NEW ISSUE — BOOK-ENTRY ONLY **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 Series 2015 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 Series 2015 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 Series 2015 Bonds. See "TAX MATTERS."

$185,050,000
EAST BAY MUNICIPAL UTILITY DISTRICT
(Alameda and Contra Costa Counties, California)
WATER SYSTEM REVENUE BONDS

$74,335,000
SERIES 2015B
(Green Bonds)

$110,715,000
SERIES 2015C

Dated: Date of Delivery **Due: June 1, as shown on 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 and not otherwise defined shall have the meanings set forth herein.

The East Bay Municipal Utility District (the "District") is issuing its Water System Revenue Bonds, Series 2015B (Green Bonds) (the "Series 2015B Bonds") and Water System Revenue Bonds, Series 2015C (the "Series 2015C Bonds" and, together with the Series 2015B Bonds, the "Series 2015 Bonds") pursuant to a Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, by and between the District and First Interstate Bank of California, which has been succeeded by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by a Twenty-Seventh Supplemental Indenture, dated as of June 1, 2015, providing for the issuance of the Series 2015 Bonds (collectively, the "Indenture"). The Series 2015 Bonds of each Series 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 Series 2015 Bonds. Beneficial ownership interests in the Series 2015 Bonds may be purchased in book-entry form only in denominations of $5,000 principal amount or any integral multiple thereof. Interest on the Series 2015 Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2015. Principal is payable on June 1 of the years set forth on the inside front cover. The principal or redemption price of, and interest on, the Series 2015 Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal or redemption price and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2015 Bonds. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Series 2015 Bonds are subject to redemption prior to maturity as more fully described herein. See "THE SERIES 2015 BONDS – Redemption."

The Series 2015 Bond proceeds will be used to (i) provide additional moneys to finance improvements to the Water System of the District and (ii) pay costs of issuance in connection with the Series 2015 Bonds, as described herein.

The Series 2015 Bonds are special obligations of the District, payable solely from and secured by a pledge of Subordinated Water Revenues as more fully described herein. Subordinated Water Revenues generally consist of the District's Water Revenues (adjusted for deposits to and withdrawals from the Rate Stabilization Fund) remaining after the payment of all Water Operation and Maintenance Costs. The Series 2015 Bonds have been issued on parity with the District's Water System Revenue Bonds and Parity Debt heretofore or hereafter issued, as more fully described herein, including certain payment obligations of the District under interest rate swap agreements entered into by the District in connection therewith. **Neither the full faith and credit nor the taxing power of the District is pledged to the payment of the Series 2015 Bonds or the interest thereon.**

MATURITY SCHEDULES
(SEE INSIDE COVER)

The Series 2015 Bonds of each Series were sold to Wells Fargo Bank, National Association (the "Initial Purchaser") by competitive sale on June 2, 2015. The Series 2015 Bonds of each Series will be offered when, as and if sold and received by the Initial Purchaser, subject to the approval of validity by Norton Rose Fulbright US LLP, Los Angeles, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel, and certain other conditions. 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. It is anticipated that the Series 2015 Bonds will be available for delivery through the facilities of DTC in New York, New York by Fast Automated Securities Transfer (FAST) on or about June 17, 2015.

Dated: June 2, 2015

$185,050,000
EAST BAY MUNICIPAL UTILITY DISTRICT
(Alameda and Contra Costa Counties, California)
WATER SYSTEM REVENUE BONDS

MATURITY SCHEDULES

$74,335,000
SERIES 2015B
(GREEN BONDS)

$43,920,000 Serial Series 2015B Bonds

Maturity Date (June 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†
2023	$2,325,000	5.00%	1.97%	271014ZK1
2024	1,945,000	5.00	2.11	271014ZL9
2025	2,040,000	5.00	2.22	271014ZM7
2026	2,145,000	5.00	2.35(c)	271014ZN5
2027	2,250,000	5.00	2.50(c)	271014ZP0
2028	2,365,000	5.00	2.62(c)	271014ZQ8
2029	2,480,000	5.00	2.72(c)	271014ZR6
2030	2,605,000	5.00	2.82(c)	271014ZS4
2031	2,735,000	5.00	2.89(c)	271014ZT2
2032	2,870,000	5.00	2.94(c)	271014ZU9
2033	3,015,000	5.00	2.98(c)	271014ZV7
2034	3,165,000	4.00	3.40(c)	271014ZW5
2035	3,290,000	4.00	3.45(c)	271014ZX3
2036	3,425,000	4.00	3.55(c)	271014ZY1
2037	3,560,000	4.00	3.60(c)	271014ZZ8
2038	3,705,000	4.00	3.65(c)	271014A28

$30,415,000 4.00% Term Series 2015B Bonds due June 1, 2045, Yield 3.85%(c); CUSIP†: 271014A36

$110,715,000
SERIES 2015C

$73,630,000 Serial Series 2015C Bonds

Maturity Date (June 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†
2024	$2,500,000	5.000%	2.11%	271014A44
2025	3,035,000	5.000	2.22	271014A51
2026	3,185,000	5.000	2.35(c)	271014A69
2027	3,345,000	5.000	2.50(c)	271014A77
2028	3,510,000	5.000	2.62(c)	271014A85
2029	3,685,000	5.000	2.72(c)	271014A93
2030	3,870,000	5.000	2.82(c)	271014B27
2031	4,065,000	5.000	2.89(c)	271014B35
2032	4,265,000	5.000	2.94(c)	271014B43
2033	4,480,000	5.000	2.98(c)	271014B50
2034	4,705,000	5.000	3.02(c)	271014B68
2035	4,915,000	4.000	3.45(c)	271014B76
2036	5,135,000	4.000	3.55(c)	271014B84
2037	5,365,000	4.000	3.60(c)	271014B92
2038	5,600,000	4.000	3.65(c)	271014C26
2039	5,855,000	4.000	3.70(c)	271014C34
2040	6,115,000	4.000	3.75(c)	271014C42

$37,085,000 4.00% Term Series 2015C Bonds due June 1, 2045, Yield 3.85%(c); CUSIP†: 271014C59

(c) Yield to par call date of June 1, 2025.
† 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.

EAST BAY MUNICIPAL UTILITY DISTRICT
Alameda and Contra Costa Counties, California
375 Eleventh Street
Oakland, California 94607
(866) 403-2683

Board of Directors

Frank G. Mellon, *President*
William B. Patterson, *Vice President*
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D. Scott Klein, *Controller*
Sophia D. Skoda, *Acting Director of Finance*[(1)] *and Treasury Manager*
Dari Barzel, *Principal Management Analyst (Debt Administrator)*

Co-Bond Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Curls Bartling P.C.
Oakland, California

Financial Advisor

Montague DeRose and Associates, LLC
Walnut Creek, California

Trustee

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

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(1) The position of Director of Finance is currently under recruitment. The Treasury Manager has been appointed Acting Director of Finance effective May 21, 2015 through August 12, 2015. The District Controller is expected to serve as Acting Director of Finance for the remainder of the interim period beginning August 13, 2015 until a successor Director of Finance is named.

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 Series 2015 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Series 2015 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 obtained from official sources and other sources which are believed 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 Series 2015 Bonds.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

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OFFICIAL STATEMENT

$185,050,000
EAST BAY MUNICIPAL UTILITY DISTRICT
(Alameda and Contra Costa Counties, California)
WATER SYSTEM REVENUE BONDS

$74,335,000 Series 2015B (Green Bonds)	**$110,715,000 Series 2015C**

INTRODUCTION

This Introduction is not a summary of this Official Statement, and is qualified by more complete and detailed information contained in the entire Official Statement. A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of Series 2015 Bonds to potential investors is made only by means of the entire Official Statement. Certain definitions of capitalized terms used and not defined herein are set forth in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

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 water supply, treatment and distribution system owned by the District (the "Water System" or the "System"), and System finances, in connection with the sale of the District's $74,335,000 Water System Revenue Bonds, Series 2015B (Green Bonds) (the "Series 2015B Bonds") and its $110,715,000 Water System Revenue Bonds, Series 2015C (the "Series 2015C Bonds" and, together with the Series 2015B Bonds, the "Series 2015 Bonds"). The Series 2015 Bonds are being issued pursuant to the Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, by and between the District and First Interstate Bank of California, which has been succeeded by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by the Twenty-Seventh Supplemental Indenture, dated as of June 1, 2015, by and between the District and the Trustee, relating to the Series 2015 Bonds (as so amended and supplemented, the "Indenture").

The Series 2015 Bonds are being issued for the purpose of (i) providing additional moneys to finance improvements to the Water System and (ii) paying costs incidental to the issuance of the Series 2015 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – THE WATER SYSTEM – Capital Improvement Program."

The District

The District is a municipal utility district, created in 1923 by vote of the electorate in 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 the Water System. See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM)." The District also operates a wastewater system (the "Wastewater System"). The District's Wastewater

System treats and disposes of sewage from a portion of the area within the District, which is designated as Special District No. 1.

The Series 2015 Bonds are not payable from or secured by the revenues of the Wastewater System of the District.

Security for the Series 2015 Bonds

The Series 2015 Bonds are special obligations of the District, payable solely from and secured by a pledge of the Subordinated Water Revenues of the District, as defined in the Indenture. Subordinated Water Revenues generally consist of the District's Water Revenues (adjusted for deposits to and withdrawals from the Rate Stabilization Fund) remaining after the payment of (a) all Water Operation and Maintenance Costs and (b) all amounts required to be paid under the District's Senior Water Bond Resolution for principal, interest, reserve fund and any other debt service requirements on the Senior Water Bonds. **There are no Senior Water Bonds currently outstanding and the District has covenanted pursuant to the Eighteenth Supplemental Indenture, dated as of September 15, 2010 (the "Eighteenth Supplemental Indenture") that it will not issue any Senior Water Bonds in the future.** Prior to the date of execution and delivery of the Eighteenth Supplemental Indenture, all Water System revenue bonds of the District issued under the Indenture were designated "Water System Subordinated Revenue Bonds." Pursuant to the Eighteenth Supplemental Indenture, any Water System revenue bonds of the District issued (or remarketed or otherwise reoffered) under the Indenture following the execution and delivery of the Eighteenth Supplemental Indenture are designated "Water System Revenue Bonds" in order to reflect that the lien of the Senior Water Bonds has been closed. All Outstanding Water System revenue bonds issued under the Indenture (howsoever designated), together with any additional Water System revenue bonds hereafter issued under the Indenture are secured on parity by Subordinated Water Revenues and are collectively referred to herein as the "Water System Revenue Bonds." See "SECURITY FOR THE SERIES 2015 BONDS – Pledge of Subordinated Water Revenues."

The Series 2015 Bonds are secured on a parity with the District's other Water System Revenue Bonds to be Outstanding upon the delivery thereof, together with any additional Water System Revenue Bonds hereafter issued, with certain scheduled payments that are payable by the District with respect to certain interest rate swap agreements as described under "SECURITY FOR THE SERIES 2015 BONDS – Outstanding Water System Revenue Obligations – *Interest Rate Swap Agreements*" and with certain outstanding State Loans as described in APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Outstanding Debt," and with any other Parity Debt heretofore or hereafter incurred in accordance with the Indenture. See "SECURITY FOR THE SERIES 2015 BONDS – Outstanding Water System Revenue Obligations," and "– Issuance of Additional Water System Revenue Bonds and Parity Debt; Junior and Subordinate Obligations." As of April 1, 2015, the District had Outstanding $2,169,355,000 aggregate principal amount of Water System Revenue Bonds. See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Outstanding Debt" and "– Variable Rate and Swap Obligations."

The Sixteenth Supplemental Indenture dated as of February 1, 2010 (the "Sixteenth Supplemental Indenture") includes a number of amendments to the Indenture in the manner and effective as of the date described under "AMENDMENTS TO THE INDENTURE."

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT IS PLEDGED TO THE PAYMENT OF THE SERIES 2015 BONDS OR THE INTEREST THEREON.

Rate Covenant

The District covenants under the Indenture that it will at all times, while any of the Water System Revenue Bonds (including the Series 2015 Bonds) remain Outstanding, fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Water System so as to yield Water Revenues in each Fiscal Year sufficient so that the Subordinated Water Revenues for such year shall be at least equal to 1.1 times the amount of Debt Service on all Water System Revenue Bonds and Parity Debt for such Fiscal Year. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Covenants." See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Continuing Disclosure

Pursuant to a Continuing Disclosure Agreement, dated the date of delivery of the Series 2015 Bonds, by and between the District and the Trustee, as dissemination agent, the District will covenant and agree for the benefit of the holders and beneficial owners of the Series 2015 Bonds to provide certain financial information and operating data relating to the District and the Water System 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) (the "Annual Report"), commencing with the Annual Report for Fiscal Year 2014-15, 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). See also APPENDIX F – "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. As a technical matter, 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 Annual Report filings prior to its Annual Report for Fiscal Year 2012. The information contained in the 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. 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's Annual Report for Fiscal Year 2014 was timely filed on November 26, 2014. The District believes it has established processes to ensure it will continue to comply in all material respects with its continuing disclosure undertakings in the future.

Professionals Involved in the Issue

The Bank of New York Mellon Trust Company, N.A. serves as Trustee under the Indenture. Certain legal matters incident to the authorization, issuance and sale of the Series 2015 Bonds are subject to the approval of Norton Rose Fulbright US LLP, Los Angeles, California, 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 issuance of the Series 2015 Bonds. Montague DeRose and Associates, LLC, Walnut Creek, California, is serving as Financial Advisor to the District in connection with the issuance of the Series 2015 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 Indenture and, as used herein, has the meaning given to it in the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the District.

All references to and summaries of the Indenture and all documents, statutes, reports and other instruments referred to herein are qualified in their entirety by reference to the full Indenture and each such 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 Trustee 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 if events and circumstances do not occur as projected, 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 Series 2015 Bondholder may obtain a copy of any such report, as available, from the Trustee or the District. Additional information regarding this Official Statement may be obtained by contacting the Trustee or Sophia D. Skoda, Treasury Manager and Acting Director of Finance, East Bay Municipal Utility District, 375 Eleventh Street, Oakland, California 94607, (510) 287-0231.

THE DISTRICT

The District is a municipal utility district, created in 1923 by vote of the electorate in portions of Alameda and Contra Costa Counties in the State of California. The District is formed under the authority 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 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, within an area known as Special District No. 1., sewerage and wastewater interception, treatment and disposal, and power generation through its Wastewater System. 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.

For information on the District, the Water System and its finances and operations, see APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM);" and APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013."

PLAN OF FINANCE

Purpose of the Series 2015 Bonds

The Series 2015 Bonds are being issued for the primary purpose of providing additional moneys to finance a portion of the costs (or to reimburse the District for such costs) of various improvements to the Water System. Such improvements are being undertaken as a part of the District's current five-year capital improvement program. For additional information regarding the District's current capital improvement program, and a description of the major programs and projects included therein, see APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – Capital Improvement Program."

Green Bonds

The District has designated the Series 2015B Bonds as "Green Bonds" to allow investors to invest directly in bonds that finance environmentally beneficial projects. The District considers projects that are designed to meet one or more of the following criteria to be "green" projects: (i) maintain water quality; (ii) improve water use efficiency, including conservation through reduced water loss; (iii) improve biodiversity and ecosystem quality; (iv) protect against flooding; (v) reduce pollution; (vi) improve resilience (adaptation) to climate change; (vii) reduce the combustion of fossil fuels; (viii) reduce greenhouse gas emission; (ix) implement "reduce, reuse, recycle" practices in preference to raw materials; or (x) adhere to sustainable purchasing guidelines.

District Water System projects that include these attributes generally fall into the following categories:

- Clean Water and Drinking Water.

  Projects in this category are designed to maintain or improve the quality of drinking water and reduce pollution in the District's water supply according to State and federal standards. These types of projects primarily include rehabilitation and modernization improvements to water treatment plants such as ozone system upgrades and replacement of filter underdrains and control systems, reservoir improvements, rehabilitation and maintenance, and watershed management activities that protect source water quality.

- Water Supply and Conservation.

  Projects in this category are designed to improve water supply reliability, preserve current water entitlements, secure additional water supplies or promote water use efficiency. These types of projects may include pipeline replacements and improvements, replacement of polybutylene service laterals, infrastructure renewals, transmission and distribution system upgrades, canal relining, water conservation programs, and groundwater and recycled water projects.

- Protection against Flooding.

  This category includes projects which prevent an uncontrolled release of reservoir water. These types of projects may include seismic safety evaluations and dam freeboard increases to improve seismic safety, reservoir embankment upgrades and foundation improvements.

- Renewable Energy and Energy Efficiency.

  This category includes projects designed to reduce greenhouse gas emissions and energy use across District facilities. Projects in this category may include renewable energy facilities, and pressure zone improvements involving replacement or improvement of pumping plants.

- Sustainable Land Use and Biodiversity Conservation.

  Projects in this category are designed to improve biodiversity and keep natural ecosystems functioning and healthy, including through sensitive species and habitat protection and enhancement measures. These types of projects may include watershed land acquisitions, habitat restoration projects, the purchase and installation of equipment needed to maintain and operate fish hatchery infrastructure, the purchase of equipment to meet the fisheries monitoring and assessment requirements in the Mokelumne River, additional Endangered Species Act listings, and proposed changes to Sacramento - San Joaquin Delta operations.

