7 "Method of Procurement"), the District will use a competitive process. For negotiated transactions, it will seek independent price verification. |

Reporting

A report will be presented to the Board annually on the status of all outstanding swaps and compliance with this policy.

Glossary

Asset/Liability Matching. Matching the term and amount of assets and liabilities in order to mitigate the impact of changes of interest rates.

Basis Risk. The risk of a mismatch between an issuer's variable rate receipts (or payments) under a swap and its variable rate payments (or receipts) on the underlying bonds. Basis risk commonly occurs if variable rate swap payments are based on a percentage of LIBOR.

Basis Swap. A floating-to-floating rate swap in which one variable rate index is swapped for another. Basis swaps are commonly used to modify basis risk.

Bid/Ask Spread. The difference between the (i) bid price at which a market maker is willing to buy and (ii) the ask price at which a market maker is willing to sell.

Collar. A combination of an interest rate cap and an interest rate floor.

Collateralization Risk. The risk that circumstances will arise in the future that will require an agency to post collateral pursuant to a swap agreement

Counterparty. A party in a swap transaction.

Counterparty Credit Risk. The risk that the counterparty in a swap transaction may not be able to perform its financial obligations under the swap.

Credit Support. Collateral in the form of cash and/or marketable securities posted by one party to a swap agreement to reduce the credit exposure of the counterparty.

Credit Support Annex. A document governed by the ISDA Master Agreement which states the provisions and circumstances under which collateral posting is required.

Derivative Subsidiary. Typically created by a financial institution for entering into swap transactions. Such subsidiaries are usually guaranteed by the financial institution creating them, or are terminated if such financial institution falls into bankruptcy.

Fixed Rate Swap. An interest rate swap in which an agency pays a counterparty a fixed interest rate in exchange for receiving a variable interest rate - commonly used to create synthetic fixed rate obligations.

Variable Rate Swap. An interest rate swap in which an agency pays counterparty a variable interest rate in exchange for receiving a fixed interest rate - commonly used to create synthetic variable rate obligations.

Floor. A financial contract under which an issuer will make a payment to the swap provider when the underlying debt falls below the predetermined strike rate, or floor rate.

Forward Starting Swap. An interest rate swap under which the exchange of cash flows commences at later date - commonly used to lock in current interest rates for future transactions.

Interest Rate Cap. A financial contract in which the provider, in exchange for a fee, will make payments to an issuer of variable rate debt to the extent that the interest rate on that debt exceeds a specific rate (known as the "cap rate").

Interest Rate Swaps. A contractual agreement between two parties to exchange interest rate payments for a defined period of time.

ISDA Master Agreement. The standardized master legal agreement for all derivative transactions between an agency and counterparty.

LIBOR. London Inter-Bank Offered Rate, which is the interest rate banks charge each other for short-term money, up to a 12-month term. LIBOR is typically used as the index for the variable rate component of interest rate swaps.

Marked-to-Market. Calculation of the value of a financial instrument (e.g., an interest rate swap) based on current market rates.

Notional Amount. Similar to bond principal amount; used as the basis to determine the amount of swap interest payments. The notional amount will often amortize over time to match the amortization of the bonds to which the swap is related.

Optional Termination. The right of a party to terminate a swap at any time at prevailing market prices - in swap agreements, typically the agency is the only party to have such rights.

Settlement Amount. The amount the District or the counterparty would need to pay to the other upon early termination of the swap to make up for a loss in value due to a change in interest rates.

Swap Curve. The swap's equivalent of a yield curve for fixed rate securities. The swap curve identifies the relationship between rates at varying maturities.

Strike Rate. The rate at which the cash flows will be exchanged between the purchaser and the seller.

Swaption. An option on an interest swap that gives the purchaser the right, but not the obligation to begin, terminate or extend a swap based on certain agreed upon parameters.

Synthetic Fixed Rate. A synthetic fixed rate is created when issuing variable rate sales tax revenue bonds together with entering into a variable to fixed interest rate swap agreement.

Termination Event. Events that allow for the termination of a swap, e.g., a credit downgrade of the counterparty.

Termination Payment. Payment made by one counterparty to the other if the swap is terminated before its scheduled termination date. The payment is commonly based on the market value of the swap.

Threshold. The point at which the counterparty or the District will need to post collateral under the swap agreement. Threshold will vary with rating levels.

Authority

Adopted by Resolution 33591-07, April 10, 2007
Adopted by Resolution 33841-11, September 27, 2011
Adopted by Resolution 33925-13, April 23, 2013
Adopted by Resolution XXXXX-14, January 28, 2014



Policy 4.23

EFFECTIVE 28 JAN 14

SUPERSEDES 01 MAY 13

INTEREST RATE SWAP POLICY

IT IS THE POLICY OF THE EAST BAY MUNICIPAL UTILITY DISTRICT TO:

Use swaps, caps, floors, collars, options and other derivative financial products (collectively referred to herein as "swaps") in conjunction with the District's management of its assets and liabilities. This policy is intended to serve as a source of information and guidance on the implementation and ongoing monitoring of swaps for the District and the rating agencies, as well as the general public and financial institutions wishing to do business with the District. See Glossary of Terms at the end of the policy.

Scope This policy describes the circumstances and methods by which swaps will be used, the guidelines to be employed when swaps are used, and the responsibilities of the Finance Director in carrying out these policies. This policy applies to swaps entered into after April 10, 2007.

Authority The District's legal authority for using swaps is based on Section 12875 of the Municipal Utility District Act of the State of California and the California Government Code Section 5922. Under this authority, the District may enter into swaps in connection with, or incidental to, the issuance or carrying of bonds or the acquisition or carrying of any investment or program of investment. In order to enter into swaps, the Board of Directors must determine that the swaps are designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk, result in a lower cost of borrowing, or that the swaps enhance the relationship between risk and return of the District's investments.

Upon entering into any swap transaction, the District shall receive an opinion acceptable to it from counsel to the effect that the District has the power and authority to execute the agreements relative to the swap, that the agreements are legal, valid and binding obligations of the District, and that they and their execution and delivery are not inconsistent with applicable laws.

Considerations The District shall consider entering into swaps based on the following analysis:

- (i) The appropriateness of the transaction for the District based on the balance of risks and rewards presented by the proposed transaction, including a detailed description of the transactional structure, a description of the risks it presents, and risk mitigation measures, where applicable;
- (ii) The legal framework for the transaction within the context of California statutes, Board authorization, and relevant indenture and contractual requirements (including those contained in credit agreements), as well as any implications of the transaction under federal tax regulations;
- (iii) The potential effects that the transaction may have on the credit ratings of any District obligations assigned by the rating agencies;
- (iv) The potential impact of the transaction on any areas where the District's capacity may be constrained, now or in the future, including the availability of credit facilities such as bank liquidity facilities, letters of credit, and bond insurance;

- (v) The impact on the District's policy limitation on variable rate exposure, taking into account the degree of variability in the District's net debt service payments that may be caused by basis risk, and specifically, by the form of basis risk known as tax risk (i.e., when a taxable index like LIBOR is used to hedge underlying tax-exempt floating rate debt);
- (vi) The ability of the District and its professional staff to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements; and
- (vii) Other implications of the proposed transaction as warranted.

Approval to enter into a swap will be subject to appropriate legal authorization from the Board of Directors. The swap authorization will authorize the swap and its provisions, and establish authorized parameters for notional amount, swap maturity, source of payments, minimum or maximum rate as applicable and other relevant provisions. The swap authorization will specify the District officials, to whom authority is delegated to enter into, monitor and administer the swap, and the parameters within which their delegated authority may function. In the event of a conflict between a swap authorization and this Interest Rate Swap Policy, the terms and conditions of the swap authorization will govern.

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- (i) Managing the District's exposure to floating and fixed interest rates, through interest rate swaps, caps, floors, collars, and other option products;
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- (iv) Reducing the cost of fixed or variable rate debt, through swaps and related products to create a "synthetic" fixed or variable rate debt;
- (v) More rapidly accessing the capital markets than may be possible with conventional debt instruments;
- (vi) Managing the District's exposure to the risk of changes in the legal and regulatory treatment of tax-exempt bonds, including changes in federal marginal tax rates and other changes in tax laws that may affect the value of tax-exempt bonds relative to other investment alternatives;
- (vii) Managing other forms of interest rate and basis risk, such as the performance of its obligations under various interest rate environments;
- (viii) Managing the District's credit exposure to financial institutions and other entities through the use of offsetting swaps and other credit management products; and
- (ix) Other applications to enable the District to increase income, lower costs, or strengthen the District's balance sheet.

When a swap is being used in connection with a refunding rather than a new-money bond issue in order to produce savings, as a general rule the level of savings should exceed the District's fixed rate refunding savings target for conventional debt. The analysis of savings should take into account the presence or absence of call options and advance refunding restrictions on both the bonds and the swap. When a swap is used in connection with a new-money financing, a similar analysis may be used, comparing the savings produced through use of a swap with a hypothetical conventional fixed rate financing.

Swap exposure will not be measured only on its "notional" or stated amount, but will also be measured based on the amount of actual existing and potential exposure to payments required to be made by the District in the event of a termination. Maximum potential exposure, also referred to as "peak exposure," will be determined by a standard quantitative measurement that reflects the size, term, and projected volatility of the swaps¹. Exposure measurement will take into account offsetting swaps. The maximum potential exposure of all District swaps should be no more than 20% of outstanding debt for each enterprise i.e., Water system bonds and Wastewater system bonds. The District will also regularly evaluate its exposure to tax risk based on current legislative, regulatory and market developments.

While the District may use swaps to increase or decrease the amount of variable rate exposure on the District's balance sheet, the District will not enter into swaps under any of the following circumstances:

- The swap will expose the District to extraordinary leverage or risk;
- The swap serves a purely speculative purpose, such as entering into a swap for the sole purpose of trading gains;
- The District is unable to reasonably anticipate that it will have sufficient liquidity or financing capacity to terminate the swap at market rates, if it should need to;
- There is insufficient pricing data available to allow the District and its advisors to adequately value the swap.

**Counterparty
Credit Standards**

Unlike conventional debt instruments, swap products can create for the District a continuing exposure to the creditworthiness of financial institutions that serve as the District's counterparties on swap transactions. To protect the District's interests in the event of a counterparty credit problem, swaps entered into by the District will adhere to the following standards:

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- (i) **Use of highly rated counterparties:** Standards of creditworthiness, as measured by credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size, and interest-rate sensitivity of a transaction, types of counterparty, and potential for impact on the District's credit ratings. The District will enter into swaps only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency at the time the swap is entered into. In cases where the counterparty's obligations are rated based on a guarantee or specialized structure to achieve the required credit rating, the District shall thoroughly investigate the nature and legal structure of the guarantee or structure.
- (ii) **Collateralization on downgrade:** If the counterparty's credit rating is downgraded below the double-A rating category, the District shall require that its exposure to the counterparty be reduced by the posting of collateral by the counterparty.
- (iii) **Termination:** If the counterparty's credit is downgraded below an A-level rating, the District may exercise the right to terminate the transaction prior to its scheduled termination date notwithstanding the counterparty's posting of collateral. The District will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the District, and which would allow the District to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the District.
- (iv) **Notice:** The District's swap counterparties will be required to notify the District in the event a credit agency takes negative action with regard to the counterparty's credit rating, including both an actual downgrading of the credit rating as well as the publication of a notice by a rating agency that the counterparty's rating is in jeopardy of a downgrading (i.e., being placed on Standard & Poor's Credit Watch or being assigned a negative outlook by Moody's).
- (v) **Exposure limits:** In order to limit the District's counterparty risk, the District will avoid excessive concentration of exposure to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty will be measured based on the termination value of any swap contracts entered into with the counterparty, as well as such other measurements as the District may deem suitable to measure potential changes in exposure, such as peak exposure. Termination value will be determined at least annually and reported to the Board, based on a current market calculation of the cost of terminating the swap contract given the market conditions on the valuation date. Aggregate swap termination value for each counterparty should take into account netting of offsetting transactions (i.e., fixed-to-floating vs. floating-to-fixed). The District may require counterparties to provide regular current market valuations of swaps they have entered into with the District, and may also seek independent valuations from third-party professionals.

Method of Procurement

The District may choose counterparties for entering into swap contracts on either a negotiated or competitive basis. As a general rule, a competitive selection process is preferred. Negotiated procurement may be used for original or proprietary products, for original ideas of applying a specified product to a District need, or to avoid market-pricing effects that would be detrimental to the District's interests. To provide safeguards on negotiated transactions, the District shall secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to render an opinion that a fair price was obtained. In all transactions, regardless of procurement method, the counterparty shall be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who assisted the counterparty in securing business with the District and all payments made to third parties for the benefit of the District in connection with the swap transaction (such as fees to a broker or other intermediary). In addition, upon request of counsel to the District, the counterparty shall be required to disclose the terms of any "mirror" or "back-up" swap or other hedging relationship entered into by the counterparty in connection with the District's swap.

Documentation Guidelines

The District will use one of the forms of the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement as a framework for swap documentation. The swap agreement between the District and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the District, in consultation with its advisors and legal counsel, deems necessary or desirable.

Subject to the provisions contained herein, the terms of any new District swap agreement shall adhere to the following guidelines:

- (i) Downgrade provisions triggering termination shall be reflective of the relative credit strength of the District in comparison with the swap provider. This comparison should give weight to the prevailing greater credit strength of public sector entities as compared with the credit strength and higher corporate-equivalent ratings assigned to private sector financial institutions. For example, downgrade provisions affecting the District would be triggered at a BBB- level, while downgrade provisions affecting the swap provider would be triggered at an A- level.
- (ii) The District shall minimize or avoid cross default provisions. The specific indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of the District that could have a materially adverse effect on the District's ability to perform its obligations under the swap. Debt shall only include obligations within the same or superior lien as the swap obligation.
- (iii) Collateral thresholds for the swap provider shall be set on a sliding scale reflective of credit ratings². Collateral requirements should be established and based upon the credit ratings of the swap provider or its guarantor. District collateral thresholds, if any, will be negotiated on a transaction-by-transaction basis.

² Collateral thresholds are used to determine the amount of securities that a swap counterparty must post as collateral to secure their potential payment if there were an early termination. The threshold is generally expressed as a specified dollar amount. If the current value of the swap exceeds the dollar amount, the counterparty is required to post collateral equal to the amount of the excess. As counterparty's credit ratings decline, the threshold amount should shrink, requiring collateral posting even for smaller mark-to-market values. If ratings drop far enough, the threshold will fall to zero, meaning the counterparty must post collateral equal to the full amount of the market-to-market value.

- (iv) Eligible collateral shall be limited to cash, Treasuries and obligations of Federal Agencies, excluding interest-only, principal-only, and other complex securities.
- (v) The District shall have the right to optionally terminate a swap agreement "at market" at any time over the term of the agreement. The swap provider shall have no similar right.

The District will agree to adhere to the ISDA August 2012 DF Protocol (the "August 2012 Protocol"), the ISDA March 2013 DF Protocol (the "March 2013 Protocol") and any subsequent protocols and similar agreements established in response to Dodd-Frank Act swap regulations subject to such modifications as the officers of the District may deem to be in the best interest of the District, based upon the advice of the District's Financial Advisor or Bond Counsel, in order to facilitate future swap transactions, including the amendment, novation or termination (full or partial) of existing swap transactions. To that end, among other things, the District will comply with the policies and selection procedures for Qualified Independent Representatives specified in the DF Protocol and developed and implemented by District staff.

Risk Management

As a general rule, the District will manage the risks of its swap exposure on a District-wide or "macro" basis, and will evaluate individual transactions within the larger context of their impact across the District. Because of the size and complexity of the assets and liabilities of the District and its established financial systems and controls, the District will manage the risks and rewards of a swap program alongside its overall financial risks and rewards. As part of its risk management process, the District will evaluate the aggregate risk of its swap exposure as measured by value at risk, peak exposure, and/or realistic worst-case scenarios.

Among the risks that the District will monitor, evaluate, and seek to mitigate are the following, listed in the order of greatest potential impact:

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|--------------------|--|--|---|
| Counterparty Risk | The risk of a failure of one of the District's swap providers to perform as required under a swap contract. | The District will evaluate the swap providers' credit ratings and existing exposure on other transactions. | The District will diversify its exposure, impose minimum credit rating standards and require protective documentation provisions. (See above, "Counterparty Credit Standards") |
| Termination Risk | The risk that a swap may be terminated prior to its scheduled maturity due to factors outside the District's control. | The District will review potential causes of early termination, including those resulting from documentation provisions and the likelihood of credit downgrade that could precipitate an early termination. | The District will use protective documentation provisions and will evaluate sources of internal liquidity and market access that could be used in the event a termination payment were required to be made. |
| Interest Rate Risk | The risk that the District's costs associated with variable-rate exposure increase and negatively affects budgets, coverage ratios and cash flow margins. Variable-rate exposure may be created by a swap from fixed to variable, or a swap that | Prior to taking on interest rate risk, the District will measure its capacity for floating rate exposure, based on policy targets for its mix of fixed and variable rate debt and investments, taking into consideration future variable rate needs. | The District will maintain variable rate exposure within the 25% limitation specified in its Cash Reserves and Debt Management Policy 4.02, and will make selected use of interest rate hedges, like caps and collars, to reduce that risk. In evaluating its variable rate exposure, the District will |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|--------------------|--|---|--|
| | <p>otherwise creates some type of variable liability, such as basis risk, tax risk or yield curve risk (described below). The interest rate risk presented by such a swap may be increased as interest rates increase generally, as intra-market relationships change, or because of credit concerns relating to the District or a credit enhancer.</p> | | <p>consider the residual risks of variable rate debt that is not fully hedged by swaps, such as basis and tax risk.</p> |
| <p>Basis Risk</p> | <p>The risk that the floating rate on the swap fails to offset the variable rate on the associated asset or liability. Because swaps generally include cash flows based on a floating-rate index, the chosen index should correlate with the floating rate on the underlying instrument, but may not match exactly.</p> | <p>The District will measure and review the historic variation between the variable rate index used in the swap and the underlying variable rate instrument it is hedging. In the absence of a sufficient history of underlying instrument, it will use relevant comparable variable rate instruments. The degree of risks should be evaluated in comparison with degree of benefit provided.</p> | <p>The District will analyze historic relationships and consider mitigation techniques as warranted. When used in connection with an advanced refunding, mitigation techniques could include maintaining a cushion between the floating rate index and the expected trading level of the floating rate instrument, creating a reserve to cover potential basis risk mismatches, and including provisions for optional termination.</p> |
| <p>Tax Risk</p> | <p>A common type of basis risk on swaps used in conjunction with floating-rate tax-exempt debt is often referred to as "tax risk", or the risk of a mismatch between the floating rate on the tax-exempt debt and a swap index based on a taxable index like LIBOR. The correlation between the LIBOR-based rate and the floating rate on the debt may change based on changes in tax law, for example, changes in marginal tax rates, or other market events that change the trading pattern between tax-exempt and taxable securities. This risk can also be created by "basis swaps," where-in both parties pay a variable rate, but only one is based on a tax-exempt index.</p> | <p>The District will assess the risk of a significant tax law change that could reduce the benefits of a swap or generate unanticipated losses. Because this assessment requires judgment about future actions by the Federal government, the rewards for taking this risk should be deemed to be significantly greater than the risks, based on a careful assessment.</p> | <p>The District should monitor its tax risk position, including taking steps to reduce tax risk when favorable market opportunities present themselves, limiting tax risk to within acceptable bounds, and considering the use of financial mechanisms to cap tax risk exposure.</p> |
| <p>Yield-curve</p> | <p>Yield curve risk may be present in swaps where a longer-term variable rate is used to hedge a shorter-term variable, creating different potential gain and loss depending on the steepness of the yield</p> | <p>The District policy forbids the use of swaps purely for the purpose of obtaining trading gains. In addition to an examination of historic yield curves and the probability of net positive receipts, the District will also evaluate how</p> | <p>The District will identify offsetting transactions that mitigate the effect of continued or renewed flattening of yield curves. Also, the District will consider forward-starting instruments to limit negative cash-flows that might otherwise</p> |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|---------------|---|---|--|
| | curve. This form of swap, often called a "constant maturity swap" to reflect the fact that one party continues to receive payment based on a rolling long-term rate, is considered when the shape of the yield curve is flat, in anticipation of a steepening in the future. | the use of this swap fits into its overall risk management goals. For example, yield-curve swaps can help mitigate the underperformance of other structures in certain markets. | occur while the yield curve remains flat. |
| Rollover Risk | When a swap is used in conjunction with underlying variable rate debt that allows the investor to redeem the debt with the District on a regular interval, bank facility rollover risk exists if the term of a needed liquidity or credit facility on the debt is shorter than the term of the swap. The District is at risk as to both the availability and the price of successive bank facilities. | The District will evaluate the likelihood of unavailability of bank facilities based on the underlying credit of the debt as well as the general market for liquidity facilities. | These are risks shared generally by variable-rate debt structures. The District may use any of the following mitigation techniques: purchasing longer term facilities for credits where rollover risk is greatest; including alternative floating rate mechanisms, like SIFMA Index Bonds, in the bond documents; and staggering the maturity dates of different liquidity facility programs to diversify points of market re-entry. |
| Pricing Risk | The risk that the swap may not be priced fairly in comparison to the market for comparable swap transactions. | Prior to entering into a swap, the District will make a determination that the transaction can be priced with reasonable transparency and confidence. | The District will not enter into overly complex or illiquid transactions where fair pricing cannot be ascertained. Where it meets District objectives (as outlined above in Section 7 "Method of Procurement"), the District will use a competitive process. For negotiated transactions, it will seek independent price verification. |

Reporting

A report will be presented to the Board annually on the status of all outstanding swaps and compliance with this policy.

Glossary

Asset/Liability Matching. Matching the term and amount of assets and liabilities in order to mitigate the impact of changes of interest rates.

Basis Risk. The risk of a mismatch between an issuer's variable rate receipts (or payments) under a swap and its variable rate payments (or receipts) on the underlying bonds. Basis risk commonly occurs if variable rate swap payments are based on a percentage of LIBOR.

Basis Swap. A floating-to-floating rate swap in which one variable rate index is swapped for another. Basis swaps are commonly used to modify basis risk.

Bid/Ask Spread. The difference between the (i) bid price at which a market maker is willing to buy and (ii) the ask price at which a market maker is willing to sell.

Collar. A combination of an interest rate cap and an interest rate floor.

Collateralization Risk. The risk that circumstances will arise in the future that will require an agency to post collateral pursuant to a swap agreement

Counterparty. A party in a swap transaction.

Counterparty Credit Risk. The risk that the counterparty in a swap transaction may not be able to perform its financial obligations under the swap.

Credit Support. Collateral in the form of cash and/or marketable securities posted by one party to a swap agreement to reduce the credit exposure of the counterparty.

Credit Support Annex. A document governed by the ISDA Master Agreement which states the provisions and circumstances under which collateral posting is required.

Derivative Subsidiary. Typically created by a financial institution for entering into swap transactions. Such subsidiaries are usually guaranteed by the financial institution creating them, or are terminated if such financial institution falls into bankruptcy.

Fixed Rate Swap. An interest rate swap in which an agency pays a counterparty a fixed interest rate in exchange for receiving a variable interest rate - commonly used to create synthetic fixed rate obligations.

Variable Rate Swap. An interest rate swap in which an agency pays counterparty a variable interest rate in exchange for receiving a fixed interest rate - commonly used to create synthetic variable rate obligations.

Floor. A financial contract under which an issuer will make a payment to the swap provider when the underlying debt falls below the predetermined strike rate, or floor rate.

Forward Starting Swap. An interest rate swap under which the exchange of cash flows commences at later date - commonly used to lock in current interest rates for future transactions.

Interest Rate Cap. A financial contract in which the provider, in exchange for a fee, will make payments to an issuer of variable rate debt to the extent that the interest rate on that debt exceeds a specific rate (known as the "cap rate").

Interest Rate Swaps. A contractual agreement between two parties to exchange interest rate payments for a defined period of time.

ISDA Master Agreement. The standardized master legal agreement for all derivative transactions between an agency and counterparty.

LIBOR. London Inter-Bank Offered Rate, which is the interest rate banks charge each other for short-term money, up to a 12-month term. LIBOR is typically used as the index for the variable rate component of interest rate swaps.

Marked-to-Market. Calculation of the value of a financial instrument (e.g., an interest rate swap) based on current market rates.

Notional Amount. Similar to bond principal amount; used as the basis to determine the amount of swap interest payments. The notional amount will often amortize over time to match the amortization of the bonds to which the swap is related.

Optional Termination. The right of a party to terminate a swap at any time at prevailing market prices - in swap agreements, typically the agency is the only party to have such rights.

Settlement Amount. The amount the District or the counterparty would need to pay to the other upon early termination of the swap to make up for a loss in value due to a change in interest rates.

Swap Curve. The swap's equivalent of a yield curve for fixed rate securities. The swap curve identifies the relationship between rates at varying maturities.

Strike Rate. The rate at which the cash flows will be exchanged between the purchaser and the seller.

Swaption. An option on an interest swap that gives the purchaser the right, but not the obligation to begin, terminate or extend a swap based on certain agreed upon parameters.

Synthetic Fixed Rate. A synthetic fixed rate is created when issuing variable rate sales tax revenue bonds together with entering into a variable to fixed interest rate swap agreement.

Termination Event. Events that allow for the termination of a swap, e.g., a credit downgrade of the counterparty.

Termination Payment. Payment made by one counterparty to the other if the swap is terminated before its scheduled termination date. The payment is commonly based on the market value of the swap.

Threshold. The point at which the counterparty or the District will need to post collateral under the swap agreement. Threshold will vary with rating levels.

Authority

Adopted by Resolution 33591-07, April 10, 2007
Adopted by Resolution 33841-11, September 27, 2011
Adopted by Resolution 33925-13, April 23, 2013
Adopted by Resolution XXXXX-14, January 28, 2014

RESOLUTION NO. _____

ADOPTING REVISED POLICY 4.23, INTEREST RATE SWAP POLICY

Introduced by Director _____ ; Seconded by Director _____

WHEREAS, it is the desire and intention of the Board of Directors to update and revise Policy 4.23, entitled "Interest Rate Swap Policy;"

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the East Bay Municipal Utility District that Revised Policy 4.23, attached hereto as Exhibit A, is hereby adopted.

ADOPTED this 28th day of January, 2014 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

President

Secretary

APPROVED AS TO FORM AND PROCEDURE

General Counsel

EXHIBIT A



Policy 4.23R

EFFECTIVE [01 MAY 13](#)
[28 JAN 14](#)

SUPERSEDES [27 SEP 11](#)
[01 MAY 13](#)

INTEREST RATE SWAP POLICY

IT IS THE POLICY OF THE EAST BAY MUNICIPAL UTILITY DISTRICT TO:

Use swaps, caps, floors, collars, options and other derivative financial products (collectively referred to herein as "swaps") in conjunction with the District's management of its assets and liabilities. This policy is intended to serve as a source of information and guidance on the implementation and ongoing monitoring of swaps for the District and the rating agencies, as well as the general public and financial institutions wishing to do business with the District. See Glossary of Terms at the end of the policy.

Scope This policy describes the circumstances and methods by which swaps will be used, the guidelines to be employed when swaps are used, and the responsibilities of the Finance Director in carrying out these policies. This policy applies to swaps entered into after April 10, 2007.

Authority The District's legal authority for using swaps is based on Section 12875 of the Municipal Utility District Act of the State of California and the California Government Code Section 5922. Under this authority, the District may enter into swaps in connection with, or incidental to, the issuance or carrying of bonds or the acquisition or carrying of any investment or program of investment. In order to enter into swaps, the Board of Directors must determine that the swaps are designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk, result in a lower cost of borrowing, or that the swaps enhance the relationship between risk and return of the District's investments.

Upon entering into any swap transaction, the District shall receive an opinion acceptable to it from counsel to the effect that the District has the power and authority to execute the agreements relative to the swap, that the agreements are legal, valid and binding obligations of the District, and that they and their execution and delivery are not inconsistent with applicable laws.

Considerations The District shall consider entering into swaps based on the following analysis:

- (i) The appropriateness of the transaction for the District based on the balance of risks and rewards presented by the proposed transaction, including a detailed description of the transactional structure, a description of the risks it presents, and risk mitigation measures, where applicable;
- (ii) The legal framework for the transaction within the context of California statutes, Board authorization, and relevant indenture and contractual requirements (including those contained in credit agreements), as well as any implications of the transaction under federal tax regulations;
- (iii) The potential effects that the transaction may have on the credit ratings of any District obligations assigned by the rating agencies;
- (iv) The potential impact of the transaction on any areas where the District's capacity may be constrained, now or in the future, including the availability of credit facilities such as bank liquidity facilities, letters of credit, and bond insurance;

- (v) The impact on the District's policy limitation on variable rate exposure, taking into account the degree of variability in the District's net debt service payments that may be caused by basis risk, and specifically, by the form of basis risk known as tax risk (i.e., when a taxable index like LIBOR is used to hedge underlying tax-exempt floating rate debt);
- (vi) The ability of the District and its professional staff to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements; and
- (vii) Other implications of the proposed transaction as warranted.

Approval to enter into a swap will be subject to appropriate legal authorization from the Board of Directors. The swap authorization will authorize the swap and its provisions, and establish authorized parameters for notional amount, swap maturity, source of payments, minimum or maximum rate as applicable and other relevant provisions. The swap authorization will specify the District officials, to whom authority is delegated to enter into, monitor and administer the swap, and the parameters within which their delegated authority may function. In the event of a conflict between a swap authorization and this Interest Rate Swap Policy, the terms and conditions of the swap authorization will govern.

Permitted Uses

Because of the effects of continual innovation in the financial markets, this Interest Rate Swap Policy recognizes that the reasons for use of swaps may change over time, taking advantage of market developments as they evolve and are tested. Among the strategies which the District may consider in applying swaps are:

- (i) Managing the District's exposure to floating and fixed interest rates, through interest rate swaps, caps, floors, collars, and other option products;
- (ii) Hedging variable rate risk with caps, collars, basis swaps, and other instruments;
- (iii) Locking in fixed rates in current markets for use at a later date through the use of forward swaps, swaptions, rate locks, options, and forward delivery products;
- (iv) Reducing the cost of fixed or variable rate debt, through swaps and related products to create a "synthetic" fixed or variable rate debt;
- (v) More rapidly accessing the capital markets than may be possible with conventional debt instruments;
- (vi) Managing the District's exposure to the risk of changes in the legal and regulatory treatment of tax-exempt bonds, including changes in federal marginal tax rates and other changes in tax laws that may affect the value of tax-exempt bonds relative to other investment alternatives;
- (vii) Managing other forms of interest rate and basis risk, such as the performance of its obligations under various interest rate environments;
- (viii) Managing the District's credit exposure to financial institutions and other entities through the use of offsetting swaps and other credit management products; and
- (ix) Other applications to enable the District to increase income, lower costs, or strengthen the District's balance sheet.

When a swap is being used in connection with a refunding rather than a new-money bond issue in order to produce savings, as a general rule the level of savings should exceed the District's fixed rate refunding savings target for conventional debt. The analysis of savings should take into account the presence or absence of call options and advance refunding restrictions on both the bonds and the swap. When a swap is used in connection with a new-money financing, a similar analysis may be used, comparing the savings produced through use of a swap with a hypothetical conventional fixed rate financing.

Swap exposure will not be measured only on its "notional" or stated amount, but will also be measured based on the amount of actual existing and potential exposure to payments required to be made by the District in the event of a termination. Maximum potential exposure, also referred to as "peak exposure," will be determined by a standard quantitative measurement that reflects the size, term, and projected volatility of the swaps¹. Exposure measurement will take into account offsetting swaps. The maximum potential exposure of all District swaps should be no more than 20% of outstanding debt for each enterprise i.e., Water system bonds and Wastewater system bonds. The District will also regularly evaluate its exposure to tax risk based on current legislative, regulatory and market developments.

While the District may use swaps to increase or decrease the amount of variable rate exposure on the District's balance sheet, the District will not enter into swaps under any of the following circumstances:

- The swap will expose the District to extraordinary leverage or risk;
- The swap serves a purely speculative purpose, such as entering into a swap for the sole purpose of trading gains;
- The District is unable to reasonably anticipate that it will have sufficient liquidity or financing capacity to terminate the swap at market rates, if it should need to;
- There is insufficient pricing data available to allow the District and its advisors to adequately value the swap.

**Counterparty
Credit Standards**

Unlike conventional debt instruments, swap products can create for the District a continuing exposure to the creditworthiness of financial institutions that serve as the District's counterparties on swap transactions. To protect the District's interests in the event of a counterparty credit problem, swaps entered into by the District will adhere to the following standards:

¹ Peak exposure (also referred to as "value at risk") provides a quantification of the District's reasonable "worst case" swap exposure, i.e. the risk to the District in the event of a swap termination. It is calculated by applying stress tests to the District's swaps to show how large the potential termination cost of the swaps could be if markets moved in an extremely adverse manner. Market movements are typically calculated assuming two standard deviation changes in interest rates, based on historic and/or implied volatilities, to provide a better than 95% degree of confidence or an instantaneous 200 basis point change in rates as used by Standard & Poor's in its Derivative Debt Policy ratings. Note that an instantaneous 200 basis point change generally encompassed the extreme market moves observed over three month periods during the 2008/2009 credit crisis.

- (i) **Use of highly rated counterparties:** Standards of creditworthiness, as measured by credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size, and interest-rate sensitivity of a transaction, types of counterparty, and potential for impact on the District's credit ratings. The District will enter into swaps only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency at the time the swap is entered into. In cases where the counterparty's obligations are rated based on a guarantee or specialized structure to achieve the required credit rating, the District shall thoroughly investigate the nature and legal structure of the guarantee or structure.
- (ii) **Collateralization on downgrade:** If the counterparty's credit rating is downgraded below the double-A rating category, the District shall require that its exposure to the counterparty be reduced by the posting of collateral by the counterparty.
- (iii) **Termination:** If the counterparty's credit is downgraded below an A-level rating, the District may exercise the right to terminate the transaction prior to its scheduled termination date notwithstanding the counterparty's posting of collateral. The District will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the District, and which would allow the District to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the District.
- (iv) **Notice:** The District's swap counterparties will be required to notify the District in the event a credit agency takes negative action with regard to the counterparty's credit rating, including both an actual downgrading of the credit rating as well as the publication of a notice by a rating agency that the counterparty's rating is in jeopardy of a downgrading (i.e., being placed on Standard & Poor's Credit Watch or being assigned a negative outlook by Moody's).
- (v) **Exposure limits:** In order to limit the District's counterparty risk, the District will avoid excessive concentration of exposure to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty will be measured based on the termination value of any swap contracts entered into with the counterparty, as well as such other measurements as the District may deem suitable to measure potential changes in exposure, such as peak exposure. Termination value will be determined at least annually and reported to the Board, based on a current market calculation of the cost of terminating the swap contract given the market conditions on the valuation date. Aggregate swap termination value for each counterparty should take into account netting of offsetting transactions (i.e., fixed-to-floating vs. floating-to-fixed). The District may require counterparties to provide regular current market valuations of swaps they have entered into with the District, and may also seek independent valuations from third-party professionals.

Method of Procurement

The District may choose counterparties for entering into swap contracts on either a negotiated or competitive basis. As a general rule, a competitive selection process is preferred. Negotiated procurement may be used for original or proprietary products, for original ideas of applying a specified product to a District need, or to avoid market-pricing effects that would be detrimental to the District’s interests. To provide safeguards on negotiated transactions, the District shall secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to render an opinion that a fair price was obtained. In all transactions, regardless of procurement method, the counterparty shall be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who assisted the counterparty in securing business with the District and all payments made to third parties for the benefit of the District in connection with the swap transaction (such as fees to a broker or other intermediary). In addition, upon request of counsel to the District, the counterparty shall be required to disclose the terms of any “mirror” or “back-up” swap or other hedging relationship entered into by the counterparty in connection with the District’s swap.

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The District will use one of the forms of the International Swaps and Derivatives Association, Inc. (“ISDA”) Master Agreement as a framework for swap documentation. The swap agreement between the District and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the District, in consultation with its advisors and legal counsel, deems necessary or desirable.

Subject to the provisions contained herein, the terms of any new District swap agreement shall adhere to the following guidelines:

- (i) Downgrade provisions triggering termination shall be reflective of the relative credit strength of the District in comparison with the swap provider. This comparison should give weight to the prevailing greater credit strength of public sector entities as compared with the credit strength and higher corporate-equivalent ratings assigned to private sector financial institutions. For example, downgrade provisions affecting the District would be triggered at a BBB- level, while downgrade provisions affecting the swap provider would be triggered at an A- level.
- (ii) The District shall minimize or avoid cross default provisions. The specific indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of the District that could have a materially adverse effect on the District’s ability to perform its obligations under the swap. Debt shall only include obligations within the same or superior lien as the swap obligation.
- (iii) Collateral thresholds for the swap provider shall be set on a sliding scale reflective of credit ratings². Collateral requirements should be established and based upon the credit ratings of the swap provider or its guarantor. District collateral thresholds, if any, will be negotiated on a transaction-by-transaction basis.

² Collateral thresholds are used to determine the amount of securities that a swap counterparty must post as collateral to secure their potential payment if there were an early termination. The threshold is generally expressed as a specified dollar amount. If the current value of the swap exceeds the dollar amount, the counterparty is required to post collateral equal to the amount of the excess. As counterparty’s credit ratings decline, the threshold amount should shrink, requiring collateral posting even for smaller mark-to-market values. If ratings drop far enough, the threshold will fall to zero, meaning the counterparty must post collateral equal to the full amount of the market-to-market value.