Proceeds of the Series 2015B Bonds are expected to be used to fund or reimburse the District for the costs of some or all of such types of green projects. See also APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – THE WATER SYSTEM – Capital Improvement Program."

The District has promoted principles of sustainability for a number of years. The District initially adopted a Sustainability Policy, District Policy 7.05, in 1994. The District's current Sustainability Policy provides that it is the policy of the District to provide reliable, high-quality drinking water and wastewater service through sustainable operations, maintenance, planning, design, and construction activities that avoid, minimize or mitigate adverse effects to the economy, environment, employees, and the public. The District's current Sustainability Policy further provides for District staff to annually report to the Board summarizing the status of the District's sustainability efforts. On April 28, 2015, the District Board approved District Guidance for Issuing Green Bonds (the "District's Green Bond Guidance"). The District's Green Bond Guidance identifies the criteria (described above) that the District expects to take into consideration in identifying the types of "green" projects the costs of which may be funded (or reimbursed to the District) from the proceeds of Green Bonds. The District's Green Bonds Guidance further provides that in identifying potential projects for Green Bond financing, the District's aim should be towards including projects that best meet one or more of the identified criteria and avoid those projects that appear marginal or that have unresolved sustainability issues.

The proceeds of the Series 2015B Bonds will be deposited into a separately labeled account by the District and allocated to expenditures for capital improvement projects identified by the District as satisfying its criteria for green projects. The District expects to identify the particular projects which have been funded with (or reimbursed from) proceeds of green bonds, including the Series 2015B Bonds, in its annual sustainability report until all of the proceeds of the Green Bonds have been spent. Once all of the proceeds of the Series 2015B Bonds have been spent, no further updates will be provided.

The terms “Green Bonds” and “green project” are neither defined in nor related to provisions in the Indenture. The use of such terms herein is for identification purposes only and is not intended to provide or imply that an owner of the Series 2015B Bonds is entitled to any additional security other than as provided in the Indenture. The purpose of labeling the Series 201B Bonds as “Green Bonds” is, as noted, to allow owners of the Series 2015B Bonds to invest directly in bonds that will finance environmentally beneficial projects. The District assumes no obligation to ensure that these projects comply with the principles of green projects as such principles may hereafter evolve.

The Series 2015B Bonds will not constitute “exempt facility bonds” issued to finance “qualified green building and sustainable design projects” within the meaning of Section 142(1) of the Code.

The Series 2015C Bonds are not being designated as “Green Bonds.” The repayment obligations of the District with respect to the Series 2015 Bonds are not conditioned on the completion of any particular project or the satisfaction of any certification relating to the status of the Series 2015B Bonds as Green Bonds, and owners of the Green Bonds do not assume any specific project risk related to any of the projects funded thereby.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2015 Bonds are as follows:

	Series 2015B Bonds	***Series 2015C Bonds***	***Total***
Sources			
Principal Amount	$74,335,000	$110,715,000	$185,050,000
Original Issue Premium	6,504,790	9,545,360	16,050,150
Total	$80,839,790	$120,260,360	$201,100,150
Uses			
Series 2015 Water System Fund(1)	$80,000,000	$119,234,000	$199,234,000
Initial Purchaser’s Discount	645,971	737,506	1,383,477
Costs of Issuance(2)	193,819	288,854	482,673
Total	$80,839,790	$120,260,360	$201,100,150

(1) Includes amounts to be reimbursed to the District for prior expenditures.
(2) Includes legal, financing and consulting fees, rating agency fees, printing costs and other miscellaneous expenses.

THE SERIES 2015 BONDS

General Description

The Series 2015 Bonds of each Series will be issued in the respective aggregate principal amounts, will bear interest at the respective rates and will mature in the respective years and amounts all as set forth on the inside cover page of this Official Statement. The Series 2015 Bonds of each Series will be issued in denominations of $5,000 principal amount or any integral multiple thereof. The Series 2015 Bonds of each Series will be dated, and shall bear interest from, their date of delivery. Interest on the Series 2015 Bonds of each Series is payable on each June 1 and December 1, commencing on December 1, 2015, and will be computed on the basis of a 360-day year of twelve 30-day months. The Series 2015 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 The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2015 Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Series 2015 Bonds, all payments of principal of or redemption price of, and interest on, the Series 2015 Bonds will be made directly to DTC, which is obligated in turn to remit such principal or redemption price and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Series 2015 Bonds. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption

Series 2015B Bonds

Optional Redemption. The Series 2015B Bonds maturing on or before June 1, 2025 are not subject to optional redemption prior to maturity. The Series 2015B Bonds maturing on and after June 1, 2026 are subject to redemption prior to their respective stated maturities, at the option of the District, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the District and by lot within a maturity), on or after June 1, 2025, at a redemption price equal to the principal amount of Series 2015B Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. The Series 2015B Bonds maturing on June 1, 2045 are subject to redemption prior to their stated maturity, in part, by lot, from Mandatory Sinking Account Payments as specified below at the principal amount of each Series 2015B Bond so redeemed plus accrued interest thereon to but not including the date fixed for redemption, without premium.

Term Series 2015B Bonds due June 1, 2045

Mandatory Sinking Account Payment Dates (June 1)	***Mandatory Sinking Account Payments***
2039	$3,850,000
2040	4,005,000
2041	4,165,000
2042	4,330,000
2043	4,505,000
2044	4,685,000
2045†	4,875,000

† Final Maturity.

Upon an optional redemption of a portion of any term Series 2015B Bond, the District shall provide the Trustee with a revised schedule of the foregoing Mandatory Sinking Account Payments which shall provide for a reduction in the amount of one or more of the Mandatory Sinking Account Payments coming due on such term Series 2015B Bond after such redemption as specified by the District in such schedule to reflect such redeemed portion.

Series 2015C Bonds

Optional Redemption. The Series 2015C Bonds maturing on or before June 1, 2025 are not subject to optional redemption prior to maturity. The Series 2015C Bonds maturing on and after June 1, 2026 are subject to redemption prior to their respective stated maturities, at the option of the District, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the District and by lot within a maturity), on or after June 1, 2025, at a redemption price equal to the principal amount of Series 2015C Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. The Series 2015C Bonds maturing on June 1, 2045 are subject to redemption prior to their stated maturity, in part, by lot, from Mandatory Sinking Account Payments as specified below at the principal amount of each Series 2015C Bond so redeemed plus accrued interest thereon to but not including the date fixed for redemption, without premium.

Term Series 2015C Bonds due June 1, 2045

Mandatory Sinking Account Payment Dates (June 1)	***Mandatory Sinking Account Payments***
2041	$6,850,000
2042	7,120,000
2043	7,405,000
2044	7,700,000
2045†	8,010,000

† Final Maturity.

Upon an optional redemption of a portion of any term Series 2015C Bond, the District shall provide the Trustee with a revised schedule of the foregoing Mandatory Sinking Account Payments which shall provide for a reduction in the amount of one or more of the Mandatory Sinking Account Payments coming due on such term Series 2015C Bond after such redemption as specified by the District in such schedule to reflect such redeemed portion.

Notice of Redemption. Notice of redemption of the Series 2015 Bonds shall be given by the Trustee, not less than 20 nor more than 60 days prior to the redemption date, to DTC or, if the book-entry system as described in Appendix E has been discontinued, by first-class mail, to the respective Owners of any Series 2015 Bonds designated for redemption in the form and otherwise in accordance with the terms of the Indenture. Failure by any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

In the event of an optional redemption of Series 2015 Bonds, if the District shall not have deposited or otherwise made available to the Trustee the money required for the payment of the redemption price of the Series 2015 Bonds to be redeemed at the time of the mailing of notice of redemption, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefor with the Trustee.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of a Series of the Series 2015 Bonds, the maturities of such Series of the Series 2015 Bonds to be redeemed shall be specified by the District. In the case of partial redemption of less than all of a Series of the Series 2015 Bonds of any maturity, the Trustee will select the Series 2015 Bonds of such maturity to be redeemed from all Series 2015 Bonds of such Series of the respective maturity not previously called for redemption, in authorized denominations, by lot, in any manner which the Trustee in its sole discretion deems appropriate and fair.

Effect of Redemption. If notice of redemption is given as provided in the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2015 Bonds (or portions thereof) so called for redemption is held by the Trustee, then on the redemption date designated in such notice, the Series 2015 Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in the notice of redemption, together with interest accrued thereon to the date fixed for redemption, interest on such Series 2015 Bonds so called for redemption will cease to accrue, the Series 2015 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture and the owners of the Series 2015 Bonds (or portions thereof) will have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest.

SECURITY FOR THE SERIES 2015 BONDS

General

Authority for Issuance. The Series 2015 Bonds are authorized for issuance pursuant to the Municipal Utility District Act and laws of the State amendatory thereof or supplemental thereto, including the Revenue Bond Law of 1941, as made applicable by Article 6a of Chapter 6 of Division 6 of the Municipal Utility District Act, and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State (collectively, the “Act”), resolutions adopted by the District and the Indenture.

Amendments to the Indenture. The Sixteenth Supplemental Indenture includes a number of amendments to the Indenture in the manner and effective as of the date described under “AMENDMENTS TO THE INDENTURE.” See also APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Pledge of Subordinated Water Revenues

Pursuant to the Indenture, the District has irrevocably pledged to the payment of the principal or redemption price of and interest on the Water System Revenue Bonds, including the Series 2015 Bonds and any Parity Debt, all Subordinated Water Revenues (as hereinafter defined) and amounts held by the Trustee under the Indenture (except for amounts held in the Rebate Fund) subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

“Subordinated Water Revenues” is generally defined in the Indenture to mean, for any fiscal period, the sum of (a) all charges received for, and all other income and receipts derived by the District from, the operation of the Water System or arising from the Water System, together with income from the investment of any moneys in any fund or account established under the Senior Water Bond Resolution relating to the District’s Senior Water Bonds or under the Indenture (collectively, the “Water Revenues”) for such fiscal period, plus (b) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund established under the Senior Water Bond Resolution for treatment as Water Revenues for such fiscal period, less the sum of (c) all Water Operation and Maintenance Costs (as hereinafter defined) for such fiscal period and (d) the amounts, if any, withdrawn by the District from Water Revenues for such fiscal period for deposit in the Rate Stabilization Fund, and (e) all amounts required to be paid under the Senior Water Bond Resolution for principal, interest, reserve fund and any other debt service requirements on the Senior Water Bonds as the same become due and payable. **There are no Senior Water Bonds currently outstanding and the District has covenanted pursuant to the Eighteenth Supplemental Indenture that it will not issue any Senior Water Bonds in the future.** See “– Outstanding Water System Revenue Obligations – *No Senior Water Bonds*” below.

The District may deposit into, or withdraw amounts from time to time held in, the Rate Stabilization Fund within 120 days after the end of the applicable Fiscal Year. Amounts deposited into the Rate Stabilization Fund shall be deducted from Water Revenues for such Fiscal Year. Amounts withdrawn from the Rate Stabilization Fund shall be included in Water Revenues for such Fiscal Year and may be applied for any purposes for which Water Revenues generally are available. All interest and earnings upon deposits in the Rate Stabilization Fund will not be held therein, but will be treated and accounted for as Water Revenues. The amount on deposit in the Rate Stabilization Fund as of April 1, 2015 was $85,000,000.

"Water Operation and Maintenance Costs" is generally defined in the Indenture to mean the reasonable and necessary costs of maintaining and operating the Water System, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, and excluding all costs paid from the proceeds of taxes received by the District.

"Parity Debt" means any indebtedness, installment sale obligation, lease obligation or other obligation of the District for borrowed money or interest rate swap agreement having an equal lien and charge upon the Subordinated Water Revenues and therefore payable on a parity with the Water System Revenue Bonds (whether or not any Water System Revenue Bonds are Outstanding).

The Series 2015 Bonds are not payable from or secured by the revenues of the Wastewater System of the District.

The Series 2015 Bonds are special obligations of the District, payable solely from and secured by a pledge of Subordinated Water Revenues. Neither the full faith and credit nor the taxing power of the District is pledged to the payment of the Series 2015 Bonds or the interest thereon.

Allocation of Subordinated Water Revenues Under the Indenture

In accordance with the Indenture, all Subordinated Water Revenues, when and as received by the District, shall be deposited into a fund to be established and maintained by the District designated as the "Revenue Fund." So long as any Water System Revenue Bonds are Outstanding, the District will transfer the moneys in the Revenue Fund into the following respective funds (established, maintained and held by the Trustee in trust for the benefit of the Owners of the Water System Revenue Bonds) in the following order of priority; provided, that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which deposits shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Water System Revenue Bonds and such Parity Debt):

Interest Fund. The District will transfer to the Trustee to be set aside in the Interest Fund on or before the Business Day prior to each interest payment date an amount equal to the interest becoming due and payable on the Outstanding Water System Revenue Bonds (excluding any interest for which there are monies on deposit in the Interest Fund from the proceeds of any Series of Water System Revenue Bonds or other source to pay such interest).

Principal Fund; Sinking Accounts. The District shall transfer to the Trustee to be set aside in the Principal Fund on or before the Business Day prior to each principal or sinking account payment date an amount equal to the amount of Bond Obligation (as defined in the Indenture) plus the Mandatory

Sinking Account Payments becoming due and payable on such date. All Mandatory Sinking Account Payments shall be made without priority of any payment into any one such sinking account over any other such payment.

Bond Reserve Funds. Upon the occurrence of any deficiency in any bond reserve fund established pursuant to the Indenture for any Series of Water System Revenue Bonds, the District shall transfer to the Trustee and the Trustee shall set aside in such bond reserve fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from such bond reserve fund until there is on deposit in such bond reserve fund an amount equal to the respective reserve requirement for such bond reserve fund. There is no bond reserve fund being established in connection with the Series 2015 Bonds and amounts on deposit in any bond reserve fund for any other Series of Water System Revenue Bonds are not available for the payment of, and do not in any manner secure, the Series 2015 Bonds.

The requirements of each such fund (including the making up of any deficiencies in any such fund resulting from a lack of Subordinated Water Revenues sufficient to make any earlier required deposit) at the time of deposit is to be satisfied before any deposit is made to any other fund subsequent in priority. The Indenture provides that any Subordinated Water Revenues remaining in the Revenue Fund after the foregoing transfers, except as otherwise provided in a Supplemental Indenture, shall be held free and clear of the Indenture by the District. The District may use and apply such Subordinated Water Revenues for any lawful purpose of the District, including the redemption of Water System Revenue Bonds upon the terms and conditions set forth in a Supplemental Indenture relating to such Water System Revenue Bonds and the purchase of Water System Revenue Bonds as and when and at such prices as it may determine.

Under the Indenture the District may enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Water System Revenue Bonds or any portion thereof and the amounts received by the District or the Trustee, if any, pursuant to such an interest rate swap agreement may be applied to the deposits required under the Indenture. If the District so designates, amounts payable under the interest rate swap agreement shall be secured by Subordinated Water Revenues and other assets pledged under the Indenture to the Water System Revenue Bonds on a parity basis therewith.

For further information regarding the allocation of Subordinated Water Revenues with respect to the Water System Revenue Bonds, see APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of Subordinated Water Revenues."

Investment of Moneys in Funds and Accounts Under the Indenture

All moneys held in any of the funds and accounts held by the Trustee and established pursuant to the Indenture shall be invested, as directed by the District, solely in Investment Securities (see APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions" for the definition of Investment Securities under the Indenture). If and to the extent the Trustee does not receive investment instructions from the District with respect to the moneys in such funds and accounts, such moneys shall be invested in a cash sweep or similar account arrangement of or available to the Trustee described in clause (xi) of the definition of Investment Securities.

Unless otherwise provided in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account other than the Rebate Fund shall be transferred to the Revenue Fund when received; provided, however, that an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

Rate Covenant

The District has covenanted under the Indenture that it will, at all times while any of the Water System Revenue Bonds remain Outstanding, fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Water System so as to yield Water Revenues in each Fiscal Year sufficient so that the Subordinated Water Revenues for such year shall be at least equal to 1.1 times the amount of Debt Service on all Water System Revenue Bonds and Parity Debt for such Fiscal Year. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions" for the definition of Debt Service under the Indenture. See also "AMENDMENTS TO THE INDENTURE."

Outstanding Water System Revenue Obligations

No Senior Water Bonds. Pursuant to Resolution No. 30050 adopted by the Board of Directors of the District on January 26, 1982 (as amended and supplemented, the "Senior Water Bond Resolution"), the District authorized the issuance, from time to time, of bonds of the District designated as "East Bay Municipal Utility District Water System Revenue Bonds" (the "Senior Water Bonds") and secured by a pledge of, and first lien on, the Net Revenues (as defined in the Senior Water Bond Resolution) of the District's Water System, generally being all of the Water Revenues (adjusted for deposits to and withdrawals from the Rate Stabilization Fund) after payment of Water Operation and Maintenance Costs thereof, all on the terms and conditions set forth in the Senior Water Bond Resolution. At the time of the initial execution and delivery of the Indenture in 1990, the Indenture did not preclude the District from issuing additional Senior Water Bonds pursuant to the Senior Water Bond Resolution. The District last issued Senior Water Bonds in 1986 and all outstanding Senior Water Bonds were retired in 1997. **There are currently no Senior Water Bonds outstanding. Pursuant to the Eighteenth Supplemental Indenture, the District has covenanted and agreed that it will not issue any Senior Water Bonds in the future pursuant to the Senior Water Bond Resolution.**

Outstanding Water System Revenue Bonds and Parity Debt. As of April 1, 2015, the District had Outstanding $2,169,355,000 aggregate principal amount of Water System Revenue Bonds (collectively, the "Outstanding Water System Revenue Bonds"), issued under and pursuant to the Indenture. The District's Outstanding Water System Revenue Bonds include fixed rate bonds and variable rate demand obligations which are currently in a weekly mode during which the per annum interest rate thereon is re-set weekly (the "Weekly Rate Bonds"). See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Outstanding Debt."

Approximately $105,250,000 principal amount of the District's variable rate Outstanding Water System Revenue Bonds are Weekly Rate Bonds. The Weekly Rate Bonds are subject to tender prior to maturity, including optional tender by the owners thereof upon seven days' notice. The District has entered into liquidity agreements with various banks to provide liquidity facilities for such variable rate Outstanding Water System Revenue Bonds that are Weekly Rate Bonds. The obligation of the District to repay any draws on such liquidity facilities is payable on a parity with the Outstanding Water System Revenue Bonds to the extent such repayment is not thereafter provided from remarketing proceeds of the related Outstanding Water System Revenue Bonds. Unreimbursed draws under liquidity facilities supporting such variable rate Outstanding Water System Revenue Bonds bear interest at a maximum rate that may be substantially in excess of the current interest rate on the related variable rate Outstanding Water System Revenue Bonds. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity facilities may result in the acceleration of the scheduled payment of principal on such variable rate Outstanding Water System Revenue Bonds. See Table 15 in APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Variable Rate and Swap Obligations" for additional information regarding the liquidity providers, the expiration date of the related liquidity facilities and the principal amount of Outstanding Water System Revenue Bonds covered under each such liquidity facility.

In addition to the Outstanding Water System Revenue Bonds, the District has outstanding loans with the State of California's State Water Resources Control Board and the Department of Water Resources and certain interest rate swap agreements the scheduled payments under which are payable from Subordinated Water Revenues on a parity with the Water System Revenue Bonds, as described below. See "–*Interest Rate Swap Agreements*" and "– *Parity State Loans*" below. The Outstanding Water System Revenue Bonds, together with any additional Water System Revenue Bonds issued under the Indenture (including the Series 2015 Bonds), and any Parity Debt heretofore or hereafter issued or incurred in accordance with the Indenture, are on a parity as to the pledge of and lien on Subordinated Water Revenues.

Interest Rate Swap Agreements. As of April 1, 2015, the District had outstanding interest rate swap agreements relating to Outstanding variable rate Water System Revenue Bonds (hereinafter collectively, the "Water Interest Rate Swap Agreements") with various counterparties (collectively, the "Swap Providers") in the aggregate notional amount of $105,250,000. The Water Interest Rate Swap Agreements were entered into to hedge the interest rate exposure on the related variable rate Water System Revenue Bonds by synthetically converting the variable interest rate payments that the District is obligated to make with respect to the related Water System Revenue Bonds into substantially fixed payments. In general, the terms of the Water Interest Rate Swap Agreements provide that, on a same-day net–payment basis determined by reference to a notional amount, the District will pay a fixed interest rate on the respective notional amount. In return, the applicable Swap Provider will pay a variable rate of interest (determined as a specified percentage of an interest rate index) on a like notional amount.

There is no guarantee that the floating rate payable to the District pursuant to each of the Water Interest Rate Swap Agreements will match the variable interest rate on the associated Water System Revenue Bonds to which the respective Water Interest Rate Swap Agreement relates at all times or at any time. Since the respective effective dates of the Water Interest Rate Swap Agreements, the floating rates payable to the District pursuant to the Water Interest Rate Swap Agreements have generally not matched the variable interest rates on the associated Water System Revenue Bonds. To the extent that the Swap Providers are obligated to make a payment to the District under their respective Water Interest Rate Swap Agreement that is less than the interest due on the associated Water System Revenue Bonds to which such Water Interest Rate Swap Agreement relates, the District is obligated to pay such insufficiency from Subordinated Water Revenues.

The obligation of the District to make regularly scheduled payments to the Swap Providers under the respective Water Interest Rate Swap Agreements is on a parity with the District's obligation to make payments on the Water System Revenue Bonds, including the Series 2015 Bonds. Under certain circumstances, the Water Interest Rate Swap Agreements may be terminated and the District may be required to make a substantial termination payment to the respective Swap Providers. Pursuant to the Water Interest Rate Swap Agreements, any such termination payment owed by the District would be payable on a basis that is subordinate to the Series 2015 Bonds but prior to the District's Extendable Municipal Commercial Paper Notes (Water Series).

Pursuant to the terms of certain of the Water Interest Rate Swap Agreements, the District is required to post collateral in favor of a counterparty to the extent that the District's total exposure for termination payments to that counterparty exceeds the threshold amount specified in the applicable Water Interest Rate Swap Agreement.

See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Variable Rate and Swap Obligations" for additional information regarding the Water Interest Rate Swap Agreements, including the District's collateral posting obligations in connection therewith.

The District may, from time-to-time, enter into additional interest rate swap agreements with security and payment provisions as determined by the District and subject to any conditions contained in the Indenture.

Parity State Loans. The District participates in the California State Water Resources Control Board (the "SWRCB") and the Safe Drinking Water State Revolving Fund low interest rate loan programs, which were established to provide below-market rate financing for qualified water resource projects in the State. Under these programs, as of April 1, 2015, the District had outstanding loan contracts with the State (the "State Loans") in the aggregate outstanding principal amount of approximately $15,052,108. All such State Loans were entered into subsequent to January 1993 and provide that such State Loans shall be either senior to or on a parity with all future debt of the District. For purposes of calculating debt service coverage ratios, the District has treated all such State Loans as Parity Debt. Any future State Loans received by the District would likely constitute Parity Debt under the Indenture.

Subordinate Commercial Paper. The District has maintained a commercial paper note program since 1988. In March 2009, the District implemented an extendable municipal commercial paper note program for the purpose of retiring its then existing commercial paper note program. As of April 1, 2015, the District had outstanding $359,800,000 aggregate principal amount of tax-exempt Extendable Municipal Commercial Paper Notes (Water Series). See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Outstanding Debt" for a description of the District's extendable municipal commercial paper note program.

Issuance of Additional Water System Revenue Bonds and Parity Debt; Junior and Subordinate Obligations

The Indenture provides conditions under which additional Series of Water System Revenue Bonds or other Parity Debt payable from Subordinated Water Revenues may be issued on a parity with the Outstanding Water System Revenue Bonds. Among other conditions, the Indenture requires that the District shall have placed on file with the Trustee a certificate of the District certifying that the sum of: (1) the Subordinated Water Revenues for any period of 12 consecutive months during the 18 months immediately preceding the date on which such additional Water System Revenue Bonds or Parity Debt will become Outstanding; plus (2) 90% of the amount by which the District projects Subordinated Water Revenues for such period of 12 months would have been increased had increases in rates, fees and charges during such period of 12 months been in effect throughout such period of 12 months; plus (3) 75% of the amount by which the District projects Subordinated Water Revenues will increase during the period of 12 months commencing on the date of issuance of such additional Series of Water System Revenue Bonds due to improvements to the Water System under construction (financed from any source) or to be financed with the proceeds of such additional Series of Water System Revenue Bonds, shall have been at least equal to 1.1 times the amount of Maximum Annual Debt Service on all Water System Revenue Bonds and Parity Debt then Outstanding and the additional Water System Revenue Bonds or

Parity Debt then proposed to be issued. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions."

Refunding Water System Revenue Bonds may be authorized and issued by the District without compliance with the provisions described above, subject to the terms and conditions of the Indenture, including the condition that Maximum Annual Debt Service on all Water System Revenue Bonds and Parity Debt outstanding following the issuance of such refunding Water System Revenue Bonds is less than or equal to Maximum Annual Debt Service on all Water System Revenue Bonds and Parity Debt outstanding prior to the issuance of such refunding Water System Revenue Bonds. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Refunding Bonds."

Pursuant to the Indenture, the District may incur obligations which are junior and subordinate to the payment of the principal, redemption price, interest and reserve fund requirements for the Water System Revenue Bonds and all Parity Debt and which subordinated obligations are payable as to principal, redemption price, interest and reserve fund requirements, if any, only out of Subordinated Water Revenues after the prior payment of all amounts then required to be paid under the Indenture from Subordinated Water Revenues for principal, redemption price, interest and reserve fund requirements for the Water System Revenue Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture or the instrument authorizing such Parity Debt, as applicable.

Limitations on Remedies

The ability of the District to comply with its covenants under the Indenture and to generate Water Revenues sufficient to pay the principal of and interest on the Series 2015 Bonds may be adversely affected by actions and events outside of the control of the District. Furthermore, any remedies available to the owners of the Series 2015 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition, enforceability of the rights and remedies of the owners of the Series 2015 Bonds, and the obligations incurred by the District under the Series 2015 Bonds and the Indenture, may become subject to the following: the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2015 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

AMENDMENTS TO THE INDENTURE

The Sixteenth Supplemental Indenture includes a number of amendments to the Indenture (as described below) which will become effective upon the earlier to occur of: (i) the first date upon which all of the Outstanding Series 2001 Bonds, Series 2002 Bonds, Series 2003 Bonds, Series 2005A Bonds, Series 2007A Bonds, Series 2007B Bonds, Series 2008A Bonds, Series 2008B Bonds and Series 2009A Bonds have been paid or discharged in accordance with their terms and shall no longer be Outstanding for purposes of the Indenture (all of which Series 2001 Bonds, Series 2002 Bonds, Series 2003 Bonds, Series 2005A Bonds, Series 2007A Bonds, Series 2008B Bonds and Series 2009A Bonds have been retired) and all obligations of the District under any interest rate swap agreements and any standby bond purchase agreements or other liquidity facilities relating thereto shall have been discharged and satisfied, or (ii) the first date upon which the District has filed with the Trustee the written consents to the amendments to the Indenture set forth in the Sixteenth Supplemental Indenture of (a) the Owners of a majority in aggregate principal amount of Bond Obligation then Outstanding and (b) the providers of any interest rate swap agreements and any standby bond purchase agreements, other liquidity facilities or other agreements relating to such Bond Obligation then Outstanding to the extent the consent thereof shall be required by the terms of such interest rate swap agreements and any standby bond purchase agreements, other liquidity facilities or other agreements.

As modified, the term "Annual Debt Service" shall mean, for any Fiscal Year, the aggregate amount of principal and interest on all Water Bonds, Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

As modified, the term "Assumed Debt Service" shall mean for any Fiscal Year, the aggregate amount of principal and interest which would be payable on all Water Bonds, Bonds and Parity Debt if each Excluded Principal Payment were amortized for a period specified by the District (but no longer than thirty (30) years from the date of the issuance of the Water Bonds, Bonds or Parity Debt to which such Excluded Principal Payment relates) on a substantially level debt service basis or other amortization basis provided by the District, calculated based on a fixed interest rate equal to the rate at which the District could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee, who may rely conclusively on such certificate, within thirty (30) days of the date of calculation.

As modified, the term "Debt Service" shall mean the amount of principal and interest becoming due and payable on all Water Bonds, Bonds and Parity Debt provided, however, that for the purpose of computing Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Water Bonds, Bonds or Parity Debt are Variable Rate Indebtedness, the interest rate thereon for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Municipal Swap Index for the five (5) years preceding such date of calculation (provided, however, that if such index is no longer published, the interest rate on such Water Bonds, Bonds or Parity Debt shall be calculated based upon such similar index as the District shall designate in writing to the Trustee) (the "Assumed SIFMA-based Rate");

(c) principal and interest payments on Water Bonds, Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or another fiduciary in escrow or trust specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Water Bonds, Bonds or Parity Debt held by the Trustee or another fiduciary as capitalized interest;

(d) in determining the principal amount, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Water Bonds, Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Indebtedness;

(e) if any interest rate swap agreement is in effect with respect to, and the regularly scheduled payments thereunder are payable on a parity with, the Water Bonds, Bonds or Parity Debt to which it relates, interest deemed to be payable on any such Water Bonds, Bonds or Parity Debt with respect to which an interest rate swap agreement is in effect shall be based on the net economic effect expected by the District to be produced by the terms of such Water Bonds, Bonds or Parity Debt and such interest rate swap agreement, including but not limited to the effects that (i) such Water Bonds, Bonds or Parity Debt would, but for such interest rate swap agreement, be treated as Variable Rate Indebtedness instead shall be treated as Water Bonds, Bonds or Parity Debt bearing interest at a fixed interest rate, and (ii) such Water Bonds, Bonds or Parity Debt would, but for such interest rate swap agreement, be treated as Water Bonds, Bonds or Parity Debt bearing interest at a fixed interest rate instead shall be treated as Variable Rate Indebtedness; and accordingly, the amount of interest deemed to be payable on any Water Bonds, Bonds or Parity Debt with respect to which an interest rate swap agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Water Bonds, Bonds or Parity Debt plus the amounts payable by the District under such interest rate swap agreement, minus the amounts receivable by the District under such interest rate swap agreement, and for the purpose of calculating as nearly as practicable such amounts, the following assumptions shall be made:

(1) if an interest rate swap agreement has been entered into by the District with respect to Water Bonds, Bonds or Parity Debt providing for the payment of a net variable interest rate under such interest rate swap agreement with respect to such Water Bonds, Bonds or Parity Debt by the District, the interest rate on such Water Bonds, Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the interest rate swap agreement is in effect) to be equal to the sum of (A) the fixed rate or rates stated in such Water Bonds, Bonds or Parity Debt minus (B) the fixed rate paid by the counterparty of such interest rate swap agreement to the District, plus (C) the lesser of (x) the interest rate cap, if any, provided by a counterparty with respect to such interest rate swap agreement (but only during the period that such interest rate cap is in effect) and (y) the applicable variable interest rate calculated in accordance with paragraph (b) above; and

(2) if an interest rate swap agreement has been entered into by the District with respect to Water Bonds, Bonds or Parity Debt providing for the payment of a fixed rate of interest to maturity or for a specific term under such interest rate swap agreement with respect to such Water Bonds, Bonds or Parity Debt by the District, the interest on such Water Bonds, Bonds or Parity Debt shall be included in the calculation of payments (but only during the period the interest rate swap agreement is in effect) by including for each period of calculation an amount equal to the amount of interest payable at the fixed interest rate pursuant to such interest rate swap agreement.

Notwithstanding any other paragraph of this definition of Debt Service, except as set forth in this paragraph (e), no amounts payable under any interest rate swap agreement (including termination payments) shall be included in the calculation of Debt Service;

(f) if any Water Bonds, Bonds or Parity Debt are Variable Rate Indebtedness subject to tender for purchase and funds for the purchase price may be provided by a letter of credit, line of credit, revolving credit agreement, standby bond purchase agreement or other liquidity facility which, if drawn upon, could create a repayment obligation which has a lien on Subordinated Water Revenues on parity with the lien of the Water Bonds, Bonds or Parity Debt, then for purposes of determining the amounts of principal due in any Fiscal Year on such Water Bonds, Bonds or Parity Debt, (i) the options or obligations of the owners of such Water Bonds, Bonds or Parity Debt to tender the same for purchase or payment prior to the stated maturity or maturities shall be ignored and not treated as a principal maturity; and (ii) any repayment obligations of the District to the provider of such letter of credit, line of credit, revolving credit agreement, standby bond purchase agreement or other liquidity facility, other than its obligations on such Water Bonds, Bonds or Parity Debt, shall be treated as Excluded Principal Payments; and

(g) if interest on any Water Bonds, Bonds or Parity Debt is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code, or any future similar program, then interest payments with respect to such Water Bonds, Bonds or Parity Debt shall be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

As modified, the term "Maximum Annual Debt Service" shall mean the greatest amount of principal and interest becoming due and payable on all Water Bonds, Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

The term "SIFMA Municipal Swap Index" means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or by any Person acting in cooperation with or under the sponsorship of SIFMA and effective from such date.

As modified, the term "Water Revenues" shall mean all charges received for, and all other income and receipts derived by the District from, the operation of the Water System, or arising from the Water System, together with income from the investment of any moneys in any fund or account established under the Senior Water Bond Resolution or the Indenture; provided, however, there shall be excluded therefrom any amounts reimbursed to the District by the United States of America pursuant to Section 54AA of the Code or any future similar program.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Tax Limitations – Proposition 13

Article XIIIA of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA 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 XIIIA 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.

Section 2 of Article XIIIA 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 XIIIA 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 XIIIA, 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. See also APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Property Tax Revenues."

Since its adoption, Article XIIIA 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 XIIIA 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 outstanding general obligation bonds and unissued bonds authorized prior to July 1, 1978. Since Fiscal Year 1978-79 tax revenues for the Water System have consisted exclusively of the District's allocated share of the 1% county levy.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

For a description of the property tax collection procedure and certain statistical information concerning tax collections and delinquencies, see APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Property Tax Revenues."