- (iv) Eligible collateral shall be limited to cash, Treasuries and obligations of Federal Agencies, excluding interest-only, principal-only, and other complex securities.
- (v) The District shall have the right to optionally terminate a swap agreement "at market" at any time over the term of the agreement. The swap provider shall have no similar right.

The District will agree to ~~comply with~~ adhere to the ISDA August 2012 DF Protocol (the "August 2012 DF-Protocol"), the ISDA March 2013 DF Protocol (the "March 2013 Protocol") and any subsequent protocols and similar agreements established in response to Dodd-Frank Act swap regulations subject to such modifications as the officers of the District may deem to be in the best interest of the District, based upon the advice of the District's Financial Advisor or Bond Counsel, in order to facilitate future swap transactions, including the amendment, novation or termination (full or partial) of existing swap transactions. To that end, among other things, the District will comply with the policies and selection procedures for Qualified Independent Representatives specified in the DF Protocol and developed and implemented by District staff.

Risk Management

As a general rule, the District will manage the risks of its swap exposure on a District-wide or "macro" basis, and will evaluate individual transactions within the larger context of their impact across the District. Because of the size and complexity of the assets and liabilities of the District and its established financial systems and controls, the District will manage the risks and rewards of a swap program alongside its overall financial risks and rewards. As part of its risk management process, the District will evaluate the aggregate risk of its swap exposure as measured by value at risk, peak exposure, and/or realistic worst-case scenarios.

Among the risks that the District will monitor, evaluate, and seek to mitigate are the following, listed in the order of greatest potential impact:

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|--------------------|---|--|---|
| Counterparty Risk | The risk of a failure of one of the District's swap providers to perform as required under a swap contract. | The District will evaluate the swap providers' credit ratings and existing exposure on other transactions. | The District will diversify its exposure, impose minimum credit rating standards and require protective documentation provisions. (See above, "Counterparty Credit Standards") |
| Termination Risk | The risk that a swap may be terminated prior to its scheduled maturity due to factors outside the District's control. | The District will review potential causes of early termination, including those resulting from documentation provisions and the likelihood of credit downgrade that could precipitate an early termination. | The District will use protective documentation provisions and will evaluate sources of internal liquidity and market access that could be used in the event a termination payment were required to be made. |
| Interest Rate Risk | The risk that the District's costs associated with variable-rate exposure increase and negatively affects budgets, coverage ratios and cash flow margins. Variable-rate exposure may be created by a swap from fixed to | Prior to taking on interest rate risk, the District will measure its capacity for floating rate exposure, based on policy targets for its mix of fixed and variable rate debt and investments, taking into consideration future variable rate needs. | The District will maintain variable rate exposure within the 25% limitation specified in its Cash Reserves and Debt Management Policy 4.02, and will make selected use of interest rate hedges, like caps and collars, to reduce that risk. In evaluating its variable rate |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|-------------------|--|---|--|
| | <p>variable, or a swap that otherwise creates some type of variable liability, such as basis risk, tax risk or yield curve risk (described below). The interest rate risk presented by such a swap may be increased as interest rates increase generally, as intra-market relationships change, or because of credit concerns relating to the District or a credit enhancer.</p> | | <p>exposure, the District will consider the residual risks of variable rate debt that is not fully hedged by swaps, such as basis and tax risk.</p> |
| <p>Basis Risk</p> | <p>The risk that the floating rate on the swap fails to offset the variable rate on the associated asset or liability. Because swaps generally include cash flows based on a floating-rate index, the chosen index should correlate with the floating rate on the underlying instrument, but may not match exactly.</p> | <p>The District will measure and review the historic variation between the variable rate index used in the swap and the underlying variable rate instrument it is hedging. In the absence of a sufficient history of underlying instrument, it will use relevant comparable variable rate instruments. The degree of risks should be evaluated in comparison with degree of benefit provided.</p> | <p>The District will analyze historic relationships and consider mitigation techniques as warranted. When used in connection with an advanced refunding, mitigation techniques could include maintaining a cushion between the floating rate index and the expected trading level of the floating rate instrument, creating a reserve to cover potential basis risk mismatches, and including provisions for optional termination.</p> |
| <p>Tax Risk</p> | <p>A common type of basis risk on swaps used in conjunction with floating-rate tax-exempt debt is often referred to as "tax risk", or the risk of a mismatch between the floating rate on the tax-exempt debt and a swap index based on a taxable index like LIBOR. The correlation between the LIBOR-based rate and the floating rate on the debt may change based on changes in tax law, for example, changes in marginal tax rates, or other market events that change the trading pattern between tax-exempt and taxable securities. This risk can also be created by "basis swaps," where-in both parties pay a variable rate, but only one is based on a tax-exempt index.</p> | <p>The District will assess the risk of a significant tax law change that could reduce the benefits of a swap or generate unanticipated losses. Because this assessment requires judgment about future actions by the Federal government, the rewards for taking this risk should be deemed to be significantly greater than the risks, based on a careful assessment.</p> | <p>The District should monitor its tax risk position, including taking steps to reduce tax risk when favorable market opportunities present themselves, limiting tax risk to within acceptable bounds, and considering the use of financial mechanisms to cap tax risk exposure.</p> |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|---------------|--|--|--|
| Yield-curve | Yield curve risk may be present in swaps where a longer-term variable rate is used to hedge a shorter-term variable, creating different potential gain and loss depending on the steepness of the yield curve. This form of swap, often called a "constant maturity swap" to reflect the fact that one party continues to receive payment based on a rolling long-term rate, is considered when the shape of the yield curve is flat, in anticipation of a steepening in the future. | The District policy forbids the use of swaps purely for the purpose of obtaining trading gains. In addition to an examination of historic yield curves and the probability of net positive receipts, the District will also evaluate how the use of this swap fits into its overall risk management goals. For example, yield-curve swaps can help mitigate the underperformance of other structures in certain markets. | The District will identify offsetting transactions that mitigate the effect of continued or renewed flattening of yield curves. Also, the District will consider forward-starting instruments to limit negative cash-flows that might otherwise occur while the yield curve remains flat. |
| Rollover Risk | When a swap is used in conjunction with underlying variable rate debt that allows the investor to redeem the debt with the District on a regular interval, bank facility rollover risk exists if the term of a needed liquidity or credit facility on the debt is shorter than the term of the swap. The District is at risk as to both the availability and the price of successive bank facilities. | The District will evaluate the likelihood of unavailability of bank facilities based on the underlying credit of the debt as well as the general market for liquidity facilities. | These are risks shared generally by variable-rate debt structures. The District may use any of the following mitigation techniques: purchasing longer term facilities for credits where rollover risk is greatest; including alternative floating rate mechanisms, like SIFMA Index Bonds, in the bond documents; and staggering the maturity dates of different liquidity facility programs to diversify points of market re-entry. |
| Pricing Risk | The risk that the swap may not be priced fairly in comparison to the market for comparable swap transactions. | Prior to entering into a swap, the District will make a determination that the transaction can be priced with reasonable transparency and confidence. | The District will not enter into overly complex or illiquid transactions where fair pricing cannot be ascertained. Where it meets District objectives (as outlined above in Section 7 "Method of Procurement"), the District will use a competitive process. For negotiated transactions, it will seek independent price verification. |

Reporting

A report will be presented to the Board annually on the status of all outstanding swaps and compliance with this policy.

Glossary

Asset/Liability Matching. Matching the term and amount of assets and liabilities in order to mitigate the impact of changes of interest rates.

Basis Risk. The risk of a mismatch between an issuer's variable rate receipts (or payments) under a swap and its variable rate payments (or receipts) on the underlying bonds. Basis risk commonly occurs if variable rate swap payments are based on a percentage of LIBOR.

Basis Swap. A floating-to-floating rate swap in which one variable rate index is swapped for another. Basis swaps are commonly used to modify basis risk.

Bid/Ask Spread. The difference between the (i) bid price at which a market maker is willing to buy and (ii) the ask price at which a market maker is willing to sell.

Collar. A combination of an interest rate cap and an interest rate floor.

Collateralization Risk. The risk that circumstances will arise in the future that will require an agency to post collateral pursuant to a swap agreement

Counterparty. A party in a swap transaction.

Counterparty Credit Risk. The risk that the counterparty in a swap transaction may not be able to perform its financial obligations under the swap.

Credit Support. Collateral in the form of cash and/or marketable securities posted by one party to a swap agreement to reduce the credit exposure of the counterparty.

Credit Support Annex. A document governed by the ISDA Master Agreement which states the provisions and circumstances under which collateral posting is required.

Derivative Subsidiary. Typically created by a financial institution for entering into swap transactions. Such subsidiaries are usually guaranteed by the financial institution creating them, or are terminated if such financial institution falls into bankruptcy.

Fixed Rate Swap. An interest rate swap in which an agency pays a counterparty a fixed interest rate in exchange for receiving a variable interest rate - commonly used to create synthetic fixed rate obligations.

Variable Rate Swap. An interest rate swap in which an agency pays counterparty a variable interest rate in exchange for receiving a fixed interest rate - commonly used to create synthetic variable rate obligations.

Floor. A financial contract under which an issuer will make a payment to the swap provider when the underlying debt falls below the predetermined strike rate, or floor rate.

Forward Starting Swap. An interest rate swap under which the exchange of cash flows commences at later date - commonly used to lock in current interest rates for future transactions.

Interest Rate Cap. A financial contract in which the provider, in exchange for a fee, will make payments to an issuer of variable rate debt to the extent that the interest rate on that debt exceeds a specific rate (known as the "cap rate").

Interest Rate Swaps. A contractual agreement between two parties to exchange interest rate payments for a defined period of time.

ISDA Master Agreement. The standardized master legal agreement for all derivative transactions between an agency and counterparty.

LIBOR. London Inter-Bank Offered Rate, which is the interest rate banks charge each other for short-term money, up to a 12-month term. LIBOR is typically used as the index for the variable rate component of interest rate swaps.

Marked-to-Market. Calculation of the value of a financial instrument (e.g., an interest rate swap) based on current market rates.

Notional Amount. Similar to bond principal amount; used as the basis to determine the amount of swap interest payments. The notional amount will often amortize over time to match the amortization of the bonds to which the swap is related.

Optional Termination. The right of a party to terminate a swap at any time at prevailing market prices - in swap agreements, typically the agency is the only party to have such rights.

Settlement Amount. The amount the District or the counterparty would need to pay to the other upon early termination of the swap to make up for a loss in value due to a change in interest rates.

Swap Curve. The swap's equivalent of a yield curve for fixed rate securities. The swap curve identifies the relationship between rates at varying maturities.

Strike Rate. The rate at which the cash flows will be exchanged between the purchaser and the seller.

Swaption. An option on an interest swap that gives the purchaser the right, but not the obligation to begin, terminate or extend a swap based on certain agreed upon parameters.

Synthetic Fixed Rate. A synthetic fixed rate is created when issuing variable rate sales tax revenue bonds together with entering into a variable to fixed interest rate swap agreement.

Termination Event. Events that allow for the termination of a swap, e.g., a credit downgrade of the counterparty.

Termination Payment. Payment made by one counterparty to the other if the swap is terminated before its scheduled termination date. The payment is commonly based on the market value of the swap.

Threshold. The point at which the counterparty or the District will need to post collateral under the swap agreement. Threshold will vary with rating levels.

Authority

Adopted by Resolution 33591-07, April 10, 2007
Adopted by Resolution 33841-11, September 27, 2011
Adopted by Resolution 33925-13, April 23, 2013
[Adopted by Resolution XXXXX-14, January 28, 2014](#)



Policy 4.23

EFFECTIVE 28 JAN 14

SUPERSEDES 01 MAY 13

INTEREST RATE SWAP POLICY

IT IS THE POLICY OF THE EAST BAY MUNICIPAL UTILITY DISTRICT TO:

Use swaps, caps, floors, collars, options and other derivative financial products (collectively referred to herein as "swaps") in conjunction with the District's management of its assets and liabilities. This policy is intended to serve as a source of information and guidance on the implementation and ongoing monitoring of swaps for the District and the rating agencies, as well as the general public and financial institutions wishing to do business with the District. See Glossary of Terms at the end of the policy.

Scope

This policy describes the circumstances and methods by which swaps will be used, the guidelines to be employed when swaps are used, and the responsibilities of the Finance Director in carrying out these policies. This policy applies to swaps entered into after April 10, 2007.

Authority

The District's legal authority for using swaps is based on Section 12875 of the Municipal Utility District Act of the State of California and the California Government Code Section 5922. Under this authority, the District may enter into swaps in connection with, or incidental to, the issuance or carrying of bonds or the acquisition or carrying of any investment or program of investment. In order to enter into swaps, the Board of Directors must determine that the swaps are designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk, result in a lower cost of borrowing, or that the swaps enhance the relationship between risk and return of the District's investments.

Upon entering into any swap transaction, the District shall receive an opinion acceptable to it from counsel to the effect that the District has the power and authority to execute the agreements relative to the swap, that the agreements are legal, valid and binding obligations of the District, and that they and their execution and delivery are not inconsistent with applicable laws.

Considerations

The District shall consider entering into swaps based on the following analysis:

- (i) The appropriateness of the transaction for the District based on the balance of risks and rewards presented by the proposed transaction, including a detailed description of the transactional structure, a description of the risks it presents, and risk mitigation measures, where applicable;
- (ii) The legal framework for the transaction within the context of California statutes, Board authorization, and relevant indenture and contractual requirements (including those contained in credit agreements), as well as any implications of the transaction under federal tax regulations;
- (iii) The potential effects that the transaction may have on the credit ratings of any District obligations assigned by the rating agencies;
- (iv) The potential impact of the transaction on any areas where the District's capacity may be constrained, now or in the future, including the availability of credit facilities such as bank liquidity facilities, letters of credit, and bond insurance;

- (v) The impact on the District's policy limitation on variable rate exposure, taking into account the degree of variability in the District's net debt service payments that may be caused by basis risk, and specifically, by the form of basis risk known as tax risk (i.e., when a taxable index like LIBOR is used to hedge underlying tax-exempt floating rate debt);
- (vi) The ability of the District and its professional staff to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements; and
- (vii) Other implications of the proposed transaction as warranted.

Approval to enter into a swap will be subject to appropriate legal authorization from the Board of Directors. The swap authorization will authorize the swap and its provisions, and establish authorized parameters for notional amount, swap maturity, source of payments, minimum or maximum rate as applicable and other relevant provisions. The swap authorization will specify the District officials, to whom authority is delegated to enter into, monitor and administer the swap, and the parameters within which their delegated authority may function. In the event of a conflict between a swap authorization and this Interest Rate Swap Policy, the terms and conditions of the swap authorization will govern.

Permitted Uses

Because of the effects of continual innovation in the financial markets, this Interest Rate Swap Policy recognizes that the reasons for use of swaps may change over time, taking advantage of market developments as they evolve and are tested. Among the strategies which the District may consider in applying swaps are:

- (i) Managing the District's exposure to floating and fixed interest rates, through interest rate swaps, caps, floors, collars, and other option products;
- (ii) Hedging variable rate risk with caps, collars, basis swaps, and other instruments;
- (iii) Locking in fixed rates in current markets for use at a later date through the use of forward swaps, swaptions, rate locks, options, and forward delivery products;
- (iv) Reducing the cost of fixed or variable rate debt, through swaps and related products to create a "synthetic" fixed or variable rate debt;
- (v) More rapidly accessing the capital markets than may be possible with conventional debt instruments;
- (vi) Managing the District's exposure to the risk of changes in the legal and regulatory treatment of tax-exempt bonds, including changes in federal marginal tax rates and other changes in tax laws that may affect the value of tax-exempt bonds relative to other investment alternatives;
- (vii) Managing other forms of interest rate and basis risk, such as the performance of its obligations under various interest rate environments;
- (viii) Managing the District's credit exposure to financial institutions and other entities through the use of offsetting swaps and other credit management products; and
- (ix) Other applications to enable the District to increase income, lower costs, or strengthen the District's balance sheet.

When a swap is being used in connection with a refunding rather than a new-money bond issue in order to produce savings, as a general rule the level of savings should exceed the District's fixed rate refunding savings target for conventional debt. The analysis of savings should take into account the presence or absence of call options and advance refunding restrictions on both the bonds and the swap. When a swap is used in connection with a new-money financing, a similar analysis may be used, comparing the savings produced through use of a swap with a hypothetical conventional fixed rate financing.

Swap exposure will not be measured only on its "notional" or stated amount, but will also be measured based on the amount of actual existing and potential exposure to payments required to be made by the District in the event of a termination. Maximum potential exposure, also referred to as "peak exposure," will be determined by a standard quantitative measurement that reflects the size, term, and projected volatility of the swaps¹. Exposure measurement will take into account offsetting swaps. The maximum potential exposure of all District swaps should be no more than 20% of outstanding debt for each enterprise i.e., Water system bonds and Wastewater system bonds. The District will also regularly evaluate its exposure to tax risk based on current legislative, regulatory and market developments.

While the District may use swaps to increase or decrease the amount of variable rate exposure on the District's balance sheet, the District will not enter into swaps under any of the following circumstances:

- The swap will expose the District to extraordinary leverage or risk;
- The swap serves a purely speculative purpose, such as entering into a swap for the sole purpose of trading gains;
- The District is unable to reasonably anticipate that it will have sufficient liquidity or financing capacity to terminate the swap at market rates, if it should need to;
- There is insufficient pricing data available to allow the District and its advisors to adequately value the swap.

**Counterparty
Credit Standards**

Unlike conventional debt instruments, swap products can create for the District a continuing exposure to the creditworthiness of financial institutions that serve as the District's counterparties on swap transactions. To protect the District's interests in the event of a counterparty credit problem, swaps entered into by the District will adhere to the following standards:

¹ Peak exposure (also referred to as "value at risk") provides a quantification of the District's reasonable "worst case" swap exposure, i.e. the risk to the District in the event of a swap termination. It is calculated by applying stress tests to the District's swaps to show how large the potential termination cost of the swaps could be if markets moved in an extremely adverse manner. Market movements are typically calculated assuming two standard deviation changes in interest rates, based on historic and/or implied volatilities, to provide a better than 95% degree of confidence or an instantaneous 200 basis point change in rates as used by Standard & Poor's in its Derivative Debt Policy ratings. Note that an instantaneous 200 basis point change generally encompassed the extreme market moves observed over three month periods during the 2008/2009 credit crisis.

- (i) **Use of highly rated counterparties:** Standards of creditworthiness, as measured by credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size, and interest-rate sensitivity of a transaction, types of counterparty, and potential for impact on the District's credit ratings. The District will enter into swaps only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency at the time the swap is entered into. In cases where the counterparty's obligations are rated based on a guarantee or specialized structure to achieve the required credit rating, the District shall thoroughly investigate the nature and legal structure of the guarantee or structure.
- (ii) **Collateralization on downgrade:** If the counterparty's credit rating is downgraded below the double-A rating category, the District shall require that its exposure to the counterparty be reduced by the posting of collateral by the counterparty.
- (iii) **Termination:** If the counterparty's credit is downgraded below an A-level rating, the District may exercise the right to terminate the transaction prior to its scheduled termination date notwithstanding the counterparty's posting of collateral. The District will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the District, and which would allow the District to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the District.
- (iv) **Notice:** The District's swap counterparties will be required to notify the District in the event a credit agency takes negative action with regard to the counterparty's credit rating, including both an actual downgrading of the credit rating as well as the publication of a notice by a rating agency that the counterparty's rating is in jeopardy of a downgrading (i.e., being placed on Standard & Poor's Credit Watch or being assigned a negative outlook by Moody's).
- (v) **Exposure limits:** In order to limit the District's counterparty risk, the District will avoid excessive concentration of exposure to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty will be measured based on the termination value of any swap contracts entered into with the counterparty, as well as such other measurements as the District may deem suitable to measure potential changes in exposure, such as peak exposure. Termination value will be determined at least annually and reported to the Board, based on a current market calculation of the cost of terminating the swap contract given the market conditions on the valuation date. Aggregate swap termination value for each counterparty should take into account netting of offsetting transactions (i.e., fixed-to-floating vs. floating-to-fixed). The District may require counterparties to provide regular current market valuations of swaps they have entered into with the District, and may also seek independent valuations from third-party professionals.

Method of Procurement

The District may choose counterparties for entering into swap contracts on either a negotiated or competitive basis. As a general rule, a competitive selection process is preferred. Negotiated procurement may be used for original or proprietary products, for original ideas of applying a specified product to a District need, or to avoid market-pricing effects that would be detrimental to the District's interests. To provide safeguards on negotiated transactions, the District shall secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to render an opinion that a fair price was obtained. In all transactions, regardless of procurement method, the counterparty shall be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who assisted the counterparty in securing business with the District and all payments made to third parties for the benefit of the District in connection with the swap transaction (such as fees to a broker or other intermediary). In addition, upon request of counsel to the District, the counterparty shall be required to disclose the terms of any "mirror" or "back-up" swap or other hedging relationship entered into by the counterparty in connection with the District's swap.

Documentation Guidelines

The District will use one of the forms of the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement as a framework for swap documentation. The swap agreement between the District and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the District, in consultation with its advisors and legal counsel, deems necessary or desirable.

Subject to the provisions contained herein, the terms of any new District swap agreement shall adhere to the following guidelines:

- (i) Downgrade provisions triggering termination shall be reflective of the relative credit strength of the District in comparison with the swap provider. This comparison should give weight to the prevailing greater credit strength of public sector entities as compared with the credit strength and higher corporate-equivalent ratings assigned to private sector financial institutions. For example, downgrade provisions affecting the District would be triggered at a BBB- level, while downgrade provisions affecting the swap provider would be triggered at an A- level.
- (ii) The District shall minimize or avoid cross default provisions. The specific indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of the District that could have a materially adverse effect on the District's ability to perform its obligations under the swap. Debt shall only include obligations within the same or superior lien as the swap obligation.
- (iii) Collateral thresholds for the swap provider shall be set on a sliding scale reflective of credit ratings². Collateral requirements should be established and based upon the credit ratings of the swap provider or its guarantor. District collateral thresholds, if any, will be negotiated on a transaction-by-transaction basis.

² Collateral thresholds are used to determine the amount of securities that a swap counterparty must post as collateral to secure their potential payment if there were an early termination. The threshold is generally expressed as a specified dollar amount. If the current value of the swap exceeds the dollar amount, the counterparty is required to post collateral equal to the amount of the excess. As counterparty's credit ratings decline, the threshold amount should shrink, requiring collateral posting even for smaller mark-to-market values. If ratings drop far enough, the threshold will fall to zero, meaning the counterparty must post collateral equal to the full amount of the market-to-market value.

- (iv) Eligible collateral shall be limited to cash, Treasuries and obligations of Federal Agencies, excluding interest-only, principal-only, and other complex securities.
- (v) The District shall have the right to optionally terminate a swap agreement "at market" at any time over the term of the agreement. The swap provider shall have no similar right.

The District will agree to adhere to the ISDA August 2012 DF Protocol (the "August 2012 Protocol"), the ISDA March 2013 DF Protocol (the "March 2013 Protocol") and any subsequent protocols and similar agreements established in response to Dodd-Frank Act swap regulations subject to such modifications as the officers of the District may deem to be in the best interest of the District, based upon the advice of the District's Financial Advisor or Bond Counsel, in order to facilitate future swap transactions, including the amendment, novation or termination (full or partial) of existing swap transactions. To that end, among other things, the District will comply with the policies and selection procedures for Qualified Independent Representatives specified in the DF Protocol and developed and implemented by District staff.

Risk Management

As a general rule, the District will manage the risks of its swap exposure on a District-wide or "macro" basis, and will evaluate individual transactions within the larger context of their impact across the District. Because of the size and complexity of the assets and liabilities of the District and its established financial systems and controls, the District will manage the risks and rewards of a swap program alongside its overall financial risks and rewards. As part of its risk management process, the District will evaluate the aggregate risk of its swap exposure as measured by value at risk, peak exposure, and/or realistic worst-case scenarios.

Among the risks that the District will monitor, evaluate, and seek to mitigate are the following, listed in the order of greatest potential impact:

| Type of Risk | Description | Evaluation Methodology | Mitigation |
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| Counterparty Risk | The risk of a failure of one of the District's swap providers to perform as required under a swap contract. | The District will evaluate the swap providers' credit ratings and existing exposure on other transactions. | The District will diversify its exposure, impose minimum credit rating standards and require protective documentation provisions. (See above, "Counterparty Credit Standards") |
| Termination Risk | The risk that a swap may be terminated prior to its scheduled maturity due to factors outside the District's control. | The District will review potential causes of early termination, including those resulting from documentation provisions and the likelihood of credit downgrade that could precipitate an early termination. | The District will use protective documentation provisions and will evaluate sources of internal liquidity and market access that could be used in the event a termination payment were required to be made. |
| Interest Rate Risk | The risk that the District's costs associated with variable-rate exposure increase and negatively affects budgets, coverage ratios and cash flow margins. Variable-rate exposure may be created by a swap from fixed to variable, or a swap that | Prior to taking on interest rate risk, the District will measure its capacity for floating rate exposure, based on policy targets for its mix of fixed and variable rate debt and investments, taking into consideration future variable rate needs. | The District will maintain variable rate exposure within the 25% limitation specified in its Cash Reserves and Debt Management Policy 4.02, and will make selected use of interest rate hedges, like caps and collars, to reduce that risk. In evaluating its variable rate exposure, the District will |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|--------------|--|---|--|
| | <p>otherwise creates some type of variable liability, such as basis risk, tax risk or yield curve risk (described below). The interest rate risk presented by such a swap may be increased as interest rates increase generally, as intra-market relationships change, or because of credit concerns relating to the District or a credit enhancer.</p> | | <p>consider the residual risks of variable rate debt that is not fully hedged by swaps, such as basis and tax risk.</p> |
| Basis Risk | <p>The risk that the floating rate on the swap fails to offset the variable rate on the associated asset or liability. Because swaps generally include cash flows based on a floating-rate index, the chosen index should correlate with the floating rate on the underlying instrument, but may not match exactly.</p> | <p>The District will measure and review the historic variation between the variable rate index used in the swap and the underlying variable rate instrument it is hedging. In the absence of a sufficient history of underlying instrument, it will use relevant comparable variable rate instruments. The degree of risks should be evaluated in comparison with degree of benefit provided.</p> | <p>The District will analyze historic relationships and consider mitigation techniques as warranted. When used in connection with an advanced refunding, mitigation techniques could include maintaining a cushion between the floating rate index and the expected trading level of the floating rate instrument, creating a reserve to cover potential basis risk mismatches, and including provisions for optional termination.</p> |
| Tax Risk | <p>A common type of basis risk on swaps used in conjunction with floating-rate tax-exempt debt is often referred to as "tax risk", or the risk of a mismatch between the floating rate on the tax-exempt debt and a swap index based on a taxable index like LIBOR. The correlation between the LIBOR-based rate and the floating rate on the debt may change based on changes in tax law, for example, changes in marginal tax rates, or other market events that change the trading pattern between tax-exempt and taxable securities. This risk can also be created by "basis swaps," where-in both parties pay a variable rate, but only one is based on a tax-exempt index.</p> | <p>The District will assess the risk of a significant tax law change that could reduce the benefits of a swap or generate unanticipated losses. Because this assessment requires judgment about future actions by the Federal government, the rewards for taking this risk should be deemed to be significantly greater than the risks, based on a careful assessment.</p> | <p>The District should monitor its tax risk position, including taking steps to reduce tax risk when favorable market opportunities present themselves, limiting tax risk to within acceptable bounds, and considering the use of financial mechanisms to cap tax risk exposure.</p> |
| Yield-curve | <p>Yield curve risk may be present in swaps where a longer-term variable rate is used to hedge a shorter-term variable, creating different potential gain and loss depending on the steepness of the yield</p> | <p>The District policy forbids the use of swaps purely for the purpose of obtaining trading gains. In addition to an examination of historic yield curves and the probability of net positive receipts, the District will also evaluate how</p> | <p>The District will identify offsetting transactions that mitigate the effect of continued or renewed flattening of yield curves. Also, the District will consider forward-starting instruments to limit negative cash-flows that might otherwise</p> |

| Type of Risk | Description | Evaluation Methodology | Mitigation |
|---------------|---|---|--|
| | curve. This form of swap, often called a "constant maturity swap" to reflect the fact that one party continues to receive payment based on a rolling long-term rate, is considered when the shape of the yield curve is flat, in anticipation of a steepening in the future. | the use of this swap fits into its overall risk management goals. For example, yield-curve swaps can help mitigate the underperformance of other structures in certain markets. | occur while the yield curve remains flat. |
| Rollover Risk | When a swap is used in conjunction with underlying variable rate debt that allows the investor to redeem the debt with the District on a regular interval, bank facility rollover risk exists if the term of a needed liquidity or credit facility on the debt is shorter than the term of the swap. The District is at risk as to both the availability and the price of successive bank facilities. | The District will evaluate the likelihood of unavailability of bank facilities based on the underlying credit of the debt as well as the general market for liquidity facilities. | These are risks shared generally by variable-rate debt structures. The District may use any of the following mitigation techniques: purchasing longer term facilities for credits where rollover risk is greatest; including alternative floating rate mechanisms, like SIFMA Index Bonds, in the bond documents; and staggering the maturity dates of different liquidity facility programs to diversify points of market re-entry. |
| Pricing Risk | The risk that the swap may not be priced fairly in comparison to the market for comparable swap transactions. | Prior to entering into a swap, the District will make a determination that the transaction can be priced with reasonable transparency and confidence. | The District will not enter into overly complex or illiquid transactions where fair pricing cannot be ascertained. Where it meets District objectives (as outlined above in Section 7 "Method of Procurement"), the District will use a competitive process. For negotiated transactions, it will seek independent price verification. |

Reporting

A report will be presented to the Board annually on the status of all outstanding swaps and compliance with this policy.

Glossary

Asset/Liability Matching. Matching the term and amount of assets and liabilities in order to mitigate the impact of changes of interest rates.

Basis Risk. The risk of a mismatch between an issuer's variable rate receipts (or payments) under a swap and its variable rate payments (or receipts) on the underlying bonds. Basis risk commonly occurs if variable rate swap payments are based on a percentage of LIBOR.

Basis Swap. A floating-to-floating rate swap in which one variable rate index is swapped for another. Basis swaps are commonly used to modify basis risk.

Bid/Ask Spread. The difference between the (i) bid price at which a market maker is willing to buy and (ii) the ask price at which a market maker is willing to sell.

Collar. A combination of an interest rate cap and an interest rate floor.

Collateralization Risk. The risk that circumstances will arise in the future that will require an agency to post collateral pursuant to a swap agreement

Counterparty. A party in a swap transaction.

Counterparty Credit Risk. The risk that the counterparty in a swap transaction may not be able to perform its financial obligations under the swap.

Credit Support. Collateral in the form of cash and/or marketable securities posted by one party to a swap agreement to reduce the credit exposure of the counterparty.

Credit Support Annex. A document governed by the ISDA Master Agreement which states the provisions and circumstances under which collateral posting is required.

Derivative Subsidiary. Typically created by a financial institution for entering into swap transactions. Such subsidiaries are usually guaranteed by the financial institution creating them, or are terminated if such financial institution falls into bankruptcy.

Fixed Rate Swap. An interest rate swap in which an agency pays a counterparty a fixed interest rate in exchange for receiving a variable interest rate - commonly used to create synthetic fixed rate obligations.

Variable Rate Swap. An interest rate swap in which an agency pays counterparty a variable interest rate in exchange for receiving a fixed interest rate - commonly used to create synthetic variable rate obligations.

Floor. A financial contract under which an issuer will make a payment to the swap provider when the underlying debt falls below the predetermined strike rate, or floor rate.

Forward Starting Swap. An interest rate swap under which the exchange of cash flows commences at later date - commonly used to lock in current interest rates for future transactions.

Interest Rate Cap. A financial contract in which the provider, in exchange for a fee, will make payments to an issuer of variable rate debt to the extent that the interest rate on that debt exceeds a specific rate (known as the "cap rate").

Interest Rate Swaps. A contractual agreement between two parties to exchange interest rate payments for a defined period of time.

ISDA Master Agreement. The standardized master legal agreement for all derivative transactions between an agency and counterparty.

LIBOR. London Inter-Bank Offered Rate, which is the interest rate banks charge each other for short-term money, up to a 12-month term. LIBOR is typically used as the index for the variable rate component of interest rate swaps.

Marked-to-Market. Calculation of the value of a financial instrument (e.g., an interest rate swap) based on current market rates.

Notional Amount. Similar to bond principal amount; used as the basis to determine the amount of swap interest payments. The notional amount will often amortize over time to match the amortization of the bonds to which the swap is related.

Optional Termination. The right of a party to terminate a swap at any time at prevailing market prices - in swap agreements, typically the agency is the only party to have such rights.

Settlement Amount. The amount the District or the counterparty would need to pay to the other upon early termination of the swap to make up for a loss in value due to a change in interest rates.

Swap Curve. The swap's equivalent of a yield curve for fixed rate securities. The swap curve identifies the relationship between rates at varying maturities.

Strike Rate. The rate at which the cash flows will be exchanged between the purchaser and the seller.

Swaption. An option on an interest swap that gives the purchaser the right, but not the obligation to begin, terminate or extend a swap based on certain agreed upon parameters.

Synthetic Fixed Rate. A synthetic fixed rate is created when issuing variable rate sales tax revenue bonds together with entering into a variable to fixed interest rate swap agreement.

Termination Event. Events that allow for the termination of a swap, e.g., a credit downgrade of the counterparty.

Termination Payment. Payment made by one counterparty to the other if the swap is terminated before its scheduled termination date. The payment is commonly based on the market value of the swap.

Threshold. The point at which the counterparty or the District will need to post collateral under the swap agreement. Threshold will vary with rating levels.

Authority

Adopted by Resolution 33591-07, April 10, 2007
Adopted by Resolution 33841-11, September 27, 2011
Adopted by Resolution 33925-13, April 23, 2013
Adopted by Resolution XXXXX-14, January 28, 2014



Memorandum

Date: January 9, 2013
To: East Bay Municipal Utility District
From: Montague DeRose and Associates
Subject: Interest Rate Swap Portfolio Review – December 31, 2013

INTRODUCTION

The attached Swap Portfolio Summary Report provides the status of all outstanding District Swap agreements as of December 31, 2013. The report is provided in accordance with Policy 4.23, Interest Rate Swap Policy. The District's swap portfolio continues to be in full compliance with Policy 4.23.

DISCUSSION

The attached Swap Portfolio Report as of December 31, 2013 provides a summary of the District's swap mark-to-market valuations, counterparty credit ratings and peak risk analysis. Counterparty credit ratings are used to determine eligible counterparties and to monitor their creditworthiness over the life of the swap. Pursuant to Policy 4.23, the District will initially enter into swaps only with highly rated counterparties and will require that if a counterparty is downgraded below specified ratings levels, the counterparty must post collateral to protect the District from a possible default by the counterparty. Counterparties must fully collateralize the amount of the District's positive mark-to-market value if their ratings fall below either Baa1/BBB+ or Baa2/BBB, depending on the specific swap agreement.

The District actively monitors "Peak Counterparty Risk" and "Peak Termination Risk," among other things. Peak Counterparty Risk is the expected maximum positive mark-to-market value during the life of the swap that the District could lose if a counterparty defaulted when the swap had a positive mark-to-market value to the District. Peak Termination Risk is the expected maximum termination payment the District would be required to make if the District were unexpectedly forced to terminate a swap when it had a negative mark-to-market value to the District. The Peak Counterparty Risk and the Peak Termination Risk values are determined by applying stress tests to the District's swaps and calculating the impact on the swap mark-to-market values of significant changes in interest rates, tax rates and other variables in each swap. According to Policy 4.23, the District's potential Peak Termination Risk on the Water System swaps and Wastewater System swaps cannot exceed 20% of the District's outstanding debt for the Water and Wastewater Systems, respectively.

A summary of the attached December 31, 2013 report is provided below:

Water System

- All counterparties have a credit rating of Baa2 (Moody's) or A- (Standard and Poor's) or higher.
- The combined swap mark-to-market value for all counterparties is negative \$58.7 million. This is the approximate amount the District would have had to pay to the counterparties if all of the swaps had been terminated on December 31, 2013.
- The total estimated Peak Termination Risk exposure (the expected maximum amount the District would have to pay to its counterparties if all the swaps were simultaneously terminated) is approximately \$136.5 million. The estimated Peak Termination Risk exposure is calculated based on the S&P Derivatives Product Policy "worst case" scenario of a 200 basis point instantaneous decline in interest rates. (Note the analysis assumes interest rates do not become negative.) This compares favorably to the policy limit of approximately \$520.1 million.
- The total estimated aggregate Peak Counterparty Risk exposure (the maximum positive mark-to-market value it would lose if all its counterparties defaulted simultaneously) is \$2.8 million. The exposure is calculated based on the S&P Derivatives Products Policy "worst case" scenario of a 200 basis point instantaneous rise in interest rates.

Wastewater System

- All counterparties have a credit rating of Baa2 (Moody's) or BBB (Standard and Poor's) or higher.
- The combined swap mark-to-market value for all counterparties is negative \$12.6 million. This is the approximate amount the District would have had to pay to the counterparties if all of the swaps had been terminated on December 31, 2013.
- The total estimated Peak Termination Risk exposure (the expected maximum amount the District would have to pay to its counterparties if all the swaps were simultaneously terminated) is approximately \$27.6 million. The estimated Peak Termination Risk exposure is calculated based on the S&P Derivatives Product Policy "worst case" scenario of a 200 basis point instantaneous decline in interest rates. (Note the analysis assumes interest rates do not become negative.) This compares favorably to the policy limit of \$92.7 million.
- The total estimated aggregate Peak Counterparty Risk exposure to the District is zero. The exposure is calculated based on the S&P Derivatives Products Policy "worst case" scenario of a 200 basis point instantaneous rise in interest rates.

EAST BAY MUNICIPAL UTILITY DISTRICT
Swap Portfolio Valuation Summary
12/31/2013

Water Bond Swap Portfolio

| Bond Series | Counterparty | Obligor | Guarantor | Ratings | Outstanding Balance | Maturity | Fixed Leg % | Floating Leg % | Floating Index | 12/31/2013 MTM | 9/30/2013 MTM | Change MTM | - 200 bps | + 200 bps |
|----------------------------|---------------|-------------------|-----------|---------|---------------------|----------|----------------|----------------|----------------|---------------------|---------------------|-------------------|----------------------|------------------|
| 2011A Water Refunding | BNY | Bank of NY Mellon | | Aa2/AA- | 98,780,000 | 6/1/2025 | 3.8350% | 65.00% | 1M Libor | (16,062,804) | (19,016,200) | 2,953,396 | (27,527,536) | (5,853,722) |
| 2011A Water Refunding | JPM | JP Morgan Chase | | Aa3/A+ | 49,390,000 | 6/1/2025 | 3.8350% | 65.00% | 1M Libor | (8,031,218) | (9,607,837) | 1,476,719 | (13,763,671) | (2,826,702) |
| 2008A Water Refunding | JPM | JP Morgan Chase | | Aa3/A+ | 70,965,000 | 6/1/2038 | 3.1150% | 62.30% | 1M Libor | (8,776,122) | (11,430,996) | 2,654,874 | (24,405,564) | 2,742,372 |
| 2008A Water Refunding | BANA | BANA | | A2/A | 70,965,000 | 6/1/2038 | 3.1150% | 62.30% | 1M Libor | (8,776,122) | (11,430,996) | 2,654,874 | (24,405,564) | 2,742,372 |
| 2008A Water Refunding | MLCS | Merrill Lynch | | Baa2/A- | 30,860,000 | 6/1/2038 | 3.1150% | 62.30% | 1M Libor | (3,815,233) | (4,969,410) | 1,154,177 | (10,810,212) | 1,192,400 |
| 2008A Water Refunding | BNY | Bank of NY Mellon | | Aa2/AA- | 27,770,000 | 6/1/2038 | 3.1150% | 62.30% | 1M Libor | (3,434,291) | (4,473,161) | 1,038,870 | (9,550,288) | 1,073,071 |
| 2008/2008B Water Refunding | Deutsche Bank | Deutsche Bank | | A2/A | 61,060,000 | 6/1/2026 | 3.4089% | 91.00% | SIFMA | (6,196,375) | (7,646,519) | 1,450,144 | (16,421,666) | 2,322,382 |
| 2008 Water Refunding | CITI | Citibank N.A. | | A2/A | 15,675,000 | 6/1/2026 | 3.4089% | 91.00% | SIFMA | (1,557,868) | (1,942,226) | 384,358 | (4,294,794) | 701,679 |
| 2008 Water Refunding | MLCS | Merrill Lynch | | Baa2/A- | 20,360,000 | 6/1/2026 | 3.4089% | 91.00% | SIFMA | (2,065,468) | (2,548,840) | 483,382 | (5,473,889) | 774,127 |
| | | | | | 445,795,000 | | 3.4177% | | | (68,716,481) | (72,966,285) | 14,250,794 | (136,463,184) | 2,767,979 |

Wastewater Bond Swap Portfolio

| Bond Series | Counterparty | Obligor | Guarantor | Ratings | Outstanding Balance | Maturity | Fixed Leg % | Floating Leg % | Floating Index | 12/31/2013 MTM | 9/30/2013 MTM | Change MTM | - 200 bps | + 200 bps |
|-----------------------------|--------------|--------------------|-----------|----------|---------------------|----------|----------------|----------------|----------------|---------------------|---------------------|-------------------|----------------------|------------------|
| 2011 A Wastewater Refunding | Dexia | Dexia Credit Local | | Baa2/BBB | 61,725,000 | 6/1/2038 | 3.0875% | 62.30% | 3M Libor | (6,372,083) | (6,255,038) | 1,822,955 | (16,184,201) | 1,367,166 |
| 2008 C Wastewater Refunding | CFPI | Citigroup, Inc. | | Baa2/A- | 25,845,000 | 6/1/2027 | 3.4680% | 65.00% | 1M Libor | (3,814,222) | (3,814,222) | 680,672 | (5,722,324) | (814,096) |
| 2008 C Wastewater Refunding | JPM | JP Morgan Chase | | Aa3/A+ | 25,845,000 | 6/1/2027 | 3.4680% | 65.00% | 1M Libor | (3,133,550) | (3,814,222) | 680,672 | (5,722,324) | (814,096) |
| | | | | | 113,415,000 | | 3.2664% | | | (12,639,153) | (15,883,482) | 3,244,299 | (27,638,649) | (260,996) |
| | | | | | 659,210,000 | | 3.3871% | | | (71,354,674) | (88,849,767) | 17,495,093 | (164,092,033) | 2,506,983 |

ITEM #10

LEGISLATIVE UPDATE

WILL BE GIVEN AS AN
ORAL REPORT



AGENDA NO.
MEETING DATE

11
January 28, 2014

**TITLE PROJECT LABOR AGREEMENT FOR CONSTRUCTION OF CHABOT DAM
SEISMIC UPGRADE**

MOTION _____ RESOLUTION _____ ORDINANCE _____

RECOMMENDED ACTION

Authorize the development of a Project Labor Agreement (PLA) for the construction of the Chabot Dam Seismic Upgrade project.

SUMMARY

A PLA is a pre-hire collective bargaining agreement with one or more labor organizations that establishes the terms and conditions of employment for a specific construction project. Studies of PLAs have mixed results, with some studies concluding that PLAs can have a favorable impact on helping to control costs and others finding that the agreements can increase costs and may negatively impact non-union contractors and workers.

This issue was most recently discussed with the Legislative/Human Resources Committee on December 10, 2013 and during prior Committee meetings on June 12, 2012 and December 11, 2012. Staff proposes to conduct a pilot PLA on the Chabot Dam Seismic Upgrade project to gain experience in the cost and benefits of using PLAs . The project has an estimated construction cost of \$15 million and is currently in the Environmental Impact Report planning phase. There is sufficient time to develop a PLA concurrent with the project planning and design phases before the anticipated advertising for construction bids in fall 2015. Following Board authorization to develop the PLA, the next steps would be:

1. Select a consultant and prepare PLA negotiating principles for Board consideration.
2. Negotiate and prepare the PLA document for Board consideration.

DISCUSSION

In the Bay Area, some agencies that use PLAs do so on a case by case basis and others establish a single PLA for multiple projects (effectively establishing a policy). For example, Contra Costa Water District

| | | |
|---|---|--|
| Funds Available: FY14-15;CIP #000861; Page 12 | | Budget Code: WSC/570/7999/5231/2006797 |
| DEPARTMENT SUBMITTING Engineering and Construction | DEPARTMENT MANAGER or DIRECTOR Xavier J. Irias | APPROVED General Manager |

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applies PLAs to their work on a case by case basis. Agencies that have established a single PLA covering multiple projects include Contra Costa County Public Works, Alameda County Public Works and the Port of Oakland (with threshold construction dollar values of \$1 million) and San Francisco Public Utility Commission's Water Supply Improvement Program (threshold value of \$5 million). Based on an investigation of the experience of other agencies, staff has projected costs and schedule impacts associated with PLAs.

Staff estimates that a PLA will require three to four months for consultant procurement and three to nine months to negotiate and put in place. This work will be done concurrent with project planning and design and completed before the project is put out to bid so potential bidders are aware of the PLA's conditions.

Staff estimates that initial negotiation and development of a PLA will cost \$30,000 to \$80,000 in consultant fees and require 1.0 full-time employee (FTE) at the Senior Engineer level. The complexity, cost, and duration of negotiations are influenced by many factors, including the number of county building and trade councils involved, number of labor unions involved, number of PLA elements incorporated (e.g., union hiring/work rules, local hiring/social justice, health and safety or substance abuse), and the level of conflicting goals and opinions among the parties to the PLA. Costs for ongoing administration of a PLA could vary significantly depending on the PLA terms and the level of monitoring established in the agreement. Staff estimates the mid-range of annual cost to be \$70,000 in consultant fees plus about 1.0 FTE at the Senior Engineer level.

To learn more about negotiating, developing and administering a PLA, staff suggests piloting a PLA on the Chabot Dam Seismic Upgrade project. This approach has the benefit of providing flexibility for the District to explore PLA terms and conditions concurrent with the project planning and design, thereby minimizing the overall cost and schedule impact.

The costs and schedule impact of PLA development and administration could be theoretically offset by reducing the risk of labor stoppages during the project construction, although such stoppages have not been an issue on District jobs. Additionally, the project includes a requirement for a formal third-party Labor Compliance Program (LCP) as a condition of grant funding by the Department of Water Resources. Some of the administrative costs associated with a PLA pilot would already be incurred due to the required investment in an LCP, making this pilot a cost-effective method for PLA evaluation.

FISCAL IMPACT

Funds are available in the FY14-15 Capital Improvement Program for the Chabot Dam Seismic Upgrade under the Dam Seismic Upgrades Program.

ALTERNATIVES

Do not authorize the pilot PLA. This alternative is not recommended because the costs and impacts to the District to implement a PLA for projects are relatively unknown and do not allow the District the flexibility to explore PLAs.



AGENDA NO. 12
 MEETING DATE January 28, 2014

TITLE REFUNDING OF WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS, SERIES F

MOTION RESOLUTION ORDINANCE

RECOMMENDED ACTION

Adopt a resolution providing for the issuance and sale of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G.

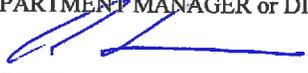
SUMMARY

The District has outstanding \$18,555,000 of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F, which mature in April 2018. The District now has the opportunity to refund the bonds, consistent with the Financing Plan adopted by the Board in September 2013. The refunding is estimated to achieve debt service savings of \$1.27 million on a net present value basis. Savings achieved by the refunding will lower the ad valorem tax rate that the Board levies annually for Special District No. 1 by an estimated \$0.0004 per \$100 of assessed value, a 6 percent decrease from the current year.

A copy of the bond resolution is attached. Copies of the other documents are provided on the attached CD and paper copies are available upon request from the Office of the Secretary.

DISCUSSION

In 1970, voters in Special District No. 1 authorized issuance of \$60 million in General Obligation (G.O.) bonds. The District subsequently issued the full authorized amount in several series. Since then the District refunded the bonds in 1986, 1993, and most recently in 2003. The bonds currently outstanding total \$18,555,000 and have a final maturity in April 2018. Taxes have already been collected to make the April 2014 payment. The Board is being asked to authorize a refunding of the 2015 through 2018 maturities. The refunding will lower annual debt service while maintaining the current maturity date. Debt service savings are estimated at \$1.27 million on a net present value basis based on current market conditions and incorporating an estimated cost of issuance of \$300,000 and estimated underwriters' discount of \$75,000.

| | | |
|-----------------------|--|--|
| Funds Available FY: | | Budget Code: |
| DEPARTMENT SUBMITTING | DEPARTMENT MANAGER or DIRECTOR | APPROVED |
| Finance Department |  Eric L. Sandler |  General Manager |

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G.O. bonds differ from the rest of the District's outstanding bonds in that they are payable from ad valorem taxes rather than system net revenues. The Board annually adopts a resolution fixing the ad valorem tax rate for Special District No. 1 at a level sufficient to cover the debt service coming due that year. The refunding is being structured to lower annual debt service, which in turn will lower the tax rate. In August 2013 the Board adopted the Fiscal Year 2014 tax rate of \$0.0066 per \$100 of assessed valuation. Assuming no change in assessed value, the refunding would decrease the tax rate by \$0.0004 to \$0.0062 per \$100 of assessed valuation, a 6 percent savings.

The G.O. bonds will be sold via a "competitive" rather than "negotiated" sale. G.O. bonds are generally sold competitively because they are relatively uncomplicated from a legal perspective and have strong credit characteristics. Under the competitive method of sale, the G.O. bonds will be structured with the help of the District's Financial Advisor. The underwriting community will be notified when the bonds will be available for sale. At the specified date and time, following strict guidelines, underwriters will submit their bids. The underwriter(s) providing the most favorable bids will be awarded the bonds. Unlike the G.O. bonds, the District's revenue bonds are sold on a "negotiated" basis. Revenue bonds are far more complex than G.O. bonds, both legally and from a credit perspective. Underwriters' participation is necessary from the outset so that the revenue bonds can be structured to achieve the District's objectives, including optimum acceptance by the investor community and lowest possible cost to the District.

The resolution being presented for the refunding G.O. Bonds supplements the original 1971 G.O. bond resolution and provides certain terms of the G.O. Bonds to be issued. The resolution approves the sale of the G.O. Bonds by a competitive public sale and authorizes the General Manager or the Director of Finance (or a duly authorized designee of the General Manager) to accept the bids for the sale of the G.O. Bonds and to award the G.O. Bonds to the winning bidder in accordance with the Official Notice of Sale for the bonds or to otherwise reject bids and/or reschedule or cancel the sale of the G.O. Bonds as so determined. The resolution approves the forms of preliminary official statement, the continuing disclosure agreement, the escrow agreement, the official notice of sale and the notice of intention to sell the bonds and authorizes the publication of such notice of intention to sell in accordance with legal requirements and market convention and delegates authority to the General Manager or the Director of Finance (or a duly authorized designee of the General Manager) and other proper officers of the District to execute such documents and any other documents in connection with the bonds and to take all actions necessary to complete this transaction.

A summary of the key bond documents is as follows:

- Authorizing Resolution – authorizes the issuance of the refunding G.O. Bonds of Series G and the competitive sale of such bonds in an amount not to exceed \$16.5 million and with a final maturity not later than April 1, 2018 on the terms as described in the resolution and provided that the net present value of the savings from the delivery of the refunding G.O. bonds is not less than 3 percent of the par amount of the bonds refunded thereby.
- Notice of Intention to Sell – this notice will be published in the local newspaper and in The Bond Buyer, a financial publication for the municipal bond industry, in order to alert the potential underwriting firms interested in purchasing the District's G.O. Bonds of the upcoming competitive sale.
- Official Notice of Sale – this notice will be distributed to potential bidders for the purchase of the G.O. Bonds and describes the terms upon which the District will offer the refunding G.O. Bonds for competitive sale, the parameters under which the electronic bidding for the sale of the G.O. Bonds will be conducted and summarizes certain terms of the G.O. Bonds and directs the potential bidders for the G.O. Bonds on how to obtain the District's preliminary official statement describing the bonds and their security in more detail.
- Preliminary Official Statement – the disclosure document prepared by the District that provides information about the District, Special District No. 1, the procedures for the levy and collection of the *ad valorem* tax to pay the G.O. Bonds debt service and the history thereof, and the terms of the G.O. Bonds to potential investors. A final Official Statement will be prepared after the sale of the bonds for distribution to actual purchasers of the G.O. Bonds. Under the federal securities laws, this disclosure document is required to contain all information that would be material to investors in making their decision on whether to purchase the District's G.O. Bonds.
- Continuing Disclosure Agreement – provides for the District's obligation to provide certain annual reports and notices of certain events in connection with the G.O. Bonds in the secondary market. Under the securities laws, the underwriting firm or firms that is the winning bidder for the purchase of the G.O. Bonds is required to obtain this commitment to provide ongoing disclosure from the District in connection with purchasing the District's bonds.
- Escrow Agreement – relates to the refunding and defeasance of the District's G.O. Bonds of Series F to be refunded and provides for the deposit and application of proceeds of the refunding G.O. Bonds of Series G to refund and redeem on April 1, 2014 the outstanding Bonds of Series F maturing on April 1, 2015 through April 1, 2018.

UNION NOTIFICATION

The proposed refunding has no union impact so union notification was not required.

FISCAL IMPACT

This item will not affect the District's budget as the reduction in debt service will be offset by a lower ad valorem tax rate resulting in lower property tax revenues.

ALTERNATIVE

Do not refund the outstanding General Obligation Bonds. This is not recommended as it would result in higher ad valorem tax rates than necessary for Special District No. 1 taxpayers.

Attachments:

1. Authorizing Resolution
2. CD containing: Notice of Intention to Sell; Official Notice of Sale; Preliminary Official Statement; Continuing Disclosure Agreement; Escrow Agreement

RESOLUTION NO. _____

PROVIDE FOR THE ISSUANCE AND SALE OF NOT TO EXCEED \$16,500,000 PRINCIPAL AMOUNT OF EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1, ISSUE OF 1970, WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS, SERIES G; APPROVE THE FORM AND AUTHORIZE THE EXECUTION OF CERTAIN DOCUMENTS IN CONNECTION WITH THE ISSUANCE AND SALE OF SUCH BONDS; AUTHORIZE THE PUBLIC SALE OF SUCH BONDS; AND AUTHORIZE CERTAIN OTHER ACTIONS RELATING THERETO

Introduced by Director

; Seconded by Director

WHEREAS, pursuant to an election duly and regularly held in East Bay Municipal Utility District (the "District") Special District No. 1 on November 3, 1970, the Board of Directors of the District (the "Board") on June 8, 1971 duly adopted its Resolution No. 25676 (herein called the "Bond Resolution") providing for the issuance of \$60,000,000 principal amount of East Bay Municipal Utility District, Special District No. 1 Bonds, Issue of 1970 (the "Bonds"), and authorizing the issuance of said Bonds in series; and

WHEREAS, \$60,000,000 aggregate principal amount of such Bonds have heretofore been issued pursuant to the Bond Resolution; and

WHEREAS, pursuant to Section 13281 of the Municipal Utility District Act, being Division 6 of the Public Utilities Code of the State of California and Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), the Board may, whenever the Board by resolution passed by a vote of two-thirds of all its members determines that the refunding of a whole or any portion will be of advantage to the District, refund the bonded indebtedness of the District or any portion thereof and issue refunding bonds of the District therefore; and

WHEREAS, the District has heretofore issued its \$41,730,000 principal amount of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F (the "Series F Bonds") pursuant to the Bond Resolution and Resolution No. 33043-02 of the District, adopted on December 10, 2002, for the purpose of refunding a portion of the Bonds previously issued under the Bond Resolution (such portion being a part of the District's Special District No. 1, Issue of 1970, Wastewater System General Obligation Bonds, Series E (the "Series E Bonds")); and

WHEREAS, there currently remains \$18,555,000 principal amount of Series F Bonds outstanding; and

WHEREAS, the Board has now determined that Bonds in the principal amount of not to exceed \$16,500,000 should be issued pursuant to the Bond Resolution and this resolution and designated "Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G," which Bonds shall constitute the "Refunding Bonds of Series G" under the Bond

Resolution, for the purpose of refunding the \$15,255,000 principal amount of outstanding Series F Bonds maturing on and after April 1, 2015 and paying costs of issuance of the Refunding Bonds of Series G; and

WHEREAS, pursuant to Section 13282 of the Act, the issuance of refunding bonds shall not be construed as the incurring or increase of an indebtedness within the meaning of the Act and the approval of the voters is not required for the issuance of refunding bonds; and

WHEREAS, all conditions, things and acts required by law to exist, happen and be performed precedent to and in connection with the issuance of said Refunding Bonds of Series G, have happened and have been performed in regular and due time, form and manner as required by law, and the District is now duly empowered to issue said Refunding Bonds of Series G;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of East Bay Municipal Utility District, as follows:

Section 1. Authorization of Issue; Findings and Determination. The Board hereby finds, determines and resolves:

(a) The Board determines to authorize an issue of bonds of Special District No. 1 in the aggregate principal amount of not to exceed \$16,500,000 in accordance with the provisions of the Act. The bonds herein authorized to be issued shall be issued in accordance with said Act and without an election as provided in Section 13282 of said Act. The bonds herein authorized to be issued shall be issued in all respects on a parity with and as a part of the bonds authorized pursuant to the Act and the Bond Resolution and shall be equally and ratably secured and paid without preference, priority or distinction of any one series of bonds over any other (except with respect to dates, series, numbers, maturity dates, interest rates or provisions for prior redemption).

(b) That East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Bonds in the principal amount of \$60,000,000 were duly authorized to be issued pursuant to an election held in the District on November 3, 1970, of which \$60,000,000 aggregate principal amount, comprised of the Bonds of Series A, B, C and D and a portion of Series E, have been heretofore issued.

(c) That a portion of the Series E Bonds were refunded by the District with amounts derived from the issuance of the Series F Bonds.

(d) That the Board is authorized to issue refunding bonds for the purpose of refunding the whole or any portion of its bonded indebtedness whenever the Board by resolution passed by a vote of two-thirds of all its members determines that the refunding of the whole or any portion will be of advantage to the District; and that the Board here so determines that the refunding of the Series F Bonds maturing on and after April 1, 2015 will be to its advantage in lowering the District's cost of interest with respect to its bonded indebtedness to the benefit of the taxpayers within said Special District No. 1.

(e) That the bonds authorized to be issued pursuant to this resolution shall be refunding bonds and shall not be construed as the incurring or increase of an indebtedness within

the meaning of the Act and the approval of the voters is not required for the issuance of refunding bonds.

(f) That the bonds constituting the Refunding Bonds of Series G are hereby authorized to be issued and shall be offered for sale to prospective bidders at a public sale.

(g) That said bonds to constitute the Refunding Bonds of Series G are authorized to be and will be issued in accordance with the laws authorizing the issuance of bonds of the District, including the provisions of the Act, and all other laws of the State of California now in effect.

Section 2. Issuance and Certain Terms of Refunding Bonds of Series G. A seventh series of bonds to be issued under the Bond Resolution, in the aggregate principal amount not to exceed \$16,500,000, is hereby created and shall be designated "East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G" (herein called the "Refunding Bonds of Series G"). The Refunding Bonds of Series G will be issued in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof. The Refunding Bonds of Series G shall initially be registered in the name of "Cede & Co.," the nominee of The Depository Trust Company, New York, New York. Each Refunding Bond of Series G shall bear interest until paid at such rate or rates as may be fixed at the time of the sale of the Refunding Bonds of Series G and set forth in a certificate, substantially in the form attached hereto as Exhibit A, executed by the Director of Finance of the District and setting forth certain terms of the Refunding Bonds of Series G and this resolution (hereinafter, the "District Closing Certificate"); provided that in accordance with the Bond Resolution, such interest rate or rates designated in such certificate shall not exceed seven percent (7%) per annum. The Refunding Bonds of Series G shall mature on April 1 in the years and in the amounts hereafter determined and set forth in the District Closing Certificate; provided that, the final maturity of the Refunding Bonds of Series G shall be not later than April 1, 2018, the date of final maturity of the Series F Bonds refunded thereby. The net present value of the savings from the delivery of the Refunding Bonds of Series G shall be not less than three percent (3.00%) of the par amount of the Series F Bonds refunded thereby.

Each Refunding Bond of Series G shall bear interest from the interest payment date next preceding the date of registration (unless it is registered on an interest payment date, in which event it shall bear interest from the date of registration, or unless it is registered prior to the first interest payment date, in which event it shall bear interest from its dated date). Interest on the Refunding Bonds of Series G shall be payable semiannually on April 1 and October 1 in each year, commencing on the date set forth in the District Closing Certificate.

Subject to Section 6 hereof, interest on the Refunding Bonds of Series G shall be payable by check mailed by first class mail on each interest payment date to the registered owner thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date. Interest on the Refunding Bonds of Series G shall be computed on the basis of a 360-day year of twelve 30-day months. The principal of and premium, if any, on the Refunding Bonds of Series G shall be payable in lawful money of the United States of America at the office of Wells Fargo Bank, National Association, or its successors or assigns, as paying agent and registrar of the District in San Francisco, California.

The Refunding Bonds of Series G shall not be subject to redemption before their respective stated maturities.

Section 3. Execution of Refunding Bonds of Series G. The Refunding Bonds of Series G shall be executed as provided by the Bond Resolution. Each Refunding Bond of Series G shall bear a certificate of authentication executed by the registrar in San Francisco, California, in the form hereinbefore set forth, and such certificate of the registrar shall be conclusive evidence that the Refunding Bonds of Series G so authenticated have been duly authorized by the Bond Resolution and are entitled to the benefits of the Bond Resolution.

Section 4. Form of Refunding Bonds of Series G. The Refunding Bonds of Series G and the certificate of authentication to be executed thereon, shall be in substantially the following form, the blanks being suitably filled in:

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

No. R- _____

\$ _____

[FORM OF REFUNDING BOND OF SERIES G]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

EAST BAY MUNICIPAL UTILITY DISTRICT
(ALAMEDA AND CONTRA COSTA COUNTIES, CALIFORNIA)
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BOND,
SERIES G

Unless this bond certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the District or its agent for registration of transfer, exchange, or payment, and any bond certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

| Maturity Date | Interest Rate Per Annum | Dated Date | CUSIP |
|----------------|----------------------------|-------------|------------|
| April 1, _____ | _____ % | _____, 2014 | 271011____ |

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

EAST BAY MUNICIPAL UTILITY DISTRICT, a municipal utility district duly organized and existing under the Constitution and laws of the State of California, hereby acknowledges that East Bay Municipal Utility District, Special District No. 1 (a special district duly organized and existing within the boundaries of the East Bay Municipal Utility District) is indebted and, for value received, promises to pay to the registered owner specified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter in this bond expressly mentioned), the principal amount specified above together with interest thereon from the interest payment date next preceding the date of registration of this bond (unless this bond is registered on an interest payment date, in which event it shall bear interest from the date of registration, or unless this bond is registered prior to the first interest payment date, in which event it shall bear interest from the dated date set forth above) until the

principal hereof shall have been paid, at the interest rate per annum specified above, payable semiannually on April 1 and October 1 in each year, commencing on [October] 1, 2014.

Interest hereon is payable by check mailed by first-class mail on each interest payment date to the registered owner as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date. The principal hereof and premium, if any, on this bond are payable in lawful money of the United States of America at the office of Wells Fargo Bank, National Association, or its successors or assigns, as paying agent and registrar of said District in San Francisco, California.

This bond is one of a duly authorized issue of East Bay Municipal Utility District, Special District No. 1, aggregating Sixty Million Dollars (\$60,000,000) in principal amount, all of like tenor (except for such variations as may be required to designate varying series, numbers, denominations, maturities, interest rates and redemption prices, if any), is one of the bonds of said authorized issue of the series designated on the face hereof and constituting the "Refunding Bonds of Series G," and is issued under and in compliance with the Constitution and statutes of the State of California, and under and pursuant to proceedings of East Bay Municipal Utility District, Special District No. 1, duly adopted and taken. This bond is issued pursuant to Resolution No. 25676 of the Board of Directors of said District, as supplemented by a resolution providing for the issuance of the Refunding Bonds of Series G (herein collectively called the "Resolution").

This bond constitutes a general obligation indebtedness of East Bay Municipal Utility District, Special District No. 1, and only the property in said Special District No. 1 shall be taxable for the payment of the principal of and interest on this bond and all other bonds of this issue. This bond and all other bonds of this issue shall be payable, as to both principal and interest, from *ad valorem* taxes which may be levied upon property within said Special District No. 1 subject to taxation therefore without limitation of rate or amount (except certain personal property which is taxable at limited rates).

This bond is not subject to redemption prior to its stated maturity.

The bonds of this issue are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. This bond may, in accordance with its terms, be transferred upon the books required to be kept at the principal office of the paying agent and registrar of the District in San Francisco, California, as provided in the Resolution, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the registrar, duly executed, and upon payment of any tax or other governmental charge required to be paid in connection with such transfer. No transfer of this bond shall be required to be made during the fifteen (15) days next preceding each interest payment date.

This bond may be exchanged at the principal office of the registrar in San Francisco, California, for a like aggregate principal amount of bonds of other authorized denominations of the same maturity, upon payment of any tax or other governmental charge required to be paid with respect to such exchange. No such exchange shall be required to be made during the fifteen (15) days next preceding each interest payment date.

This bond was issued by means of a book-entry system with no physical distribution of bond certificates to be made except as provided in the Resolution. One bond certificate with respect to each date on which the bonds of this issue are stated to mature, registered in the name of the Cede & Co, is being issued and required to be deposited with the Depository and immobilized in its custody. The book-entry system will evidence positions held in the bonds by the Participants in such Depository, beneficial ownership of the bonds in authorized denominations being evidenced in the records of such Participants. Transfers of ownership shall be effected on the records of the Depository and its Participants pursuant to rules and procedures established by the Depository and its Participants. The District and the paying agent will recognize Cede & Co., while the registered owner of this bond, as the owner of this bond for all purposes, including (i) payments of principal of, and redemption premium, if any, and interest on this bond and (ii) notices. Transfer of principal and interest payments to Participants in the Depository, and transfer of principal and interest payments to beneficial owners of the bonds by Participants of the Depository will be the responsibility of such Participants and other nominees of such beneficial owners. The District will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by the Depository, Cede & Co., its Participants or persons acting through such Participants. While Cede & Co. is the registered owner of this bond, notwithstanding any other provision hereof, payments of principal of and interest on this bond shall be made in accordance with existing arrangements between the paying agent or its successors under the Resolution and the Depository.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Resolution.

It is hereby certified that all conditions, things and acts required by law to exist, to happen and to be performed precedent to and in the issuance of this bond have existed, happened and been performed in due time, form and manner as required by law, that the amount of this bond, together with all other indebtedness of East Bay Municipal Utility District, Special District No. 1, does not exceed any limit prescribed by the Constitution or statutes of California, and that provision has been made as required by law for the levy and collection of annual *ad valorem* taxes on the property in East Bay Municipal Utility District, Special District No. 1 sufficient to pay the principal of and interest on this bond due and all other bonds of this issue as the same become due.

This bond shall not be entitled to any benefit under the Resolution, or be valid or become effective for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the registrar under the Resolution.

IN WITNESS WHEREOF, EAST BAY MUNICIPAL UTILITY DISTRICT has caused this East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bond, Series G to be executed, in its name and on its behalf, by the President of its Board of Directors and by its Treasurer, and countersigned by its Secretary, and this bond to be dated _____, 2014.

President of the Board of Directors of
East Bay Municipal Utility District

Treasurer of East Bay Municipal Utility District

[SEAL]

Attested:

Secretary of East Bay Municipal Utility District

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the bonds described in the within mentioned Resolution, registered on the date set forth below.

Dated: _____, ____

WELLS FARGO BANK, NATIONAL
ASSOCIATION, Registrar

By _____
Authorized Officer

ASSIGNMENT

For value received _____ hereby sell, assign and transfer unto _____ the within bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the District at the office of the paying agent and registrar, with full power of substitution in the premises.

NOTE: The signature to this Assignment must correspond with the name on the face of the within registered bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guaranteed by:

NOTE: Signature must be guaranteed by an eligible guarantor institution.

Section 5. Registration and Exchange of Refunding Bonds of Series G.

(a) Wells Fargo Bank, National Association, San Francisco, California, or its successors or assigns, is hereby appointed to act as paying agent and registrar of the Refunding Bonds of Series G. The registrar will keep or cause to be kept, at its principal office in San Francisco, California, sufficient books for the registration and transfer of the Refunding Bonds of Series G, which shall at all times be open to inspection by the District and a duplicate copy of which, with all subsequent changes, shall be furnished to the District; and, upon presentation for such purpose, the registrar shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Refunding Bonds of Series G as hereinafter provided.

(b) Subject to Section 6 hereof, the registrar shall pay interest to the registered owner of any Refunding Bond of Series G by check mailed to such owner at his or her address appearing on the registration books as hereinabove provided.

(c) Any Refunding Bond of Series G may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the foregoing subsection (a), by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Refunding Bond of Series G for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the registrar, duly executed.

Whenever any Refunding Bond of Series G shall be surrendered for transfer, the District shall execute and the registrar shall authenticate and deliver a new Refunding Bond of Series G of the same interest rate and maturity and for a like aggregate principal amount. The registrar shall require the payment by the bondholder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

No transfer of Refunding Bonds of Series G shall be required to be made during the fifteen (15) days next preceding each interest payment date.

(d) Refunding Bonds of Series G may be exchanged at the principal office of the registrar in San Francisco, California, for a like aggregate principal amount of Refunding Bonds of Series G of other authorized denominations of the same maturity. Any and all such exchanges shall be made without charge by the District therefore, but the registrar shall require the payment by the bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No such exchange shall be required to be made during the fifteen (15) days next preceding each interest payment date.

Section 6. Book-Entry System.

(a) As used in this Section 6, the terms set forth below shall have the meanings ascribed to them:

“Depository” means the securities depository acting as Depository pursuant to this Section 6.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Refunding Bonds of Series G.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to this Section 6.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

“Record Date” means the fifteenth (15th) day of the month immediately preceding an interest payment date.

(b) The Refunding Bonds of Series G shall be issued in fully registered form, in authorized denominations and shall be initially registered in the name of “Cede & Co.,” as nominee of the Depository, and shall be evidenced by a separate single fully-registered bond (which may be typewritten) for each maturity of such Refunding Bonds of Series G.

Registered ownership of the Refunding Bonds of Series G, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of The Depository Trust Company or its nominee, or to any substitute depository designated pursuant to clause (ii) of this Section 6(b) (a “Substitute Depository”), provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any Substitute Depository, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the District that DTC or its successor (or any Substitute Depository or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of DTC or its successor (or Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that it is in the best interests of the District to remove DTC or its successor (or any Substitute Depository or its successor) from its function as depository.

(c) In the case of any transfer pursuant to clause (i) or clause (ii) of Section 6(b), upon receipt of all outstanding Refunding Bonds of Series G by the paying agent, together with a written request of the District to the paying agent, a single new Refunding Bond of Series G for each maturity shall be executed and delivered, registered in the name of such successor or such Substitute Depository, or their nominees, as the case may be, all as specified in such written request of the District. In the case of any transfer pursuant to Section 6(b)(iii) hereof, upon receipt of all outstanding Refunding Bonds of Series G by the paying agent, together with a written request of the District to the paying agent, new Refunding Bonds of

Series G shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such written request of the District; provided the paying agent shall not be required to deliver such new Refunding Bonds of Series G within a period less than sixty (60) days from the date of receipt of such a written request of the District.

(d) In the case of partial redemption, cancellation or an advance refunding of any Refunding Bonds of Series G evidencing all or a portion of the principal maturing in a particular year, DTC shall make an appropriate notation on the Refunding Bonds of Series G indicating the date and amounts of such reduction in principal, in form acceptable to the paying agent.

(e) The District and the paying agent shall be entitled to treat the person in whose name any Refunding Bond of Series G is registered as the owner thereof for all purposes of the Bond Resolution and this resolution and any applicable laws, notwithstanding any notice to the contrary received by the paying agent or the District; and the District and the paying agent shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners of the Refunding Bonds of Series G. Neither the District nor the paying agent will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the owner of any Refunding Bond of Series G.

(f) So long as all outstanding Refunding Bonds of Series G are registered in the name of "Cede & Co." or its registered assign, the District and the paying agent shall cooperate with "Cede & Co.," as sole registered owner, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Refunding Bonds of Series G by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Section 7. Tax Covenants.

(a) The District hereby covenants with the owners of the Refunding Bonds of Series G that, notwithstanding any other provisions of this resolution, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Refunding Bonds of Series G under Section 103 of the Internal Revenue Code of 1986, and the regulations issued thereunder as the same may be amended from time to time, and any successive provisions of law (the "Code"). The District shall not, directly or indirectly, use or permit the use of proceeds of the Refunding Bonds of Series G or any of the property financed or refinanced with proceeds of the Refunding Bonds of Series G, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Refunding Bonds of Series G.

(b) The District shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Refunding Bonds of Series G to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Refunding Bonds of Series G or any of the property

financed or refinanced with proceeds of the Refunding Bonds of Series G, or any portion thereof, or any other funds of the District, that would cause the Refunding Bonds of Series G to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any Refunding Bonds of Series G are outstanding, the District, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The District shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Refunding Bonds of Series G as “governmental bonds.”

(c) The District shall not, directly or indirectly, use or permit the use of any proceeds of any Refunding Bonds of Series G, or of any property financed or refinanced thereby, or other funds of the District, or take or omit to take any action, that would cause the Refunding Bonds of Series G to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the District shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Refunding Bonds of Series G.

(d) The District shall not make any use of the proceeds of the Refunding Bonds of Series G or any other funds of the District, or take or omit to take any other action, that would cause the Refunding Bonds of Series G to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) In furtherance of the foregoing tax covenants of this Section 7, the District covenants that it will comply with the provisions of the Tax Certificate concerning certain matters pertaining to the use and investment of proceeds of the Refunding Bonds of Series G, executed and delivered by the District on the date of delivery of the Refunding Bonds of Series G, including any and all exhibits attached thereto (the “Tax Certificate”). These covenants shall survive payment in full or defeasance of the Refunding Bonds of Series G.

Section 8. Rebate Fund. The paying agent shall establish a special fund designated the “East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G, Rebate Fund” (the “Rebate Fund”). All amounts at any time on deposit in the Rebate Fund shall be held by the paying agent in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Treasury Regulations”). Such amounts shall be free and clear of any lien under this resolution and shall be governed by this Section 8 and Section 7 of this resolution and by the Tax Certificate. The paying agent shall be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the District, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the District with the Rebate Requirement.