Spending Limitations

At the statewide special election of November 6, 1979, the voters approved an initiative entitled "Limitation of Government Appropriations" which added Article XIIIB to the California Constitution. Under Article XIIIB, State and local governmental entities have an annual "appropriations limit" which limits the ability to spend certain moneys 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 XIIIB does not affect the appropriation of moneys 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 XIIIB 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 XIIIA, (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 XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIID. Article XIIID 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 Water System.

Article XIIID 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 XIIID 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 XIIID 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 notice must be mailed to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In Opinion No. 97-302, dated July 14, 1997, the California Attorney General concluded that Article XIIID was inapplicable to the District's tiered water rate structure. The opinion makes a distinction between a water rate structure based upon the amount of water used, which is not subject to

Article XIIID, and fees or assessments that are levied against a parcel of land on a per-parcel or per-acre basis, which are subject to Article XIIID. The Attorney General concluded that fees for water that are based upon metered amounts used are not imposed as an incident of property ownership and do not have a direct relationship to property ownership and, consequently, such fees would not be governed by Article XIIID. On December 1, 2000, the Court of Appeal for the Second Appellate District of the State of California published an opinion regarding Proposition 218's definition of property-related fees that is consistent with Opinion No. 97-302. In *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the Court of Appeal held that fees for water that are based upon metered amounts used are charges for a commodity and not related to property ownership and, consequently, Article XIIID does not apply to such fees. However, in a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409, upheld a Court of Appeals decision that water connection fees were not property-related fees or charges subject to Article XIIID, while at the same time stating in dicta that fees for ongoing water service through an existing connection were property-related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the California Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal published *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal.App.4th 914 (5th Dist. 2005), holding that an "in lieu" fee which is payable to the City of Fresno's general fund from its water utility and which is included in the city's water rate structure was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIIID. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. In dicta, the California Supreme Court repeated its previous dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIIID. Prior to 2007, the District did not comply with the notice, hearing and protest procedures in Article XIII with respect to water rate increases based on the decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles* and Opinion No. 97-302. However, since the Fiscal Year 2008 rate increases, the District has followed the notice, hearing and protest procedures in Article XIIID in connection with increases in its fees and charges for ongoing water service and plans to follow such notice, hearing and protest procedures in connection with future such rate increases. In addition to the procedural requirements of Article XIIID, under Article XIIID all property-related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

(1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.

(2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIIID (relating to assessments).

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

On April 20, 2015, the California Fourth District Court of Appeal issued a decision in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* (Case No. G048969), holding that the City of San Juan Capistrano's tiered water rates (or inclining block rates) that were in effect from February 1, 2010 through June 30, 2014 violated the requirement of Proposition 218 that a fee or charge for property-related services, such as water delivery, must be proportional to the cost of providing service. In interpreting Proposition 218, the Court of Appeal emphasized that tiered water rates, or inclining block rates, that go up progressively in relation to usage are compatible with Proposition 218. However, the court concluded that Article XIID requires that each tier must reflect the actual costs of service for property owners falling in each of the tiers. The court further concluded that the city had the burden of proof to demonstrate compliance with Proposition 218 and that the city failed to meet its burden of proof in demonstrating that its tiered water rates corresponded to the actual costs of providing service to each tier. The Court of Appeal rejected the city's argument that the rates for its highest tiers constituted a penalty or a fine, which are excluded from Proposition 218. The court determined that deeming such rates to be penalties or fines would improperly circumvent Proposition 218 in that all an agency would need to do is establish a low base rate for service and then impose penalty rates for usage in excess of the base rate that have no relation to the cost of providing service at the penalty levels. On May 19, 2015, the City of San Juan Capistrano announced that the city and the San Juan Capistrano Taxpayers Association, Inc. had reached a settlement, under the terms of which the city agreed that it would not seek review by the California Supreme Court of the Appellate Court decision. In 2014, the city adopted a new water rate structure, including tiered rates with flatter tiers relative to its prior tiered water structure. The tiered water rates adopted by the city in 2014 were not the subject of the lawsuit. Similar water rate challenges under Proposition 218 have been reported to have been filed against other public agencies in California. The District is unable to predict the outcome of any such ongoing litigation or any future litigation under Proposition 218 that may follow.

On April 28, 2015, the District received notice of a claim challenging its water rates. The claim alleges that the District's tiered water rates for single-family residential customers violate the substantive requirement of Proposition 218 that such rates must be proportional to the cost of providing service. The claimant alleges the tiered rates are intended to force water conservation, are not based on the cost of service, and are essentially penalties and not fees for service. The filing of a claim with a public agency is a required procedural step prior to the initiation of a lawsuit against a public agency. Under California law, the District must act to accept or reject the claim within 45 days after the claim has been presented or the claim will be deemed to have been rejected. Following a rejection of the claim, the claimant may initiate a lawsuit challenging the District's water rates.

The District has been following the San Juan Capistrano case as it made its way through the courts. It is District policy to conduct periodic cost of service studies and as part of the most recent study, completed in April 2015, the District focused efforts on developing a strong and clear administrative record for its rates and charges. The District believes that its established and proposed rates for water service comply with the substantive standards of Article XIIID and do not exceed the proportional cost of providing water service at each given level of usage. However, due to the uncertainties of evolving case law and potential future judicial interpretations of Proposition 218, the District is unable to predict at this time whether Proposition 218 could be interpreted, for example, to further limit fees and charges for water services and/or to require stricter standards for the allocation of costs among customers and customer classes. See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – Rates and Charges."

Article XIIID further provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development. The District believes that Proposition 218 does not apply to the District's System Capacity Charge, although there can be no assurance that a court would not determine otherwise. See APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – WATER SYSTEM FINANCES – System Capacity Charge."

Article XIIIC. Article XIIIC 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 XIIIC does not define the terms "local tax," "assessment," "fee" or "charge." On July 24, 2006, the California Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIIC applied to rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The District and its General Counsel do not believe that Article XIIIC grants to the voters within the District the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the District. No assurance can be given that the voters of the District will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the District's water service fees and charges, which are the source of Subordinated Water Revenues pledged to the payment of debt service on the Series 2015 Bonds.

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 XIIIA and XIIIC. Proposition 26 imposes a majority voter approval requirement on local governments such as the District with respect to certain fees and charges for general purposes, and a two-thirds voter approval requirement with respect to certain fees and charges for special purposes, unless the fees and charges are expressly excluded. Proposition 26 was designed to supplement tax limitations imposed by the voters in California Constitution Articles XIIIA, XIIIC and XIIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures. 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 local government of providing the service or product. Although the District believes that its fees and charges meet the criteria of the exclusion described above, it is possible that Proposition 26 could be interpreted, for example, to further limit fees and charges for utility services and/or to require stricter standards for the allocation of costs among customer classes. The District is unable to predict how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

Other Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID 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.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement, dated the date of delivery of the Series 2015 Bonds, by and between the District and the Trustee, as dissemination agent, the District will covenant and agree for the benefit of the holders and beneficial owners of the Series 2015 Bonds to provide in an Annual Report 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 is June 30 of each year), commencing with the Annual Report for Fiscal Year 2014-15, 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 Trustee on behalf of the District with the Municipal Securities Rulemaking Board through EMMA. 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 F – "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. As a technical matter, 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 Annual Report filings prior to its Annual Report for Fiscal Year 2012. The information contained in the 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. 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's Annual Report for Fiscal Year 2014 was timely filed on November 26, 2014. The District believes it has established processes to ensure it will continue to comply in all material respects with its continuing disclosure undertakings in the future.

LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the District in the issuance and delivery of, or in any way contesting or affecting the validity of, the Series 2015 Bonds. There is no litigation known to be 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.

At any given time, including the present, there are certain other claims and lawsuits against the District that arise in the normal course of operations of the Water System. Such matters could, if determined adversely to the District, affect expenditures by the District, and in some cases, Water System Revenues. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218 – *Article XIIID*" for information regarding a claim recently submitted to the District relating to the District's tiered water rates for single-family residential customers. In the view of the District's management and General Counsel, there is no litigation, present or pending, which will individually or in the aggregate materially impair the District's ability to service its indebtedness or which will have a material adverse effect on the business operations of the District. See also APPENDIX A – "THE EAST BAY MUNICIPAL UTILITY DISTRICT (THE WATER SYSTEM) – Water Rights and Related Proceedings – *Mokelumne River Rights*" for a discussion of certain administrative proceedings relating to the District's water rights.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), Fitch Ratings, Inc. ("Fitch") and Moody's Investors Service, Inc. ("Moody's") have assigned the Series 2015 Bonds the ratings of "AAA," "AA+" and "Aa1," respectively. No application has been made to any other rating agency for the purpose of obtaining any additional rating on the Series 2015 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 Series 2015 Bonds.

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 Series 2015 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. Special Tax Counsel is of the further opinion that interest on the Series 2015 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.

Series 2015 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 Series 2015 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2015 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 Series 2015 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2015 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 Series 2015 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2015 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 Series 2015 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2015 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 Series 2015 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, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Series 2015 Bonds to some extent for high-income individuals. 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 Series 2015 Bonds. Prospective purchasers of the Series 2015 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 Series 2015 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 Series 2015 Bonds ends with the issuance of the Series 2015 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 Series 2015 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 Series 2015 Bonds for audit, or the course or result of such audit, or an audit of Series 2015 Bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2015 Bonds, and may cause the District or the beneficial owners to incur significant expense.

PURCHASE AND REOFFERING

Wells Fargo Bank, National Association (the "Initial Purchaser") purchased the Series 2015B Bonds from the District at a competitive sale at a purchase price of $80,193,818.35, representing the $74,335,000.00 aggregate principal amount of the Series 2015B Bonds, plus original issue premium of $6,504,789.50, less an Initial Purchaser's discount of $645,971.15.

The Initial Purchaser purchased the Series 2015C Bonds from the District at a competitive sale at a purchase price of $119,522,854.32, representing the $110,715,000.00 aggregate principal amount of the Series 2015C Bonds, plus original issue premium of $9,545,360.15, less an Initial Purchaser's discount of $737,505.83.

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

All legal matters incident to the offering of the Series 2015 Bonds are subject to the approval of legality by Norton Rose Fulbright US LLP, Los Angeles, California, 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 Series 2015 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 Series 2015 Bonds are included as APPENDIX D to this Official Statement.

FINANCIAL ADVISOR

The District has retained Montague DeRose and Associates, LLC, Walnut Creek, California, as financial advisor (the "Financial Advisor") in connection with the issuance and delivery of the Series 2015 Bonds. The Financial Advisor is not obligated to undertake, and has 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 B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013" to this Official Statement are the audited financial statements of the District for the Fiscal Years ended June 30, 2014 and 2013. The District's financial statements for the Fiscal Years ended June 30, 2014 and 2013, included in APPENDIX B, 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 B 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 District 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 & Associates was retained to serve as independent accountants for the three additional fiscal years ending June 30, 2012 through 2014.

In November 2014, the District extended its contract with Maze & Associates to serve as independent accountants pursuant to the contract terms for an additional two-year period for the fiscal years ending June 30, 2015 and 2016.

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 Series 2015 Bonds. The delivery and distribution of this Official Statement have been duly authorized by the District.

EAST BAY MUNICIPAL UTILITY DISTRICT

By: /s/ Alexander R. Coate
General Manager

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APPENDIX A

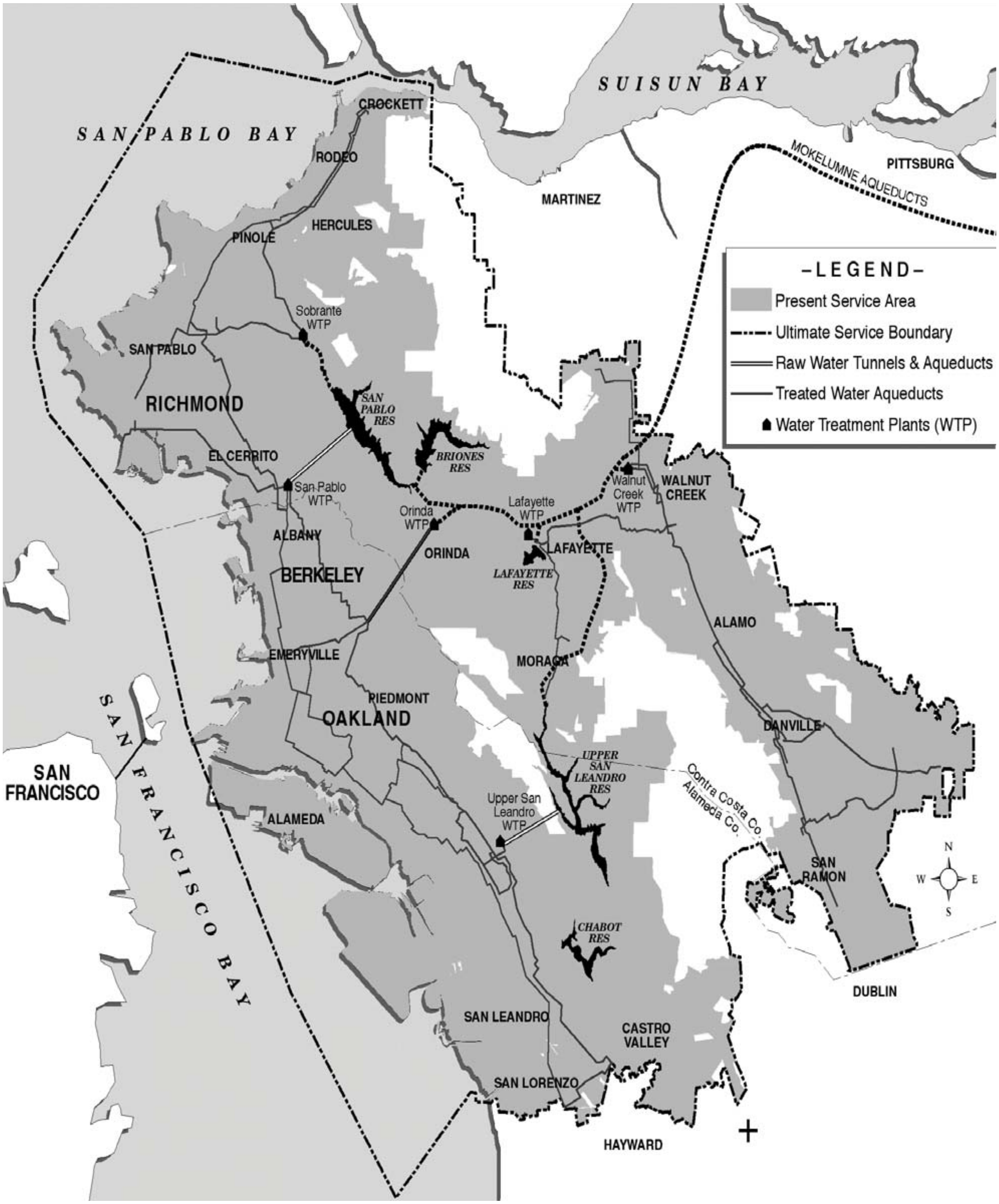
THE EAST BAY MUNICIPAL UTILITY DISTRICT

(THE WATER SYSTEM)

EBMUD

The East Bay Municipal Utility District occupies 332 square miles of the San Francisco – Oakland metropolitan region. The Water System serves approximately 1.4 million people, or approximately 53% of the population of Alameda and Contra Costa Counties.

EAST BAY MUNICIPAL UTILITY DISTRICT
WATER SYSTEM



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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 East Bay Municipal Utility District (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 an 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 of Directors (the "Board" or "District 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 over 10 years, each of the multi-term Board members has served one or more years as an officer of the Board 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:

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 is currently President of the Board. He also currently serves on the District's Retirement Board. Mr. Mellon represents the District on the governing board of the DSRSD/EBMUD Recycled Water Authority (DERWA) and on the Special District Association of Alameda County. Mr. Mellon is currently a consultant specializing in human resources and labor relations and has taught 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, 2018.

William B. Patterson has served on the Board since 1997 and represents Ward 6, which includes portions of Oakland, including East Oakland and the area south of Park Boulevard/5th Avenue to the San Leandro city boundary, in Alameda County. Mr. Patterson is currently Vice President of the Board. He represents the District on the boards for the Upper Mokelumne River Watershed Authority and the Freeport Regional Water Authority. Mr. Patterson 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. Mr. Patterson has Bachelor's and Master's degrees from San Francisco State University and a Social Services

Certificate from the University of California, Berkeley. His current term expires on December 31, 2016.

John A. Coleman has served on the Board since 1990 and represents Ward 2, which includes the Contra Costa County cities of Alamo, Lafayette and 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 and the DSRSD/EBMUD Recycled Water Authority (DERWA). Mr. Coleman currently serves as President of the Association of California Water Agencies (ACWA) Board of Directors, as a board member of Contra Costa Leadership Council and as a member of the San Francisco Bay Restoration Authority Advisory Committee. He is also a past president of the California Association of Sanitation Agencies, the immediate past Chair of ACWA's Federal Affairs Committee and a past Chair of ACWA's California Finance Water Task Force. Mr. Coleman is employed as the Chief Executive Officer 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, 2018.

Andy Katz has served on the Board since 2006 and represents Ward 4, which includes Albany, Berkeley, Emeryville and North Oakland in Alameda County, and El Cerrito and Kensington in Contra Costa County. Mr. Katz 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, 2018.

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.

Lesa 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 represents the District on the Special Districts Association of Contra Costa County and served on the 2014 ACWA Federal Affairs Committee. She is also serving as an elected member of the ACWA Region 5 board. 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 currently specializing in business, estate planning and probate. 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.