Section 9. Application of Proceeds of Refunding Bonds of Series G. Upon receipt of payment for the Refunding Bonds of Series G when the same shall have been duly sold by the

District and receipt of the payment of amounts to be deposited by the District as set forth in the District Closing Certificate, the Treasurer shall forthwith set aside and deposit such amounts in the following respective funds:

(a) The Treasurer shall set aside in trust for future deposit with the paying agent accrued interest (if any) received upon the sale of the Refunding Bonds of Series G.

(b) The Treasurer shall deposit with Wells Fargo Bank, National Association or its successors or assigns, who is hereby appointed to act as escrow agent of the District for the refunding of the Series F Bonds and the escrow agent shall set aside in trust the amount set forth in the District Closing Certificate as sufficient, together with any other moneys deposited therein, for the refunding of the Series F Bonds to be refunded in a separate fund pursuant to the Escrow Agreement Relating to the Partial Defeasance of East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F, to be applied as therein provided.

(c) The Treasurer shall deposit to the account of the District the remainder of such proceeds, to be held and disbursed by the District for the payment of certain costs of issuance of the Refunding Bonds of Series G.

Section 10. Incorporation by Reference. The Bond Resolution is incorporated herein by reference, and all of the provisions thereof are made a part hereof and shall be applicable to the Refunding Bonds of Series G, except only as herein otherwise expressly provided.

Section 11. Approval of Public Sale of the Refunding Bonds of Series G. Electronic proposals for the purchase of the Refunding Bonds of Series G shall be received by the Director of Finance at the time and place determined as provided in the Notice of Intention to Sell Bonds and the Official Notice of Sale hereinafter approved by this resolution. The Director of Finance or his duly authorized designee is hereby authorized to accept bids and award the Refunding Bonds of Series G on the basis of the lowest true interest cost to the District in accordance with said Official Notice of Sale.

The General Manager, the Director of Finance or any duly authorized designee of the General Manager designated by the General Manager in writing to act on behalf of such officer for such purpose, upon the advice of Montague DeRose and Associates, LLC and Backstrom McCarley Berry & Co., LLC, the District's Co-Financial Advisors in connection with the sale of the Refunding Bonds of Series G, is hereby also authorized to reschedule or cancel the sale of the Refunding Bonds of Series G and make announcements thereof as he or she deems appropriate, or to reject any or all bids for the Refunding Bonds of Series G, in accordance with said Official Notice of Sale.

Section 12. Approval of Notice of Intention to Sell. The form of Notice of Intention to Sell the Refunding Bonds of Series G, in substantially the form submitted to this meeting, with such changes therein as may be approved by the General Manager or the Director of Finance or any duly authorized designee of the General Manager designated by the General Manager in writing to act on behalf of such officer for such purpose, is hereby approved.

The Director of Finance or the duly authorized designee of the Director of Finance is hereby authorized and directed, for and in the name and on behalf of the District, to cause the Notice of Intention to Sell the Refunding Bonds of Series G to be published by one insertion in the Oakland Tribune, a newspaper of general circulation circulated within the boundaries of Special District No. 1, at least ten (10) days prior to the date of sale of the Refunding Bonds of Series G.

The Director of Finance or the duly authorized designee of the Director of Finance is hereby further authorized and directed, for and in the name and on behalf of the District, to cause the Notice of Intention to Sell the Refunding Bonds of Series G to be published by one insertion in The Bond Buyer, a financial publication generally circulated throughout the State of California or reasonably expected to be disseminated among prospective bidders for the securities, at least five (5) days prior to the date of sale of the Refunding Bonds of Series G.

Section 13. Official Notice of Sale. The form of Official Notice of Sale of the Refunding Bonds of Series G, in substantially the form submitted to this meeting, with such changes therein as may be approved by the General Manager or the Director of Finance or any duly authorized designee of the General Manager designated by the General Manager in writing to act on behalf of such officer for such purpose, is hereby approved.

The Director of Finance or the duly authorized designee of the Director of Finance is hereby authorized and directed to cause a copy of the Official Notice of Sale as approved by this resolution to be posted once, at least one week before said date of sale, in a public place customarily used for District public notices.

Section 14. Approval of Preliminary Official Statement. The Board hereby approves the form of preliminary official statement of the District relating to the Refunding Bonds of Series G, in substantially the form as submitted to this meeting, with such additions thereto and changes therein (including such changes and additions to reflect the terms of the Refunding Bonds of Series G) as are approved by the General Manager or the Director of Finance after consultation with the District's General Counsel and Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, and Curlls Bartling P.C., the District's Co-Bond Counsel. The District's Co-Financial Advisors for the sale of the Refunding Bonds of Series G are hereby authorized, upon the direction of the Director of Finance, to cause the distribution (via written format and/or through electronic means) of such preliminary official statement to prospective bidders for the Refunding Bonds of Series G, together with copies of the Official Notice of Sale hereinabove approved. The General Manager or the Director of Finance or any duly authorized designee of the General Manager designated by the General Manager in writing to act on behalf of such officer for such purpose is hereby authorized to certify that the preliminary official statement is as of its date "deemed final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The General Manager or the Director of Finance or any duly authorized designee of the General Manager designated by the General Manager in writing to act on behalf of such officer for such purpose is hereby authorized to cause to be prepared and to execute for and on behalf of the District a final official statement in substantially the form of the preliminary official statement with such changes therein and additions thereto to reflect the terms of the sale of the Refunding Bonds of Series G and to comply with applicable federal securities laws as the General Manager or the Director of Finance shall approve after consultation with the District's

General Counsel and Co-Bond Counsel, such approval to be evidenced by the execution and delivery thereof.

Section 15. Approval of Escrow Agreement. The General Manager or the Director of Finance or the designee of any of such officers is hereby authorized and directed to execute for and on behalf of the District an Escrow Agreement Relating to the Partial Defeasance of East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F, by and between the District and Wells Fargo Bank, National Association, or its successors or assigns, as escrow agent thereunder, in substantially the form submitted to this meeting, with such changes therein as the General Manager or the Director of Finance shall approve after consultation with the District's General Counsel and Co-Bond Counsel, such approval to be evidenced by the execution and delivery thereof. The Escrow Agreement Relating to the Partial Defeasance of East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F, as executed and delivered, is hereinafter referred to as the "Escrow Agreement" and such Escrow Agreement is hereby approved.

Section 16. Approval of Continuing Disclosure Agreement. The General Manager or the Director of Finance or the designee of any of such officers is hereby authorized and directed to execute for and on behalf of the District a Continuing Disclosure Agreement among the District, the paying agent and the dissemination agent named therein, in substantially the form as submitted to this meeting, with such changes therein as the General Manager or the Director of Finance shall approve after consultation with the District's General Counsel and Co-Bond Counsel, such approval to be evidenced by the execution and delivery thereof. The Continuing Disclosure Agreement, as executed and delivered, is hereinafter referred to as the "Continuing Disclosure Agreement" and such Continuing Disclosure Agreement is hereby approved.

Section 17. Other Actions. The General Manager and the Director of Finance and all such other proper officers of the District be and they hereby are authorized, individually and collectively, to take all actions and execute any and all documents necessary to engage Wells Fargo Bank, National Association as paying agent for the Refunding Bonds of Series G and as escrow agent under the Escrow Agreement; to provide for the giving of written directions and notices, and the securing of any necessary third party approvals in connection with the defeasance, refunding and/or redemption of the Series F Bonds to be refunded and/or the issuance of the Refunding Bonds of Series G; and to do any and all things and to execute and deliver any and all agreements, documents and certificates (including tax certificates), and to take such actions as may be necessary, convenient or advisable, whether before or after the issuance of the Refunding Bonds of Series G, to consummate the sale, execution and delivery of the Refunding Bonds of Series G and to otherwise carry out, give effect to and comply with the terms and intent of the Bond Resolution and this resolution, the Refunding Bonds of Series G, the Notice of Intention to Sell, the Official Notice of Sale, the Escrow Agreement, the Continuing Disclosure Agreement, the preliminary official statement and the official statement and the transactions herein authorized. All such actions heretofore taken by such officers or their designees are hereby ratified, confirmed and approved.

Section 18. Effective Date. This resolution shall take effect from and after its passage and adoption.

ADOPTED this 28th day of January, 2014 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

President

Secretary

APPROVED AS TO FORM AND PROCEDURE:

General Counsel

EXHIBIT A

DISTRICT CLOSING CERTIFICATE

The undersigned, the Director of Finance of the East Bay Municipal Utility District (the "District"), pursuant to Section 2 of Resolution No. _____ of the District adopted on _____, 2014 (the "Resolution"), HEREBY CERTIFIES that:

1. East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the "Refunding Bonds of Series G"), shall be dated _____, 2014 (which is hereby fixed to be the date of issue of the Refunding Bonds of Series G), shall be issued in the aggregate principal amount of \$ _____, and shall bear interest at the rates per annum and mature on the dates and in the amounts as set forth below:

| <u>Due (April 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|--------------------------|-----------------------------|--------------------------|
| 2015 | \$ | % |
| 2016 | | |
| 2017 | | |
| 2018 | | |

2. The Refunding Bonds of Series G shall bear interest from their dated date payable semiannually on April 1 and October 1 of each year, commencing [October 1,] 2014.

3. The proceeds of the sale of the Refunding Bonds of Series G shall be applied as follows:

(1) The Treasurer shall deposit with the escrow agent the sum of \$ _____ from the proceeds of the sale of the Refunding Bonds of Series G, to be applied, together with any other amounts deposited by the District for such purpose, as provided in the Escrow Agreement Relating to the Partial Defeasance of East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G.

(2) The Treasurer shall deposit to the account of the District the sum of \$ _____, representing the remainder of such proceeds, to be held and disbursed by the District for the payment of certain costs of issuance of the Bonds.

Capitalized terms used herein not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

Dated: _____, 2014

EAST BAY MUNICIPAL UTILITY DISTRICT

By: _____
Eric L. Sandler
Director of Finance

NOTICE OF INTENTION TO SELL

\$ _____^{*}
EAST BAY MUNICIPAL UTILITY DISTRICT
(ALAMEDA AND CONTRA COSTA COUNTIES, CALIFORNIA)
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS,
SERIES G

NOTICE IS HEREBY GIVEN that the East Bay Municipal Utility District (the “District”) intends to offer for public sale on:

February [20], 2014, at __:__ a.m. (California time)

**(subject to postponement or cancellation in accordance
with the hereinafter mentioned Official Notice of Sale)**

\$ _____^{*} aggregate principal amount of the District’s Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”). Proposals will be received in electronic form only and solely through BiDCOMPTM/Parity[®] (“BiDCOMP/Parity”), in the manner described in the Official Notice of Sale.

The District reserves the right to postpone or cancel the sale of the Bonds, to change the terms thereof upon notice given through BiDCOMP/Parity, and to reject all proposals received on such date. In the event that no bid is awarded, the District may reschedule the sale to another date or time by providing notification through BiDCOMP/Parity. Notice of any postponement, a new time, or a new time and date, for receipt of bids will be communicated through BiDCOMP/Parity.

The Bonds will be offered for public sale subject to the terms and conditions of the Official Notice of Sale. Further information regarding the proposed sale of the Bonds, including copies of the Preliminary Official Statement and the Official Notice of Sale relating to the Bonds, will be available electronically through BiDCOMP/Parity at www.i-dealprospectus.com or may be obtained from either of the District’s co-financial advisors: Montague DeRose and Associates, LLC, 2175 N. California Boulevard, Suite 745, Walnut Creek, California 94596, Attention: Natalie Perkins, Telephone: (925) 256-9797, (email: perkins@montaguederose.com); and Backstrom McCarley Berry & Co., LLC, 115 Sansome Street, Mezzanine A, San Francisco, California 94104, Attention: Vincent McCarley, Telephone: (415) 392-5505, (email: VMcCarley@bmcbbc.com).

On or around February __, 2014, the Preliminary Official Statement will also be posted electronically at CLS Printing Company: <http://www.clsprinting.com/>. Failure of any bidder to receive notice thereof shall not affect the legality of the sale.

Dated: February __, 2014

EAST BAY MUNICIPAL UTILITY DISTRICT

/s/ Eric L. Sandler

Director of Finance

^{*} Preliminary, subject to adjustment in accordance with the Official Notice of Sale.

Montague DeRose and Associates, LLC
175 N. California Boulevard, Suite 745
Walnut Creek, California 94596
Attention: Natalie Perkins
Telephone: (925) 256-9797
Facsimile: (925) 256-9795
E-mail: perkins@montaguederose.com

Backstrom McCarley Berry & Co., LLC
115 Sansome Street, Mezzanine A
San Francisco, California 94104
Attention: Vincent McCarley
Telephone: (415) 392-5505
Facsimile: (415) 392-5276
E-mail: vmccarley@bmcbebo.com

Failure of any bidder to receive any such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale.

Bidders are directed to the Preliminary Official Statement of the District dated the date hereof with respect to the Bonds (the “Preliminary Official Statement”) for additional information regarding the District, Special District No. 1, the Bonds and the security therefor, the District’s Wastewater System (as defined in the Preliminary Official Statement), the demographics and economy of the District’s service area, and other matters. See “TERMS OF THE BONDS – Preliminary Official Statement” below.

This Official Notice of Sale will be submitted to Ipreo Prospectus (“Ipreo”) for posting on its website (www.i-dealprospectus.com) and in the BiDCOMP/Parity bid delivery system. If any summary of the terms of the sale of the Bonds posted by Ipreo or BiDCOMP/Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment to this Official Notice of Sale is given as described herein.

TERMS OF THE BONDS

Preliminary Official Statement

The Preliminary Official Statement for the Bonds, dated [February __,] 2014, including the cover page and all appendices thereto (the “Preliminary Official Statement”), provides certain information concerning the sale and delivery of the Bonds, including the purpose thereof, the authority for issuance, the security and source of payment for the Bonds, the forms of legal opinions and other information regarding the District and the Bonds. Each bidder will be deemed to have obtained and reviewed the Preliminary Official Statement prior to bidding for the Bonds. This Official Notice of Sale, including all exhibits and attachments, contains certain information for general reference only, is not a summary of the issue and governs only the terms of the sale of, bidding for, and closing procedures with respect to, the Bonds. Bidders must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision. The description of the Bonds contained in this Official Notice of Sale is qualified in all respects by the description contained in the Preliminary Official Statement.

Authority for Issuance

The Bonds are being issued pursuant to the Municipal Utility District Act, as supplemented by Chapters 9 and 11 of Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53550 and 53580, respectively) of the California Government Code, the special election held in the East Bay Municipal Utility District, Special District No. 1, and Resolution No. 25676 of the District, adopted by the Board of Directors of the District (the “Board”) on June 8, 1971,

providing for the issuance of \$60,000,000 principal amount of Special District No. 1, Issue of 1970, Wastewater System General Obligation Bonds, as thereafter supplemented, including as supplemented by Resolution No. _____-14 adopted by the Board on [January ____,] 2014 in connection with issuance of the Bonds (collectively, the “Resolution”).

Purpose

The proceeds from the sale of the Bonds will be used for the purpose of refunding the \$15,255,000 principal amount of the District’s outstanding Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F maturing on and after April 1, 2015 (the “Refunded Bonds”), and paying the costs of issuance of the Bonds. Capitalized terms not defined herein shall have the same definitions as used in the Resolution.

Security and Source of Payment for the Bonds

The Bonds are payable as to both principal and interest from *ad valorem* taxes which may be levied upon all property within the District’s Special District No. 1, subject to taxation therefor, without limitation of rate or amount (except certain personal property which is taxable at limited rates). Provision has been made as required by law for the annual levy and collection of *ad valorem* taxes sufficient to pay the principal of and interest on the Bonds.

Prior to Fiscal Year 1996, the District paid Special District No. 1 general obligation bond debt service from enterprise revenues of its Wastewater System. Since Fiscal Year 1996, the District has paid general obligation bond debt service exclusively from *ad valorem* taxes levied and collected within Special District No. 1.

General Terms; Book-Entry Only

The Bonds will be delivered in fully-registered form and, when issued, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. One fully-registered Bond certificate for each maturity will be issued in a denomination equal to the aggregate principal amount of the Bonds of such maturity and will be deposited with DTC. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000 principal amount or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, all payments of principal of, and interest on, the Bonds will be made by Wells Fargo Bank, National Association, or its successor or assign, as paying agent and registrar (the “Paying Agent”) directly to DTC, which is obligated in turn to remit such principal and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Bonds.

Interest Payment Dates

The Bonds are dated and shall bear interest from the date of delivery. Interest will be payable semiannually on each April 1 and October 1, commencing [October 1], 2014.

Principal Amortization

The Bonds shall be subject to principal amortization on April 1 in the following years and amounts subject to adjustments as described below:

| <u>Year Ending (April 1)</u> | <u>Principal Amount</u> * |
|----------------------------------|---------------------------|
| 2015 | |
| 2016 | |
| 2017 | |
| 2018 | |
| Total | |

* Preliminary, subject to adjustment as described below.

Bidders must provide that the Bonds be issued only as serial bonds and may not provide that any principal amounts be combined into term bonds.

Adjustment of Principal Payments

The principal payment amounts set forth in this Official Notice of Sale reflect certain estimates of the District with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. Any change to the principal payment schedule for the Bonds to be utilized for the bidding process will be made available to potential bidders via BiDCOMP/Parity not later than 4:00 p.m. (California time) on the business day preceding the date then prescribed for the receipt of bids. The District reserves the right to change the principal payment schedule set forth in this Official Notice of Sale for the Bonds after the determination of the winning bidder for the Bonds, by adjusting one or more principal payments of the Bonds in increments of \$5,000 by not more than the greater of [10%] or \$_____ for any maturity in order to achieve its financing objectives; provided, however, that the aggregate principal amount of the Bonds shall not exceed \$_____.

NO BIDDER MAY WITHDRAW ANY BID OR CHANGE THE INTEREST RATES BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGE MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE. FURTHER, IF THE DISTRICT CHANGES THE PRINCIPAL PAYMENT SCHEDULE FOR THE BONDS AFTER THE RECEIPT OF BIDS, THE PURCHASER'S DISCOUNT, EXPRESSED IN DOLLARS PER THOUSAND DOLLAR OF BONDS, WILL BE HELD CONSTANT. THE DISTRICT WILL NOT BE RESPONSIBLE, IF AND TO THE EXTENT THAT, ANY ADJUSTMENT AFFECTS (i) THE NET COMPENSATION TO BE REALIZED BY THE SUCCESSFUL BIDDER OR (ii) THE TRUE INTEREST COST OF THE WINNING BID OR THE RANKING OF ANY BID RELATIVE TO OTHER BIDS.

No Redemption

The Bonds will not be subject to redemption prior to their maturity.

Continuing Disclosure

In order to assist bidders in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the District will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events. A form of the Continuing Disclosure Agreement, as well as information regarding the District's history of compliance during the past five years with any previous undertakings with regard to said Rule, is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Legal Opinions and Tax Matters

The District will furnish to the successful bidder at the time of the closing of the Bonds, the legal opinion of Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel, as to the validity of the Bonds. Orrick, Herrington & Sutcliffe LLP, San Francisco, California, will act as Special Tax Counsel to the successful bidder in connection with the issuance of the Bonds ("Special Tax Counsel"). At the time of delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP will furnish to the successful bidder, its legal opinion to the effect that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, is exempt from State of California personal income taxes, and is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel will express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The form of approving opinion of Co-Bond Counsel and the form of opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, in connection with the issuance of the Bonds are included as APPENDIX D to the Preliminary Official Statement.

TERMS OF THE SALE

Form of Bid; Electronic Bids Only

General. BIDS FOR LESS THAN ALL OF THE BONDS WILL NOT BE ACCEPTED. Each bid for the Bonds must be for all, and not less than all, of the Bonds hereby offered for sale, and for not less than the aggregate principal amount thereof, plus any premium as permitted herein, as may be specified in the bid. All bids must be unconditional.

Multiple Bids. If multiple bids with respect to the Bonds are received from a single bidder, the District will have the right to accept the bid representing the lowest true interest cost ("TIC") to the District, and each bidder agrees by submitting any bid to be bound by such best bid.

Electronic Bids Only. Only electronic bids submitted through BiDCOMP/Parity will be accepted. All such bids must conform with the procedures established by BiDCOMP/Parity. To the extent any instructions or directions set forth in BiDCOMP/Parity conflict with this Official

Notice of Sale, the terms of this Official Notice of Sale shall control, unless a notice of an amendment to this Official Notice of Sale is given as described herein.

For further information about BiDCOMP/Parity, potential bidders may contact:

Ipreo Prospectus
1359 Broadway, 2nd Floor
New York, New York 10018
Telephone: (212) 849-5021

WARNING REGARDING ELECTRONIC BIDS: THE DISTRICT WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH BIDCOMP/PARITY ON THE OFFICIAL BID FORM CREATED FOR SUCH PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH BIDCOMP/PARITY AND THAT BIDCOMP/PARITY IS NOT ACTING AS AN AGENT OF THE DISTRICT. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM BIDCOMP/PARITY AND THE DISTRICT ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF BIDCOMP/PARITY. THE DISTRICT SHALL ASSUME THAT ANY BID RECEIVED THROUGH BIDCOMP/PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE DISTRICT, THE CO-FINANCIAL ADVISORS, CO-BOND COUNSEL AND SPECIAL TAX COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. EACH BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR NONCONFORMING BID SUBMITTED BY ELECTRONIC TRANSMISSION BY SUCH BIDDER, INCLUDING WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSIONS, MECHANICAL FAILURE, ENGAGED TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM OR RELATING TO SUBMISSION BY ELECTRONIC TRANSMISSION. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE DISTRICT AT THE PLACE OF BID OPENING, AND THE DISTRICT SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY BIDCOMP/PARITY AS THE OFFICIAL TIME.

Other Terms. No bid will be accepted after the time specified for receiving bids. No bid will be accepted that contemplates the waiver of any interest or other concession by the bidder as substitute for payment in full of the purchase price. Bids that do not conform to the terms of this Official Notice of Sale may be rejected. See “TERMS OF THE SALE – Right to Reject Bids, Waiver of Irregularities” below.

THE DISTRICT RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY AND COMPLETE AND CONFORMS TO THIS OFFICIAL NOTICE OF SALE. THE DISTRICT TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ANY BID IS INCOMPLETE OR NONCONFORMING OR HAS NOT BEEN RECEIVED.

Interest Rates and Limits on Purchase Price

Interest Rates. Bidders must specify the rate or rates of interest which the Bonds for which they are bidding will bear; provided, that the following limitations apply:

- (i) the maximum interest rate bid may not exceed 5% per annum;
- (ii) each interest rate specified in any bid must be a multiple of 1/8 or 1/20 of 1% per annum and a zero rate of interest cannot be named;
- (iii) each Bond shall bear interest from its date to its stated maturity date at the single rate of interest specified in the bid; and
- (iv) all Bonds maturing at any one time shall bear the same rate of interest.

Purchase Price. Bidders may bid to purchase Bonds from the District with a premium; however, no bid will be considered if the bid is to purchase Bonds at an aggregate price less than 100% or more than _____% of the aggregate principal amount of the Bonds.

Additional Terms and Conditions

By submitting a bid, each bidder thereby agrees to the following terms and conditions:

- (1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by BiDCOMP/Parity, this Official Notice of Sale, including any amendments or modifications issued through BiDCOMP/Parity, will control;
- (2) each bidder will be solely responsible for making necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale;
- (3) the District will have no duty or obligation to provide or assure access to BiDCOMP/Parity to any bidder, and the District shall not be responsible for the proper operation of, or have any liability for, any delays, interruptions or damages caused by use of BiDCOMP/Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through BiDCOMP/Parity;
- (4) the District is permitting use of BiDCOMP/Parity as a communication mechanism, and not as an agent of the District, to facilitate the submission of electronic bids for the Bonds, BiDCOMP/Parity is acting as an independent contractor, and is not acting for or on behalf of the District;
- (5) the District is not responsible for ensuring or verifying bidder compliance with any procedures established by BiDCOMP/Parity;
- (6) the District may regard the electronic transmission of a bid through BiDCOMP/Parity (including information regarding the purchase price for the Bonds or

the interest rates for any maturity of the Bonds) as though the information were physically submitted and executed on the bidder's behalf by a duly authorized signatory;

(7) if a bidder's bid is accepted by the District, such bid, this Official Notice of Sale and the information that is transmitted electronically through BiDCOMP/Parity will form a contract, and the bidder will be bound by the terms of such contract; and

(8) information provided by BiDCOMP/Parity to bidders will form no part of any bid or of any contract between the successful bidder and the District unless that information is included in this Official Notice of Sale or the bid of the successful bidder with respect to the winning bid.

Estimate of True Interest Cost

Each bidder is requested, but not required, to state in each bid the amount of interest payable on the Bonds during the life of the issue and the percentage TIC to the District (determined as described below), which will be considered as informative only and not binding on either the bidder or the District.

Basis of Award

Unless all bids with respect to the Bonds are rejected, as described below under “– Right to Reject Bids, Waiver of Irregularities,” the Bonds will be awarded to the responsible bidder whose bid represents the lowest TIC to the District with respect to the Bonds prior to any change to the principal payment schedule in accordance with this Official Notice of Sale. The TIC will be that nominal annual interest rate which, when compounded semiannually using a 360-day year and used to discount to the dated date of the Bonds all payments of principal and interest payable on the Bonds, results in an amount equal to the purchase price of the Bonds to be received by the District. If two or more bidders offer bids for the Bonds at the same lowest TIC, the District will determine by random selection which bidder will be awarded the Bonds. Bid evaluations or rankings made by BiDCOMP/Parity are not binding on the District.

Right to Reject Bids, Waiver of Irregularities

The District reserves the right, in its sole and absolute discretion, to reject any and all bids for the Bonds, for any reason. The District also reserves the right to waive any irregularity or informality in any bid.

Time of Award

The District, acting through its General Manager or its Director of Finance, or a designee of the General Manager, will take action awarding the Bonds or rejecting all bids not later than four (4) hours after the date and time at which bids with respect to the Bonds are received, unless such period for award is waived by the successful bidder. Prompt notice of the award will be given to the successful bidder.

Good Faith Deposit

General. A good faith deposit (a “Good Faith Deposit”) in the amount of \$_____, payable to the order of the District, is required from the successful bidder subsequent to the award of the sale. The successful bidder is required to pay the Good Faith Deposit to the Paying Agent, on behalf of the District, by wire transfer within two (2) hours after the District has communicated the acceptance of an award, using the following wire instructions:

Wells Fargo Bank, National Association
ABA: 121000248
Acct No.: 4121064679

If the Good Faith Deposit is not received by that time, the District may rescind the award of sale. If the successful bidder fails to provide the Reoffering Price Certificate, described below under “TERMS OF THE SALE – Reoffering Price Certificate”, by _____, 2014, the Good Faith Deposit will be retained by the District.

Liquidated Damages; No Interest. No interest will be paid upon the Good Faith Deposit made by any bidder. The Good Faith Deposit of the successful bidder will, immediately upon acceptance of its bid, become the property of the District to be held and invested for the exclusive benefit of the District. The principal amount of such Good Faith Deposit shall be applied to the purchase price of the Bonds at the time of delivery thereof.

If the purchase price is not paid in full upon delivery of the Bonds, the successful bidder shall have no right in or to the Bonds or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such Good Faith Deposit, unless it shall appear that the Bonds would not be validly issued if delivered to the successful bidder in the form and manner proposed. In the event of nonpayment by the successful bidder, the amount of the Good Faith Deposit shall be retained by the District. Notwithstanding the foregoing, should the successful bidder fail to pay for the Bonds at the price and on the date agreed upon, the District retains the right to seek further compensation for damages sustained as a result of the successful bidder so doing.

Reoffering Price Certificate

The successful bidder will, within thirty (30) minutes after being notified of the award of the Bonds, advise the District of the initial public offering prices of the Bonds. The successful bidder will also be required, prior to delivery of the Bonds, to furnish to the District a certificate acceptable to Special Tax Counsel (the “Reoffering Price Certificate”), and substantially in the form attached hereto as Exhibit A.

Confirmation of Bond Sizing

As described herein under “TERMS OF THE BONDS – Adjustment of Principal Payments” the actual principal amount of the Bonds and the actual maturity schedule for the Bonds may be changed by the District after the determination of the winning bid. Any such changes will be reported to the successful bidder by 7:00 p.m. (New York time) on the date and time the bids are received. Any such increase or decrease will be in \$5,000 increments with respect to each maturity date. If any such adjustment occurs, no rebidding or recalculation of the

bids submitted will be required or permitted and no successful bid may be withdrawn. The successful bidder will not be permitted to change the interest rates in its bid. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the aggregate principal amount of the Bonds to be issued.

Qualification for Sale; Compliance with Blue Sky Laws

Compliance with Blue Sky and other securities laws and regulations, including the payment of any applicable fees, shall be the sole responsibility of the successful bidder. The District will furnish such information and take such action not inconsistent with law as the successful bidder may request and the District may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the successful bidder; provided, however, that the District will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction.

The successful bidder may not sell, offer to sell or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for the successful bidder to make such sale, offer or solicitation, and the successful bidder shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the successful bidder sells the Bonds.

Delivery and Payment

Delivery of the Bonds is expected to occur on or about February [27], 2014. The Bonds will be delivered in New York, New York (by Fast Automated Securities Transfer) to DTC. The successful bidder shall pay for the Bonds on the date of delivery in Federal Reserve Bank funds or equivalent immediately available funds. Payment on the delivery date shall be made in an amount equal to the price bid for the Bonds less the amount of the Good Faith Deposit. Any expense of providing immediately available funds, whether by transfer of Federal Reserve Bank funds or otherwise, shall be borne by the successful bidder.

Official Statement

The District has approved a Preliminary Official Statement, dated February ____, 2014, which the District has “deemed final” for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission, as amended (the “Rule”), although subject to revision, amendment and completion in conformity with the Rule. The District will provide the successful bidder such reasonable number of printed copies of the final Official Statement as such bidder may reasonably request no later than seven (7) business days after the day the Bonds are awarded. Up to fifty (50) copies of the final Official Statement will be furnished without cost to the successful bidder and further copies, if desired, will be made available at the successful bidder’s expense. The successful bidder agrees to file the final Official Statement with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) portal on a timely basis. The successful bidder shall, by accepting the award, agree at all times to comply with the provisions of the Rule and with all applicable rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

CUSIP Numbers

It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and pay for said Bonds in accordance herewith. The successful bidder will be responsible for obtaining CUSIP numbers. All charges of the CUSIP Service Bureau for the assignment of CUSIP numbers for the Bonds shall be paid by the successful bidder.

California Debt and Investment Advisory Commission and Other Fees

The successful bidder will be required to pay all fees due to the California Debt and Investment Advisory Commission (“CDIAC”) under California law. CDIAC will invoice the successful bidder after the delivery of the Bonds. The District expects the successful bidder to pay the applicable fee promptly upon receipt of the invoice.

The successful bidder shall also be required to pay all fees required by DTC, the Securities Industry and Financial Markets Association, the Municipal Securities Rulemaking Board and any other similar entity imposing a fee in connection with the issuance and delivery of the Bonds.

Closing Documents

The District will furnish to the successful bidder at the time of delivery of the Bonds: (1) a certificate certifying (i) that as of and at the time of delivery of the Bonds, there is no action, suit, proceeding or investigation, pending or, to the best knowledge of the District, threatened against or affecting the District, (A) which affects or seeks to prohibit, restrain or enjoin the issuance of the Bonds, (B) in any way contesting the validity of the Bonds or the Resolution or the powers of the District to enter into or perform its obligations under the Bonds and the Resolution or the existence of the District, or (C) wherein an unfavorable decision, ruling or finding would materially and adversely affect the validity or enforceability of the Bonds or the Resolution or the ability of the District to perform its obligations under the Bonds or such documents to which it is a party, (ii) that the Preliminary Official Statement did not on the date of sale of the Bonds and the Official Statement does not on the date of delivery contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading, and (2) a receipt of the District showing that the purchase price of the Bonds has been received by the District.

Right to Modify or Amend

The District reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment will be communicated to potential bidders through BiDCOMP/Parity not later than 4:00 p.m. (California time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice, the modification or amendment to which such notice relates, or the legality of the sale.

Postponement or Cancellation of Sale

The District reserves the right to postpone or cancel the sale of the Bonds at or prior to the time bids are to be received with respect to the Bonds. Notice of such postponement or cancellation will be given through BiDCOMP/Parity as soon as practicable following such postponement or cancellation. If the sale is postponed, notice of a new sale date will be given through BiDCOMP/Parity not later than 4:00 p.m. (California time) on the business day preceding the new sale date that bids are to be received. On any new sale date, any bidder may submit a bid for the purchase of the Bonds, which shall be in conformity in all respects with the provisions of this Official Notice of Sale except for the time or date and time of sale and any other changes announced through BiDCOMP/Parity.

Failure of any potential bidder to receive notice of cancellation or postponement shall not affect the sufficiency of any such notice, or affect the right of the District to cancel or postpone the sale. If a sale is postponed only, any subsequent bid submitted by a bidder with respect to such sale will supersede any prior bid made. If a sale is cancelled, all bids with respect to such sale will be deemed cancelled.

Additional Information

Electronic copies of the Resolution, this Official Notice of Sale and the Preliminary Official Statement will be furnished to any potential bidder upon request made to either of the District's Co-Financial Advisors at their respective address and/or telephone number set forth in this Official Notice of Sale.

Dated: February __, 2014

/s/ Eric L. Sandler

Director of Finance
East Bay Municipal Utility District

EXHIBIT A

FORM OF REOFFERING PRICE CERTIFICATE CERTIFICATE OF THE PURCHASER

This certificate is furnished by [Name of Purchaser] (“Purchaser”) in connection with the sale of the East Bay Municipal Utility District \$_____ aggregate principal amount of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”) to establish the “issue price” of the Bonds within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”).

THE UNDERSIGNED HEREBY CERTIFY AS FOLLOWS:

1. The undersigned is the duly authorized representative of the Purchaser. The undersigned is authorized to execute this certificate on behalf of the Purchaser, which is based on one or more of (i) personal knowledge, (ii) inquiry deemed adequate by the undersigned, and (iii) institutional knowledge regarding the matters set forth herein.

2. On February __, 2014 (the “Sale Date”), all of the Bonds have been the subject of a bona fide offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (the “Public”), and on the Sale Date we reasonably expected that the first price at which at least 10% of the principal amount of each such maturity would be initially sold to the Public would be the respective price for that maturity, as set forth in Schedule 1 hereto. For [all of the Bonds / the Bonds scheduled to mature on _____, 20__], the first price at which at least 10% of the principal amount of each maturity initially was sold to the Public was the respective price for that maturity shown on Schedule 1 hereto. For purposes of this certificate, we have assumed that the phrase “bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers” refers only to persons who, to our actual knowledge, are acting in such capacity.

3. We have no reason to believe that the prices shown on Schedule 1 hereto represent, in the opinion of the Purchaser, prices that are greater than the expected fair market value or market-clearing prices for all of the Bonds as of the Sale Date.

The East Bay Municipal Utility District may rely on the foregoing representations in making its certification as to issue price of the Bonds under the Code, and Orrick, Herrington & Sutcliffe LLP, as special tax counsel, may rely on the foregoing representations in rendering its opinion that the interest on the Bonds is excluded from gross income under section 103 of the Code.

Although certain information furnished in this certificate has been derived from other purchasers, bond houses and brokers and cannot be independently verified by us, we have no reason to believe it to be untrue in any material respect.

Dated: February __, 2014.

[NAME OF PURCHASER]

By: _____
Authorized Signatory

SCHEDULE 1

[To be attached by Purchaser]

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY __, 2014**NEW ISSUE – BOOK ENTRY ONLY**

RATINGS: S&P: “__”
Moody’s: ____
(See “RATINGS” herein.)

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

[DISTRICT LOGO]

\$ _____*

EAST BAY MUNICIPAL UTILITY DISTRICT
(Alameda and Contra Costa Counties, California)
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS,
SERIES G

Dated: Date of Delivery

Due: April 1, as shown on the inside cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”) are being issued by the East Bay Municipal Utility District (the “District”) for the purpose of refunding the \$15,255,000 principal amount of the District’s Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F maturing on and after April 1, 2015, and paying the costs of issuance of the Bonds, as described herein.

The Bonds will be issued in fully-registered form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the Bonds is payable semiannually on April 1 and October 1 of each year, commencing [October 1], 2014. Principal is payable on April 1 of the years set forth on the inside front cover. The principal of and interest on the Bonds are payable by Wells Fargo Bank, National Association, as Paying Agent, to DTC, which is obligated in turn to remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX F – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The Bonds are not subject to redemption prior to maturity.

The Bonds are payable as to both principal and interest from *ad valorem* taxes which may be levied upon all property within the East Bay Municipal Utility District, Special District No. 1, subject to taxation therefor, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

MATURITY SCHEDULE
(see inside cover)

The Bonds will be sold by competitive sale on or about February __, 2014 pursuant to the Official Notice of Sale dated February __, 2014. See APPENDIX G – “OFFICIAL NOTICE OF SALE” attached hereto. The Bonds will be offered when, as and if issued, sold and received by the Initial Purchaser, subject to the approval of validity by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel, and certain other conditions. Montague DeRose and Associates, LLC, Walnut Creek, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California, are serving as Co-Financial Advisors to the District in connection with the issuance of the Bonds. Certain legal matters will be passed upon for the District by its General Counsel. Orrick, Herrington & Sutcliffe LLP is serving as Special Tax Counsel to the Initial Purchaser in connection with the issuance of the Bonds. It is anticipated that the Bonds in definitive form will be available for delivery to DTC in New York, New York by Fast Automated Securities Transfer (FAST) on or about February __, 2014.

Dated: February __, 2014

* Preliminary, subject to change.

\$ _____*

EAST BAY MUNICIPAL UTILITY DISTRICT
(Alameda and Contra Costa Counties, California)
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS,
SERIES G

MATURITY SCHEDULE*

| Maturity Date (April 1) | Principal Amount | Interest Rate | Price or Yield | CUSIP[†] |
|------------------------------------|-----------------------------|--------------------------|---------------------------|--------------------------|
| 2015 | \$ | % | | 271011____ |
| 2016 | | | | 271011____ |
| 2017 | | | | 271011____ |
| 2018 | | | | 271011____ |

* Preliminary, subject to change.

† CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the District nor the Initial Purchaser assume any responsibility for the accuracy of the CUSIP data.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the 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 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 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth in this Official Statement has been furnished by the District or obtained from official sources and other sources which are believed by the District to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the 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 District since the date hereof.

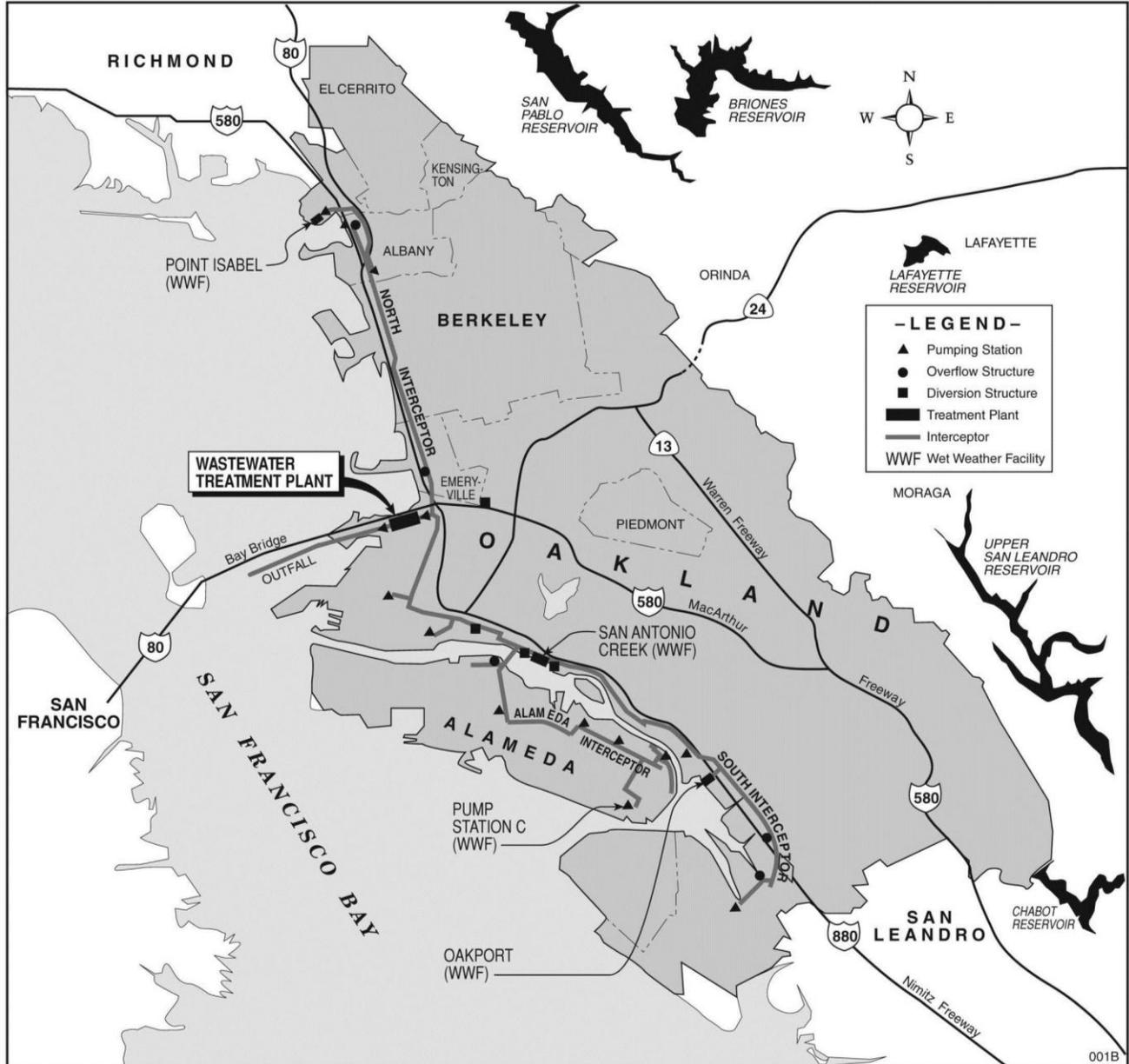
This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website. The District also maintains a website. However, the information presented therein is not part of this Official Statement and must not be relied upon in making an investment decision with respect to the Bonds.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE”, “PROJECT”, “ANTICIPATE”, “EXPECT”, “INTEND”, “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The East Bay Municipal Utility District occupies 332 square miles of the San Francisco-Oakland metropolitan region. The Wastewater System serves approximately 650,000 persons in an area designated as Special District No. 1, which covers approximately 88 square miles primarily within Alameda County.

EAST BAY MUNICIPAL UTILITY DISTRICT
WASTEWATER SYSTEM
(SPECIAL DISTRICT NO. 1)



EAST BAY MUNICIPAL UTILITY DISTRICT

Alameda and Contra Costa Counties, California
375 - 11th Street
Oakland, California 94607
(866) 403-2683

Board of Directors

Andy Katz, *President*
Katy H. Foulkes, *Vice President*
John A. Coleman
Doug A. Linney
Lesia R. McIntosh
Frank G. Mellon
William B. Patterson

Management

Alexander R. Coate, *General Manager*
Jylana D. Collins, *General Counsel*
Eric L. Sandler, *Director of Finance*
Bennett K. Horenstein, *Director of Wastewater*
Xavier J. Irias, *Director of Engineering and Construction*
Carol K. Nishita, *Director of Administration*
Richard G. Sykes, *Director of Water and Natural Resources*
Michael J. Wallis, *Director of Operations and Maintenance*
Lynelle M. Lewis, *Secretary of the District*

Special Services

Co-Bond Counsel

Fulbright & Jaworski LLP
Los Angeles, California
Curls Bartling P.C.
Oakland, California

Co-Financial Advisors

Montague DeRose and Associates, LLC
Walnut Creek, California
Backstrom McCarley Berry & Co., LLC
San Francisco, California

Paying Agent, Registrar and Escrow Agent

Wells Fargo Bank, National Association
San Francisco, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

Continuing Disclosure Dissemination Agent

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

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\$ _____^{*}
East Bay Municipal Utility District
(Alameda and Contra Costa Counties, California)
Special District No. 1, Issue of 1970,
Wastewater System General Obligation Refunding Bonds,
Series G

INTRODUCTION

This Introduction is not a summary of this Official Statement, and is qualified by more complete and detailed information contained and referenced elsewhere in this Official Statement. A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement and not otherwise defined shall have the respective meanings given them in the hereinafter referenced Resolution.

Purpose

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the East Bay Municipal Utility District (the “District”), the wastewater system owned by the District (the “Wastewater System”) and the economy of the District’s service area in connection with the sale of the District’s \$ _____^{*} aggregate principal amount of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”). The Bonds are being issued for the purpose of refunding the \$15,255,000 principal amount of the District’s outstanding Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F maturing on and after April 1, 2015 (the “Refunded Bonds”), and paying the costs of issuance of the Bonds. The particular uses to which the proceeds of the Bonds are scheduled to be applied are more fully described under the captions “REFUNDING PLAN” and “SOURCES AND USES OF FUNDS.”

The District

The District is a municipal utility district, created in 1923 by vote of the electorate in the western portions of Alameda and Contra Costa Counties in the State of California (the “State”). The District is formed under the authority of the Municipal Utility District Act, constituting Division 6 of the Public Utilities Code of the State, commencing with Section 11501 (the “Municipal Utility District Act”). Pursuant to the Municipal Utility District Act, the District is empowered to own and operate its wastewater system (the “Wastewater System”). The Wastewater System treats and disposes of sewage from only a portion of the area within the District, which is designated as Special District No. 1. See “THE DISTRICT” and APPENDIX A – “GENERAL INFORMATION REGARDING THE DISTRICT’S WASTEWATER SYSTEM.” The District also operates a water system (the “Water System”).

Authority for Issuance

The Bonds are being issued pursuant to the Municipal Utility District Act, as supplemented by Chapters 9 and 11 of Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53550 and 53580, respectively) of the California Government Code, the special election held in the East Bay Municipal

^{*} Preliminary, subject to change.

Utility District, Special District No. 1, and Resolution No. 25676 of the District, adopted by the Board of Directors of the District (the “Board”) on June 8, 1971, providing for the issuance of \$60,000,000 principal amount of Special District No. 1, Issue of 1970, Wastewater System General Obligation Bonds, as thereafter supplemented, including as supplemented by Resolution No. _____-14 adopted by the Board on [January ____], 2014 in connection with issuance of the Bonds (collectively, the “Resolution”).

General Features of the Bonds

The Bonds will be dated their date of delivery, and will mature in the principal amounts in the years and bear interest at the rates of interest per annum, all as set forth on the inside cover page of this Official Statement. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing [October 1], 2014. The Bonds are deliverable in fully registered form and when issued 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 for the Bonds. Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. The principal of and interest on the Bonds are payable by Wells Fargo Bank, National Association, or its successor or assign, as paying agent and registrar (the “Paying Agent”) to DTC, which is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to Beneficial Owners. See “THE BONDS – General Description.”

Security and Source of Payment for the Bonds

The Bonds are being issued pursuant to the Resolution. The Bonds are payable as to both principal and interest from *ad valorem* taxes which may be levied upon all property within the East Bay Municipal Utility District, Special District No. 1, subject to taxation therefor, without limitation of rate or amount (except certain personal property which is taxable at limited rates). Provision has been made as required by law for the annual levy and collection of *ad valorem* taxes sufficient to pay the principal of and interest on the Bonds.

Prior to Fiscal Year 1996, the District paid Special District No. 1 general obligation bond debt service from enterprise revenues of its Wastewater System. Since Fiscal Year 1996, the District has paid such general obligation bond debt service exclusively from *ad valorem* taxes levied and collected within Special District No. 1. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS.”

Continuing Disclosure

Pursuant to a Continuing Disclosure Agreement, by and among the District, the Paying Agent and The Bank of New York Mellon Trust Company, N.A., as Dissemination Agent, the District has covenanted and agreed for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than 180 days following the end of the District’s fiscal year (which currently begins on July 1 and ends on June 30 of each year (a “Fiscal Year”) (the “Annual Report”), commencing with the Annual Report for Fiscal Year 2013-14, and to provide notices of the occurrence of certain specified events. See “CONTINUING DISCLOSURE.” These covenants have been made in order to assist the Initial Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

As of the date hereof, the District is in compliance in all material respects with its continuing disclosure undertakings for the last five years; however, due to administrative oversight, the District’s Annual Report for 2008 was filed 27 days after the specified filing deadline and the District’s Annual Report for 2011 was filed three days after the specified filing deadline. In addition, in connection with the preparation of its Annual Report filing for Fiscal Year 2012, the District determined that a separate

table summarizing the sources of revenues and contributions for each of the Water System and the Wastewater System was unintentionally omitted from the District's filings prior to its Annual Report for Fiscal Year 2012. The information contained in such table of sources of revenues and contributions can be derived from the District's audited financial statements and such information was also routinely made available in the District's official statements during such period. In filing its Annual Report for Fiscal Year 2012, the District included such a table with five years of data and thereby effectively provided all information necessary to make its prior filings for such years complete. Filings through EMMA are linked to a particular issue of obligations by CUSIP number (which is subject to change after the issuance of obligations as a result of various subsequent actions). It has further come to the District's attention that certain filings (including certain Annual Reports and a notice of certain ratings upgrades), when made, were not appropriately linked to all applicable CUSIP numbers (including, in some cases, the CUSIP numbers for the outstanding Wastewater System General Obligation Refunding Bonds, Series F). The District has since linked the applicable filings to the additional CUSIPs. Although the District uses its best efforts to confirm that each report filed through EMMA is linked to all the correct 9-digit CUSIP numbers, there can be no guarantee of complete accuracy in this process given the large number of District CUSIP numbers.

The District's Annual Report for Fiscal Year 2012 was timely filed on December 21, 2012. The District's Annual Report for Fiscal Year 2013 was timely filed on December 12, 2013. The District believes it has established processes to ensure it will timely file complete annual reports in the future.

Professionals Involved in the Issue

Wells Fargo Bank, National Association, acts as Paying Agent, Registrar and Escrow Agent under the Resolution. Certain legal matters incident to the issuance of the Bonds are subject to the approval of validity by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel. Montague DeRose and Associates, LLC, Walnut Creek, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California, are serving as Co-Financial Advisors to the District in connection with the issuance of the Bonds. Certain legal matters will be passed upon for the District by its General Counsel. Orrick, Herrington & Sutcliffe LLP is serving as Special Tax Counsel to the Initial Purchaser in connection with the issuance of the Bonds. Grant Thornton LLP, Minneapolis, Minnesota, is serving as Verification Agent and will verify the accuracy of certain mathematical computations in connection with the refunding of the Refunded Bonds. The Bank of New York Mellon Trust Company, N.A., San Francisco, California, serves as Dissemination Agent for the Bonds.

Summaries Not Definitive

The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to each such document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein, indicates that such word is defined in the Resolution and, as used herein, has the meaning given to it in the Resolution. Unless otherwise indicated, all financial and statistical information herein has been provided by the District.

All references to and summaries of the Resolution, the Escrow Agreement, the Continuing Disclosure Agreement and all documents, statutes, reports and other instruments referred to herein are qualified in their entirety by reference to the full Resolution, Escrow Agreement, Continuing Disclosure Agreement and each such other document, statute, report or instrument, respectively, copies of which are available for inspection at the offices of the District in Oakland, California, and will be available from the

Paying Agent, upon request and payment of duplication costs. Forward looking statements in this Official Statement are subject to risks and uncertainties. Actual results may vary from forecasts or projections contained herein because events and circumstances do not occur as expected, and such variances may be material.

Additional Information

The District regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any Bondholder may obtain a copy of any such report, as available, from the Paying Agent or the District. Additional information regarding this Official Statement may be obtained by contacting the Paying Agent or Eric L. Sandler, Director of Finance, East Bay Municipal Utility District, 375-11th Street, Oakland, California 94607, (510) 287-0310.

THE BONDS

Authorization

The Bonds are part of an issue of the \$60,000,000 general obligation East Bay Municipal Utility District, Special District No. 1 Bonds, Issue of 1970 authorized in November 1970 by a favorable vote of 70% of the electorate and further authorized pursuant to the Resolution in accordance with the Municipal Utility District Act. No additional general obligation bonds other than refunding bonds can be issued pursuant to such 1970 authorization. Under current law, additional general obligation bonds (in excess of the existing authorization) may only be authorized and issued for the purpose of acquiring and improving real property and only with the approval of two-thirds of the voters voting at a new election within the District's Special District No. 1.

General Description

The Bonds will be issued in the aggregate principal amounts, will bear interest at the rates and will mature in the years and amounts all as set forth on the inside cover page of this Official Statement. The Bonds will be issued in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds will be dated, and will bear interest from, their date of delivery. Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing [October 1], 2014, and will be computed on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered bonds in book-entry form only and when delivered will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, all payments of principal of, and interest on, the Bonds will be made directly to DTC, which is obligated in turn to remit such principal and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX F – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption

The Bonds are not subject to redemption prior to maturity.

Debt Service Schedule

The following table summarizes the annual debt service requirements of the Bonds:

DEBT SERVICE REQUIREMENTS FOR THE BONDS

| Year Ending (April 1) | Principal | Interest | Total |
|----------------------------------|------------------|-----------------|--------------|
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| Total | | | |

REFUNDING PLAN

Refunding of Series F Bonds

The District’s Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F (the “Series F Bonds”) were originally issued in the aggregate principal amount of \$41,730,000, of which \$18,555,000 principal amount remains outstanding. The District is issuing the Bonds for the purpose of refunding the Series F Bonds maturing on and after April 1, 2015 and paying the costs of issuance of the Bonds. The Refunded Bonds as described in the table below are expected to be redeemed on April 1, 2014.

| Refunded Bonds | | | | |
|----------------------------|---------------------|------------------|-----------------------|-----------|
| Maturity Date (April 1) | Principal Amount | Interest Rate | Date of Redemption | CUSIP |
| 2015 | \$3,550,000 | 5.00% | 04/01/14 | 271011EN4 |
| 2016 | 3,815,000 | 5.00 | 04/01/14 | 271011EP9 |
| 2017 | 4,095,000 | 5.00 | 04/01/14 | 271011EQ7 |
| 2018 | 3,795,000 | 5.00 | 04/01/14 | 271011ER5 |

Pursuant to an Escrow Agreement between the District and Wells Fargo Bank, National Association, as escrow agent (the “Escrow Agent”), the District will deposit into an escrow fund (the “Escrow Fund”) to be held by the Escrow Agent a portion of the proceeds of the Bonds, together with certain receipts of *ad valorem* taxes collected by the District for the payment of the Refunded Bonds. Amounts deposited into the Escrow Fund will be held as cash or will be applied to purchase certain United States government obligations (“Escrow Securities”), which will bear interest at such rates and will be scheduled to mature at such times and in such amounts that, when paid in accordance with their terms, together with any uninvested cash held in the Escrow Fund, will provide sufficient monies to redeem on April 1, 2014 the Refunded Bonds maturing on April 1, 2015 through April 1, 2018, inclusive, at a redemption price of 100% of the principal amount thereof plus accrued interest thereon.

The District will pay, with cash on hand (from the receipts of *ad valorem* taxes collected for such purpose) on April 1, 2014, the \$3,300,000 principal amount of Series F Bonds maturing on such date plus accrued interest thereon. Upon such payment, no Series F Bonds will remain outstanding.

Verification

Grant Thornton LLP, independent certified public accountants, will verify, from the information provided to them, the mathematical accuracy as of the date of the delivery of the Bonds of computations relating to the adequacy of the amounts to be deposited in the Escrow Fund under the Escrow Agreement to pay on April 1, 2014 the redemption price of the Refunded Bonds and accrued interest thereon. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds are as follows:

| | |
|----------------------------------|-----------|
| <u>Sources:</u> | |
| Principal Amount of Bonds | \$ |
| Original Issue Premium | |
| Cash Contribution | |
| Total | <u>\$</u> |
| <u>Uses:</u> | |
| Escrow Fund | \$ |
| Initial Purchaser’s Discount | |
| Costs of Issuance ⁽¹⁾ | |
| Total | <u>\$</u> |

⁽¹⁾ Includes legal, financing and consulting fees, rating agency fees, printing costs and other miscellaneous expenses.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

The Bonds are payable as to both principal and interest from *ad valorem* taxes which may be levied upon all property within the East Bay Municipal Utility District, Special District No. 1, subject to taxation therefor, without limitation of rate or amount (except certain personal property which is taxable at limited rates). Provision has been made as required by law for the annual levy and collection of *ad valorem* taxes sufficient to pay the principal of and interest on the Bonds.

Prior to Fiscal Year 1996, the District paid Special District No. 1 general obligation bond debt service from enterprise revenues of its Wastewater System. Since Fiscal Year 1996, the District has paid general obligation bond debt service exclusively from *ad valorem* taxes levied and collected within Special District No. 1.

THE DISTRICT

Organization

In May 1923, voters in cities along the eastern shore of the San Francisco Bay located in portions of Alameda and Contra Costa Counties (known throughout the San Francisco Bay Area as the “East Bay”) elected to create the District under the provisions of the Municipal Utility District Act. Under the Municipal Utility District Act, municipal utility districts are empowered to acquire, construct, own, operate or control works for supplying the district and public agencies in the territory of the district with light, water, power, heat, transportation, telephone service or other means of communications, means for the collection, treatment or disposition of garbage, sewage or refuse matter, and public recreation facilities appurtenant to its reservoirs and may do all things necessary and convenient to the full exercise

of powers granted in the Municipal Utility District Act. The District presently exercises only those functions relating to water supply, power generation and recreational facilities through its Water System, and sewerage and wastewater interception, treatment and disposal and power generation through its Wastewater System, within the area known as Special District No. 1. Special District No. 1 covers only a portion of the service area of the District. The District presently does not intend to exercise other functions. Such other functions and the related facilities, if exercised, would not constitute part of the Water System or the Wastewater System.

District Board

The District, a public agency, is governed by an elected seven-member Board which determines such matters as rates and charges for services, approval of contracts, and District policy. Voters elect directors by ward to four-year terms. There are seven wards which together cover the entire service area of the District. Each year, the Board elects from among its members persons to serve as Board officers (President and Vice President). With an average service tenure of almost 16 years, each of the Board members has served one or more years as an officer of the Board of Directors and has chaired one or more of the Board's standing committees that review financial, long-range planning, and legislative matters. The following persons currently serve on the Board:

Andy Katz has been a Board member since 2006 and represents Ward 4, which includes Albany, Berkeley, El Cerrito, Emeryville, Kensington and North Oakland. Mr. Katz is currently President of the Board. He is employed as an attorney and public health advocate for Breathe California, and is a former Chair of Sierra Club California. Prior to his election to the District Board, he served for five years as a member of the City of Berkeley Zoning Adjustments Board. Mr. Katz has a Bachelor of Arts degree and a Master of City Planning degree from the University of California, Berkeley, and a law degree from Santa Clara University. His current term expires on December 31, 2014.

Katy H. Foulkes has been a Board member since 1994 and represents Ward 3, which includes the City of Piedmont and a portion of Oakland, in Alameda County, the Contra Costa County cities of Orinda and El Sobrante, the Town of Moraga, and portions of Pinole and Richmond. Ms. Foulkes is currently Vice President of the Board, and she represents the District on the governing boards of the Upper Mokelumne River Watershed Authority and the Freeport Regional Water Authority. Ms. Foulkes serves as a board member for Region 5 of the Association of California Water Agencies ("ACWA") and was formerly a member of ACWA's statewide Board of Directors. She was also a past Vice-President of the Alameda Chapter of the California Special Districts Association and Co-Chair of the Bay Area Water Forum. Ms. Foulkes has a Bachelor of Arts degree in English from the University of California, Berkeley. Her current term expires on December 31, 2014.

John A. Coleman has been a Board member since 1990 and represents Ward 2, which includes Alamo, Lafayette, Walnut Creek, the Town of Danville, the communities of Blackhawk and Diablo, and portions of Pleasant Hill and San Ramon. Mr. Coleman represents the District on the governing boards of the Upper Mokelumne River Watershed Authority (for which he currently serves as Chair), the Freeport Regional Water Authority (for which he currently serves as Chair), and the DSRSD/EBMUD Recycled Water Authority (DERWA). Mr. Coleman currently serves as President of the ACWA Board of Directors and as Chair of the ACWA California Finance Water Task Force, a board member of Contra Costa Council, and a member of the San Francisco Bay Restoration Authority Advisory Committee. He is also a past president of the California Association of Sanitation Agencies. Mr. Coleman is employed as the Executive Director of the Bay Planning Coalition, which represents maritime and shoreline interests and issues in northern

California. He has a Bachelor of Science degree in Natural Resources from the University of California, Berkeley and a certificate in management from the University of Pacific School of Business and Public Administration. His current term expires on December 31, 2014.

Doug A. Linney has served on the Board since 2000 and represents Ward 5, which includes the Alameda County cities of Alameda and San Lorenzo, the West Oakland and Oakland Airport Area, and a portion of San Leandro. He is active in a number of community and environmental organizations, including the California League of Conservation Voters and the California Interfaith Power and Light. Mr. Linney is employed as President of The Next Generation, a public relations firm providing services that emphasize achieving environmental protection. Mr. Linney has a Bachelor of Science degree in Environmental Science and Public Policy from the University of California, Davis. His current term expires on December 31, 2016.

Lesia R. McIntosh has served on the Board since 1999 and represents Ward 1, which includes the Contra Costa County cities of Crockett, Hercules, Rodeo and San Pablo; portions of Richmond and Pinole, and the communities of North Richmond and Selby. Ms. McIntosh is a member of the Contra Costa County Bar Association, the Charles Houston Bar Association, NAACP – Richmond Chapter, Black Women Lawyers of Northern California, and Black Women Organized for Political Action. Ms. McIntosh is an attorney specializing in business, land use and estate planning. She has a Bachelor of Science degree in Political Science from the University of California, Berkeley and a law degree from John F. Kennedy University. Ms. McIntosh's current term expires on December 31, 2016.

Frank G. Mellon has served on the Board since 1994 and represents Ward 7, which includes the areas of Castro Valley, communities of Cherryland and Fairview; portions of San Leandro and Hayward in Alameda County, and a portion of San Ramon in Contra Costa County. Mr. Mellon represents the District on the governing board of the DSRSD/EBMUD Recycled Water Authority (DERWA). He also currently serves on the District's Retirement Board. Mr. Mellon is employed as a consultant specializing in human resources and labor relations and teaches labor law in the California State University East Bay Human Resources Certificate Program. Mr. Mellon has a Bachelor of Arts degree in Management from the University of Hawaii and a Master's Degree in Business Administration from St. Mary's College in Moraga. His current term expires on December 31, 2014.

William B. Patterson has served on the Board since 1997 and represents Ward 6, which includes Alameda County's East Oakland Hills and south of Lake Merritt to the San Leandro city boundary. Mr. Patterson is currently Vice-President of the District's Retirement Board. Mr. Patterson also currently serves as a member of the Oakland Workforce Investment Board. He retired several years ago, after working for many years as the City of Oakland Manager of Parks and Recreation. He has Bachelor's and Master's degrees from San Francisco State University and a Social Services Certificate from the University of California, Berkeley. Mr. Patterson's current term expires on December 31, 2016.

District Management

Alexander R. Coate joined the District in 1993 and was appointed General Manager in 2011. Prior to his appointment as General Manager, he was Director of Water and Natural Resources with responsibility for water supply planning, water rights, and watershed management including recreation and fisheries. He has more than 29 years of experience with public agencies, engineering consulting firms, research and law. Mr. Coate is a member of the American Water Works Association and the Association of California Water Agencies. He currently serves on the

Board of Directors of the Central Valley Project Water Association and California Urban Water Agencies. Mr. Coate has a Bachelor's degree in Neurobiology and a Master's degree in Civil Engineering, both from the University of California, Berkeley.

Jylana D. Collins joined the District in 1994 and was appointed General Counsel in 2006. Prior to her appointment as General Counsel, she was Assistant General Counsel. Before joining the District, she was Deputy City Attorney for the City of Berkeley. She has over 29 years of experience in public law. Ms. Collins has a Bachelor's degree in Psychology from Antioch University West and a law degree from the University of San Francisco School of Law.

Eric L. Sandler was appointed Director of Finance in 2012. He has over 25 years of experience in municipal and infrastructure financing. Prior to joining the District, he was Director of Finance/Treasurer at the San Diego County Water Authority. He also served as Director of Financial Planning and Acting Director of Finance for the San Francisco Public Utilities Commission. Previously, he was employed by Lehman Brothers in the municipal investment banking group in San Francisco. He has a Bachelor's degree in Biology from Stanford University and a Master's degree in Business Administration from the University of California, Berkeley.

Bennett K. Horenstein joined the District in 1991 and was appointed Director of Wastewater effective May 20, 2013. During his 22 years with the District, Mr. Horenstein has worked in various capacities in the District's Wastewater Department, including most recently as Manager of Environmental Services, with responsibility for a range of technical and regulatory activities, including the long-term approach to regional wet weather flow management and associated private lateral sewer program, and the development of the District's resource recovery program. He has over 25 years of experience in the engineering field. Mr. Horenstein has a Bachelor of Science degree in Environmental Engineering from the University of Florida.

Xavier J. Irias joined the District in 1986 and was appointed Director of Engineering and Construction in 2006. Prior to that appointment, he held progressively more responsible positions managing engineering design and engineering services, and he has over 28 years of experience in the engineering field. Mr. Irias has a Bachelor of Science degree in Civil Engineering from the University of California, Berkeley.

Carol K. Nishita joined the District in 1989 and was appointed Director of Administration in 2007. Prior to that appointment, she held progressively more responsible positions, including ten years as the Manager of Budget and Rates. Before joining the District, Ms. Nishita worked as a manager in non-profit and county agencies and as a policy analyst for the Governor's Office of Planning and Research in Sacramento. Ms. Nishita has a Bachelor of Arts degree in Sociology from the University of California, Berkeley and a Master's degree in Social Service Administration from the University of Chicago. Ms. Nishita has announced her retirement from the District effective as of April 1, 2014.

Richard G. Sykes joined the District in 1989 and was appointed Director of Water and Natural Resources in 2011. Mr. Sykes has held progressively more responsible positions over that time; he has broad knowledge of the District's operations and is very experienced in water quality and regulatory issues. He has a Bachelor's degree in Conservation of Natural Resources and English and a Master's degree in Environmental Engineering from the University of California, Berkeley.

Michael J. Wallis joined the District in 1985 and was appointed Director of Operations and Maintenance in 1996. Prior to his current appointment Mr. Wallis held progressively more responsible positions in the District's Wastewater Department, and served as Director of Wastewater for several years. Mr. Wallis has over 35 years of water and wastewater related experience. He serves on the Board of Directors for the Association of Metropolitan Water

Agencies and currently holds the position of Secretary. He has a Bachelor of Science degree and a Master's degree in Civil Engineering from North Carolina State University.

Lynelle M. Lewis joined the District in 1993 and was appointed Secretary of the District in 1995. She is a Certified Municipal Clerk and a member of the City Clerks Association of California and the International Institute of Municipal Clerks. Ms. Lewis received her Bachelor of Science degree in Business Administration from San Jose State University.

Service Area

The District occupies an area of 332 square miles in the East Bay. It covers the eastern shore of San Francisco Bay from Carquinez Strait on the north to and including San Lorenzo on the south and it extends up to 20 miles east, beyond the Oakland-Berkeley hills, into Contra Costa County.

The District's Water System serves the entire area occupied by the District, reaching about 1.3 million people or 53% of the combined population of Alameda County and Contra Costa County. Two-thirds of the population reside in the cities of Alameda, Berkeley, Oakland, San Leandro, Richmond and Walnut Creek.

The Municipal Utility District Act was amended in 1941 to enable formation of special districts for the provision of wastewater services. In 1944, voters in six East Bay cities elected to form the District's Special District No. 1 to treat wastewater released into the San Francisco Bay. The District began wastewater treatment in 1951. The District's Wastewater System presently serves approximately 650,000 people in an 88-square-mile area of the two counties along the east shore of the San Francisco Bay, extending from Richmond on the north, southward to San Leandro. Domestic, commercial and industrial wastewater is treated for the six cities of Alameda, Albany, Berkeley, Emeryville, Oakland and Piedmont, and the Stege Sanitary District (which includes El Cerrito, Kensington and part of Richmond).

At the request of the City of Richmond, the District is presently participating in a study to explore the possibility of the District accepting wastewater from the Richmond Municipal Sewer District, which serves the majority of the City of Richmond, and has an average dry weather flow of approximately 6.5 million gallons per day ("MGD"). Under an agreement between the City of Richmond and the District, the City of Richmond will reimburse the District for its costs to perform the study, up to \$250,000. The study is anticipated to be completed by June 30, 2014. The City of Richmond continues to evaluate its alternatives for its sewer services, including a potential annexation by the District. The District's position in its consideration of any potential partnership with the City of Richmond will be guided by the principles that the District's ratepayers should not be adversely impacted and that the cost of any capital improvements required to accommodate City of Richmond flows should be borne by the City of Richmond ratepayers.

See also APPENDIX A – "GENERAL INFORMATION REGARDING THE DISTRICT'S WASTEWATER SYSTEM."

Assessed Valuation, Tax Collections and Delinquencies

Taxes are levied by Alameda County and Contra Costa County for each fiscal year on taxable real and personal property which is located in such respective county and is situated within the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and property secured by a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be in default on or about June 30 of each year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is declared to be subject to the county tax collector's power of sale and may be subsequently sold by the county tax collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31 of each year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of each fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (1) filing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging to the taxpayer.

Two exemptions from *ad valorem* taxation are currently in effect. Legislation enacted in 1972 provides that \$7,000 of the full cash value of owner-occupied dwellings is exempt from taxation. State subventions currently compensate local agencies for tax revenues lost from this exemption. Additionally, the Statutes of 1979 exempted all business inventories from *ad valorem* taxation.

As described under "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS," under California law, the taxable value of real property as of each January 1 lien date must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction or other factors causing a decline in value. Property owners may apply for a reduction of their property tax assessment by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, an appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. County Assessors may independently reduce assessed values as well based upon the above factors or other reductions in the fair market value of the taxable property.

Any reduction in the assessment ultimately granted that was a result of such appeal applies to the year for which the written application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions approve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reductions in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Many counties in California, including Alameda and Contra Costa County, experienced certain declines in property values in certain years since 2008. The District cannot predict the changes that might

result from pending or future property tax appeals by taxpayers and no assurance can be given that property tax appeals currently pending or in the future will not significantly reduce the assessed valuation of property within Special District No. 1.

Table 1 shows a five-year record of assessed valuations, secured roll levies (including the District's allocated share of the maximum *ad valorem* levy by each county of 1% of full cash value and the *ad valorem* tax levy for debt service on the Series F Bonds) and delinquencies for the property within Special District No. 1. Assessed valuations are expressed by County Assessors as "full cash value" as defined by Article XIII A of the State Constitution. Pursuant to California Revenue and Taxation Code Sections 4701 et seq., Contra Costa County and Alameda County each maintain a reserve fund for the purpose of guaranteeing 100% of the secured levies of the electing governmental jurisdictions for which such county collects taxes (commonly referred to as "The Teeter Plan"). The District has elected to participate in Contra Costa County's Teeter Plan program but has elected not to participate in Alameda County's Teeter Plan program. Consequently, the District is exposed to the effect of delinquencies in collections only for property located in Alameda County.

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Table 1
TAXABLE PROPERTY WITHIN THE WASTEWATER SYSTEM
SPECIAL DISTRICT NO. 1
ASSESSED VALUATION AND TAX COLLECTION RECORD

| Fiscal Year | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--|----------------------|----------------------------|----------------------|----------------------|----------------------|
| ASSESSED VALUATION FOR TAXATION PURPOSES⁽¹⁾ | | | | | |
| Alameda County | \$71,452,305,974 | \$70,004,422,511 | \$70,659,732,542 | \$71,934,582,382 | \$75,005,826,233 |
| Contra Costa County | <u>4,320,613,488</u> | <u>4,369,735,559</u> | <u>4,336,045,012</u> | <u>4,216,260,569</u> | <u>4,436,844,975</u> |
| TOTAL | \$75,772,919,462 | \$74,374,158,070 | \$74,995,777,554 | \$76,150,842,951 | \$79,442,671,208 |
| DISTRICT G. O. BOND AD VALOREM TAX LEVY | | | | | |
| Alameda County | \$3,674,685 | \$3,823,706 | \$3,819,476 | \$4,340,344 | \$4,712,548 |
| Contra Costa County | <u>244,467</u> | <u>239,172</u> | <u>260,298</u> | <u>268,200</u> | <u>282,625</u> |
| TOTAL | \$3,919,152 | \$4,062,878 | \$4,079,774 | \$4,608,544 | \$4,995,173 |
| G.O. BOND AD VALOREM TAX DELINQUENCIES⁽²⁾ | | | | | |
| Delinquent June 30 | | | | | |
| Amount | \$227,589 | \$183,272 | \$155,609 | \$120,758 | \$103,594 |
| Percent | 5.81% | 4.51% | 3.81% | 2.62% | 2.07% |
| COUNTY 1% ALLOCATED PROPERTY TAX REVENUES TO DISTRICT⁽³⁾ | | | | | |
| Alameda County | \$3,159,144 | \$3,091,674 | \$3,002,026 | \$3,407,488 | \$4,111,766 |
| Contra Costa County | <u>299,701</u> | <u>292,357</u> | <u>297,289</u> | <u>290,580</u> | <u>301,272</u> |
| TOTAL | \$3,458,845 | \$3,384,031 ⁽⁴⁾ | \$3,299,315 | \$3,698,068 | \$4,413,038 |
| COUNTY 1% ALLOCATED PROPERTY TAX DELINQUENCIES⁽²⁾ | | | | | |
| Delinquent June 30 | | | | | |
| Amount | \$175,897 | \$122,633 | \$99,561 | \$93,426 | \$68,618 |
| Percent | 5.09% | 3.62% | 3.02% | 2.53% | 1.55% |

⁽¹⁾ Net of all exemptions except homeowner's exemptions, the taxes on which are paid by the State. All valuations are stated on a 100% of full cash value basis as defined by law. Assessed valuations shown include redevelopment project area incremental valuations. Includes secured and unsecured rolls.

⁽²⁾ Amounts apply to Alameda County only, since Contra Costa County guarantees 100% payment of the District's secured roll levy as described above. The delinquency percentages are calculated based on the two counties' secured roll levies.

⁽³⁾ Net basis excluding all exemptions. Levies reflect the tax reductions effected by the adoption of Article XIII A of the State Constitution in 1978, the "Jarvis-Gann Initiative." For Alameda County, receipts include District's share of prior years' delinquencies when collected.