Marguerite Young was elected to the Board in 2014 and represents Ward 3, which includes the City of Piedmont and a portion of the City of Oakland in Alameda County, and the Contra Costa

County cities of Orinda and El Sobrante, the Town of Moraga, and portions of Pinole and Richmond. She also currently serves on the District's Retirement Board. Ms. Young is currently the Corporate Responsibility Director and Senior Policy Analyst for the Service Employees International Union (SEIU) Capital Stewardship Program. Ms. Young has been active in water quality and water policy issues for decades. She was co-chair of the CALFED Bay-Delta Program's Water Quality Committee, which instigated regional cooperation among water agencies to address drinking water quality issues related to Bay Delta water supplies. As California Director of Clean Water Action, her work also included service as an appointed member of California's Source Water Assessment Advisory Committee, the USEPA Federal Advisory Committee on the Multiple Disinfection By-product Rule, and California's Recycled Water Task Force. She co-founded the League of Conservation Voters-East Bay, is a former board member of Friends of the River, and co-chairs the Loma Prieta Paddlers Whitewater Slalom Races on Cache Creek. Ms. Young has a Bachelor of Science degree in Natural Resource Economics from the University of California, Berkeley. Her current term expires on December 31, 2018.

District Management

Alexander R. Coate joined the District in 1993 and was appointed General Manager in 2011. Mr. Coate has 30 years of experience with public agencies, engineering consulting firms, research and law. He has worked for the District for more than 21 years. 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. Mr. Coate is a member of the American Water Works Association and ACWA. He currently serves on the boards of the California Urban Water Agencies, the California WateReuse Association, the Western Urban Water Coalition and the Water Research Foundation. Mr. Coate has a Bachelor's degree in Neurobiology and a Master's degree in Civil Engineering, both from the University of California, Berkeley.

Craig S. Spencer joined the District in 1995 and was appointed General Counsel effective January 28, 2015, upon the retirement of the District's prior General Counsel. Previous to his current appointment, Mr. Spencer was Assistant General Counsel at the District and previously served as Chief Trial Attorney. Before joining the District, he was a partner at the law firm of Hassard Bonnington in San Francisco. Mr. Spencer has over 20 years of experience in public law. He has a Bachelor's degree in Economics from the University of California, Santa Barbara and a law degree from Southern Methodist University.

Sophia D. Skoda has been appointed to serve as Acting Director of Finance effective May 21, 2015 through August 12, 2015. Ms. Skoda joined the District in 2006 and also currently serves as the District's Treasury Manager, a position she has held since May 19, 2014. Prior to her appointment as Treasury Manager, Ms. Skoda served as a Senior Civil Engineer for the District, in which position she was responsible for managing all aspects of the District's resource recovery program. Before joining the District, Ms. Skoda spent nine years with consulting firms providing a range of financial consulting services to water and wastewater utility clients throughout California. She has a Bachelor of Science degree in Civil Engineering from Stanford University and a Master's degree in Civil Engineering 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.

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. Prior to joining the District, Ms. Lewis served in a variety of administrative and human resources positions for public sector agencies. Ms. Lewis received her Bachelor of Science degree in Business Administration from San Jose State University. She is a Certified Municipal Clerk and a member of the City Clerks Association of California and the International Institute of Municipal Clerks.

D. Scott Klein joined the District in 1992 and was appointed to Controller in 2003. He has over 31 years of experience in the accounting field. Prior to his appointment, he held progressively more responsible positions in the District's Accounting division. He also chairs the State Controller's Office of California 7-member Advisory Committee on Financial Reporting. Mr. Klein has a Bachelor of Science degree in Industrial Relations and a Bachelor of Arts degree in Accounting from San Francisco State University, a Master's degree in Finance from California State University Hayward, and holds an active accreditation as a Certified Management Accountant.

Dari Barzel joined the District as Principal Management Analyst (Debt Administrator) in 2013. She has over 25 years of experience in public finance, including over 13 years as a rating analyst in the Public Finance Department of Moody's Investors Service. Ms. Barzel has a Bachelor of Arts degree in English from Barnard College and a Master's degree in Business Administration (Finance concentration) from Columbia University. She is a past President of the California Society of Municipal Analysts and a past member of the Board of the National Federation of Municipal Analysts.

The position of Director of Finance of the District is currently under recruitment. As noted above, Sophia D. Skoda, Treasury Manager of the District, has been appointed Acting Director of Finance effective May 21, 2015 through August 12, 2015. The District Controller is expected to serve as Acting

Director of Finance for the remainder of the interim period beginning August 13, 2015 until a successor Director of Finance is named.

Employees and Employee Relations

As of April 1, 2015, the District has 1,538 regular (full-time equivalent) employees in the Water System and 250 regular (full-time equivalent) employees in the Wastewater System.

The District has four unions representing approximately 1,642 workers out of a total full-time equivalent workforce of 1,788 employees: Local 2019 of the American Federation of State, County and Municipal Employees ("AFSCME") represents white collar workers including professionals; Local 444 of AFSCME represents blue collar workers; Local 21, International Federation of Professional and Technical Engineers represents supervisory employees; and Local 39, International Union of Operating Engineers represents water treatment/distribution workers.

Locals 2019, 444, 21 and 39 are each operating under a Memorandum of Understanding (collectively, "MOUs"), approved by the District Board in 2013. Each of the current MOUs expires on April 16, 2017. The MOUs are comprehensive in scope and provide for binding arbitration for the resolution of grievances. The District has not had a strike or work stoppage since 1985.

For a discussion of the District Employees' Retirement System, see "WATER SYSTEM FINANCES – Employees' Retirement System."

Service Area

Originally formed to include nine cities covering 92.6 square miles, the District has grown by more than 450 separate annexations to a present area of 332 square miles in 20 incorporated and 15 unincorporated communities in both Alameda and Contra Costa Counties. 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 approximately 20 miles east, beyond the Oakland-Berkeley hills, into Contra Costa County.

The District's Water System serves this entire area, reaching 53% of the combined population of Alameda County and Contra Costa County. Approximately two-thirds of the population within the District's service area resides in the cities of Alameda, Berkeley, Oakland, San Leandro, Richmond and Walnut Creek.

The land area between the present service area boundary and the ultimate service area boundary, approximately 69 square miles, includes some areas of potential development. However, a large part of this land area is parklands and other undeveloped lands that are not anticipated to be developed in the foreseeable future. Another 81 square miles within the ultimate service area boundary outside the District's present service area boundary is under the waters of the San Francisco and San Pablo Bays. The ultimate service area boundary is limited on the west and north by the shorelines of the San Francisco and San Pablo Bays. The ultimate service area boundary is limited on the south and northeast by adjoining water agencies which have sources of supply independent of the District. There is limited potential for new development at the southern end of the San Ramon Valley, now in the early stages of land use planning and environmental documentation, which is located just outside the ultimate service area boundary. The District's service area population, currently 1.4 million, is projected to grow by 2035 to a population of 1.75 million, with much of that growth expected to come from infill development within the urbanized parts of the service area.

The Municipal Utility District Act was amended in 1941 to enable formation of special districts for wastewater service provision. In 1944, voters elected to form the District's Special District No. 1 to treat wastewater released into the San Francisco Bay. 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 Oakland's border with San Leandro. Domestic, commercial and industrial wastewater is treated for the six participating cities of Alameda, Albany, Berkeley, Emeryville, Oakland and Piedmont, and for the Stege Sanitary District (which includes El Cerrito, Kensington and part of Richmond). Each of these entities operates a sewer collection system that discharges into the District's intercepting sewers. In addition to treating waste received from the participating agencies' sewer collection systems, the District accepts waste streams delivered in trucks. The wastes include domestic waste from septic tanks, fat, oil and grease from restaurants, and other high-organic food and drink wastes. The District's trucked-waste program continues to expand both in the scope of wastes accepted and in revenue generation. The District anaerobically digests the high-organic wastes with municipal solids to create renewable energy. This energy is used to power the wastewater treatment facility, with excess energy sold to the Port of Oakland under a power purchase agreement.

Taxation of the District

All property of the District within the District's boundaries generally is exempt from property taxation. District-owned land outside of the District's boundaries is taxable, but improvements constructed on that land by the District are not taxable. As a public agency, the District is exempt from the payment of State of California (the "State") income taxes and federal income taxes.

THE WATER SYSTEM

General

The District supplies water for major parts of Alameda and Contra Costa Counties. Approximately 1.4 million people are served by the District's Water System in an approximately 332 square-mile area extending from Crockett on the north, southward to and including San Lorenzo, encompassing the major cities of Oakland and Berkeley, and eastward from San Francisco Bay to Walnut Creek.

The District's Water System currently serves the incorporated communities of Alameda, Albany, Berkeley, Danville, El Cerrito, Emeryville, part of Hayward, Hercules, Lafayette, Moraga, Oakland, Orinda, Piedmont, Pinole, part of Pleasant Hill, Richmond, San Leandro, San Pablo, San Ramon, and part of Walnut Creek, and the unincorporated communities of Alamo, Ashland, Blackhawk, Castro Valley, Cherryland, Crockett, Diablo, El Sobrante, Fairview, Kensington, North Richmond, Olium, Rodeo, San Lorenzo and Selby.

Table 1 shows the population trends for the six largest cities in the District, Alameda and Contra Costa Counties and the State for the five years 2011 to 2015.

Table 1
SIX LARGEST DISTRICT CITIES
ALAMEDA, CONTRA COSTA COUNTIES AND CALIFORNIA
Population Trends[1]

	2011	2012	2013	2014	2015
Oakland	392,446	395,690	401,628	405,703	410,603
Berkeley	113,918	114,807	116,118	117,383	118,780
Richmond	104,388	104,639	105,530	106,388	107,346
San Leandro	85,354	86,029	86,981	87,661	88,441
Alameda	74,044	74,619	75,395	75,961	76,638
Walnut Creek	64,710	65,071	65,652	66,319	66,868
Total Six Cities	834,860	840,855	851,304	859,415	868,676
Alameda County	1,517,756	1,532,253	1,555,241	1,574,497	1,594,569
Contra Costa County	1,056,306	1,062,746	1,074,317	1,089,219	1,102,871
California	37,427,946	37,680,593	38,030,609	38,357,121	38,714,725

(1) As of January 1 of each year.
Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2011-2015, with 2010 Census Benchmark*. Sacramento, California, May 2015.

Water Supply

During wet and normal rainfall years, the District's water supply is obtained from three sources: the 627-square mile Mokelumne River watershed in the Sierra Nevada mountains, runoff from streams within the District, and recycled water produced at various locations in the service area. During drought times, the District has access to substantial additional supplies from the Sacramento River via the Freeport facilities and may also seek to secure additional supplemental water supply under contractual arrangements such as water transfers. The District can also utilize water stored within a local aquifer through its Bayside Groundwater Project. Each of these supply sources is more fully described below.

Mokelumne River Watershed. The District holds permits and licenses issued by the State Water Resources Control Board (the "SWRCB") which enable the District to utilize waters of the Mokelumne River as the primary source of the water supply for the District's service area. The average annual runoff of the Mokelumne River is about 745,000 acre-feet. (An acre-foot is the amount of water that will cover one acre to a depth of one foot and equals approximately 326,000 gallons, which represents the needs of two average families in and around the home for one year.) As described below under "– Water Rights and Related Proceedings," the District's water rights permit the total diversion of approximately 364,000 acre-feet per year from the Mokelumne River, subject to certain prior water rights. Annual water production in the District to serve its customers has not exceeded 252,000 acre-feet. Water production includes the total water produced at the District's water treatment plants and water moved through the distribution system that was delivered to customers, as well as water lost through leaks in the transmission system, water used in the treatment process, evaporation, water used for fighting fires and other miscellaneous causes.

Annual water production in the District since Fiscal Year 2005 is shown in Table 2.

Table 2
WATER PRODUCTION BY FISCAL YEAR[(1)]

Fiscal Year	*Annual Production (Acre-Feet)*	*Annual Production (Thousands of Ccf)*	*Annual Production (Million Gallons)*	*Average Production Per Day (Million Gallons per Day)*
2005	229,155	99,820	74,666	205
2006	236,866	103,179	77,174	211
2007	236,111	102,850	76,932	211
2008	230,363	100,346	75,059	205
2009	203,423	88,611	66,281	182
2010	195,158	85,011	63,588	174
2011	194,642	84,786	63,420	174
2012	200,220	87,216	65,242	178
2013	205,889	89,685	67,089	184
2014	209,467	91,244	68,255	184

(1) Water production includes water lost through leaks in the transmission system, used in the treatment process, evaporation, fighting fires and other miscellaneous causes, which approximates 10.0% of gross production.
Source: The District.

As reflected in the table above, water production in the last six fiscal years has been approximately 9-15% lower than Fiscal Year 2008 levels due to factors that include increased water conservation, reduced consumption during drought and post-drought periods and the effects of State and local economic conditions.

See also "– Water Supply Operations" below.

During the ten-year period from 2005 to 2014, the annual Mokelumne River runoff has ranged from a low of approximately 262,000 acre-feet in Water Year 2014 to a high of over 1.45 million acre-feet in Water Year 2006. (A Water Year begins on October 1 and ends on the following September 30). In 1977, the lowest year of record since records have been kept, the annual runoff from the Mokelumne River was 129,000 acre-feet. Faced with fluctuating runoff volumes and periodic drought conditions, the District has developed a comprehensive approach to ensuring a reliable water supply. The District's Water Supply Management Plan utilizes demand management and multiple supply options to meet long-term water needs. The plan is discussed under "– Water Supply Management Plan" below.

The Mokelumne River watershed also serves municipal, industrial and agricultural water needs in three Sierra Nevada foothill counties (Amador, Calaveras and San Joaquin), in addition to the municipal and industrial needs of the District's service area. The agencies and individual diverters on the Mokelumne River each operate and divert water under separate entitlements, permits and licenses, along with a number of contracts and agreements among various agencies and under certain court decrees.

Entities with water rights in the Mokelumne River watershed senior to those of the District include Pacific Gas and Electric Company ("PG&E") (which rights are essentially non-consumptive other than for project uses), Amador Water Agency and Jackson Valley Irrigation District (referred to collectively in the graphic on the next page as "AWA") (for a total potential consumptive diversion of 20,000 acre-feet per year in Amador County); Calaveras County Water District and Calaveras Public Utility District (for a total potential consumptive diversion of 27,000 acre-feet per year in Calaveras County); and Woodbridge Irrigation District and the City of Lodi (for a total potential consumptive diversion of 63,600 acre-feet in normal and wet years and 42,600 acre-feet in dry years in San Joaquin County). In addition, adjacent property owners retain certain historical riparian and appropriative rights to water from the river. See "– Water Supply Management Plan" for discussion of potential effects of projected increased use of senior water rights holders on District water supplies and the District's efforts to increase future supply through multiple water supply projects. In addition, the District's water rights from the State for the Camanche Reservoir, including the District's obligations under a 1998 Joint Settlement Agreement among the District, the U.S. Fish and Wildlife Service and the California Department of Fish and Game incorporated therein (the "1998 Joint Settlement Agreement"), requires that minimum releases be made from Camanche Reservoir for the protection of downstream fisheries. Pursuant to the 1998 Joint Settlement Agreement, the District's required minimum releases from Camanche Dam are adjusted to reflect the time of year and type of Water Year (*e.g.*, Normal/Above Normal, Below Normal, Dry and Critically Dry). In Critically Dry and Dry years, a minimum average of from 22,500 to 65,000 acre-feet per year must be released downstream by the District to satisfy its obligations for the protection of fisheries resources. See also "– Water Rights and Related Proceedings" below.

The following graphic summarizes the priorities of Mokelumne River water rights and other flow commitments with respect to the Mokelumne River water supply in a normal Water Year. "TAF" as used in the graphic refers to thousand acre-feet.