⁽⁴⁾ The 2009-10 State budget provided for the borrowing of 8% of property taxes from local jurisdictions, including the District, under Proposition 1A (discussed below). This borrowing resulted in a reduction of approximately \$260,000 from property tax revenues allocable to Special District No. 1 for the Fiscal Year 2009-10. Under Proposition 1A, the State was required to repay the property taxes with interest within three years. State legislation allowed the District to sell its right to receive this repayment to a joint powers authority, which sold bonds payable from the receivables it purchased from participating local jurisdictions. The District participated in this program in order to replace the lost property taxes at no cost to the District, and treated amounts received under the program as it would have treated the State borrowed property tax revenues replaced thereby.

Sources: Auditor-Controller's Office, Alameda and Contra Costa Counties, as compiled by the District.

Historically, from time to time, legislation was enacted as part of the State budget to provide for the reallocation of local governments' shares of the countywide 1% *ad valorem* tax, including by shifting a portion of the property tax revenues collected by the counties from special districts (such as the District) to school districts or other governmental entities. In the last decade, certain amendments to the State Constitution have been enacted to reduce the State Legislature's authority over local revenue sources by placing restrictions on, among other things, the State's access to local governments' property tax revenues. For example, on November 2, 2004 voters within the State approved Proposition 1A, which prevented the State from reducing local government's share of the 1% *ad valorem* property tax below levels in effect as of November 3, 2004, except in the case of fiscal emergency. Proposition 1A provided that in the case of fiscal emergency, the State could borrow up to 8% of local property tax revenues to be repaid within three years. Following the exercise by the State of its authority to borrow such local property tax revenues as part of the 2009-10 State Budget Act, on November 2, 2010, voters within the State approved Proposition 22, which prohibits any future action by the State Legislature to take, reallocate or borrow money raised by local governments for local purposes, and prohibits changes in the allocation of property taxes among local governments to aid State finances or pay for State mandates. Proposition 22 thereby effectively repealed the provisions of Proposition 1A allowing the State to borrow local property tax revenues from local governments, and prohibits any such future borrowing.

There can be no assurances that legislation or voter initiatives enacted or approved in the future will not reduce or eliminate the District's share of the 1% county-wide *ad valorem* property tax revenues. See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

The District's share of the 1% county-wide *ad valorem* property tax revenues fund a portion of the District's operations and are not pledged as a source of payment for the Bonds.

Assessed Valuation by Jurisdiction

As reflected in the table above, the tax rolls for property located within Special District No. 1 for the Fiscal Year ended June 30, 2013, aggregated a total assessed valuation of approximately \$79.4 billion. Table 2 provides a breakdown of the total assessed valuation of property located within Special District No. 1 by jurisdiction.

Table 2
EAST BAY MUNICIPAL UTILITY DISTRICT
SPECIAL DISTRICT NO. 1
2013-14 Assessed Valuation by Jurisdiction⁽¹⁾

| Jurisdiction | Assessed Valuation in District | % of District | % of Jurisdiction in District |
|---|---|----------------------|--|
| City of Alameda | \$ 9,949,194,280 | 12.52% | 100.00% |
| City of Albany | 2,084,715,180 | 2.62 | 100.00 |
| City of Berkeley | 14,363,985,300 | 18.08 | 100.00 |
| City of El Cerrito ⁽²⁾ | 2,998,758,073 | 3.77 | 99.88 |
| City of Emeryville | 4,046,671,447 | 5.09 | 100.00 |
| City of Oakland | 41,166,192,735 | 51.82 | 99.98 |
| City of Richmond ⁽²⁾ | 498,763,045 | 0.63 | 4.58 |
| City of San Leandro | 9,838,511 | 0.01 | 0.09 |
| Unincorporated Alameda County | 3,385,228,780 | 4.26 | 21.70 |
| Unincorporated Contra Costa County ⁽²⁾ | <u>939,323,857</u> | <u>1.18</u> | 3.00 |
| Total District | \$79,442,671,208 | 100.00% | |
| Summary by County: | | | |
| Total Alameda County | \$75,005,826,233 | 94.42% | 36.05 |
| Total Contra Costa County | <u>4,436,844,975</u> | <u>5.58</u> | 3.02 |
| Total District | \$79,442,671,208 | 100.00% | |

⁽¹⁾ Before deduction of redevelopment incremental valuation. Includes secured and unsecured rolls.

⁽²⁾ Includes a portion of the service area of Stege Sanitary District.

Source: California Municipal Statistics, Inc.

Tax Rates

For taxing purposes, the State Board of Equalization has divided the area served by Special District No. 1 into approximately 84 separate tax rate areas. As reported by California Municipal Statistics, Inc., typical tax rates in the portion of Special District No. 1 located in Alameda County are demonstrated by Tax Rate Area 17-001 and in the portion of Special District No. 1 located in Contra Costa County by Tax Rate Area 3-000. The following Table 3 summarizes the five year history of component tax rates levied in these tax rate areas:

Table 3
EAST BAY MUNICIPAL UTILITY DISTRICT
SPECIAL DISTRICT NO. 1
Five-Year History of Typical Tax Rates per \$100 of Assessed Valuation

| <u>Alameda County (TRA 17-001)</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| General | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| Oakland Unified School District Bonds | .1259 | .1267 | .1305 | .1384 | .1780 |
| Peralta Community College District Bonds | .0430 | .0430 | .0436 | .0434 | .0419 |
| Bay Area Rapid Transit District | .0057 | .0031 | .0041 | .0043 | .0075 |
| East Bay Regional Park District Bonds | .0108 | .0084 | .0071 | .0051 | .0078 |
| East Bay Municipal Utility District, Special District No. 1 Bonds | .0065 | .0067 | .0067 | .0068 | .0066 |
| City of Oakland | <u>.2189</u> | <u>.2207</u> | <u>.2192</u> | <u>.2077</u> | <u>.1985</u> |
| Total | 1.4108 | 1.4086 | 1.4112 | 1.4057 | 1.4403 |
| | | | | | |
| <u>Contra Costa County (TRA 3-000)</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> |
| General | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| East Bay Municipal Utility District, Special District No. 1 Bonds | .0065 | .0067 | .0067 | .0068 | .0066 |
| Bay Area Rapid Transit District | .0057 | .0031 | .0041 | .0043 | .0075 |
| East Bay Regional Park District Bonds | .0108 | .0084 | .0071 | .0051 | .0078 |
| West Contra Costa Unified School District | .1828 | .1869 | .2322 | .2157 | .2818 |
| Contra Costa Community College District | <u>.0126</u> | <u>.0133</u> | <u>.0144</u> | <u>.0087</u> | <u>.0133</u> |
| Total | 1.2184 | 1.2184 | 1.2645 | 1.2406 | 1.3170 |

Source: California Municipal Statistics, Inc.

Major Taxpayers

The following Table 4 summarizes the largest local secured taxpayers in Special District No. 1 in terms of 2013-14 secured assessed valuations.

Table 4
EAST BAY MUNICIPAL UTILITY DISTRICT
SPECIAL DISTRICT NO. 1
Largest 2013-14 Local Secured Taxpayers

| | <u>Property Owner</u> | <u>Primary Land Use</u> | <u>2013-14 Assessed Valuation</u> | <u>% of Total⁽¹⁾</u> |
|-----|--|-------------------------|---------------------------------------|---------------------------------|
| 1. | CIM Oakland | Office Building | \$462,774,553 | 0.62% |
| 2. | Bayer Healthcare LLC | Industrial | 279,988,443 | 0.38 |
| 3. | OCC Venture LLC | Office Building | 241,004,139 | 0.32 |
| 4. | Pixar | Industrial | 239,773,011 | 0.32 |
| 5. | Legacy Partners I Alameda LLC | Office Building | 214,675,882 | 0.29 |
| 6. | Madison Manhattan Village LLC | Shopping Center | 210,681,494 | 0.28 |
| 7. | Kaiser Foundation Health Plan | Medical Buildings | 201,335,757 ⁽²⁾ | 0.27 |
| 8. | Chiron Corporation | Office Building | 196,330,234 | 0.26 |
| 9. | SIC Lakeside Drive LLC | Office Building | 185,510,745 | 0.25 |
| 10. | Jamestown Harsch Alameda Towne Center LP | Shopping Center | 185,187,025 | 0.25 |
| 11. | BRE Properties Inc. | Apartments | 179,572,346 | 0.24 |
| 12. | Emeryville Office LLC | Office Building | 142,015,120 | 0.19 |
| 13. | Digital 720 2 nd LLC | Industrial | 127,825,966 | 0.17 |
| 14. | 1800 Harrison Foundation | Office Building | 127,509,307 | 0.17 |
| 15. | Oakland Property LLC | Office Building | 126,409,000 | 0.17 |
| 16. | 555 Twelfth Street Venture LLC | Office Building | 121,289,573 | 0.16 |
| 17. | Westcore City Center LLC | Office Building | 110,000,000 | 0.15 |
| 18. | STRS Ohio CA Real Estate Investments | Apartments | 104,333,306 | 0.14 |
| 19. | Hines REIT Watergate LP | Office Building | 97,044,474 | 0.13 |
| 20. | KW Alameda LLC | Apartments | <u>95,795,578</u> | <u>0.13</u> |
| | | | \$3,649,055,953 | 4.91% |

⁽¹⁾ 2013-14 Local Secured Assessed Valuation: \$74,288,677,368

⁽²⁾ Net taxable value.

Source: California Municipal Statistics, Inc.

Assessed Valuations by Land Use

Table 5 sets forth the total secured assessed valuation measured by land use in Special District No. 1 for Fiscal Year 2013-14. Residential uses are 78.66% of the total secured assessed valuation and non-residential uses are approximately 21.34% of the total.

Table 5
SPECIAL DISTRICT NO. 1
2013-14 Assessed Valuation and Parcels by Land Use⁽¹⁾

| | <u>2013-14 Assessed Valuation⁽²⁾</u> | <u>Percent of Total</u> | <u>Number of Parcels</u> | <u>Percent of Total</u> |
|---------------------------------|---|-----------------------------|------------------------------|-----------------------------|
| <u>Non-Residential:</u> | | | | |
| Agricultural/ Rural | \$ 2,884,968 | 0.00% | 6 | 0.00% |
| Commercial/Office | 11,595,826,384 | 15.61 | 8,875 | 4.84 |
| Vacant Commercial | 223,301,556 | 0.30 | 617 | 0.34 |
| Industrial | 3,476,230,397 | 4.68 | 2,408 | 1.31 |
| Vacant Industrial | 160,466,514 | 0.22 | 540 | 0.29 |
| Government/Social/Institutional | <u>393,875,414</u> | <u>0.53</u> | <u>1,391</u> | <u>0.76</u> |
| Subtotal Non-Residential | \$15,852,585,233 | 21.34% | 13,837 | 7.54% |
| <u>Residential:</u> | | | | |
| Single Family Residence | \$39,788,141,733 | 53.56 | 114,225 | 62.28% |
| Condominium/Townhouse | 6,043,143,456 | 8.13 | 24,729 | 13.48 |
| Mobile Home | 10,006,508 | 0.01 | 54 | 0.03 |
| 2-4 Residential Units | 6,034,244,060 | 8.12 | 21,082 | 11.49 |
| 5+ Residential Units/Apartments | 6,185,792,570 | 8.33 | 5,211 | 2.84 |
| Vacant Residential | <u>374,763,808</u> | <u>0.50</u> | <u>4,274</u> | <u>2.33</u> |
| Subtotal Residential | \$58,436,092,135 | 78.66% | 169,575 | 92.46% |
| Total | \$74,288,677,368 | 100.00% | 183,412 | 100.00% |

⁽¹⁾ Some totals may not add due to rounding.

⁽²⁾ Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Table 6 presents a statement of Special District No. 1's direct and overlapping debt as of December 1, 2013, prepared by California Municipal Statistics, Inc.

Table 6
EAST BAY MUNICIPAL UTILITY DISTRICT, SPECIAL DISTRICT NO. 1

2013-14 Assessed Valuation: \$79,442,671,208⁽¹⁾

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable</u> | <u>Debt 12/1/13</u> |
|--|---------------------|------------------------------------|
| Bay Area Rapid Transit District | 15.113% | \$ 97,973,801 |
| Peralta Community College District | 100. | 403,680,000 |
| Alameda Unified School District | 100. | 63,105,326 |
| Albany Unified School District | 100. | 36,635,000 |
| Berkeley Unified School District | 100. | 241,214,222 |
| Oakland Unified School District | 100. | 842,680,000 |
| Piedmont Unified School District | 100. | 73,475,301 |
| West Contra Costa Unified School District | 19.954 | 179,920,814 |
| Other School Districts | Various | 98,891,119 |
| City of Alameda | 100. | 9,010,000 |
| City of Albany | 100. | 16,565,000 |
| City of Berkeley | 100. | 72,565,000 |
| City of Oakland | 99.981 | 235,937,079 |
| East Bay Municipal Utility District, Special District No. 1⁽²⁾ | 100. | 18,555,000 |
| East Bay Regional Park District | 23.331 | 47,356,097 |
| West Contra Costa Healthcare District Parcel Tax Obligations | 18.111 | 10,856,639 |
| City of El Cerrito Parcel Tax Obligations | 99.877 | 2,167,331 |
| City of Alameda Community Facilities District No. 1 | 100. | 7,785,000 |
| City of Berkeley Community Facilities District No. 1 | 100. | 5,040,000 |
| 1915 Act bonds | 100. | <u>23,870,850</u> |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$2,487,283,579 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Alameda County General Fund Obligations | 36.054% | \$ 325,407,180 |
| Alameda County Pension Obligations | 36.054 | 31,650,878 |
| Contra Costa County General Fund Obligations | 3.017 | 8,918,011 |
| Contra Costa County Pension Obligations | 3.017 | 9,356,019 |
| Alameda-Contra Costa Transit District Certificates of Participation | 45.218 | 12,731,128 |
| Peralta Community College District Pension Obligations | 100. | 158,554,090 |
| Oakland Unified School District Certificates of Participation | 100. | 43,365,000 |
| Other School District Certificates of Participation | Various | 2,620,948 |
| City of Alameda Certificates of Participation | 100. | 12,915,000 |
| City of Berkeley General Fund Obligations and Pension Obligations | 100. | 33,425,000 |
| City of Oakland General Fund Obligations | 99.981 | 263,629,901 |
| City of Oakland Pension Obligations | 99.981 | 367,323,699 |
| Other City General Fund and Pension Obligations | Various | <u>24,045,390</u> |
| TOTAL GROSS OVERLAPPING GENERAL FUND DEBT | | \$1,293,942,244 |
| Less: Contra Costa County Obligations supported from revenue funds | | 3,566,177 |
| City of Richmond obligations supported from port revenues | | <u>2,166,720</u> |
| TOTAL NET OVERLAPPING GENERAL FUND DEBT | | \$1,288,209,347 |
| <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u> | 0.512-100.% | \$691,140,490 |
| GROSS COMBINED TOTAL DEBT | | \$4,472,366,313 ⁽³⁾ |
| NET COMBINED TOTAL DEBT | | \$4,466,633,416 |

⁽¹⁾ Total secured and unsecured rolls.

⁽²⁾ Excludes issue to be sold.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:

| | |
|--|--------------|
| Total Direct Debt (\$18,555,000) | 0.02% |
| Total Direct and Overlapping Tax and Assessment Debt | 3.13% |
| Gross Combined Total Debt | 5.63 % |
| Net Combined Total Debt | 5.62% |

Ratios to Redevelopment Incremental Valuation (\$15,389,049,304):

| | |
|--|-------|
| Total Overlapping Tax Increment Debt | 4.49% |
|--|-------|

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Tax Limitations - Proposition 13

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, and (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Thus, by its terms, the tax rate limitation does not apply to taxes levied to pay debt service on the District’s bonds issued pursuant to the Resolution, such as the Bonds, because such bonds were approved by the voters in 1970.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value. The legislation further establishes the method for allocating the taxes collected by each county among the taxing agencies in the county. Special districts, such as the District, receive an allocation that is based primarily upon their tax levies in certain years prior to the amendment’s effective date relative to the tax levies of other congruent agencies. The District receives approximately 1.25% of the non-debt service property taxes collected within its jurisdiction from Alameda and Contra Costa counties.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

The effect of Article XIII A on the District’s finances has been to restrict *ad valorem* tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy *ad valorem* taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds (such as the Bonds) authorized prior to July 1, 1978. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

For a description of the property tax collection procedure and certain information concerning tax collections and delinquencies see “THE DISTRICT – Assessed Valuation, Tax Collections and Delinquencies.”

Spending Limitations

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.” Article XIII B does not affect the appropriation of monies which are excluded from the definition of “appropriations subject to limitation.” Among the exclusions is an “appropriation of any special district which existed on January 1, 1978, and which did not as of the 1977-78 Fiscal Year levy an *ad valorem* tax on property in excess of 12.5 cents per \$100 of assessed value.” In the opinion of the District’s General Counsel, the appropriations of the District are excluded from the limitations of Article XIII B under this clause.

Proposition 62

A statutory initiative (“Proposition 62”) was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency’s legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

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. Proposition 218 provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Proposition 218 does not limit the imposition of the *ad valorem* taxes securing the District’s general obligation bonds issued pursuant to the Resolution, such as the Bonds, which were approved by the voters in 1970.

Article XIII D conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIII D 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 XIII D 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.

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 District does not currently impose standby charges or assessments for its Wastewater System.

Proposition 218 also added Article XIIC to the California Constitution, which among other things provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII does not define the terms “local tax,” “assessment,” “fee” or “charge.” The Bonds are secured from the proceeds of *ad valorem* taxes which the District is obligated to levy and the Boards of Supervisors of Alameda County and Contra Costa County are empowered and are obligated to collect, such levy to be without limitation as to rate or amount, upon all property within Special District No. 1 subject to taxation by the District, except certain personal property which is taxable at limited rates. There is no court case which directly addresses whether the initiative power may be used to reduce or repeal the *ad valorem* taxes pledged to repay general obligation bonds. In the case of *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the “Bighorn Decision”), the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIIC. The California Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after the adoption of Article XIIC, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIIC. The proposition 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. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIIC and XIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, 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 or local government of providing the service or product to the

payor. The District believes that the initiative is not intended to and would not apply to fees for utility services charged by special districts such as the District. The District, however, is unable to predict whether Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the District.

Other Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 26 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the District's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the District.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel to the Initial Purchaser ("Special Tax Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Tax Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in APPENDIX D.

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

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (the "Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their

own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. For example, legislative proposals have been made in recent years that would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

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

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately

disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of Bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the beneficial owners to incur significant expense.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement, dated [February _____,] 2014, by and among the District, the Paying Agent and The Bank of New York Mellon Trust Company, N.A. as Dissemination Agent, the District has covenanted and agreed for the benefit of the holders and beneficial owners of the Bonds to provide in an annual report certain financial information and operating data relating to the District (the “Annual Report”) by not later than 180 days following the end of the District’s fiscal year (which currently is June 30 of each year), commencing with the Annual Report for Fiscal Year 2013-14, and to provide notices of the occurrence of certain specified events. The Annual Report and the notices of specified events will be filed by the Dissemination Agent on behalf of the District with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website. The Municipal Securities Rulemaking Board has made such information available to the public without charge through such internet portal. The specific nature of the information to be contained in the Annual Report and the notices of specified events is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

As of the date hereof, the District is in compliance in all material respects with its continuing disclosure undertakings for the last five years; however, due to administrative oversight, the District’s complete Annual Report for 2008 was filed 27 days after the specified filing deadline and the District’s complete Annual Report for 2011 was filed three days after the specified filing deadline. In addition, in connection with the preparation of its Annual Report filing for Fiscal Year 2012, the District determined that a separate table summarizing the sources of revenues and contributions for each of the Water System and the Wastewater System was unintentionally omitted from the District’s filings prior to its Annual Report for Fiscal Year 2012. The information contained in such table of sources of revenues and contributions can be derived from the District’s audited financial statements and such information was also routinely made available in the District’s official statements during such period. In filing its Annual Report for Fiscal Year 2012, the District included such a table with five years of data and thereby effectively provided all information necessary to make its prior filings for such years complete. Filings through EMMA are linked to a particular issue of obligations by CUSIP number (which is subject to change after the issuance of obligations as a result of various subsequent actions). It has further come to the District’s attention that certain filings (including certain Annual Reports and a notice of certain ratings upgrades), when made, were not appropriately linked to all applicable CUSIP numbers (including, in some cases, the CUSIP numbers for the outstanding Wastewater System General Obligation Refunding Bonds, Series F). The District has since linked the applicable filings to the additional CUSIPs. Although the District uses its best efforts to confirm that each report filed through EMMA is linked to all the correct 9-digit CUSIP numbers, there can be no guarantee of complete accuracy in this process given the large number of District CUSIP numbers.

The District’s Annual Report for Fiscal Year 2012 was timely filed on December 21, 2012. The District’s Annual Report for Fiscal Year 2013 was timely filed on December 12, 2013. The District believes it has established processes to ensure it will timely file complete annual reports in the future.

LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the District in the execution or delivery of, or in any way contesting or affecting the validity of, the

Bonds. There is no litigation pending, or to the knowledge of the District, threatened, questioning the existence of the District or the title of the officers of the District to their respective offices.

There exist other lawsuits and claims against the District, which are incidental to the ordinary course of operations of the Wastewater System and are largely covered by the District's self-insurance program. In the opinion of the District's Office of General Counsel, there is no litigation, present or pending, which will materially impair the District's ability to service its indebtedness or to expend the proceeds for the purposes for which the Bonds are authorized.

RATINGS

It is expected that Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and Moody's Investors Service, Inc. ("Moody's") will assign the Bonds the ratings of "____" and "____," respectively. No application has been made to any other rating agency for the purpose of obtaining any additional rating on the Bonds. Any desired explanation of such ratings should be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

PURCHASE AND REOFFERING

_____ (the "Initial Purchaser") purchased the Bonds from the District at a competitive sale at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the Bonds, plus an original issue premium of \$_____, and less an Initial Purchaser's discount of \$_____). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the issuance of the Bonds are subject to the approval of validity by Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel. Certain legal matters will be passed upon for the District by its General Counsel. Orrick, Herrington & Sutcliffe LLP, San Francisco, California, is serving as Special Tax Counsel to the Initial Purchaser in connection with the Bonds. The form of approving opinion of Co-Bond Counsel and the form of opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel to the Initial Purchaser, in connection with the issuance of the Bonds are included as APPENDIX D to this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, Minneapolis, Minnesota, a firm of independent certified public accountants, will verify the accuracy of the mathematical computations concerning the adequacy of the cash deposited and held in the Escrow Fund for the Refunded Bonds, together with the maturing principal amounts of and interest earned on the Escrow Securities, if any, to pay on April 1, 2014, the redemption price of the Refunded Bonds (*i.e.*, 100% of the principal amount thereof), together with accrued and unpaid interest thereon.

The report of such independent certified public accountants will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

CO-FINANCIAL ADVISORS

The District has retained Montague DeRose and Associates, LLC, Westlake Village, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California, as co-financial advisors (the “Co-Financial Advisors”) in connection with the Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

INDEPENDENT ACCOUNTANTS

Included as APPENDIX C to this Official Statement are the audited basic financial statements of the District for the Fiscal Years ended June 30, 2013 and 2012. The District’s basic financial statements for the Fiscal Years ended June 30, 2013 and 2012, included in APPENDIX C, have been audited by Maze & Associates, certified public accountants. Maze & Associates has not been requested to consent to the inclusion of its report in APPENDIX C and it 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 Maze & Associates with respect to any event subsequent to the date of its report.

It is the District’s policy to competitively select and retain independent accountants on a periodic basis. Maze & Associates began serving as the District’s independent accountants in Fiscal Year 2005. In 2012, following a request for proposals and competitive selection process, Maze and Associates was retained to serve as independent accountants for the three additional fiscal years ending June 30, 2012 through 2014.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof and do not purport to be complete or definitive and reference is hereby made to such documents and reports for a full and complete statement of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or registered owners of any of the Bonds. The delivery and distribution of this Official Statement has been duly authorized by the District.

EAST BAY MUNICIPAL UTILITY DISTRICT

By _____
General Manager

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT'S WASTEWATER SYSTEM

The information in this Appendix A concerning the District's Wastewater System and the finances thereof is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general revenues of the District or its Wastewater System. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters within Special District No. 1 pursuant to all applicable laws and Constitutional requirements, and to be levied on property within Special District No. 1 in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the front part of this Official Statement.

General Description

The District's Wastewater System provides regional wastewater conveyance, treatment, and disposal services for the area within the District designated as Special District No. 1. Special District No. 1, a separate district within the District governed by the Board, was established in 1944 and is administered by the District's Wastewater Department. The Wastewater System began operations in 1951.

Special District No. 1 intercepts, treats and disposes of wastewater within its wastewater service area, which includes the six participating cities of Alameda, Albany, Berkeley, Emeryville, Oakland and Piedmont, and the Stege Sanitary District (which includes El Cerrito, Kensington and part of Richmond) (collectively, the "participating agencies"). Each of the participating agencies maintains its own separate sanitary sewer system (*i.e.*, a system designed to transport sewage separate from the pipe system constructed to convey storm water runoff directly to surface waters), and is responsible for collecting and conveying wastewater to the District interceptors. The participating agencies and Special District No. 1 operate under separate National Pollutant Discharge Elimination System permits issued by the Regional Water Quality Control Board San Francisco Bay Region and are separately responsible for failures of their own collection, conveyance and/or disposal systems.

In addition to treating wastewater received from the participating agencies through their collection systems, the District also treats high-organic waste streams delivered to District facilities in trucks through its resource recovery program. The trucked wastes include domestic waste from septic tanks, industrial and commercial process wastes, fat, oil and grease from restaurants and other food and drink wastes.

Wastewater Facilities

The District's existing Wastewater System facilities consist of, among other things, the District's Main Wastewater Treatment Plant in Oakland near the entrance of the San Francisco-Oakland Bay Bridge (the "Main Wastewater Treatment Plant") and interceptors and pumping stations for the conveyance of wastewater collected by the participating agencies to the Main Wastewater Treatment Plant, as well as certain wet weather facilities (the "Wet Weather Facilities") which are operated during wet weather events when flows from the participating agencies' collections systems exceed the capacity that can be treated at the Main Wastewater Treatment Plant.

The District's interceptors consist of 29 miles of reinforced concrete gravity pipeline, ranging from 18 inches to 9 feet in diameter, and 8 miles of pressure pipeline from pump stations. The

interceptors collect wastewater from approximately 1,700 miles of public sewers owned and operated by the participating agencies. Fifteen pumping stations, ranging in capacity from 1.5 to 60 MGD, lift wastewater throughout the interceptors as it travels to the District's Main Wastewater Treatment Plant for treatment prior to discharge of the treated effluent into the San Francisco Bay. The Main Wastewater Treatment Plant provides secondary treatment for permitted dry weather flow of up to 120 MGD and a maximum flow of 168 MGD during wet weather storm events. Primary treatment can be provided at the Main Wastewater Treatment Plant for a peak of up to 320 MGD, with peak influent hydraulic capacity of 415 MGD when utilizing an on-site 11 million gallon storage basin, a component of the District's Wet Weather Facilities, which is used to temporarily store peak storm flows in excess of the permitted limits for treatment at the Main Wastewater Treatment Plant after flows subside.

Primary treatment removes floating material, oils and greases, sand and silt and organic solids heavy enough to settle in water. Secondary treatment biologically removes most of the suspended and dissolved organic and chemical impurities that would otherwise reduce the oxygen content of the waters of the San Francisco Bay if allowed to decompose naturally. The treatment steps are pre-chlorination, screening, grit removal, primary sedimentation, secondary treatment using high-purity, oxygen-activated sludge, final clarification, biosolids digestion, dewatering and beneficial use of biosolids through land application at non-edible crop farm sites or alternative daily cover at landfills. The treated effluent is then disinfected, dechlorinated and discharged one mile off the East Bay shore through a deep-water outfall into San Francisco Bay.

The annual average daily flow through the District's Main Wastewater Treatment Plant over the last five years has been approximately 66 MGD. Peak daily flows from the participating agencies' collection systems to the District's interceptors increase significantly during wet weather primarily due to inflow and infiltration. Although the participating agencies' wastewater collection systems are all separate sanitary systems designed to transport only sewage (with a separate stormwater system in place to discharge stormwater runoff), all sewer systems have some degree of inflow and infiltration of surface water and groundwater. Inflow is water that enters a sewer system from sources such as roof leaders, yard drains, area drains, manhole covers, and cross-connections between storm sewers and sanitary sewers. Infiltration is water that enters the system from the ground (particularly when saturated due to storms or flooding) through such means as defective pipes, pipe joints, connections or manholes.

District facilities designed to address increased flows during wet weather periods include three wet weather treatment facilities (Oakport, San Antonio Creek and Point Isabel), as well as five overflow structures located at Temescal Creek, Oakland Inner Harbor (Alice Street), Oakland Inner Harbor (Webster Street), Elmhurst Creek and San Leandro Creek.

The 158-MGD Oakport Wet Weather Facility, completed in 1990, provides primary treatment for peak wet weather flow diverted along the District's South Interceptor. Following primary treatment, effluent from this facility is discharged to East Creek Slough in the lower San Francisco Bay. The 100-MGD Point Isabel Wet Weather Facility, completed in 1993, accepts peak wet weather flows from the District's North Interceptor, for primary treatment prior to discharge of the effluent to the central San Francisco Bay. The 51-MGD San Antonio Creek Wet Weather Facility, completed in 1996, provides primary treatment to wastewater diverted from the District's South Interceptor. The effluent from this facility is discharged to the Oakland Inner Harbor, in lower San Francisco Bay.

The Wet Weather Facilities also serve as storage facilities. After a wet-weather event, when the Main Wastewater Treatment Plant again has available capacity, wastewater flows stored in these facilities can be returned to the interceptors for transport to the Main Wastewater Treatment Plant for secondary treatment prior to discharge.

The District's Wet Weather Facilities increase the Wastewater System's wet weather capacity to 724 MGD.

During significant wet weather events, when the carrying capacity of the interceptors and/or the treatment capacity of the Main Wastewater Treatment Plant is exceeded or in the event of a major Wastewater System failure, the five overflow structures control the location of overflows and allow for the discharge of untreated sewage into the San Francisco Bay when necessary to avoid sanitary system overflows occurring in the collection system or at the Main Wastewater Treatment Plant (a sanitary sewer overflow occurs when wastewater comes out of the sanitary sewer system, including when it enters a street, residence, business or yard. This is usually caused by blockage, failure or lack of capacity).

Seismic Matters

The District is located in a seismically active region of California. The Hayward Fault runs through the entire western portion of the District and the Calaveras Fault runs through the southeastern portion of the District. The Concord Fault is located several miles to the east of the District and the San Andreas Fault is located to the west.

The District commissioned a seismic evaluation study, completed in 1994, that examined the potential impacts on the District's Wastewater System of various magnitudes of earthquakes along the Hayward Fault. The study found that many of the Wastewater System facilities are located on poor soil and could be affected by liquefaction and settlement. Although structures supported on pile foundations should withstand the liquefaction with minimal structural damage, piping and electric conduit penetrating into basement walls of these structures could be sheared, effectively causing loss of function in the facility. The study further concluded that, in the event of an earthquake on the Hayward Fault measuring 7.5 on the Richter scale, approximately half of the facilities at the Main Wastewater Treatment Plant would suffer significant damage, that three of the District's 15 pump stations could possibly experience loss of function and that interceptor blockage could lead to sewage backup into the San Francisco Bay or onto city streets. A major earthquake could also have a severe adverse impact on the economy of the District's wastewater service area.

In response to the 1994 seismic evaluation study, the District initiated a multi-year Wastewater Seismic Improvement Program, which focused on the retrofit of all the facilities that, if a failure occurred, would endanger life and/or public health. All of the high priority projects identified in the 1994 seismic evaluation study have been completed. Each of the operations center, sludge dewatering building, primary sedimentation blower building and oxygenation tank control building have been seismically retrofitted. The District will continue to undertake projects designed to reduce the possibility of significant damage to the Wastewater System and enhance seismic safety as part of its comprehensive capital improvement project planning process.

Wastewater System Finances

The District's sources of funding for the Wastewater System include rates and charges for its wastewater services, a share of the county-wide real property tax levy, and the *ad valorem* property tax which is levied to meet Special District No. 1 general obligation bond debt service payments. The Wastewater System's principal source of revenues is dry weather user charges billed directly to customers of the participating agencies.

The following Table A-1 sets forth the District's Wastewater System sources of funds for the five most recent Fiscal Years ended June 30, 2013.

Table A-1
WASTEWATER SYSTEM SOURCES OF FUNDS
Five Fiscal Years ended June 30, 2013
(Millions)

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|
| Operating Revenue and Other Income: | | | | | |
| Dry Weather User Charges | \$47.1 | \$48.8 | \$50.9 | \$55.2 | \$58.8 |
| Wet Weather Facilities Charges | 14.3 | 15.3 | 16.1 | 17.2 | 18.3 |
| Resource Recovery | 7.7 | 7.6 | 9.4 | 9.1 | 9.2 |
| Interest ⁽¹⁾ | 2.9 | 1.2 | 2.0 | 1.6 | 0.3 |
| Taxes ⁽²⁾ | 7.4 | 7.4 | 7.4 | 8.3 | 9.4 |
| Other Revenues ⁽³⁾ | <u>1.0</u> | <u>1.1</u> | <u>2.4</u> | <u>3.5</u> | <u>4.1</u> |
| Total Revenues | \$80.4 | \$81.4 | \$88.2 | \$94.9 | \$100.1 |
| Capital Contributions: | | | | | |
| Wastewater Capacity Fees | 1.6 | 0.7 | 2.4 | 2.8 | 1.3 |
| Earned contributions on construction | 7.4 ⁽⁴⁾ | 2.0 | 0.7 | 0.0 | 0.0 |
| Grants | <u>0.0</u> | <u>0.2</u> | <u>0.0</u> | <u>0.0</u> | <u>0.3</u> |
| Total Contributions | <u>\$ 9.0</u> | <u>\$ 2.9</u> | <u>\$ 3.1</u> | <u>\$ 2.8</u> | <u>\$ 1.6</u> |
| TOTAL | <u>\$89.4</u> | <u>\$84.3</u> | <u>\$91.3</u> | <u>\$97.7</u> | <u>\$101.7</u> |

⁽¹⁾ Includes interest earnings on Wastewater System Fund, including earnings on proceeds of the District's Wastewater System revenue bonds.

⁽²⁾ Includes the District's share of 1% countywide property tax and the *ad valorem* tax levied for repayment of Special District No. 1's general obligation bonds.

⁽³⁾ Beginning in Fiscal Year 2011, Other Revenues includes interest subsidy payments received by the District in connection with its Wastewater System Revenue Bonds, Series 2010B Bonds which are Build America Bonds. In Fiscal Years 2012 and 2013, Other Revenues also includes revenues received from the sale of energy to the utility grid. Other Revenues excludes reimbursements and certain other receipts applied directly to operating expenses.

⁽⁴⁾ Includes certain reimbursements from CalTrans for relocation costs of portions of the District's South Interceptor in connection with Interstate-880 seismic retrofit.

Source: The District.

Outstanding Debt

Table A-2 shows Wastewater System debt outstanding as of December 31, 2013. The general obligation bonds were authorized by voters in November 1970. All of the \$60,000,000 general obligation bonds that were authorized have been issued. As described herein, the general obligation bonds are payable from and secured by *ad valorem* taxes which may be levied upon all property within the District's Special District No. 1, subject to taxation therefor, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

Revenue bonds are authorized to be issued by the District in accordance with the Municipal Utility District Act. As provided in the Municipal Utility District Act, prior to the exercise by the District of its power to issue Wastewater System revenue bonds, a preliminary resolution is adopted by the Board declaring its intention to authorize the issuance of revenue bonds and specifying, among other things, the maximum principal amount of bonds then proposed to be issued (excluding refunding bonds) pursuant to such resolution. As of December 31, 2013, there remains (i) \$4,360,000 of authorized but unissued Wastewater System revenue bonds under Resolution No. 33607-07 adopted on June 12, 2007, pursuant to which the Board declared its intention to authorize the issuance of up to \$100,000,000 of Wastewater System revenue bonds, from time to time in one or more series, and (ii) \$200,000,000 of authorized but unissued Wastewater System revenue bonds under Resolution No. 33781-10 adopted on September 14,

2010, pursuant to which the Board declared its intention to authorize the issuance of up to \$200,000,000 of Wastewater System revenue bonds, from time to time in one or more series. The issuance of revenue bonds by the District is not subject to prior voter approval, although such resolutions of intention to authorize the issuance of bonds are subject to a 60-day referendum period (which with respect to bonds issued or to be issued pursuant to Resolution No. 33607-07 and/or Resolution No. 33781-10 expired without challenge). The District may from time to time in the future adopt other resolutions authorizing the issuance of additional Wastewater System revenue bonds, subject to the satisfaction of certain conditions.

From time to time, the District applies for and is granted loan funds from the State Water Resources Control Board (“SWRCB”) under the State Revolving Fund Loan Program. The SWRCB loans (“State Loans”) are low-interest loans made by the SWRCB to fund various wet weather improvements. The SWRCB requires all future debt issued by agencies involved in loan contracts under the State Revolving Fund Loan Program to be issued on a parity with or subordinate to the State Loans. The District currently has no outstanding State Loans for the Wastewater System.

Tax-exempt Extendable Municipal Commercial Paper Notes (Wastewater Series) (“Wastewater System CP Notes”) and Extendable Municipal Commercial Paper Notes (Water Series) are issued by the District from time to time pursuant to Resolution No. 33705-09 of the District, which authorizes, as provided in the Municipal Utility District Act, a maximum outstanding principal amount of notes not exceeding the lesser of (1) the annual average of the District’s total revenue for the three preceding years or (2) 25% of the District’s total outstanding bonds issued pursuant to Chapters 6, 7 and 8 of the Municipal Utility District Act. As of December 31, 2013, \$15,000,000 principal amount of such Wastewater System CP Notes were outstanding. The Wastewater System CP Notes are payable from and secured by a pledge of revenues of the Wastewater System on a basis subordinate to the Wastewater System revenue bonds.