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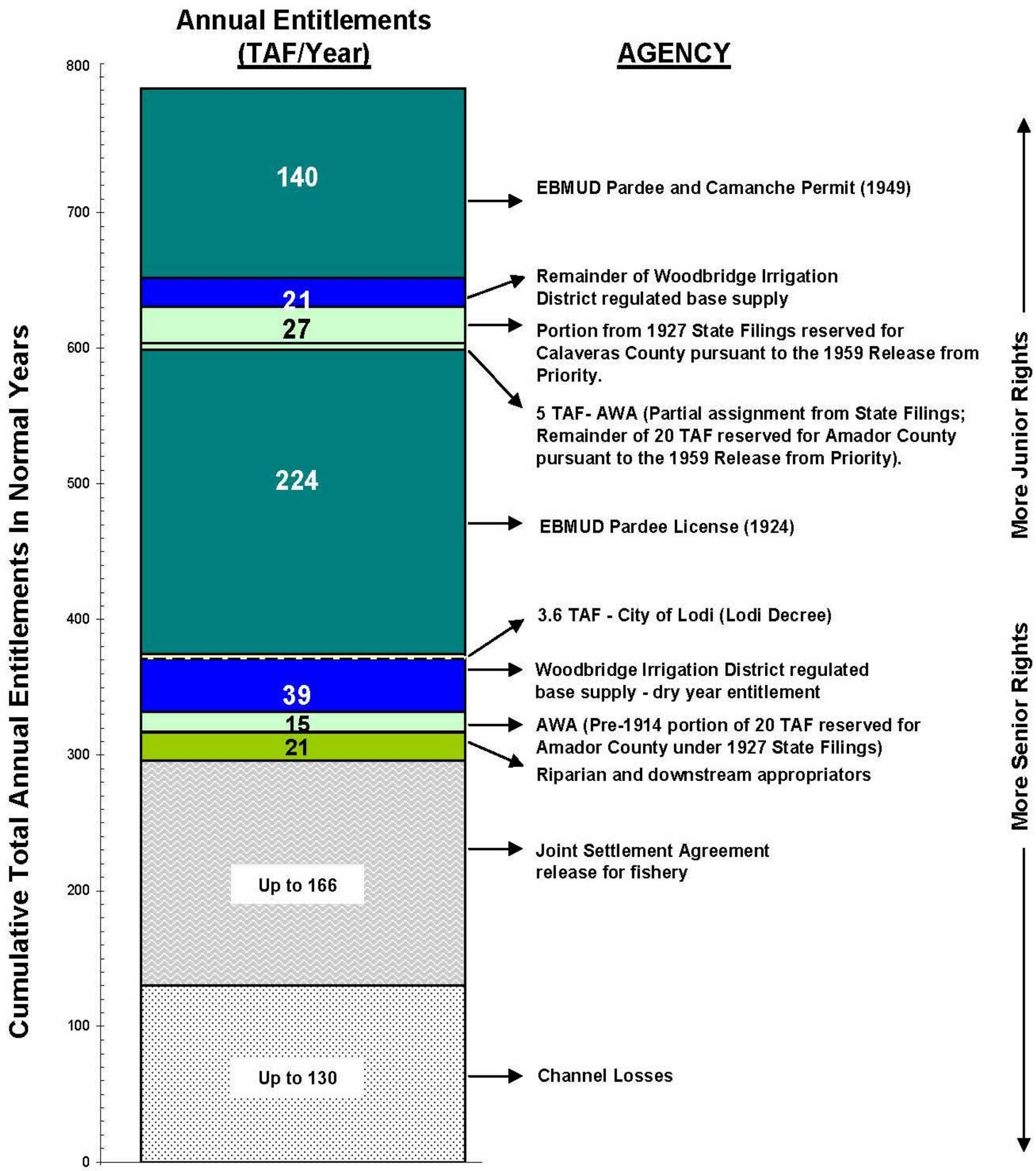
Hierarchy Of Mokelumne River Water Rights

And Other Flow Commitments



Note: Total does not include storage rights or power rights which are non-consumptive (e.g. PG&E).

Local Runoff. In normal Water Years, District reservoirs in the East Bay receive an additional 30,000 acre-feet of water from local watershed runoff. Much of the local runoff is stored in the East Bay reservoirs for system use. In dry years, evaporation and other reservoir losses can total more than the runoff. Thus, there is no firm yield from local watersheds.

United States Bureau of Reclamation Central Valley Project Contract; Freeport Regional Water Project. In December 1970, the District entered into its original Central Valley Project Contract ("CVP Contract") with the United States Bureau of Reclamation (the "Bureau"), entitling the District to take up to a specified quantity of American River water from the Folsom-South Canal Unit of the Bureau's Central Valley Project ("CVP") annually. The CVP Contract was superseded on July 20, 2001 by an Amendatory Contract, which, in turn, was superseded on April 10, 2006 by a Long-Term Renewal Contract ("Long-Term Renewal CVP Contract"). The Long-Term Renewal CVP Contract has a term of 40 years, with a right of renewal for an additional 40 years available to the District. Historically, the District did not have permanent infrastructure in place to receive CVP contract water. The Freeport Regional Water Project (hereinafter, the "FRWP"), which was placed in commercial operation on November 15, 2011, provides the permanent infrastructure to allow the District to receive water deliveries pursuant to the Long-Term Renewal CVP Contract. Under the Long-Term Renewal CVP Contract, the District is entitled to receive deliveries of up to 133,000 acre-feet per year (119 million gallons per day ("MGD")) of CVP water in a single dry year, and no more than 165,000 acre-feet over the course of any three consecutive dry-years. Similar to other CVP contractors, the maximum quantity of water made available to the District in any dry year pursuant to this contractual entitlement is subject to shortages in CVP supply and potential reductions in allocations by the Bureau as required by the Central Valley Project Improvement Act. See "−Water Rights and Related Proceedings – *Central Valley Project Improvement Act*." The Long-Term Renewal CVP Contract provides the District with a supplemental supply source which helps meet projected drought year needs. See also "– Current California Drought."

The FRWP is a regional water supply project undertaken by the District in partnership with the Sacramento County Water Agency ("SCWA"). In February 2002, with the support of the Bureau, the District and SCWA formed the Freeport Regional Water Authority ("FRWA") under a joint powers agreement to develop the FRWP. The FRWP provides the permanent infrastructure to allow the District to receive water deliveries pursuant to the Long-Term Renewal CVP Contract at a new point of diversion along the Sacramento River. The capacity of the FRWP is designed to provide up to 100 MGD (112,000 acre-feet per year) of supplemental water supplies to the District in dry years and up to 85 MGD to SCWA in all years.

In 2007, the District entered into a Dedicated Capacity Purchase Agreement, dated as of May 1, 2007, by and between FRWA and the District (the "Dedicated Capacity Purchase Agreement"). Pursuant to the Dedicated Capacity Purchase Agreement, FRWA sells to the District and the District agrees to acquire 100 MGD of capacity in the FRWP ("Dedicated Capacity") in accordance with the Second Amended Joint Exercise of Powers Agreement Concerning the Freeport Regional Water Authority dated as of November 20, 2006 (the "FRWA JPA Agreement"). The purchase price of the Dedicated Capacity has been paid by the District in accordance with the FRWA JPA Agreement as a portion of the District's capital cost of the FRWP pursuant to the FRWA JPA Agreement. In the event of future capital improvements to the FRWP, the District may be required to make additional capital contributions for its share of such costs pursuant to the FRWA JPA Agreement.

The FRWP diverts water from the Sacramento River near the community of Freeport and conveys this water through new pipelines and the existing Folsom South Canal ("FSC") to the District's Mokelumne Aqueduct near Camanche Reservoir. A turnout in the pipe within central Sacramento County delivers water to SCWA. Water is delivered to the District pursuant to its Long-Term Renewal CVP Contract. CVP water received by the District is treated at existing District treatment facilities prior to delivery to customers. Short-term storage, if needed, is provided at the District's San Pablo terminal reservoir or Upper San Leandro reservoir. See "– Water Facilities" below.

The FRWP includes a number of significant components. Chiefly, the components consist of an intake and pumping plant, approximately 16 miles of pipeline and a communications system. The capacity of the intake and pumping plant is 185 MGD. The pipeline includes a 7-foot diameter segment which runs from the intake to the SCWA turnout, a 5-foot, 6-inch diameter pipeline segment which feeds a new SCWA Treatment Plant and a 6-foot diameter pipeline segment which discharges to the FSC. Fiber optic and radio systems link project facilities and key outside agencies.

Water flows within the FSC for 14 miles and, in turn, is recaptured by the District and directed via pipeline along a route which leads to the District's Mokelumne Aqueducts. That southern system (known as the FSC Connection or the "FSCC") is a District-only element, and includes two 100 MGD pumping plants (an intake and a pumping plant at the terminus of the FSC and a high head pumping plant near Camanche Reservoir) and approximately 19 miles of 6-foot diameter pipeline.

The combined FRWP/FSCC system underwent a successful integrated operational test and, following such test was placed into commercial operation on November 15, 2011. The FRWP/FSCC system can be utilized by the District during dry years when the District's contractual right to CVP water is made available. The FRWP/FSCC system can also provide a means of transport to allow the District to take deliveries of other sources of supplemental water supply from outside the District's normal watershed when secured by the District during dry years through negotiated contractual arrangements such as water transfers. When the FRWP/FSCC system is not being used by the District, it can be made available to other water providers to "wheel" water through the FRWP/FSCC system to interties with neighboring agencies.

Operation of the FRWP/FSCC system is required to be integrated with the operation of the District's treatment facilities and conveyance and distribution systems. The maximum quantity of water that may be delivered in any given year is subject to the capacity and demands of the District's local infrastructure and may be constrained by distribution and treatment limitations. In light of these constraints, the District has identified operational strategies for added flexibility and reliability and has identified potential future improvements to maximize delivery.

Operation of the FRWP results in additional costs to the District as compared to water from the District's Mokelumne River supply. These costs include: (i) the purchase cost of the water, payable to the Bureau for CVP water or to another party in connection with any water transfer or other contractual arrangement that may be secured by the District (any such supplemental supply water delivered from sources outside the District's normal watershed being hereinafter referred to as "Supplemental Supply"); (ii) the costs to convey the water from the FRWP intake to the District's Water System, which include operations costs and energy for pumping; and (iii) additional treatment costs as this supply cannot be treated at the District's largest direct filtration plants and must receive more expensive full conventional treatment.

Prior to Water Year 2014, since the operational date of the FRWP occurred in November 2011, the District had not experienced conditions whereby the use of the FRWP to take deliveries of Supplemental Supply was required to address a drought-related water supply deficiency. Beginning in Water Year 2014, the District has utilized the FRWP to take deliveries of Supplemental Supply, including water made available under the Long-Term Renewal CVP Contract when determined necessary, as described herein. See "– Current California Drought."

Bayside Groundwater Project. In December 2009, the District completed a local supplemental supply project, the Bayside Groundwater Project Phase 1. The Bayside Groundwater Project consists of facilities designed to store treated drinking water in a deep aquifer during wet years for future recovery, re-treatment and distribution to customers during times of drought. Implementation of the project is planned in two phases. The Bayside Groundwater Project Phase 1, completed in December 2009, provides a modest, locally available supplemental water supply that helps reduce the need for rationing in the event of a prolonged drought. Phase 1 is used to store an annual average of one MGD (1,120 acre-feet per year) of water within a deep aquifer that extends beneath the community of San Lorenzo. Storage operations will take place when water can be made available (during wet years). The District stored (injected) water for an eight week period beginning on June 2, 2011 and ending at the end of July 2011. The estimated volume of water stored is in the range of 30-40 million gallons (92-123 acre-feet). A volume equal to the total stored can be supplied to customers during dry years (at a delivery rate that does not exceed one MGD), helping to reduce the need for rationing. Primary Phase 1 facilities include an injection/extraction well (and pump), a treatment plant, a groundwater monitoring network and instruments used to measure minute changes (if any) in ground surface elevation (subsidence) during Phase 1 operations. The District intends to continue to operate Phase 1 facilities in either a storage mode or possibly an extraction mode (based on water supply available for storage and/or drought conditions coupled with the need for water). The District does not currently expect to undertake extraction from the project in Water Year 2015. Information gathered from Phase 1 operations will be used in part to determine the feasibility of Phase 2 and inform its future determinations on how to proceed with Phase 2 (which could provide an additional 9 MGD of supply). Significant planning activities for Phase 2 are not expected to begin for approximately 10 years.

Water Recycling

The District has undertaken a Water Recycling Program to develop and implement projects that reduce demands on potable water supplies. Recycled water has been used for landscape irrigation, cooling, equipment washdown and construction purposes at the District's Main Wastewater Treatment Plant since the early 1970s, as well as at a number of golf courses in the District's service area, beginning in 1984. Since 1993, the District has implemented various other recycled water projects that are designed to produce in the aggregate 9.3 MGD of additional supply. The program currently includes six operating recycled water projects. In 1996, the District began providing recycled water to the Richmond Chevron Oil Refinery for use in recirculating cooling towers. In 2006, the District began providing recycled water to a number of sites in San Ramon for irrigation purposes through the San Ramon Valley Recycled Water Program described below. In 2008, the initial phase of the District's East Bayshore Recycled Water Project began providing recycled water to a number of sites in Oakland primarily for irrigation purposes.

On April 9, 1996, the District's Board adopted the Nonpotable Water Policy which requires customers of the District to use nonpotable water (recycled water and other nonpotable water sources) for nondomestic purposes when it is of adequate quality and quantity, available at reasonable cost, not detrimental to public health, and not injurious to plant life, fish and wildlife. The District has undertaken or will undertake in the future several water recycling project expansions in accordance with the long-term water recycling goal of 20 MGD by the year 2040. See "– Water Supply Management Plan" below. The District has entered into a Joint Exercise of Powers Agreement with the Dublin San Ramon Services District ("DSRSD") creating the DSRSD/EBMUD Recycled Water Authority ("DERWA") for the purpose of implementing a recycled water program to make available reliable supplies of recycled water to be provided to the District and DSRSD for their distribution within portions of their existing and future service areas. The first phase of the DERWA recycled water program, the San Ramon Valley Recycled Water Program, which provides recycled water supplies to a number of sites in San Ramon, was completed and became operational in 2006. The costs of such initial phase of facilities were financed from commercial paper notes issued by DERWA, State loan and grant moneys and capital contributions made by the District and DSRSD. The DERWA commercial paper notes were fully retired in January 2011 through the refinancing by each of DSRSD and the District of their respective obligations under the DERWA commercial paper program. The second phase of the DERWA recycled water program has also been completed. The District's share of the costs of the second phase of facilities was financed from federal grant funding and District capital contributions for the District's local share portion. The District has also completed additional distribution systems which were also financed by federal grants and District capital contributions for the local share match. In November 2014, DERWA was awarded grant funding from the State in the amount of approximately $4.0 million towards the expansion of the DERWA recycled water program facilities, including the expansion of the District's recycled water distribution system to an additional site in San Ramon. The District and DSRSD have entered into an agreement for the sale of recycled water by DERWA to the District and DSRSD pursuant to which each of the District and DSRSD are responsible for paying their respective share of the costs incurred by DERWA in implementing the DERWA recycled water program (including among other things, administrative costs, construction costs, operation and maintenance costs and costs of debt service on any obligations issued or incurred by DERWA for the purposes of the recycled water program). Payments to be made by the District under such recycled water sales agreement for the purchase of recycled water are payable as a Water Operation and Maintenance Cost regardless of whether any recycled water is made available to the District from such facilities.

Another key water recycling project that is part of the District's Water Recycling Program is the Richmond Advanced Recycled Expansion ("RARE") Water Project. Construction of the RARE Water Project began in Fiscal Year 2009 and the first phase of the project was completed in Fiscal Year 2011. It initially provides 3.5 MGD of high quality recycled water to the Chevron refinery for use in industrial boilers (recycled water has been provided by the District to the Chevron refinery for use in recirculating cooling towers since 1996 as noted above). The project consists of a high-purity recycled water treatment plant at the refinery, an influent pump station, flow equalization and a standby generator. In total, Chevron reimbursed the District approximately $55 million for capital costs of the RARE Water Project. The Chevron Oil Refinery is currently the largest single user of recycled water in the District's service area. The District is currently studying the feasibility of a potential future expansion of the RARE Water Project to increase recycled water delivery to Chevron and decrease potable water deliveries. The study is expected to be completed in Fiscal Year 2016.

Water Rights and Related Proceedings

Mokelumne River Rights. The District's appropriative rights to its Mokelumne River water supply include a license, which has a priority date of 1924, entitling the District to divert up to 200 MGD (approximately 224,000 acre-feet per year) to its service area from the Mokelumne River, and a permit, which has a 1949 priority date, entitling the District to divert up to an additional 125 MGD (approximately 140,000 acre-feet per year) of Mokelumne River water to the service area. The permit by its terms required that application of the water to the proposed use be made by December 1, 2000. The District has completed construction of water diversion and storage facilities enabling it to divert the additional 125 MGD authorized by the permit, but has not yet made full beneficial use under the permit. Consequently, in 2000, the District petitioned the SWRCB to extend the time to 2040 to complete the application of water under the permit to allow additional time to put the entitlement to full beneficial use. The SWRCB posted a public notice of the petition in January 2007, commencing a formal proceeding which included an opportunity for other entities to protest the District's petition. Seven protests were filed challenging the time extension petition, two of which were initially resolved, leaving five remaining protests.

In accordance with the California Environmental Quality Act ("CEQA"), the District issued a Notice of Preparation of an Environmental Impact Report ("EIR") for the permit extension in November 2008. The comment period for the Notice of Preparation closed on December 11, 2008, and the District received seven comment letters. The District considered the comments in preparing the draft EIR which was released for public review and comment in September 2013. The comment period for the draft EIR began on October 3, 2013 and, after extension, concluded on January 10, 2014. The District received a total of seven letters commenting on the draft EIR. In 2014, the District prepared a final EIR, which included responses to all comments received through January 10, 2014 on the draft EIR. On September 23, 2014, the District Board certified the final EIR, made findings and adopted the mitigation monitoring and reporting plan, and approved the project. As required by CEQA, the District filed a notice of determination on September 24, 2014, thereby starting the 30-day statute of limitations period for challenges to the EIR. The challenge period was expected to expire on October 24, 2014 but was extended through a tolling agreement to December 24, 2014 to allow the District and the commenting parties more time to resolve their water rights protests. On November 25, 2014, the District and the commenting parties entered into a settlement agreement under which the commenting parties agreed to withdraw their protests to the District's petition and agreed not to challenge the EIR under CEQA. The SWRCB, as a responsible agency for approving the time extension petition (and the additional petitions referenced below), is expected to consider the EIR in mid-2015 as part of its consideration of the District's petitions.