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Table A-2
EAST BAY MUNICIPAL UTILITY DISTRICT
OUTSTANDING WASTEWATER SYSTEM DEBT
As of December 31, 2013

| | <i>Date of Issue</i> | <i>Last Maturity</i> | <i>Amount Issued</i> | <i>Outstanding December 31, 2013</i> |
|---|--------------------------|--------------------------|---------------------------|--|
| <u>Wastewater System Revenue Bonds:</u> | | | | |
| Revenue Bonds, Series 2007A | 05/16/07 | 06/01/37 | \$ 80,630,000 | \$ 60,630,000 |
| Revenue Refunding Bonds, Series 2007B | 05/16/07 | 06/01/26 | 46,670,000 | 35,290,000 |
| Revenue Refunding Bonds, Series 2008C ⁽¹⁾ | 03/26/08 | 06/01/27 | 65,300,000 | 51,690,000 |
| Revenue/Refunding Bonds, Series 2010A | 10/20/10 | 06/01/29 | 58,095,000 | 51,705,000 |
| Revenue Bonds, Series 2010B | 10/20/10 | 06/01/40 | 150,000,000 | 150,000,000 |
| Revenue Refunding Bonds, Series 2011A ⁽²⁾ | 01/19/11 | 06/01/38 | 65,905,000 | 60,845,000 |
| Revenue Refunding Bonds, Series 2012A | 10/10/12 | 06/01/37 | <u>20,000,000</u> | <u>20,000,000</u> |
| Total Wastewater System Revenue Bonds | | | <u>\$486,600,000</u> | <u>\$430,160,000</u> |
| <u>Subordinate Debt:</u> | | | | |
| Extendable Municipal Commercial Paper Notes (Wastewater Series) ⁽³⁾ | Various | Various | 15,000,000 ⁽³⁾ | 15,000,000 |
| <u>General Obligation Bonds:</u> | | | | |
| Series F | 01/22/03 | 04/01/18 | <u>41,730,000</u> | <u>18,555,000</u> |
| Total Debt | | | <u>\$543,330,000</u> | <u>\$463,715,000</u> |

⁽¹⁾ Liquidity Support provided by a Standby Bond Purchase Agreement with The Bank of New York Mellon. The District has entered into interest rate swap agreements in connection with the Wastewater System Revenue Bonds, Series 2008C.

⁽²⁾ The District has entered into an interest rate swap agreement in connection with the Wastewater System Revenue Bonds, Series 2011A.

⁽³⁾ Wastewater System CP Notes may be issued in an amount up to the statutory limit described above.

Source: The District.

District Investment Policy

Funds of the District are invested in accordance with the Government Code of the State, the Municipal Utility District Act and the District's investment policy. The four primary investment criteria set forth in the District's written investment policy are (in order of priority): (1) preservation of principal; (2) maintenance of liquidity; (3) yield; and (4) diversity. In order to keep funds available to meet commitments, the District's investment policy provides that the maturity date (or put provision) of individual investments shall not exceed five years and that the average maturity of the portfolio shall not exceed 720 days. Investments permitted by the District's current investment policy include U.S. Treasury notes, bonds and bills, the State of California Local Agency Investment Fund, obligations issued by federal agencies, bankers' acceptances and commercial paper rated in the highest short-term rating category, as well as collateralized repurchase agreements, certificates of time deposit with maturities not to exceed five years and negotiable certificates of deposit, with maturities not to exceed five years, medium term corporate notes with maturities not to exceed five years, California municipal bonds with maturities (or put provisions) not to exceed five years, and the California Asset Management Program. The District does not enter into reverse repurchase agreements or otherwise borrow for purposes of investing, and the District does not invest in derivatives. The District has, however, entered into interest rate swap transactions to hedge interest rate exposure on certain outstanding variable rate Water System and Wastewater System revenue bonds.

Pursuant to the District's investment policy, all securities purchased from dealers and brokers are held in safekeeping by the District's custodial bank, a national bank or a State Chartered bank or trust company for settlement on a payment vs. delivery basis. Collateral is delivered or assigned under a tri-party agreement for all repurchase agreements. Trade confirmations are reviewed for conformity to the original transaction by an individual other than the person who originated the transaction. A report of all transactions is prepared and submitted to the General Manager and the District Board quarterly. The investment policy is presented to the Board for review annually.

District Financial Statements

The District's audited basic financial statements for the years ended June 30, 2013 and 2012, and the report of Maze & Associates, independent accountants, are included as Appendix C to this Official Statement. Such financial statements, including the notes thereto, should be read in their entirety. See APPENDIX C – EAST BAY MUNICIPAL UTILITY DISTRICT BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012.”

APPENDIX B

GENERAL INFORMATION REGARDING THE ECONOMY AND DEMOGRAPHICS OF THE DISTRICT SERVICE AREA

The information in this Appendix B concerning the economic and demographic characteristics of the service area of the District's Wastewater System and the Counties of Alameda and Contra Costa (collectively, the "Counties"), portions of which are included therein, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District or either of the Counties. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters within Special District No. 1 pursuant to all applicable laws and Constitutional requirements, and to be levied on property within Special District No. 1 in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the front part of this Official Statement.

General Description and Population

The District includes a large part of the urban and suburban development in Alameda and Contra Costa Counties. Alameda and Contra Costa are two of nine counties in the San-Francisco-Oakland Bay Area. Special District No. 1, which covers the service area of the District's Wastewater System, provides service to the Cities of Alameda, Albany, Berkeley, Emeryville, Oakland and Piedmont (located in Alameda County), and to the Stege Sanitary District, which serves Kensington, El Cerrito and portions of Richmond (located in Contra Costa County).

Alameda County, with an estimated 2013 population of 1,548,681, covers a total area of 813 square miles and extends some 35 miles eastward from the San Francisco Bay through rolling hills to the San Joaquin Valley. Alameda County is the seventh most populous county in the State of California. It was formed in 1853 from portions of Contra Costa and Santa Clara Counties. Most of Alameda County's population is concentrated in a highly urbanized northern area between the San Francisco Bay and the East Bay hills. The northern part of Alameda County has direct access to the San Francisco Bay and the City of San Francisco. This area includes the cities served by the District's Wastewater System within Special District No. 1. It is highly economically diversified with residential areas, as well as traditional heavy industry, the University of California at Berkeley, the Port of Oakland, and sophisticated manufacturing, computer services and biotechnology firms.

The City of Oakland, located at the geographic center of the nine-county San Francisco Bay metropolitan region, is California's eighth largest city with an estimated 2013 population of 399,326. It is the Alameda County seat and the headquarters city for the District, the Bay Area Rapid Transit District, the University of California and several major corporations, including the Kaiser companies and The Clorox Company. The city center has been the object of an economic development and urban redevelopment program. Major economic activities in Oakland include the Port of Oakland, Oakland International Airport, and the Oakland/Alameda County Coliseum sports complex, home to the Oakland Raiders and the Golden State Warriors.

The City of Berkeley had an estimated 2013 population of approximately 115,716. It is the site of the 1,200-acre University of California, Berkeley, campus and the Lawrence Berkeley Laboratory.

The City of Alameda, located across a deep water estuary from the City of Oakland, is an island community with an estimated 2013 population of approximately 75,126.

Contra Costa County, one of the 27 original counties of the State of California, was incorporated in 1850 and covers approximately 800 square miles of land and water north and east of Alameda County. It is bounded by San Francisco Bay to the west, San Pablo Bay and the Sacramento River delta to the north, and by Alameda County on the south. The county has more than 70 miles of shoreline accessible to ocean transport. With an estimated 2013 population of 1,074,702, Contra Costa County is the ninth most populous county in the State. Contra Costa County is largely suburban in its make-up, with some heavy industrial areas, including a number of still active oil refineries (particularly Chevron in the City of Richmond). The county also provides suburban residential areas for persons commuting to employment in the San Francisco-Oakland metropolitan area.

Table B-1 shows the population trends for the seven largest cities within Special District No. 1 (the District's Wastewater System service area), Alameda and Contra Costa Counties and the State of California.

Table B-1
SEVEN LARGEST CITIES IN DISTRICT WASTEWATER SYSTEM SERVICE AREA
ALAMEDA, CONTRA COSTA COUNTIES AND CALIFORNIA
Population Trends⁽¹⁾

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Oakland | 389,913 | 391,475 | 392,333 | 394,832 | 399,326 |
| Berkeley | 110,982 | 112,363 | 113,925 | 114,688 | 115,716 |
| Alameda | 73,166 | 73,717 | 74,052 | 74,544 | 75,126 |
| El Cerrito | 23,350 | 23,552 | 23,649 | 23,801 | 23,910 |
| Albany | 18,196 | 18,481 | 18,345 | 18,467 | 18,430 |
| Piedmont | 10,638 | 10,674 | 10,710 | 10,793 | 10,889 |
| Emeryville | 9,702 | 9,795 | 10,110 | 10,186 | 10,269 |
| Total Seven Cities | 635,947 | 640,057 | 643,124 | 647,311 | 653,666 |
| Alameda County | 1,497,799 | 1,509,240 | 1,517,756 | 1,530,176 | 1,548,681 |
| Contra Costa County | 1,038,390 | 1,047,948 | 1,056,306 | 1,066,602 | 1,074,702 |
| California | 36,966,713 | 37,223,900 | 37,427,948 | 37,668,804 | 37,966,471 |

⁽¹⁾ As of January 1 of each year. Includes the six participating cities and El Cerrito, the largest incorporated portion of the Stege Sanitary District service area.

Source: 2008-2010: State of California, Department of Finance, E-8 Historical Population and Housing Estimates, 2000-2012 Report, by Year, Sacramento, California, November 2012 (Revised Estimates).

2011-2013: State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change – January 1, 2011 and 2012, Sacramento, California, May 2012 and – January 1, 2012 and 2013, Sacramento, California, May 2013.

Employment and Industry

Alameda and Contra Costa County are home to approximately one-third of the San Francisco Bay Area's jobs, and, prior to the economic downturn beginning in 2008, the Counties had been one of the fastest growing and most thriving regions in the San Francisco Bay Area since the mid-1980s. Although statistics on California's economic recovery are positive, with monthly growth and increasing personal income, State-wide unemployment was at 8.7% (seasonally adjusted) as of October 2013, suggesting a continuing moderate decline in unemployment. The unemployment rate was 7.0% in Alameda County

and 6.9% in Contra Costa County in October 2013. This compares with the unadjusted unemployment rate for California of 8.3% and 7.0% for the nation as of the same date.

Table B-2 shows civilian labor force and wage and salary employment data for Alameda and Contra Costa Counties, the State of California and the United States for the past five available calendar years.

Table B-2
ALAMEDA COUNTY, CONTRA COSTA COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
LABOR FORCE AND EMPLOYMENT
2008 through 2012
(Annual Averages)

| Year | Area | Civilian Labor Force | Employment | Unemployment | Unemployment Rate |
|-------------|---------------------|---------------------------------|-------------------|---------------------|------------------------------|
| 2008 | Alameda County | 757,100 | 710,600 | 46,500 | 6.1% |
| | Contra Costa County | 524,500 | 492,200 | 32,400 | 6.2 |
| | State of California | 18,203,100 | 16,890,000 | 1,313,100 | 7.2 |
| | United States | 154,287,000 | 145,362,000 | 8,924,000 | 5.8 |
| 2009 | Alameda County | 761,000 | 681,000 | 80,000 | 10.5 |
| | Contra Costa County | 524,800 | 471,500 | 53,400 | 10.2 |
| | State of California | 18,208,300 | 16,144,500 | 2,063,900 | 11.3 |
| | United States | 154,142,000 | 139,877,000 | 14,265,000 | 9.3 |
| 2010 | Alameda County | 755,500 | 670,000 | 85,500 | 11.3 |
| | Contra Costa County | 523,300 | 465,100 | 58,200 | 11.1 |
| | State of California | 18,316,400 | 16,051,500 | 2,264,900 | 12.4 |
| | United States | 153,889,000 | 139,064,000 | 14,825,000 | 9.6 |
| 2011 | Alameda County | 760,900 | 682,000 | 78,900 | 10.4 |
| | Contra Costa County | 524,100 | 469,600 | 54,500 | 10.4 |
| | State of California | 18,384,900 | 16,226,600 | 2,158,300 | 11.7 |
| | United States | 153,617,000 | 139,869,000 | 13,747,000 | 8.9 |
| 2012 | Alameda County | 775,900 | 705,900 | 70,000 | 9.0 |
| | Contra Costa County | 535,800 | 487,600 | 48,200 | 9.0 |
| | State of California | 18,494,900 | 16,560,300 | 1,934,500 | 10.5 |
| | United States | 154,975,000 | 142,469,000 | 12,506,000 | 8.1 |

Source: For State and County information, State of California Employment Development Department; California Labor Market Information Division. For the U.S. information, U.S. Department of Labor, Bureau of Labor Statistics.

Table B-3 presents total wage and salary employment data by industry for Alameda and Contra Costa Counties in 2012 (the most recent full year data available). Trade, Transportation & Utilities is the largest category of employment in Alameda and Contra Costa Counties, accounting for 18.48% and 17.77%, respectively, of Alameda and Contra Costa County's 2012 employment. In 2012, the Trade, Transportation & Utilities industries employed a total of 179,000 in both counties. Professional & Business Services is the second largest category of employment in Alameda County, accounting for 17.72% of Alameda County's 2012 employment. Educational & Health Services accounts for 15.71% of Contra Costa County's 2012 employment, making it the second largest category of employment in Contra Costa County.

Table B-3
ALAMEDA AND CONTRA COSTA COUNTIES
WAGE AND SALARY EMPLOYMENT BY INDUSTRY
2012
(Thousands)

| <u>Industry</u> | <u>Alameda County</u> | <u>Contra Costa County</u> |
|-----------------------------------|---------------------------|--------------------------------|
| Farm | 600 | 800 |
| Manufacturing | 96,200 | 37,000 |
| Trade, Transportation & Utilities | 121,900 | 57,100 |
| Information | 13,600 | 8,400 |
| Financial Activities | 23,200 | 25,200 |
| Professional & Business Services | 116,900 | 48,100 |
| Educational & Health Services | 90,600 | 50,500 |
| Leisure & Hospitality | 58,300 | 33,700 |
| Other Services | 23,700 | 12,400 |
| Government | <u>114,800</u> | <u>48,000</u> |
| Total ⁽¹⁾ | 659,700 | 321,400 |

⁽¹⁾ Total wage and salary employment. Totals may not add due to rounding.
Source: State of California Employment Development Department.

The following Table B-4 shows major employers in Alameda County as of June 2013.

Table B-4
ALAMEDA COUNTY
MAJOR EMPLOYERS
(June 2013)

| Employer Name | Location | Industry |
|---|---------------------------|--|
| University of California | Berkeley ⁽¹⁾ | Colleges, Universities & Professional Schools |
| Alameda County | Oakland ⁽¹⁾ | Police Protection |
| Lawrence Livermore National Laboratory | Livermore | Small Arms Ammunition Manufacturing |
| Berkeley National Lab | Berkeley ⁽¹⁾ | Research & Development in Biotechnology |
| Novartis Vaccines & Diagnostics | Emeryville ⁽¹⁾ | Research & Development in Biotechnology |
| City of Oakland | Oakland ⁽¹⁾ | Local Government |
| Alta Bates Summit Medical Center | Berkeley ⁽¹⁾ | General Medical & Surgical Hospitals |
| Tesla Motors | Fremont | General Automotive Repair |
| Safeway Inc. | Pleasanton | Supermarkets/Other Grocery (Except Convenience) Stores |
| Transportation Department – State of California | Emeryville ⁽¹⁾ | Regulation & Administration-Transportation Programs |
| Waste Management | Livermore | Other Waste Collection |
| Kaiser Foundation Health Plan | Oakland ⁽¹⁾ | General Medical & Surgical Hospitals |
| Children’s Hospital Health Library | Oakland ⁽¹⁾ | Libraries & Archives |
| Cooper Vision Inc. | Pleasanton | Surgical & Medical Instrument Manufacturing |
| U.S. Post Office | Alameda ⁽¹⁾ | Postal Service |
| Clorox Co. | Oakland ⁽¹⁾ | Other Chemical & Allied Products Merchant Wholesalers |
| Kaiser Foundation Hospital | Hayward | General Medical & Surgical Hospitals |
| Walmart | Fremont | Department Stores (Except Discount Department Stores) |
| City of Berkeley | Berkeley ⁽¹⁾ | Local Government |

⁽¹⁾Included within the service area of Special District No. 1.

Source: InfoGroup USA, June 2013.

Table B-5 shows major employers in Contra Costa County as of June 2013.

Table B-5
CONTRA COSTA COUNTY
MAJOR EMPLOYERS⁽¹⁾
(June 2013)

| <u>Employer Name</u> | <u>Location</u> | <u>Industry</u> |
|--|-----------------|---|
| Chevron Corp. | Pacheco | Petroleum Refineries |
| Contra Costa County | Martinez | Local Government |
| Kaiser Permanente Medical Center | Walnut Creek | General Medical & Surgical Hospitals |
| AAA Northern CA, Nevada & Utah | Concord | All Other Travel Arrangement/Reservation Services |
| Safeway Inc. | Alamo | Supermarkets/Other Grocery (Except Convenience) Stores |
| Contra-Costa Regional Medical Center | Martinez | General Medical & Surgical Hospitals |
| John Muir Medical Center-Walnut | Concord | General Medical & Surgical Hospitals |
| Bay Area Rapid Transit (BART) | Richmond | Other Urban Transit Systems |
| City of Richmond | Richmond | Local Government |
| Target | Antioch | Department Stores (Except Discount Department Stores) |
| Pacific Gas & Electric Co. | Antioch | Electric Power Distribution |
| U.S. Post Office | Alamo | Postal Service |
| City of Pittsburg | Pittsburg | Pittsburg |
| Doctors Medical Center | San Pablo | General Medical & Surgical Hospitals |
| Macy's | Antioch | Department Stores (Except Discount Department Stores) |
| John Muir Health Physical Rehabilitation | Concord | Offices-Physical, Occupational/Speech Therapists/Audiologists |
| Walmart | Antioch | Department Stores (Except Discount Department Stores) |
| Home Depot | Brentwood | Home Centers |

⁽¹⁾ All of the major employers identified on this list are located outside of the service area of Special District No. 1.
Source: InfoGroup USA, June 2013.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pension and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for Alameda and Contra Costa Counties, the State and the United States for the period 2008 through 2012.

Table B-6
ALAMEDA COUNTY, CONTRA COSTA COUNTY, STATE AND UNITED STATES
Effective Buying Income
(As of January 1, 2008 through 2012)

| Year | Area | Total Effective Buying Income (000's Omitted) | Median Household Effective Buying Income |
|---------------------|---------------------|---|--|
| 2008 | Alameda County | \$ 38,889,500 | \$55,987 |
| | Contra Costa County | 30,737,690 | 61,903 |
| | California | 832,531,445 | 48,952 |
| | United States | 6,443,994,426 | 42,303 |
| 2009 | Alameda County | 40,053,865 | 57,997 |
| | Contra Costa County | 31,197,703 | 64,213 |
| | California | 844,823,319 | 49,736 |
| | United States | 6,571,536,768 | 43,252 |
| 2010 | Alameda County | 38,097,873 | 54,734 |
| | Contra Costa County | 30,049,698 | 61,031 |
| | California | 801,393,028 | 47,177 |
| | United States | 6,365,020,076 | 41,368 |
| 2011 | Alameda County | 39,064,683 | 54,542 |
| | Contra Costa County | 30,416,350 | 60,777 |
| | California | 814,578,458 | 47,062 |
| | United States | 6,438,704,664 | 41,253 |
| 2012 ⁽¹⁾ | Alameda County | 43,677,855 | 55,396 |
| | Contra Costa County | 33,604,875 | 61,167 |
| | California | 864,088,828 | 47,307 |
| | United States | 6,737,867,730 | 41,358 |

⁽¹⁾ Most recent annual data available.
Source: *The Nielsen Company (US), Inc.*

Commercial Activity

Table B-7 presents taxable sales figures in the seven largest cities within Special District No. 1 (the District's Wastewater System service area), Alameda and Contra Costa Counties and the State of California from 2009 through 2011. In this period Alameda and Contra Costa counties maintained a relatively constant share of the State taxable sales.

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 and beyond is not comparable to that of prior years.

Total taxable transactions during calendar year 2011 in Alameda County were reported to be \$23.43 billion, an 8.77% increase over the total taxable transactions of \$21.54 billion reported during

calendar year 2010. In Contra Costa County, total taxable transactions in calendar year 2011 were reported to be \$12.80 billion, a 7.07% increase over the prior calendar year.

Table B-7
SEVEN LARGEST CITIES IN DISTRICT WASTEWATER SYSTEM SERVICE AREA
ALAMEDA, CONTRA COSTA COUNTIES AND CALIFORNIA
Taxable Sales, All Outlets, 2009-2011⁽¹⁾
(\$ in Thousands)

| | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|---------------------|---------------|---------------|---------------|
| Oakland | \$ 3,221,975 | \$ 3,310,325 | \$ 3,733,232 |
| Berkeley | 1,230,203 | 1,270,060 | 1,323,027 |
| Alameda | 545,627 | 543,168 | 583,410 |
| El Cerrito | 278,014 | 246,574 | 253,036 |
| Albany | 186,960 | 191,439 | 187,052 |
| Piedmont | 12,035 | 11,922 | 12,829 |
| Emeryville | 583,453 | 640,093 | 662,854 |
| Total Seven Cities | \$ 6,058,267 | \$ 6,213,581 | \$ 6,755,440 |
| Alameda County | \$20,430,195 | \$21,541,741 | \$23,430,799 |
| Contra Costa County | \$11,883,049 | \$11,953,846 | \$12,799,857 |
| California | \$456,492,945 | \$477,347,986 | \$520,568,055 |

⁽¹⁾ Most current information available.

Source: Board of Equalization, State of California, Taxable Sales in California.

Construction Activity

Provided below are the building permits and valuations for Alameda and Contra Costa Counties for calendar years 2008 through 2012 (the most recent full year data available).

Table B-8
ALAMEDA COUNTY
TOTAL BUILDING PERMIT VALUATIONS
(\$ in Thousands)*

| <u>Permit Valuation</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| New Single-Family | \$238,743.0 | \$227,982.5 | \$276,660.5 | \$269,312.8 | \$372,939.4 |
| New Multi-Family | 201,122.3 | 96,518.0 | 157,459.3 | 249,684.0 | 343,669.8 |
| Res. Alterations/Adjustments | <u>285,782.4</u> | <u>229,873.2</u> | <u>243,289.9</u> | <u>273,631.8</u> | <u>235,264.8</u> |
| Total Residential | \$725,647.7 | \$554,373.7 | \$677,409.6 | \$792,628.7 | \$951,874.0 |
| | | | | | |
| New Commercial | \$197,181.1 | \$ 72,055.6 | \$ 14,689.1 | \$261,804.2 | \$ 94,705.8 |
| New Industrial | 60,200.0 | 89,535.4 | 82,475.8 | 17,485.7 | 29,808.2 |
| New Other | 95,640.7 | 45,100.3 | 69,060.1 | 37,504.6 | 6,764.1 |
| Com. Alterations/Adjustments | <u>457,412.5</u> | <u>391,295.8</u> | <u>398,430.5</u> | <u>392,163.7</u> | <u>352,261.1</u> |
| Total Nonresidential | \$810,434.3 | \$597,987.1 | \$564,655.4 | \$708,958.2 | \$483,539.2 |
| | | | | | |
| New Dwelling Units | | | | | |
| Single Family | 761 | 802 | 907 | 817 | 1,119 |
| Multiple Family | <u>1,296</u> | <u>536</u> | <u>936</u> | <u>1,352</u> | <u>1,508</u> |
| TOTAL | 2,057 | 1,338 | 1,843 | 2,169 | 2,627 |

* Totals may not add due to rounding.

Sources: Construction Industry Research Board, Building Permit Summary for Calendar Years 2008 through 2010; California Homebuilding Foundation for 2011 and after.

Table B-9
CONTRA COSTA COUNTY
TOTAL BUILDING PERMIT VALUATIONS
(\$ in Thousands)*

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| <u>Permit Valuation</u> | | | | | |
| New Single-family | \$300,088.7 | \$300,363.3 | \$237,458.0 | \$211,417.9 | \$340,255.7 |
| New Multi-family | 132,824.8 | 34,119.3 | 106,555.4 | 47,304.2 | 54,884.8 |
| Res. Alterations/Additions | <u>229,023.3</u> | <u>170,149.7</u> | <u>209,044.4</u> | <u>233,174.2</u> | <u>179,471.7</u> |
| Total Residential | 661,936.8 | \$504,632.3 | \$553,057.8 | \$491,896.3 | \$574,612.2 |
| | | | | | |
| New Commercial | \$108,228.4 | \$ 49,992.0 | \$ 38,093.5 | \$ 17,587.4 | \$ 97,077.8 |
| New Industrial | 60,376.2 | 11,530.0 | 29,619.4 | 7,188.0 | 7,000.8 |
| New Other | 66,511.1 | 39,878.8 | 47,510.7 | 15,542.3 | 13,999.9 |
| Com. Alterations/Additions | <u>224,816.8</u> | <u>212,900.7</u> | <u>170,193.8</u> | <u>214,585.0</u> | <u>124,147.2</u> |
| Total Nonresidential | \$459,932.5 | \$314,301.4 | \$285,417.4 | \$254,902.7 | \$242,225.7 |
| | | | | | |
| New Dwelling Units | | | | | |
| Single Family | 985 | 1,038 | 809 | 718 | 1,188 |
| Multiple Family | <u>909</u> | <u>163</u> | <u>890</u> | <u>355</u> | <u>949</u> |
| TOTAL | 1,894 | 1,201 | 1,699 | 1,073 | 2,137 |

* Totals may not add due to rounding.

Sources: Construction Industry Research Board, Building Permit Summary for Calendar Years 2008 through 2010; California Homebuilding Foundation for 2011 and after.

Transportation

Six principal highways within the District connect Alameda and Contra Costa Counties with adjacent counties. Interstate 80, serving the western part of Contra Costa County and the northern part of Alameda County, leads west to San Francisco via the San Francisco-Oakland Bay Bridge and leads east to Sacramento. Interstate 580 leads from Alameda County to the Central Valley and southern California, connecting with Interstate 5. Interstate 680 serves eastern Alameda County and Central Contra Costa County in a north-south direction. Interstate 880 accommodates north-south traffic circulation on the east shore of San Francisco Bay. State Highway 24 links Alameda County with eastern Contra Costa County, passing through the Caldecott Tunnel. State Highway 4 links Contra Costa County to the Central Valley.

Transbay bridges include the San Francisco-Oakland Bay Bridge, which extends Interstate 80 into San Francisco; the Richmond-San Rafael Bridge, leading into Marin County and northern areas; and the Hayward-San Mateo and Dumbarton Bridges connecting East Bay points with the San Francisco Peninsula.

Union Pacific operates rail terminal facilities in Oakland. Burlington Northern Santa Fe serves Alameda County from its Richmond switching yards. Amtrak provides passenger service through its Emeryville, Oakland, Richmond and Berkeley stations.

Local motor coach transportation is provided by AC Transit, which serves East Bay cities and continues into San Francisco via the San Francisco-Oakland Bay Bridge. Other bus service is made available by the Central Contra Costa Transit Authority, the Livermore Transit Corporation, and Greyhound. San Mateo County Transit District provides bus service between Hayward and the San

Francisco Peninsula across the Hayward-San Mateo Bridge. Oakland and Alameda County are also served by the Bay Area Rapid Transit District, a high-speed rail transit system serving the counties of Alameda, Contra Costa and San Francisco.

A major activity in Oakland is the Port of Oakland, one of the four largest containership ports on the West Coast. The Port has more than 680 acres of marine terminal facilities, 29 deep-water berths and 30 container cranes. The Port also operates Oakland International Airport, which is located nine miles from downtown Oakland. The Port is a major landowner which provides opportunities for commercial real estate development at the Oakland Airport Business Park and Embarcadero Cove, and is a developer of a major complex at Jack London Square.

Education

The University of California, Berkeley is a major university offering undergraduate and graduate education. Professional graduate degrees are offered in 14 different colleges and schools. The Fall 2012 undergraduate enrollment was approximately 25,744 and graduate enrollment was approximately 10,125.

Community Colleges of California offer an Associate in Arts degree and other two-year certificates in both academic and vocational fields. Such institutions in the District and their approximate enrollments include Laney College (12,400), Merritt College (6,400), Berkeley City College, formerly Vista College (6,700), and College of Alameda (6,800), all in the Peralta Community College District. The Contra Costa Community College District operates Contra Costa College (7,200), Diablo Valley College (19,700) and Los Medanos College (8,500).

Other college level institutions in the District area include Mills College, a private college with an enrollment of approximately 1,000 undergraduate students and approximately 600 graduate students, St. Mary's College with an enrollment of approximately 2,800 undergraduate students and approximately 1,300 adult/graduate students, and John F. Kennedy University, with an approximate enrollment of 1,600.

Table B-10 shows public school enrollment figures (K-12) for 2012-13 in Alameda and Contra Costa Counties and in the State of California.

Table B-10
ALAMEDA AND CONTRA COSTA COUNTIES,
CALIFORNIA
Public School Enrollment (K-12)

| | Alameda County | Contra Costa County | California |
|---------|----------------|---------------------|------------|
| 2012-13 | 220,286 | 171,418 | 6,226,989 |

Source: State of California Department of Education, Educational Demographics Unit.

Recreation

Over 113,000 acres of regional parks, recreation areas, wilderness, shorelines, preserves and land bank areas in Alameda and Contra Costa Counties are administered by the East Bay Regional Park District, a tax-supported public agency organized in 1934. They offer East Bay residents a variety of outdoor terrain and activities, including swimming, fishing, boat rental marinas, hiking, campgrounds, golf courses, riding, and public facilities. Among the larger regional parks in or near the District are Anthony Chabot Regional Park and Lake Chabot, Redwood Regional Park, Charles Lee Tilden Regional Park, and Wildcat Canyon Regional Park.

Recreational facilities of the District at Lafayette Reservoir and San Pablo Reservoir and an 80-mile system of hiking and riding trails through 25,000 acres of watershed land supplement the above system of regional parks, and represent a significant contribution to the quality of life in the East Bay. District residents also enjoy boating, sailing and other water sports on San Francisco Bay. These sports may also be enjoyed on Lake Merritt and Lake Temescal, both in Oakland.

District residents have within a convenient radius the attractions of the San Francisco Bay Area and, in four hours driving time by freeway, access to Lake Tahoe and the Sierra Nevada Mountains.

APPENDIX C

**EAST BAY MUNICIPAL UTILITY DISTRICT
BASIC FINANCIAL STATEMENTS FOR THE
YEARS ENDED JUNE 30, 2013 AND 2012**

APPENDIX D

**PROPOSED FORMS OF CO-BOND COUNSEL OPINION
AND SPECIAL TAX COUNSEL OPINION**

PROPOSED FORM OF CO-BOND COUNSEL OPINION

Upon the delivery of the Bonds, Fulbright & Jaworski LLP, Los Angeles, California, a member of Norton Rose Fulbright, and Curles Bartling P.C., Oakland, California, Co-Bond Counsel, propose to render their final approving opinion with respect to the Bonds in substantially the following form:

[Closing Date]

East Bay Municipal Utility District
Oakland, California

\$ _____
East Bay Municipal Utility District
(Alameda and Contra Costa Counties, California)
Special District No. 1, Issue of 1970,
Wastewater System General Obligation Refunding Bonds, Series G

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the East Bay Municipal Utility District (the “District”) of its Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”) in the aggregate principal amount of \$ _____. The Bonds are being issued pursuant to the Municipal Utility District Act (constituting Division 6 of the Public Utilities Code of the State of California, as amended) and Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (collectively, the “Act”), Resolution No. 25676 of the District adopted on June 8, 1971 and Resolution No. _____-14 of the District adopted on _____, 2014 providing for the issuance of the Bonds (collectively, the “Resolution”).

East Bay Municipal Utility District, Special District No. 1, is a special taxing district within the District, organized pursuant to an election held November 7, 1944, and the Board of Directors of the District constitutes the governing board of said Special District No. 1.

In our capacity as co-bond counsel, we have reviewed a copy of the proceedings relative to the issuance of the Bonds, the Act, certifications of the District and others, opinions of counsel to the District, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. In addition, we call attention to the fact that the rights and

obligations under the Bonds and the Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the possible unavailability of specific performance or injunctive relief, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. Such proceedings show lawful authority for the issuance and sale of the Bonds pursuant to the Act.

2. The Bonds constitute valid and binding general obligation indebtedness of the District's Special District No. 1, and shall be payable, as to both principal and interest, from *ad valorem* taxes which may be levied upon all property within the East Bay Municipal Utility District, Special District No. 1, subject to taxation therefor, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

We express no opinion as to any federal, state or local tax consequences of the ownership or disposition of the Bonds or the receipt of interest thereon.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Respectfully submitted,

Respectfully submitted,

PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel to the Initial Purchaser, proposes to render its tax opinion with respect to the Bonds in substantially the following form:

[Closing Date]

East Bay Municipal Utility District
Oakland, California

\$ _____
East Bay Municipal Utility District
(Alameda and Contra Costa Counties, California)
Special District No. 1, Issue of 1970,
Wastewater System General Obligation Refunding Bonds, Series G
(Special Tax Opinion)

Ladies and Gentlemen:

We have acted as special tax counsel in connection with the issuance by the East Bay Municipal Utility District (the “District”) of \$ _____ aggregate principal amount of its Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”) in the aggregate principal amount of \$ _____. The Bonds are being issued pursuant to the Municipal Utility District Act (constituting Division 6 of the Public Utilities Code of the State of California, as amended) and Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (collectively, the “Act”), Resolution No. 25676 of the District adopted on June 8, 1971 and Resolution No. _____-14 of the District adopted on _____, 2014 providing for the issuance of the Bonds (collectively, the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof and relating to the Bonds (the “Tax Certificate”), opinions of counsel to the District, certificates of the District and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. In particular, we have relied on the opinion of Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, and Curly Bartling P.C., co-bond counsel to the District (the “Bond Counsel Opinion”), regarding, among other matters, the validity of the Bonds. In rendering the opinions expressed herein, we expressly have relied on the Bond Counsel Opinion that, among other matters, the Bonds constitute valid and binding general obligation indebtedness of the District’s Special District No. 1. We call attention to the fact that the interest on the Bonds may not be excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes if the Bonds are not valid, binding and enforceable in accordance with their terms.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to,

and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution thereof by, and validity against, all parties. 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. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal utility districts in the State of California. Our advice did not include financial or non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of such interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX E
FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F concerning The Depository Trust Company, New York, New York (“DTC”), and DTC’s book-entry system has been obtained from DTC and the District takes no responsibility for the completeness or accuracy thereof. The District and the Paying Agent cannot and do not give any assurances that DTC, Direct Participants (as defined below) or Indirect Participants (as defined below) will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix F. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Direct or Indirect Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto. 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’s Direct and Indirect Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The 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 certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the Bonds. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices (if applicable) shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments of principal of, premium, if any, and interest on the 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 District or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, 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 Bonds at any time by giving notice to the Paying Agent and the District. Under certain circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers for the Bonds through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered as provided in the Resolution. In addition, the following provisions would apply: the principal of and premium, if any, on the Bonds will be payable in lawful money of the United States of America at the office of the Paying Agent, in San Francisco, California; interest on the Bonds will be payable by check mailed by first class mail on each interest payment date to the registered owners thereof as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding the applicable interest payment date; any Bond may be transferred upon the registration books required to be kept by the Paying Agent, as registrar of the Bonds, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the registrar, duly executed; Bonds may be exchanged at the principal office of the registrar in San Francisco, California, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity; the registrar shall require the payment by a bondholder requesting any transfer or exchange of Bonds of any tax or other governmental charge required to be paid with respect to such transfer or exchange; and no transfer or exchange shall be required to be made during the fifteen (15) days preceding each interest payment date.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX G
OFFICIAL NOTICE OF SALE

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated _____, 2014, is executed and delivered by and among the East Bay Municipal Utility District (the “District”), Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”), and The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the “Dissemination Agent”) in connection with the issuance of the District’s *\$[Par Amount]* aggregate principal amount of Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Bonds”). The Bonds are being issued pursuant to the Municipal Utility District Act, as supplemented by Chapters 9 and 11 of Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53550 and Section 53580, respectively) of the California Government Code, the special election held in the East Bay Municipal Utility District, Special District No. 1, and Resolution No. 25676 adopted by the Board of Directors of the District (the “Board”) on June 8, 1971, as supplemented (the “1971 Resolution”), including as supplemented by Resolution No. ___-14, adopted by the Board on ___, 2014 (the “2014 Resolution”) providing for the issuance of the Bonds (together the 1971 Resolution and the 2014 Resolution are referred to herein as, the “Resolution”). In connection with the issuance of the Bonds, the District, the Dissemination Agent and the Paying Agent, as applicable, covenant and agree as follows:

Section 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District, the Paying Agent and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter (as defined herein) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Agreement 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 District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the Director of Finance of the District or a designee of the Director of Finance, or such other officer or employee as the District shall designate in writing to the Dissemination Agent and the Paying Agent from time to time.

“Dissemination Agent” shall mean the initial Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Paying Agent a written acceptance of such designation.

“Holder” shall mean either the registered owners of the Bonds or, if the Bonds are

registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 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 Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement for the Bonds dated _____, 2014.

“Participating Underwriter” shall mean the initial purchaser of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the District’s Fiscal Year (presently June 30), commencing with the report for the 2013-14 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that if the audited financial statements of the District are not available by the date required above for the filing of the Annual Report, the District shall submit the audited financial statements as soon thereafter as available. If the District’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, or shall cause the Dissemination Agent to, send to the MSRB a notice in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

- (ii) file a report with the District and (if the Dissemination Agent is not the Paying Agent, the Paying Agent) certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following categories or similar categories of information updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Bonds):

(a) The audited financial statements of the District for the prior Fiscal Year, prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed 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 filed in the same manner as the Annual Report when they become available;

(b) A table showing assessed valuations, secured roll tax levies (including the *ad valorem* tax levy for the Bonds and the District's allocated share of the 1% *ad valorem* property taxes) and tax delinquencies for property within Special District No. 1 in Alameda and Contra Costa Counties for the preceding Fiscal Year;

(c) A table showing the summary of District's Wastewater System Sources of Funds (including revenues and contributions) for the preceding Fiscal Year; and

(d) A table showing outstanding Wastewater System debt as of the preceding Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the SEC. If any document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this section, upon the occurrence of any of the following events (in each case to the extent applicable) with respect to the Bonds, the District shall give, or cause to be given by so notifying the Dissemination Agent in writing and instructing the Dissemination Agent to give, notice of the occurrence of such event, in each case, pursuant to Section 5(c) hereof:

1. principal or interest payment delinquencies;
2. non-payment related defaults, if material;

3. modifications to the rights of the Bondholders, if material;
4. optional, contingent or unscheduled calls, if material, and tender offers;
5. defeasances;
6. rating changes;
7. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
8. unscheduled draws on any debt service reserves reflecting financial difficulties;
9. unscheduled draws on any credit enhancements reflecting financial difficulties;
10. substitution of any credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds, if material;
12. bankruptcy, insolvency, receivership or similar proceedings of the District, which shall occur as described below;
13. appointment of a successor or additional paying agent or trustee or the change of name of a paying agent or trustee, if material, or;
14. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the Wastewater System of the District other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

For these purposes, any event described in item 12 of this Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States 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 District, or if such jurisdiction has been assumed by leaving the existing governing 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 District.

(b) Upon receipt of notice from the District and instruction by the District to report the occurrence of any Listed Event, the Dissemination Agent shall provide notice thereof to the MSRB in accordance with Section 5(c) hereof. In the event the Dissemination Agent shall obtain actual knowledge of the occurrence of any of the Listed Events, the Dissemination Agent shall, immediately after obtaining such knowledge, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(c). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Event shall mean actual knowledge by the Dissemination Agent, if other than the Paying Agent, and if the Dissemination Agent is the Paying Agent, then by the officer at the corporate trust office of the Paying Agent with regular responsibility for the administration of matters related to the Resolution. The Dissemination Agent shall have no responsibility to determine the materiality, if applicable, of any of the Listed Events.

(c) The District, or the Dissemination Agent, if the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, shall file a notice of such occurrence with the MSRB in a timely manner not more than ten business days after the occurrence of the event.

Section 6. Termination of Reporting Obligation. The District’s obligations under this Disclosure Agreement with respect to the Bonds 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 District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage another Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Paying Agent, upon notice from the District, shall be the Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The Dissemination Agent shall receive compensation for the services provided pursuant to this Disclosure Agreement.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement (and, to the extent that any such amendment does not materially change or increase its obligations hereunder, the Dissemination Agent shall agree to any amendment so requested by the District), and any provision of this Disclosure Agreement may be waived; *provided*, that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), Section 4 or Section 5(a), 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 Agreement, the 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 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 the same manner as for a Listed Event under Section 5(c), 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 9. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Paying Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding Bonds and upon provision of indemnification satisfactory to the Paying Agent, shall), or 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 District or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance hereunder.

Section 12. Duties, Immunities and Liabilities of Paying Agent and Dissemination Agent. The Dissemination Agent (if other than the Paying Agent or the Paying Agent in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding any loss, expense and liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows (or to such other persons or addresses as may from time to time be furnished by a party to the other parties, effective upon receipt of notice thereof given):

To the District:

East Bay Municipal Utility District
375 Eleventh Street, MS 801
Oakland, California 94607-4240
Attention: Director of Finance
Phone: 510-287-0231
Fax: 510-287-0293

To the Dissemination Agent:

The Bank of New York Mellon
Trust Company, N.A.
100 Pine Street, Suite 3100
Attention: Milly Canesa
San Francisco, California 94111
Phone: 415-263-2420
Fax: 415-399-1647

To the Paying Agent:

Wells Fargo Bank, National Association
333 Market Street, 18th Floor
San Francisco, California 94105
Attention: Bakul Mehta
Phone: 415-371-3355
Fax: 415-371-3400

Section 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Paying Agent, the Dissemination Agent, the Participating Underwriter and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Disclosure Agreement has been executed on behalf of the District, the Paying Agent and the Dissemination Agent by their duly authorized representatives.

Dated: _____, 2014

EAST BAY MUNICIPAL UTILITY DISTRICT

By: _____

Eric L. Sandler
Director of Finance

Dated: _____, 2014

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Paying Agent

By: _____

Bakul Mehta
Authorized Officer

Dated: _____, 2014

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Dissemination Agent

By: _____

Milly Canessa
Vice President

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of District: EAST BAY MUNICIPAL UTILITY DISTRICT

Name of Bond Issue: **[\$Par Amount]** East Bay Municipal Utility District
Special District No. 1, Issue of 1970,
Wastewater System General Obligation Refunding Bonds, Series G

Date of Issuance: _____, 2014

NOTICE IS HEREBY GIVEN that the East Bay Municipal Utility District (the "District") has not provided an Annual Report with respect to the above-named bonds as required by Section 3(a) of the Continuing Disclosure Agreement, dated [*Closing Date*], by and among the District, The Bank of New York Mellon Trust Company, N.A., as dissemination agent (the "Dissemination Agent") and Wells Fargo Bank, National Association, as paying agent. The District anticipates that the Annual Report will be filed by _____, 20__.

Dated: _____, 20__

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Dissemination Agent on
behalf of the District

By: _____
Authorized Officer

cc: East Bay Municipal Utility District

ESCROW AGREEMENT
RELATING TO THE PARTIAL DEFEASANCE OF
EAST BAY MUNICIPAL UTILITY DISTRICT
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS,
SERIES F

THIS ESCROW AGREEMENT (the “Escrow Agreement”), dated as of [February 1], 2014, is by and between the East Bay Municipal Utility District (the “District”) and Wells Fargo Bank, National Association, as escrow agent hereunder (the “Escrow Agent”) and as successor paying agent with respect to the Series F Bonds referred to below (the “Paying Agent”),

WITNESSETH:

WHEREAS, the District has previously authorized and issued its \$41,730,000 principal amount of East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series F, of which \$18,555,000 principal amount remains outstanding (the “Series F Bonds”), pursuant to Resolution No. 25676, adopted by the Board of Directors of the District on June 8, 1971, as thereafter supplemented, including as supplemented by Resolution No. 33043-02, adopted by the Board of the District on December 10, 2002, providing for the issuance of the Series F Bonds (collectively, the “Resolution”);

WHEREAS, the District has determined to issue \$_____ aggregate principal amount of its East Bay Municipal Utility District, Special District No. 1, Issue of 1970, Wastewater System General Obligation Refunding Bonds, Series G (the “Series G Bonds”), pursuant to the Resolution as further supplemented by Resolution No. _____, adopted by the Board of Directors of the District on [January __,] 2014, for the primary purpose of providing a portion of the funds to pay, on April 1, 2014, the redemption price of the \$15,255,000 principal amount of the outstanding Series F Bonds maturing on and after April 1, 2015 (such Series F Bonds being refunded being hereinafter referred to as the “Refunded Series F Bonds”);

WHEREAS, by irrevocably depositing with the Escrow Agent a specified amount of the proceeds from the sale of the Series G Bonds and directing the Escrow Agent to hold such amounts either in cash or to invest such amounts in direct noncallable obligations of the United States of America or obligations the principal and interest on which are guaranteed by the United States of America (herein, “Federal Securities”), if any, as provided in this Escrow Agreement, the Escrow Agent will have money sufficient to pay the redemption price (*i.e.*, 100% of the principal amount being redeemed) of the Refunded Series F Bonds, together with accrued interest thereon;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. Simultaneously with the delivery of the Series G Bonds, the District shall deposit with the Escrow Agent \$_____ in immediately available funds, comprised of (a) \$_____ representing a portion of the net proceeds of the sale of the Series G Bonds and (b) \$_____ representing certain amounts held by the District for deposit in the Special District No. 1 Bond Interest and Redemption Fund under the Resolution for the payment of interest to become due on the Refunded Series F Bonds on April 1, 2014, all to be held in irrevocable escrow by the Escrow Agent, separate and apart from other funds and accounts of the District and the Escrow Agent, in a fund hereby created and established to be known as the "Series F Bonds Escrow Fund," to be applied solely as provided in this Escrow Agreement. The deposit is in a total amount which has been calculated by Montague DeRose and Associates, LLC and Backstrom McCarley Berry & Co., as co-financial advisors to the District, and verified by Grant Thornton LLP (the "Verification Agent") to be sufficient to pay the redemption price (*i.e.*, 100% of the principal amount being redeemed) of the Refunded Series F Bonds, together with accrued interest thereon.

The Escrow Agent hereby acknowledges receipt of such calculations prepared by Montague DeRose and Associates, LLC and Backstrom McCarley Berry & Co., LLC, the mathematical accuracy of which has been verified by the Verification Agent in its report relating to the Refunded Series F Bonds (the "Verification Report"), a copy of which has been provided to the Escrow Agent, and the Escrow Agent may rely upon the conclusion of such report to the effect that the amounts to be deposited in the Series F Bonds Escrow Fund as described in this Section 1 will be sufficient to pay the redemption price (*i.e.*, 100% of the principal amount being redeemed) of the Refunded Series F Bonds, together with accrued interest thereon.

SECTION 2. Investment of Moneys. The Escrow Agent agrees to either hold such moneys deposited or transferred to the Series F Bonds Escrow Fund in accordance with Section 1 hereof as cash or to immediately invest any such moneys in the Federal Securities (if any) as set forth in Schedule A hereto and to hold such Federal Securities (if any) in the Series F Bonds Escrow Fund. All other amounts in the Series F Bonds Escrow Fund, or if no Federal Securities are set forth in Schedule A hereto, all amounts, not so invested shall be held as cash.

SECTION 3. Reinvestment Requirements. In the event that the Escrow Agent receives any payment of principal or interest from the Federal Securities (if any) held in the Series F Escrow Fund pursuant to Section 2 hereof, prior to the date on which such payment is required for the purposes set forth herein, the Escrow Agent shall, at the written direction of the District, reinvest the amount of such payment, or any portion thereof, in other Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, as verified in a report prepared by the Verification Agent or another independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of public agencies, and provided the District has obtained and delivered to the Escrow Agent an unqualified opinion of nationally recognized bond counsel that such reinvestment will not adversely affect the exclusion from gross income of interest on the Refunded Series F Bonds or the Series G Bonds for purposes of federal income taxation. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which is not required for the purposes set forth in this Section 3 or Section 5, as verified in the report of the Verification Agent (the "Verification Report") originally obtained by the District with respect to the refunding of the Refunded

Series F Bonds or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of public agencies, shall be paid to the District promptly upon the receipt of such interest income by the Escrow Agent. In the absence of such written direction the Escrow Agent shall hold such amounts uninvested.

SECTION 4. Substitution of Securities. Upon the written request of the District, and subject to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities (if any) held in the Series F Escrow Fund, provided there are substituted therefor from the proceeds of such Federal Securities (if any), other Federal Securities, but only after the District has obtained and delivered to the Escrow Agent (i) an unqualified opinion of nationally recognized bond counsel that such reinvestment will not adversely affect the exclusion from gross income of interest payable on the Refunded Series F Bonds or the Series G Bonds for purposes of federal income taxation, and (ii) a report by the Verification Agent or another independent certified public accountant or firm of certified public accountants to the effect that such reinvestment will not adversely affect the sufficiency of the amounts of securities, investments and money in the Series F Bonds Escrow Fund to pay on April 1, 2014, the redemption price of the Refunded Series F Bonds and accrued interest thereon in accordance with this Escrow Agreement. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Escrow Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of Refunded Series F Bonds.

(a) Payment. From the maturing principal of the Federal Securities (if any) and the investment income and other earnings thereon, if any, and/or the moneys held in the Series F Bonds Escrow Fund, the Escrow Agent shall apply the amounts on deposit in the Series F Bonds Escrow Fund to pay on April 1, 2014, the redemption price of the Refunded Series F Bonds, together with accrued interest thereon. The amounts required to be paid on the Refunded Series F Bonds on such date therefor are shown on Schedule B hereto. Any moneys remaining in the Series F Bonds Escrow Fund after payment of the Refunded Series F Bonds in full as provided in this Section 5(a) shall be transferred by the Escrow Agent to the paying agent for the Series G Bonds to be applied to the payment of interest on the Series G Bonds.

(b) Irrevocable Instructions to Provide Notice. The District hereby irrevocably instructs the Escrow Agent (as Paying Agent for the Refunded Series F Bonds):

(1) to mail a notice substantially in the form of Exhibit A to (i) the registered owners of the Refunded Series F Bonds, (ii) Ambac Assurance Corporation, as bond insurer of the Refunded Series F Bonds (the "Bond Insurer") and (iii) the Securities Depositories and the Information Services (as such terms are defined in the Resolution No. 33043-02), that an irrevocable deposit has been made with the Escrow Agent and that the Refunded Series F Bonds have been deemed to be paid, with a copy of such notice to be provided by electronic means of communication to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System (referred to as "EMMA"), at www.emma.msrb.org; and

(2) mail a notice substantially in the form of Exhibit B at least thirty (30) days but not more than sixty (60) days prior to April 1, 2014 (*i.e.*, the redemption date) of the redemption of the Refunded Series F Bonds to be redeemed on such date to (i) the respective owners of any Refunded Series F Bonds designated for redemption at their addresses appearing on the registration books of the Paying Agent, as registrar, by first class mail, (ii) the Securities Depositories (as defined in Resolution No. 33042-02) by registered or certified mail, return receipt requested or by some other confirmable delivery method, and (iii) two or more Information Services (as defined in Resolution No. 33042-02) by first class mail, with a copy of such notice to be provided (A) to the MSRB through EMMA, at www.emma.msrb.org, and (B) to the Bond Insurer to the attention of the Surveillance Department thereof.

The District hereby confirms that it has, or will, make provision for the publication of the notice of redemption in the form of Exhibit B hereto in the Oakland Tribune, a newspaper of general circulation printed and published within the City of Oakland, County of Alameda, State of California, as required by Resolution No. 33042-02, once a week for three (3) successive weeks, the first such publication of which shall be at least thirty (30) days prior to the date of redemption of the Refunded Series F Bonds.

The Escrow Agent hereby confirms that it will take all actions required to be taken by it under this Escrow Agreement and in accordance with the Resolution in order to effectuate the defeasance, redemption and payment of the Refunded Series F Bonds as provided herein.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two (2) years after the date such moneys have become due and payable hereunder shall be repaid by the Escrow Agent to the District, and the Escrow Agent shall thereupon be released and discharged with respect thereto, and the holders of the Refunded Series F Bonds shall look only to the District for the payment on the Refunded Series F Bonds; provided, however, that before making such repayment to the District, the Escrow Agent shall, at the expense of the District, cause to be mailed to the holders of any unredeemed Refunded Series F Bonds, a notice that such money remains unclaimed and that, after a date set forth in the notice, which date shall not be less than thirty (30) days after the date of mailing of the notice, the balance of the money then unclaimed will be returned to the District.

(d) Priority of Payments. The owners of the Refunded Series F Bonds shall have a lien on moneys and securities, if any, in the Series F Bonds Escrow Fund which are allocable and sufficient to repay the Refunded Series F Bonds, in accordance with this Escrow Agreement, as verified by the Verification Report, until such moneys and such securities, if any, are used and applied as provided in this Escrow Agreement.

(e) Termination of Obligation. Upon deposit of moneys with the Escrow Agent in the Series F Bonds Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof (if any), and notice of, or provision for notice of redemption having been given as set forth in Section 5(b) hereof, the pledge of tax revenues provided for in the Resolution and other obligations of the District in the Resolution in respect of the Refunded Series F Bonds shall cease and terminate.

SECTION 6. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 7. Escrow Agent's Authority to Make Investments. Except as provided herein, the Escrow Agent shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the cash or the Federal Securities (if any) held hereunder.

SECTION 8. Indemnity. The District hereby assumes liability for, and agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, officers, directors, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the Series F Bonds Escrow Fund, the acceptance of the cash and securities deposited therein, the purchase of the Federal Securities (if any), the retention of the Federal Securities (if any) or the proceeds thereof, if any, and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Escrow Agreement; provided, however, that the District shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's employees or the willful breach by the Escrow Agent of the terms of this Escrow Agreement. In no event shall the District or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section 8. The indemnities contained in this Section 8 shall survive the termination of this Escrow Agreement and the resignation or removal of the Escrow Agent.

SECTION 9. Responsibilities of Escrow Agent. The Escrow Agent shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the Series F Bonds Escrow Fund, the acceptance of the moneys or securities deposited therein, the purchase of the Federal Securities (if any), the retention of the Federal Securities (if any), or the proceeds thereof, the sufficiency of the Federal Securities (if any), or cash deposit to pay the Refunded Series F Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Escrow Agreement, or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The Escrow Agent shall not be liable for any special indirect or consequential damages. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Agent assumes no responsibility for the correctness thereof or the correctness of any recitals or statements contained in the Refunded Series F Bonds. The Escrow Agent makes no representation as to the validity of this Escrow Agreement as to the District and, except as otherwise provided herein, the Escrow Agent shall incur no liability with respect thereto. The Escrow Agent shall not be liable in connection with

the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or willful breach, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Escrow Agreement. The Escrow Agent shall be under no obligation to inquire into or be in any way responsible for the performance or nonperformance by the District of its obligations. The Escrow Agent may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the District. No provision of this Escrow Agreement shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. The Escrow Agent shall incur no liability for losses arising from any investment made pursuant to the provisions of this Escrow Agreement.

SECTION 10. Resignation of Escrow Agent. The Escrow Agent may at any time resign by giving thirty (30) days prior written notice to the District of such resignation. The District shall promptly appoint a successor Escrow Agent by the resignation date. Resignation of the Escrow Agent will be effective only upon acceptance of appointment by a successor Escrow Agent. If the District does not appoint a successor, the Escrow Agent may at the expense of the District petition any court of competent jurisdiction for the appointment of a successor Escrow Agent, which court may thereupon, after such notice, if any, as it may deem proper and as may be required by law, appoint a successor Escrow Agent. After receiving a notice of resignation of Escrow Agent, the District may appoint a temporary Escrow Agent to replace the resigning Escrow Agent until the District appoints a successor Escrow Agent. Any such temporary Escrow Agent so appointed by the District shall immediately and without further action be superseded by the successor Escrow Agent so appointed.

SECTION 11. Amendments. This Escrow Agreement is made for the benefit of the District and the owners of the Refunded Series F Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the District; provided, however, that the District and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Escrow Agreement or the Resolution, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (ii) to grant to, or confer upon the Escrow Agent for the benefit of the owners of the Refunded Series F Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Escrow Agreement additional funds, securities or properties. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section 11, including the extent, if any, to which any change, modification, addition or elimination affects the rights of

the owners of the Refunded Series F Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section 11.

SECTION 12. Term. This Escrow Agreement shall commence upon its execution and delivery and terminate on the later to occur of either (i) the date upon which the Refunded Series F Bonds have been paid in accordance with this Escrow Agreement or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Escrow Agreement.

SECTION 13. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the District; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien whatsoever on any moneys or obligations in the Series F Bonds Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Escrow Agreement until payment or provision for payment in full of the Refunded Series F Bonds.

SECTION 14. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the District or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 15. Counterparts. This Escrow Agreement may be executed in counterparts, any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 16. Governing Law. This Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 17. Insufficient Funds. If at any time the moneys and investments in the Series F Bonds Escrow Fund, including the anticipated proceeds of and earnings thereon, if any, will not be sufficient to make all payments required by this Escrow Agreement, the Escrow Agent shall notify the District, in writing, immediately upon becoming aware of such deficiency, the amount thereof, and, if known to it, the reason therefor. Upon receipt of such notice, the District shall, as the case may be, promptly deposit with the Escrow Agent for deposit in the Series F Bonds Escrow Fund the amount necessary to cure any such deficiency. The Escrow Agent shall have no further responsibility regarding any such deficiency.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed by their duly authorized officers as of the date first above written.

EAST BAY MUNICIPAL UTILITY DISTRICT

By: _____
Director of Finance

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Escrow Agent and
as Paying Agent under the Resolution

By: _____
Authorized Signatory

SCHEDULE A
FEDERAL SECURITIES

| TYPE | MATURITY DATE | PAR AMOUNT | COUPON |
|------|---------------|------------|--------|
|------|---------------|------------|--------|

SCHEDULE B

REQUIREMENTS OF THE REFUNDED SERIES F BONDS

| <u>Date</u> | <u>Interest</u> | <u>Called Principal</u> | <u>Call Premium</u> | <u>Total Requirements</u> |
|-------------|-----------------|-----------------------------|-------------------------|-------------------------------|
| 04/01/14 | \$381,375.00 | \$15,255,000 | \$0 | \$15,636,375.00 |

**NOTICE OF PARTIAL DEFEASANCE
EAST BAY MUNICIPAL UTILITY DISTRICT
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS,
SERIES F**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the “Bonds”) that the East Bay Municipal Utility District (the “District”) has deposited with Wells Fargo Bank, National Association, as successor paying agent for said Bonds, cash [and direct non-callable obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America, the principal of and interest on which when due] will provide moneys sufficient to redeem, on April 1, 2014, the \$15,255,000 principal amount of the outstanding Bonds maturing on and after April 1, 2015 as more fully identified below, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for said redemption.

Defeased Bonds

| Maturity Date (April 1) | Principal Amount | Interest Rate | CUSIP |
|----------------------------|---------------------|------------------|-----------|
| 2015 | \$3,550,000 | 5.00% | 271011EN4 |
| 2016 | 3,815,000 | 5.00 | 271011EP9 |
| 2017 | 4,095,000 | 5.00 | 271011EQ7 |
| 2018 | 3,795,000 | 5.00 | 271011ER5 |

Upon such deposit, the pledge of the tax revenues provided for in Resolution No. 25676, adopted by the Board of Directors of the District on June 8, 1971, as thereafter supplemented, including as supplemented by Resolution No. 33043-02, adopted by the Board of the District on December 10, 2002, providing for the issuance of the Bonds (the “Resolution”) and all other obligations of the District under the Resolution in respect of such portion of the Bonds being redeemed shall cease and terminate and all payments of interest on, and principal or redemption price of such portion of the Bonds shall be paid only from moneys on deposit with the paying agent and available as aforesaid.

Neither the District nor the Paying Agent shall have any responsibility for any defect in any CUSIP number that appears in this notice. The CUSIP numbers have been assigned by an independent service for convenience of reference and the District and the Paying Agent shall not be liable for any inaccuracy in such numbers.

DATED this ____ day of _____, 2014.

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Paying Agent

**NOTICE OF REDEMPTION
OF EAST BAY MUNICIPAL UTILITY DISTRICT
SPECIAL DISTRICT NO. 1, ISSUE OF 1970,
WASTEWATER SYSTEM GENERAL OBLIGATION REFUNDING BONDS,
SERIES F**

Redemption Date: April 1, 2014

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the “Bonds”) of the East Bay Municipal Utility District (the “District”), issued on January 22, 2003, in accordance with that certain Resolution No. 25676, adopted by the Board of Directors of the District on June 8, 1971, as thereafter supplemented, including as supplemented by Resolution No. 33043-02, adopted by the Board of the District on December 10, 2002, providing for the issuance of the Bonds (the “Resolution”), that the \$15,255,000 principal amount of the outstanding Bonds maturing on and after April 1, 2015 as more fully described below, have been called for redemption on April 1, 2014 (such portion of the Bonds being redeemed, hereinafter the “Refunded Bonds”):

| Refunded Bonds | | | |
|----------------------------|---------------------|------------------|-----------|
| Maturity Date (April 1) | Principal Amount | Interest Rate | CUSIP |
| 2015 | \$3,550,000 | 5.00% | 271011EN4 |
| 2016 | 3,815,000 | 5.00 | 271011EP9 |
| 2017 | 4,095,000 | 5.00 | 271011EQ7 |
| 2018 | 3,795,000 | 5.00 | 271011ER5 |

On April 1, 2014, the Refunded Bonds to be redeemed will be payable at a redemption price of 100.0% of the principal amount together with interest accrued thereon to (but not including) April 1, 2014, the date of redemption. On April 1, 2014, there shall become due and payable upon each Refunded Bond to be redeemed, to the person whose name appears as the registered owner thereof on the registration books of the Paying Agent, as registrar for the Bonds, the redemption price thereof as set forth above. From and after April 1, 2014, interest on the Refunded Bonds to be redeemed will cease to accrue.

Payment for the Refunded Bonds on the redemption date will be made in accordance with the Representation Letter executed by the District in connection with the qualification of the Refunded Bonds for The Depository Trust Company’s book-entry system or as otherwise instructed by The Depository Trust Company, New York, New York.

Each Refunded Bond shall be surrendered at the corporate trust office of Wells Fargo Bank, National Association, as Paying Agent, located at the following applicable address, and payment of the redemption price will be made:

Registered/Certified Mail:
Wells Fargo Bank, NA
Corporate Trust Operations
P. O. Box 1517
Minneapolis, MN 55480-1517

Air Courier:
Wells Fargo Bank, NA
Corporate Trust Operations
N9303-121
6th & Marquette Avenue
Minneapolis, MN 55479

In person:
Wells Fargo Bank, NA
Northstar East Building
608 2nd Avenue So., 12th Floor
Minneapolis, MN

Wells Fargo Bank, National Association policy does not allow the safekeeping of securities within Corporate Trust Operations for a period of longer than 30 days before the redemption. Please DO NOT submit your securities for payment more than 30 days in advance of the Redemption Date. When inquiring about this redemption, please have the Refunded Bond number available. Please inform the customer service representative of the CUSIP number of the affected Refunded Bond. Customer Service can be reached Toll Free at 1-800-344-5128.

Neither the District nor the Paying Agent shall have any responsibility for any defect in any CUSIP number that appears in this redemption notice. The CUSIP numbers have been assigned by an independent service for convenience of reference and the District and the Paying Agent shall not be liable for any inaccuracy in such numbers.

IMPORTANT NOTICE

Under the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (the "Act"), the Paying Agent making payment of interest or principal on municipal securities may be obligated to withhold a percentage of the principal of a holder who has failed to furnish the registrar with a valid taxpayer identification number and a certification that the holder is not subject to backup withholding under the Act. Holders of the Refunded Bonds who wish to avoid the application of these provisions should submit a completed IRS Form W-9 when presenting the bond for payment.

DATED: _____, 2014

By: WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Paying Agent

EAST BAY MUNICIPAL UTILITY DISTRICT

DATE: January 23, 2014

MEMO TO: Board of Directors

THROUGH: Alexander R. Coate, General Manager *ARC*

FROM: Richard G. Sykes, Director of Water and Natural Resources *R. Sykes*

SUBJECT: Delta Update

INTRODUCTION

This memo provides an update on recent government and stakeholder activities related to the Sacramento-San Joaquin Delta. EBMUD continues its active role in all the major arenas for planning and advocacy in the Delta, with a primary focus on the Bay-Delta Conservation Plan (BDCP), the Delta Stewardship Council (Council), and related coalition efforts. A presentation and update on Delta issues will be provided at the January 28, 2014 Board meeting.

DISCUSSIONBay Delta Conservation Plan

The goal of the BDCP is to secure a reliable supply of water for contractors of the state and federal water projects who export water from the South Delta. EBMUD's established position is that the goal is reasonable, and project beneficiaries should pay and other water users should not be adversely impacted by the project with respect to the District's finances, facilities, water supply or environmental impacts. On December 13, 2013, the state published the public review draft of two documents, the BDCP and the Environmental Impact Report/Environmental Impact Statement (EIR/EIS). This date marked the beginning of a 120-day review period for the documents that reportedly total more than 40,000 pages. Staff is currently reviewing sections relevant to our concerns.

In June 2013, EBMUD submitted a comment letter on an earlier draft of the BDCP, highlighting three issues related to finances, water supply and environmental impacts: 1) the finance chapter in the draft BDCP lacked vital information on which parties would pay for the BDCP conveyance, and about how such costs would be allocated ; 2) operational modeling conducted for the BDCP incorporated a climate change scenario in both the no-action case and the project case, effectively obscuring any water supply impacts from the project. The modeling for the BDCP also has implications for the availability of CVP water for EBMUD's diversion facility at Freeport, and the potential for reverse flows that might interfere with Freeport operations. Under the state's primary climate change scenario, major federal and state reservoirs in the later years of the planning period would be depleted in nearly 10% of years, with severe water supply consequences for Central

Valley Project contractors including EBMUD, as well as for salmon management; and 3) the draft EIR/EIS failed to analyze impacts on the Mokelumne fishery.

Staff anticipates that the District's comment letter on the public review draft will recapitulate these past concerns, with the addition of two new issues. The first of these concerns the potential impacts of the BDCP tunnels on the operation of the Mokelumne Aqueducts. The proposed alignment of the BDCP tunnels would intersect our aqueducts on Woodward Island in the Delta. Potential impacts on the operation of the aqueducts include tunnel construction impacts on the aqueduct pilings and additional risk from the proposed overhead power lines.

EBMUD's 2007 "Strategy for the Protection of the Aqueducts in the Delta" examined the feasibility of EBMUD constructing its own tunnel to replace the aqueducts, particularly if future conditions render the Delta levee system less reliable. If the BDCP tunnels and a future EBMUD tunnel cross, they may effectively be in competition for the optimal depth for tunneling across the Delta in consideration of the preferred soil layers, avoiding obstacles, shortest path, etc. Additionally, the BDCP tunnels need to be bored to provide adequate clearance from the future EBMUD tunnel in order to be structurally sound. In order to adequately assess possible impacts and identify potential mitigations related to the BDCP tunnels, staff is proposing a consulting contract for board consideration at the January 28, 2014 Board meeting. The proposed engineering consulting contract is important in supporting EBMUD's final comments on the BDCP. It also supports the recently completed Raw Water Master Plan.

The other emerging issue is how the BDCP will define the water supply assurances that the project proponents seek. There is a natural tradeoff between offering any kind of guarantee for water operations and ensuring that all other obligations (to the ecosystem, to other water users, and other stakeholders) are met. Governor Brown has publicly committed that other water users will not be harmed by the BDCP, but the BDCP is a highly complex document that is subject to differing interpretations. EBMUD will insist that any water supply assurances for the BDCP proponents are not "backstopped" by other diverters and water right holders.

Delta Stewardship Council

In September 2013, the final Delta Plan and its accompanying regulations came into effect. Since that time, the Delta Council has moved into its implementation phase which includes:

- 1) Establishing and leading a Delta Plan Interagency Implementation Committee (DPIIC) comprised of representatives from the key state and federal agencies with statutory authority over actions in the Delta. The DPIIC is intended to provide coordination among the member agencies to implement the Delta Plan;
- 2) Reviewing and hearing appeals on projects to determine their consistency with the Delta Plan;
- 3) Implementing the Delta Science Plan; and
- 4) Developing a plan to prioritize state investments in Delta levees, which will include a proposal for allocating levee costs among other beneficiaries.

As previously reported, seven different lawsuits have been filed against the Delta Plan package, with various complaints focusing on the state policy to “reduce reliance on the Delta”. Some irrigation districts claim that the Delta Plan does not have the authority to enforce this policy, while some environmental and fishing organizations assert that the Plan violates the policy by not ensuring greater reductions in Delta diversions. At this time, the court hearings for these lawsuits have not been scheduled.

Upstream Coalition Activities

EBMUD continues its active role with stakeholder coalitions to protect its interests including water rights and supplies, the Mokelumne fishery and finances through the development of a BDCP alternative that is broadly supported. However, the BDCP proponents will likely continue to advance the major project now described and assessed in the draft EIR/EIS currently available for public review. To more thoroughly understand the impacts of the project described in the draft EIR/EIS, EBMUD as part of a coalition upstream water agencies has produced an independent evaluation of the BDCP operations modeling conducted by the Department of Water Resources (DWR). The main findings are that DWR’s modeling has a number of deficiencies that call into question its forecasts of available BDCP yield, the potential impacts on the Delta, and how BDCP operations might affect the water supplies available to other water users. The coalition is actively sharing this information with different stakeholders as well as DWR, and will seek to ensure that the modeling is corrected in any final EIR/EIS.

EBMUD will be cooperating with a number of stakeholders in reviewing other sections of the BDCP, particularly as they pertain to financing and assurances. In this way, useful perspectives and information will be shared to increase the effectiveness of comments sent to DWR. As a partner in the Freeport Project, Sacramento County is a particularly important coalition member with which EBMUD regularly shares information and coordinates strategy.

State Water Action Plans

In the last Delta update to the Board, staff reported on EBMUD’s part in working with ACWA to craft a “Statewide Water Action Plan” (SWAP). This was intended to bridge the interests of the BDCP proponents and members that will not receive a benefit from the project, with a particular focus on upstream users. The SWAP outlined a number of recommended actions that the state should undertake to ensure balanced progress in addressing water supply needs, including storage, water use efficiency, conveyance, supply assurances, levee improvements, and emergency preparedness. The ACWA unanimously approved the SWAP on September 27, 2013 and formally delivered it to the Governor’s office the following week.

At the end of October, the state released its own draft “California Water Action Plan”, jointly prepared by the Natural Resources Agency, the Environmental Protection Agency, and the Department of Food and Agriculture. In a number of respects it reflected the priorities proposed by ACWA, except that it placed a lesser emphasis on surface storage, more of a focus on ecosystem restoration, and new financing with no reference to a water bond. Public comment on the draft was invited, but no deadline for finalizing it was given. However, the Water Action Plan is already

providing the framework for a portion of the Governor's 2014-15 proposed budget, with nearly \$619 million allocated to various actions included in the Plan.

In addition, the Delta Vision Foundation is continuing a parallel effort with high-level representation from a broad array of stakeholders in the effort to craft a "Delta fix." EBMUD is participating in these ongoing discussions to support the dialogue, and lending its experience and expertise in advancing additional work on key Delta levees.

Conclusion

With the apparent onset of a drought since the fall, the attention has shifted more to managing the State's increasingly limited supplies. Nonetheless, staff will continue to review the BDCP and EIR/EIS, and prepare constructive comments while protecting our interests. We will also continue to coordinate with our various partners and coalitions. Staff will return to update the Board in advance of the deadline for comments on the BDCP in April.

ARC:RGS:DW:dec

EAST BAY MUNICIPAL UTILITY DISTRICT

DATE: January 23, 2014
MEMO TO: Board of Directors
THROUGH: Alexander R. Coate, General Manager *ARC*
FROM: Lynelle M. Lewis, Secretary of the District *Lynelle*
SUBJECT: Legislative/Human Resources Committee Minutes – January 14, 2014

Chair Lesa R. McIntosh called to order the Legislative/Human Resources Committee at 10:14 a.m. in the Training Resource Center. Directors John A. Coleman and Frank Mellon were present at roll call. Staff present included: General Manager Alexander R. Coate, General Counsel Jylana Collins, Manager of Legislative Affairs Marlaigne K. Dumaine, Special Assistant to the General Manager Cheryl A. Farr, and Secretary of the District Lynelle M. Lewis.

Public Comment. None.

Legislative Update. Manager of Legislative Affairs Marlaigne K. Dumaine presented four 2014 Federal Initiatives as follows: 1) Seek federal funding opportunities for infrastructure projects via any new and existing federal programs; 2) Pursue federal funding for EBMUD's three Water Resources Development Act (WRDA) authorized projects - the San Ramon Valley Recycled Water Project, the Integrated Regional Recycled Water Program, and the Bay Area Regional Desalination Project; 3) Maintain WRDA authorization requests and seek funding for the Regional EBMUD Seismic Component Upgrade Program and the San Ramon Valley Recycled Water Project; and 4) Advance EBMUD's Delta needs with its congressional delegation and appropriate federal agencies.

Next, Ms. Dumaine reported that congressional efforts to reauthorize WRDA gained momentum in 2013, with a final WRDA bill expected to be brought forward in 2014. There was discussion by the Committee about the appropriations process, funding for regional water supply reliability projects in light of the drought, and funding for the Sacramento-San Joaquin Delta. In concluding, Ms. Dumaine reported that Congressman George Miller announced his retirement after serving 40 years in Congress.

It was moved by Director Mellon and seconded by Director Coleman, to forward the staff recommended initiatives to the full Board. The motion carried (3-0) by the following voice vote: AYES (Coleman, Mellon, and McIntosh); NOES (None); ABSTAINED (None); ABSENT (None).

Director Coleman announced that he and Director McIntosh would be attending the ACWA annual conference in Washington, D.C from February 23-27. and would be absent from the February 25 meeting.

Adjournment. Director McIntosh adjourned the meeting at 10:55 a.m.

ARC/LML/lml

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