In December 2012, the District filed six petitions with the SWRCB to update its service area maps and to further clarify the District's Mokelumne River project operations. On December 31, 2013, the SWRCB posted a public notice of the additional petitions, which commenced a 30-day comment period. Six protests were filed challenging these additional petitions, one of which was resolved shortly thereafter. The remaining five protests were filed by the same entities that protested the District's time extension permit petition. As part of the November 2014 settlement agreement entered into by the District and the protestors as referenced above, the protestors agreed to withdraw their protests. As a result of the settlement agreement, the remaining protests to the District's time extension petition, and to the District's petitions to update and clarify the permit, have been dismissed.

Due to the critical drought conditions and SWRCB activities in response to the drought, and lack of staff resources, the SWRCB has been delayed in its processing of the District's petitions following the November 2014 settlement. The SWRCB plans to process the approval of the permit extension and related District petitions concerning the permit by mid-2015, separately from its expected processing of the other water right change petitions filed in 2012.

In addition to the water rights described above, the District also has a series of rights for the production of hydroelectric power at Pardee and Camanche Dams. Three of the six petitions filed by the District with the SWRCB and mentioned above are associated with the non-consumptive hydropower rights at Pardee Reservoir. The District also holds rights associated with its local reservoirs.

As previously noted, the State has placed conditions on operations in the District's Mokelumne River water rights requiring that minimum releases be made from Camanche Reservoir for the protection of anadromous fisheries. The District has entered into a series of agreements with State and federal agencies which are incorporated into its water rights and implemented through the annual Water System operations plan. Notably, the 1998 Joint Settlement Agreement is a multi-party agreement that provides for mitigation of the impact of the construction of Camanche Dam and Reservoir on historical spawning grounds for anadromous fish. Pursuant to the 1998 Joint Settlement Agreement, the District's required minimum releases from Camanche Dam are adjusted to reflect the time of year and type of Water Year (*e.g.*, Normal/Above Normal, Below Normal, Dry and Critically Dry). In critically dry and dry years, a minimum average of from 22,500 to 65,000 acre-feet per year must be released downstream by the District to satisfy its obligations for the protection of fisheries resources. Under the terms of the 1998 Joint Settlement Agreement, the 2015 Water Year was designated as a "Dry" year from October 2014 to March 2015, and has been designated as a "Critically Dry" year for the period from April 2015 to September 2015. See also "– Water Supply – *Mokelumne River Watershed*" and "– Current California Drought."

Central Valley Project Improvement Act. In 1992, Congress enacted the Central Valley Project Improvement Act ("CVPIA") which provides environmental protections for fish and wildlife in the operation of the CVP. In 2000, the Bureau issued a Record of Decision on the CVPIA Programmatic Environmental Impact Statement ("PEIS"). The PEIS identified the impacts to CVP contract water supplies as a result of implementing the new fish and wildlife protection provisions of the CVPIA. All CVP contractors will be subject to shortages in CVP supply and potentially reduced allocations during dry years. The CVPIA requires that all CVP contracts contain provisions consistent with the CVPIA, including provisions for conservation and tiered prices. The District's executed Long-Term Renewal CVP

Contract is consistent with the CVPIA provisions. Due to the ongoing statewide drought and the resulting reduction in available water supplies, a reduced allocation of CVP water has been made available to the District under its Long-Term Renewal CVP Contract in 2014 and 2015. See "– Water Supply – *United States Bureau of Reclamation Central Valley Project Contract; Freeport Regional Water Project*" above. See also "– Current California Drought" below.

Current California Drought

California hydrology is highly variable from year to year. 2014 was a historically dry year in the State. Water Year 2014 was the fifth driest on record for precipitation in the Mokelumne River watershed. Mokelumne River runoff for Water Year 2014, which ended on September 30, 2014, was 262,000 acre-feet or 35% of the long-term average of 745,000 acre-feet. The District began Water Year 2015, which commenced on October 1, 2014, with 404,300 acre-feet in total system storage (Pardee, Camanche and East Bay terminal reservoirs), representing 53% of capacity or 71% of average.

Hydrologic conditions in 2015 have continued this severe dry trend. Water Year 2015 had the driest winter in California's written records. 2015 is the fourth consecutive drought year and the seventh dry year out of the last eight in California.

On January 17, 2014, Governor Jerry Brown declared a drought state of emergency, and directed State officials to take all necessary actions to prepare for water shortfalls.

On February 11, 2014, due to the continuing unusually dry conditions, decreasing reservoir levels and potentially low precipitation forecasts for the rest of the rainy season, the District Board requested all District customers to voluntarily reduce water consumption by 10%.

On August 12, 2014, the Board declared a water shortage emergency within the District's service area and adopted a regulation for all District customers providing for the mandatory outdoor water use restrictions requested by the SWRCB statewide.

On December 9, 2014, the District Board increased the requested voluntary reduction in water consumption from 10% to 15% for all District customers.

On March 17, 2015, the SWRCB adopted expanded emergency water conservation regulations prohibiting certain outdoor irrigation and urban water uses and ordering all urban water suppliers to implement conservation measures and provide monthly data on water production, per capita use, outdoor watering restrictions, enforcement efforts and water conservation programs and services.

On April 1, 2015, Governor Jerry Brown issued Executive Order B-29-15 (the "Executive Order") to address the ongoing drought conditions in California. The Executive Order, among other things, directed the SWRCB to impose restrictions to achieve a statewide 25% reduction in potable urban water usage from 2013 levels through February 28, 2016. The Executive Order further directs the SWRCB to impose restrictions to require that commercial, industrial and institutional properties, such as campuses, golf courses and cemeteries, immediately implement water efficiency measures to reduce potable water usage, and calls upon the SWRCB to direct urban water suppliers to develop rate structures and other pricing mechanisms, including but not limited to surcharges, fees and penalties, to maximize water conservation consistent with statewide water restrictions. The Executive Order includes several provisions to increase enforcement activity against water waste and to streamline the State and local response to drought-related initiatives.

On May 5, 2015, following a formal rulemaking process and public comment period, the SWRCB adopted an emergency regulation to implement the Executive Order. The regulation will become effective immediately upon approval by the Office of Administrative Law, which is anticipated on or about May 15, 2015, and will remain in effect for 270 days from such date. Under the regulation, 411 urban water providers in the State are classified into nine tiers and assigned a required conservation standard which is imposed on each tier. The tier classifications are based upon a water supplier's per capita water usage in the three month period July to September 2014. The conservation standard applied to the tiers ranges from a 4% reduction in total potable water production (although no water providers were proposed to be classified in such tier absent the demonstration by a water provider of satisfaction of certain specified criteria) to a 36% reduction in total potable water production from 2013 levels. As adopted, the regulation requires areas with high per capita water usage to achieve proportionately greater reductions in water use than those with low use. The regulation provides that the 2,600 "small water suppliers" in the State that serve fewer than 3,000 customers or deliver less than 3,000 acre-feet of water annually are required to either achieve a 25% conservation standard or restrict outdoor irrigation to no more than two days per week. Commercial, industrial and institutional properties that are not served by a water supplier (or are self-supplied) are similarly required to either achieve a 25% conservation standard or restrict outdoor irrigation to no more than two days per week. Under the regulation, compliance by the 411 urban water suppliers will be assessed for the period of June 2015 through February 2016 as compared to water usage in the corresponding prior timespan of June 2013 through February 2014. In addition to the total monthly water production and specific reporting on residential use and enforcement action previously adopted by the SWRCB, the regulation adopted May 5, 2015 also includes new reporting requirements for urban water suppliers to include information on water use in the commercial, industrial and institutional sectors. In order to enforce compliance by water suppliers, the regulation authorizes the SWRCB to issue informational orders, conservation orders or cease and desist orders requiring additional specific actions by a water supplier that is not meeting its conservation standard. Failure to provide information requested pursuant to an informational order within the required timeframe would be subject to civil liability of up to $500 per day for each day out of compliance. Water agencies that violate cease and desist orders may be subject to a civil liability of up to $10,000 a day.

Under the adopted regulation, the District is classified in Tier 4 (July - September 2014 residential per capita water use of 80-94.99 gallons per day) and is subject to the 16% conservation standard proposed for that tier.

On April 28, 2015, concurrent with the SWRCB's release of the Notice of Proposed Emergency Regulations for the subsequently adopted regulation, Governor Jerry Brown also announced that he would propose new legislation to provide expanded enforcement powers to local agencies, including the ability to deputize staff to issue water conservation-related warnings and citations and to impose fines up to $10,000 per day for infractions of locally imposed water restrictions.

On April 14, 2015, the Board took a number of drought-related actions. Included in these actions was the adoption by the Board of revised Drought Management Program ("DMP") Guidelines. The revised DMP Guidelines are designed to be used by District staff in evaluating the District's annual water supply as part of the Water Supply Availability and Deficiency Report prepared by staff for presentation to the Board each Spring. The DMP Guidelines, as revised, provide established parameters for the level of rationing the District may consider and the amount of Supplemental Supply that the District may require based on the District's projected total system storage at the end of a Water Year. The revised DMP Guidelines incorporate a four-stage system for classifying the level of drought severity, consistent with the rate design structure approved by the Board in December 2014 and the proposed new drought rates that are scheduled for consideration for adoption by the Board on June 9, 2015. See "WATER SYSTEM FINANCES – Rates and Charges." On April 14, 2015, the Board also declared a Stage 4 critical drought within the District's service area, and consistent with the approved revised DMP Guidelines, adopted a mandatory District-wide water use reduction goal of 20% for all District customers to align with the Governor's Executive Order and the SWRCB draft regulatory framework. The Board further adopted a revised water use regulation for all District customers to include special prohibitions on water use and various enforcement measures consistent with the prohibitions on certain outdoor irrigation, and outdoor and urban water use mandated by the State's revised emergency regulations of March 17, 2015.

The District monitors precipitation and reservoir levels daily. As of May 14, 2015, the District had 391,480 acre-feet of water stored in all of its reservoirs combined. As of such date, the District's reservoirs were approximately 51% of capacity, or approximately 61% of average (based on 10-year average from 2001-2011). Season-to-date precipitation in the Mokelumne basin was 26.34 inches, or approximately 57% of average (based on 60-year average from 1952-2012).

Table 3 sets forth the capacity and water storage levels at the District's water reservoirs as of May 14, 2015.

Table 3
DISTRICT WATER RESERVOIRS
Current Capacity and Storage Levels

Data as of May 14, 2015	Capacity (acre-feet)	Current Storage (acre-feet)	% of Capacity	% of Average[1]
Mokelumne				
Pardee	197,950	173,300	88%	92%
Camanche	417,120	102,330	25	33
Total Mokelumne	**615,070**	**275,630**	**45**	**55**
Terminal Reservoirs				
Briones	60,510	58,110	96	99
Upper San Leandro	37,960	24,440	64	72
San Pablo	38,600	22,300	58	65
Chabot	10,350	7,460	72	80
Lafayette	4,250	3,540	83	92
Total Terminal Reservoirs	**151,670**	**115,850**	**76**	**82**
Total System Storage	**766,740**	**391,480**	**51**	**61**

(1) Based on 10-year average from 2001-2011.
Source: District Water Operations Department.

When the amount of water available in a surface water source is not sufficient to support the needs of existing water right holders and in-stream uses, the SWRCB may issue notices of curtailment to water rights holders based on California's water rights priority system. As described above (see "– Water Rights and Related Proceedings – *Mokelumne River Rights*"), the District's appropriative rights to its Mokelumne River water supply include a license, which has a priority date of 1924, and a permit, which has a 1949 priority date. In late May 2014, the SWRCB issued a notice of curtailment to all holders of post-1914 appropriative water rights, including the District. The District received the curtailment order on June 2, 2014 and subsequently curtailed diversions from the Mokelumne River. On November 12, 2014, the SWRCB lifted the curtailment for pre-1954 water rights holders on the Sacramento and San Joaquin River watersheds. This action by the SWRCB allowed the District to begin storing water again in Pardee and Camanche reservoirs on November 12, 2014 and December 1, 2014, respectively. However, due to the drought continuing into 2015 and severely depleting water supplies, on April 1, 2015, the Governor ordered that his drought emergency proclamations from 2014 remain in effect in 2015 with additional restrictions to conserve water supplies in the event that the drought continues into 2016. In addition, on April 27, 2015 the SWRCB issued a new notice of curtailment precluding the District from diverting additional water from the Mokelumne River until such time as the SWRCB lifts the curtailment. The District can withdraw water previously stored in its reservoirs under its water rights, but from April 27, 2015 forward cannot divert additional water from the river.

Under 2014 allocations of CVP water by the Bureau, the District was entitled to receive up to 50% of its dry year entitlement (*i.e.*, up to 66,500 acre-feet) at any time during the contract year period of March 1, 2014 through February 28, 2015 under the Long-Term Renewal CVP Contract. During Water Year 2014, the District took delivery of approximately 23,390 acre-feet of Supplemental Supply during the period from April through July of 2014, including approximately 18,640 acre-feet of CVP water and approximately 4,750 acre-feet of water under a one-year water purchase agreement with Placer County Water Agency ("PCWA") as described under "– Water Supply Management Plan – *Placer County Water Agency Water Transfer Agreement*" below. The total cost to purchase, pump and treat this Supplemental Supply was estimated to be approximately $9.3 million.

Under current 2015 allocations of CVP water by the Bureau, the District is entitled to receive up to 25% of its dry year entitlement (*i.e.*, up to 33,250 acre-feet) under its Long-Term Renewal CVP Contract for the current federal water year, which began on March 1, 2015 and ends on February 29, 2016. On April 14, 2015, the Board declared the need to use the FRWP during the remainder of the current CVP contract year period through February 29, 2016 to deliver to the District's service area at least 65,000 acre-feet of Supplemental Supply, including CVP water made available to the District under the Long-Term Renewal CVP Contract and any water purchased by the District under such water transfers as subsequently approved by the Board. On April 15, 2015, the District began diverting its 2015 CVP water allotment pursuant to the Long-Term Renewal CVP Contract. In addition, on April 28, 2015, the Board authorized staff to negotiate purchases of up to 21,000 acre-feet of water combined from three senior water rights holders in the Sacramento River Valley to augment its available CVP allocation for such period. On May 12, 2015, in accordance with such authorization, the Board ratified one-year water purchase and sale agreements with Reclamation District 1004 for up to 8,250 acre-feet of water in 2015 and with Sycamore Mutual Water Company for up to 4,978 acre-feet of water in 2015. On May 26, 2015, the Board further authorized a one-year water purchase agreement with PCWA for the purchase of up to 12,000 acre-feet of water in 2015. See "– Water Supply Management Plan – *Placer County Water Agency Water Transfer Agreement*" and "*– 2015 CVP Water Supply and Other Potential 2015 Short-Term Water Transfers*" below. The District is also currently investigating additional potential water transfers. Any water purchased pursuant to negotiated transfers would be conveyed to the District using FRWP facilities.

The District diverts its CVP water supplies at the FRWP at the rate of approximately 8,000 acre-feet per month. The District estimates the total incremental cost to purchase and deliver 8,000 acre-feet of CVP water each month is approximately $4.0 million. The total cost of purchasing, treating and delivering a Supplemental Supply of CVP water under the District's Long-Term Renewal CVP Contract during the remainder of Fiscal Year 2015 (*i.e.*, during the two and one half month period from April 15, 2015 through June 30, 2015) is estimated to be a maximum of $10.0 million.

The estimated water purchase cost of up to 21,000 acre-feet of water authorized by the Board to be purchased by the District through water transfers from senior water rights holders in the Sacramento River Valley has been estimated by the District to be a maximum of $14.7 million (*i.e.*, $700 per acre-foot). The total estimated water transfer cost for these potential transfers, including operation of FRWP and payment to the Bureau for required delivery and conveyance, has been determined by the District to be approximately $25.0 million assuming the full authorized amount of up to 21,000 acre-feet of Supplemental Supply is secured. The estimated water purchase cost of the up to 12,000 acre-feet of water authorized by the Board to be purchased under the new one-year water purchase agreement with PCWA is a maximum of $6.0 million (*i.e.*, $500 per acre-foot). The total estimated water transfer cost for the up to 12,000 acre-feet of water authorized to be purchased from PCWA for 2015, including operation of FRWP and payment to the Bureau for required delivery and conveyance, has been determined by the District to be approximately $11.0 million.

The District's current rate structure includes a supplemental supply surcharge of 14% of total potable water flow charges which is to be added to customers' water bills after the District declares the need to use the FRWP to deliver Supplemental Supply water from outside of the District's normal watershed. See “WATER SYSTEM FINANCES – Supplemental Supply Surcharge.” The supplemental supply surcharge is designed to cover the costs of operating the FRWP and the added costs of the Supplemental Supply during dry year periods when the District takes deliveries of such Supplemental Supply. On April 22, 2014, in connection with its declaration of the need to operate the FRWP to take deliveries of Supplemental Supply in Fiscal Year 2014 as described above, the Board suspended the supplemental supply surcharge for Fiscal Year 2014 in light of the availability of alternative sources of funds to cover these costs for Fiscal Year 2014. The Board reserved the right to implement the supplemental supply surcharge at any future subsequent date whenever it declares a need to operate the FRWP to deliver Supplemental Supply from outside of the District’s normal watershed.

On April 14, 2015, in connection with its declaration of the need to operate the FRWP to take delivery of Supplemental Supply through February 29, 2016, the Board suspended the supplemental supply surcharge for Fiscal Year 2015. The determination to suspend the supplemental supply surcharge for Fiscal Year 2015 was made by the Board in light of (a) the proposed adoption by the Board of a new four-stage system of drought surcharges pursuant to the rate design structure approved by the Board in December 2014 (described below), that would be effective, if adopted, for Fiscal Year 2016 beginning on July 1, 2015, and (b) a finding by the Board that, due to the short time frame in which the FRWP will be operated in the remainder of Fiscal Year 2015, the expenditures intended to be recovered by the revenue from the supplemental supply surcharge can be funded in Fiscal Year 2015 from other available sources.

As described under “WATER SYSTEM FINANCES – Rates and Charges,” on December 9, 2014, the Board approved the structure for a potential new system of drought rates which are expected to be considered for adoption by the Board on June 9, 2015 in connection with the consideration for adoption by the Board of the District’s biennial budget for Fiscal Years 2016 and 2017. The new system of drought rates, if adopted, would include three elements: (i) a four stage system of increasing uniform drought surcharges to be applicable to all customer classes (except recycled water), (ii) a supersaver recognition program to be applicable to the single family residential customer class, and (iii) an excessive use penalty to be applicable to the single family residential customer class. If approved in June 2015, the proposed new system of drought rates would be effective for Fiscal Year 2016, commencing July 1, 2015, and would replace the supplemental supply surcharge currently part of the District’s Water System rate structure.

See also “WATER SYSTEM FINANCES – Rates and Charges” and “– Supplemental Supply Surcharge.”

Water Supply Management Plan

In 2012, the District updated its long range planning with the Water Supply Management Plan, extending the planning horizon from 2020 to 2040 (“WSMP 2040”). WSMP 2040 serves as the plan to ensure an adequate supply of water through the year 2040 for District customers. The primary objectives of WSMP 2040 are to maintain and improve the District’s water supply reliability to its customers and help meet the growing need for water in the future. WSMP 2040 also guides adaptation of the District’s water planning approach to circumstances that have changed since its prior Water Supply Management Plan, WSMP 2020, was adopted, such as competing and changing demands for water, the availability of water from the completed FRWP and Bayside Groundwater Project Phase 1, and long-term climate change. Further, the goal of the WSMP 2040 continues to be to examine what the District has done historically and what it can do in the future to ensure optimal use of the District’s water resources.

WSMP 2040 assesses the supplemental supplies that are expected to be needed to serve a projected increase in water demand in the District’s service area of approximately 0.8% per year between 2010 and 2040 (an additional 60 MGD from 2010 to 2040). WSMP 2040 also addresses the potential for additional constraints on the water supply available to the District arising from increased demand of the senior water rights holders along the Mokelumne River.

The WSMP 2040 provides for the District to meet its future drought year needs for water through 2040 by:

(1) achieving a water conservation target of 62 MGD by the year 2040;

(2) increasing water recycling to 20 MGD;

(3) continued rationing during times of drought by up to 15%; and

(4) securing an additional 115,000 acre-feet (35 MGD annual average) of supplemental water supplies for use during extended droughts.

WSMP 2040 addresses the uncertainties posed by future climate change through its multi-element approach of demand management and a wide array of potential future supply options. In 2008, the District incorporated climate change into its strategic plan and issued its first Climate Change Monitoring and Response Plan. Both documents were updated in 2010. An interdisciplinary staff committee is reviewing the evolving science of climate change, assessing potential water supply impacts and vulnerabilities, and developing strategies for adaptation and mitigation. This information will continuously inform the implementation process for projects and programs under the WSMP 2040. See also "– Climate Change" below.

As a result of the completion of WSMP 2040 as described above, the District is undertaking efforts to identify and secure sources of supplemental water supply. Certain of these activities are further discussed below:

Placer County Water Agency Water Transfer Agreement. As a part of the District's supplemental supply efforts, PCWA and the District have been working on the development of a potential long-term transfer agreement under which the District would purchase 10,000 to 47,000 acre-feet of water released from PCWA reservoirs to the lower American River under certain conditions during dry years pursuant to PCWA's obligations under the Sacramento-area Water Forum Agreement to which it is a party. The price for such purchased water would be $75.00 per acre-foot under the terms of the potential long-term transfer agreement. The water purchased would be diverted to the District at the FRWP intake on the Sacramento River. PCWA and the District executed a memorandum of understanding on August 15, 2013 to develop the terms of the potential long-term water transfer agreement. Pursuant to the memorandum of understanding, PCWA has granted to the District a right of first refusal to purchase dry year water released by PCWA in satisfaction of its obligations under the Sacramento-area Water Forum Agreement until such time as a long-term water transfer agreement can be implemented. On February 25, 2014, the Board authorized the execution by the District of a one-year water purchase agreement with PCWA which provided the District with an option to purchase up to 20,000 acre-feet of water from PCWA at a cost of $75.00 per acre-foot in 2014. In Water Year 2014, the District exercised its option to purchase 5,000 acre-feet of water from PCWA pursuant to the one-year purchase agreement (and took delivery of approximately 4,750 acre-feet after accounting for transmission losses). The District executed a contract with the Bureau (as required under federal law) on March 31, 2014 to allow for the transportation of the purchased water through Folsom Reservoir and the Folsom South Canal to the FRWA facilities. The transportation costs to the District under the Bureau contract were estimated to not exceed $30.00 per acre-foot of water purchased from PCWA. Including additional pumping, conveyance and treatment costs, the total incremental costs of water purchased pursuant to the 2014 water purchase agreement with PCWA were in the $400 per acre-foot range. Pursuant to the District's right of first refusal under its memorandum of understanding with PCWA, the District and PCWA have negotiated the terms of another one-year water purchase from PCWA for 2015. On May 26, 2015, the Board authorized the execution of a one-year water purchase agreement with PCWA for the purchase of up to 12,000 acre-feet of water at a cost of $500.00 per acre-foot. The transportation costs to the District under the necessary Bureau contract to convey the purchased water are estimated by the District to not exceed $30.00 per acre-foot of water purchased from PCWA. The total estimated water transfer cost for the up to 12,000 acre-feet of water authorized to be purchased from PCWA for Water Year 2015, including operation of FRWP and payment to the Bureau for required delivery and conveyance, has been determined by the District to be approximately $11.0 million (assuming the full 12,000 acre-feet is purchased). See also "*2015 CVP Water Supply and Other Potential 2015 Short-Term Water Transfers*" below for information regarding the status and potential cost of other water transfers being pursued by the District in 2015.

2015 CVP Water Supply and Other Potential 2015 Short-Term Water Transfers. The District began to divert CVP water under its Long-Term Renewal CVP Contract on April 15, 2015. The District's available allocation of CVP water was reduced in 2015 to 25% of the 133,000 acre-feet maximum contract amount due to the extreme drought coupled with CVP supply shortfalls. On April 28, 2015, the District Board authorized staff to negotiate purchases of up to 21,000 acre-feet in aggregate of additional Supplemental Supply water from three senior water rights holders in the Sacramento River Valley: Glenn-Colusa Irrigation District, Sycamore Mutual Water Company, and Reclamation District 1004. On May 12, 2015, in accordance with such authorization, the Board ratified one-year water purchase and sale agreements with Reclamation District 1004 for up to 8,250 acre-feet of water in 2015 and with Sycamore Mutual Water Company for up to 4,978 acre-feet of water in 2015. The transfer water would augment the District's primary source of Supplemental Supply, its contract for water from the CVP. The Supplemental Supplies, including any transfer water secured, would be diverted from the Sacramento River at the FRWP intake located just south of downtown Sacramento and conveyed to the East Bay through existing pipelines and canals. The estimated water purchase cost of the up to 21,000 acre-feet of water authorized by the Board to be purchased has been determined by the District to be approximately $700 per acre foot, or a maximum of $14.7 million. The total estimated water transfer cost for these potential Supplemental Supply transfers, including operation of FRWP and payment to the Bureau for required delivery and conveyance, has been determined by the District to be approximately $25.0 million, assuming the full authorized amount of up to 21,000 acre-feet of Supplemental Supply is secured. In addition to the one-year water purchases from PCWA, Reclamation District 1004 and Sycamore Mutual Water Company executed by the District, other potential purchases of transfer water are being investigated by the District for 2015 but have not yet been authorized. See also "– Current California Drought" above.

Potential Storage Sharing Arrangement. In addition, as part of WSMP 2040, the District identified a possible contractual relationship and/or partnership opportunity with Contra Costa Water District ("CCWD"), an adjacent water agency, to secure from 20,000 to 30,000 acre-feet of storage in CCWD's Los Vaqueros Reservoir (the expansion of which was completed in 2012 to increase its total storage from 100,000 acre-feet to 160,000 acre-feet). The District continues to engage in discussions with CCWD regarding storage sharing opportunities and way the agencies can work cooperatively to improve water supply reliability for both parties. For example, in 2013, the District entered into a one-time agreement to wheel water that CCWD had purchased from the Woodbridge Irrigation District. As noted herein, Woodbridge Irrigation District holds Mokelumne River water rights (see "– Water Supply – *Mokelumne River Watershed*" above), and the water CCWD purchased was wheeled from the District's Pardee Reservoir through its Mokelumne Aqueducts and delivered to CCWD's service area. As partial payment for the wheeling, the District received an option to purchase 2,000 acre feet of water from CCWD's Los Vaqueros Reservoir.

Groundwater Project Expansion. The District will also review the operation of the Bayside Groundwater Project Phase 1 in approximately ten years, to determine the possibility for a Phase 2 expansion (which could provide an additional 9 MGD of supply).

Regional Groundwater Banking Options. The District has been exploring groundwater resource development in San Joaquin County. The District began negotiating with San Joaquin County water interests for a groundwater banking and conjunctive-use program in 1992. The overdrafted aquifer within San Joaquin County, which is traversed by the Mokelumne River and the District's Mokelumne aqueducts, presented an opportunity for a joint project of mutual benefit. However, lack of consensus among local water users and the absence of a legal framework to assure that a portion of the stored water could be exported to serve District customers during droughts has, in the past, prevented a project from being developed. More recently, in May of 2012, San Joaquin County approached the District to take part in a groundwater banking demonstration project. In the fall of 2013, a memorandum of agreement was developed and executed by San Joaquin County and the District which outlines the roles and responsibilities of the two agencies in connection with the demonstration project and provides a tentative development schedule. In 2014, the parties entered into a Cost Share Agreement to share the expenses associated with the preliminary engineering, planning and environmental review of the demonstration project. The Cost Share Agreement stipulates that San Joaquin County has the lead role in the development of the demonstration project and the District provides both technical and financial support. Follow-up phases of the effort include the detailed engineering stage, the construction stage, and finally the operation stage. Operation of the demonstration project will enable potential project proponents and participants to evaluate the feasibility of a permanent banking project in San Joaquin County. As part of the settlement agreement entered into among the District, San Joaquin County and various other parties relating to Mokelumne River water rights (as described under "– Water Rights and Related Proceedings – *Mokelumne River Rights"* above*)*, the District committed to provide up to $4.0 million towards the development of the demonstration project by San Joaquin County. Work in 2015 is being performed to finalize the demonstration project site and to develop preliminary design plans. An export permit is anticipated to be secured by mid-2016.

Bay Area Regional Desalination Project. Since 2003, the District has been working with other Bay Area water agencies, specifically the San Francisco Public Utilities Commission ("SFPUC"), CCWD and Santa Clara Valley Water District, and since 2010, the Zone 7 Water Agency, to explore the development of regional desalination facilities that could (1) provide additional source(s) of water during emergencies, (2) provide an alternative water supply that would allow major facilities to be taken out of service for an extended period of time for inspection, maintenance or repairs, and (3) provide a supplemental supply during drought periods.

In the spring of 2010, the District and its partners finalized a report on the completed pilot testing of a desalination facility. The test was conducted in 2009 within the CCWD service area along Mallard Slough. In 2012, a study was initiated to review how water would be conveyed from a regional plant to the various water supply agencies. That study work was completed in March 2014, and will be used in the evaluation of the feasibility of developing a full scale regional desalination project. In the spring of 2015, the partners began efforts to explore the possibility of proceeding into the next stage of the facility planning effort, the preparation of an EIR. EIR cost, scope and schedule estimates are being prepared such that a decision can be made whether to move forward into the detailed environmental review.

Beyond giving consideration to EIR preparation, the regional desalination project partner agencies are currently focusing on identifying alternative opportunities to improve regional water supply reliability. Specifically, the five regional desalination partner agencies, together with Alameda County Water District, Marin Municipal Water District and the Bay Area Water Supply and Conservation Agency, have joined forces to advance the concept of Bay Area Regional Reliability ("BARR"). A BARR Feasibility Study is contemplated that will review how the construction of mutually beneficial projects (such as system interties, expanded water treatment capabilities and/or enhanced water transmission systems, among others) could result in regional benefits that would be realized during times of drought and/or unforeseen emergencies. In the late spring of 2014, all eight agencies adopted a Principles document outlining their interest in furthering the BARR concept. In 2015, the eight agencies are working to secure federal funding to support the BARR Feasibility Study effort and have prepared a scope of work and a proposed Cost Share Agreement associated with the Feasibility Study effort.

Water Conservation

The District has developed a Water Conservation Master Plan, most recently updated in 2011 (the "WCMP"), which directs the District's comprehensive water conservation strategies and initiatives to promote water conservation and reduce demand for water. The WCMP serves as a blueprint for implementation strategies, goals and objectives for achieving additional water savings consistent with the targets identified in the District's 2010 Urban Water Management Plan ("UWMP"). The District provides technical and financial assistance to encourage customers to help assure an adequate water supply by using water efficiently. The District advises customers on selecting water-efficient products, implementing best management practices, and designing/maintaining *WaterSmart* landscaping and efficient irrigation methods. Water conservation services include water use surveys, new services plan check reviews, incentives for high-efficiency plumbing fixtures, appliances, process equipment and irrigation systems, and free distribution of conservation self-survey kits and water efficient devices (*i.e.*, showerhead, faucet aerators) that reduce water use. The District is also very active in new water conservation technology research and the development of education and demonstration projects.

The WCMP incorporates elements of the State Water Conservation Act of 2009 (Senate Bill X7-7) toward a statewide goal of a 20% reduction in urban per capita water use by the year 2020. All urban water agencies in the State were required to report their baseline per capita water use and reduction targets in their 2010 UWMP. The District has determined its base daily per capita use utilizing a State-approved methodology which applies a 5% reduction from the District's 2003 to 2007 baseline usage. The resulting District target for the year 2020 is 153 gallons per capita per day with an interim target for the year 2015 of 158 gallons per capita per day. The District's 2015 UWMP is in progress and is expected to be completed in early 2016. The 2015 WSMP will identify the District's final target value for the year 2020.

Water Facilities

Pardee Reservoir. The District's Mokelumne River water is collected and stored at Pardee Reservoir, located in the Sierra Nevada foothills approximately 90 miles east of the District and 38 miles northeast of Stockton. Pardee Reservoir has a storage capacity of 197,950 acre-feet.

Camanche Reservoir. Camanche Reservoir is located ten miles below Pardee Reservoir on the Mokelumne River. Camanche Reservoir has a capacity of 417,120 acre-feet and serves to control floods and to regulate the river flow in order to satisfy downstream water rights.

Terminal Reservoirs. Five terminal reservoirs located within the District's service area provide combined usable storage of approximately 151,670 acre-feet: San Pablo (with a capacity of 38,600 acre-feet), Briones (with a capacity of 60,510 acre-feet), Lafayette (with a capacity of 4,250 acre-feet), Upper San Leandro (with a capacity of 37,960 acre-feet) and Chabot (with a capacity of 10,350 acre-feet).

Aqueducts. Raw untreated water is transported 91.5 miles from Pardee Reservoir, through the Pardee Tunnel, the Mokelumne Aqueducts and the Lafayette Aqueducts, to the District's service area, where it is stored in terminal reservoirs or delivered directly to treatment plants prior to distribution. The Pardee Tunnel is an 8-foot high horseshoe structure 2.2 miles long. The three Mokelumne Aqueducts have a combined capacity of 200 MGD under gravity flow, and approximately 325 MGD with existing pumping facilities. The first Mokelumne Aqueduct is 5-feet, 5-inches in diameter, the second is 5-feet, 7-inches in diameter, and the third is 7-feet, 3-inches in diameter. All are steel pipelines extending 81 miles from the Pardee Tunnel to the east end of the two Lafayette Aqueducts in Walnut Creek. Approximately nine miles of pipeline is above-ground and the balance is below-ground.

Lafayette Aqueduct No. 1 is a 9-foot in diameter circular concrete pipe and three tunnels that extend 7.1 miles from Walnut Creek to the Orinda Filter Plant. Lafayette Aqueduct No. 2 is a 9-foot in diameter concrete pipe with seven tunnels extending 7.3 miles from the Walnut Creek Water Treatment Plant to the Briones Diversion Works near Orinda. The supply is then pumped (or diverted) through the 7-foot, 6-inch diameter steel Briones Aqueduct into Briones Reservoir, discharged into San Pablo Reservoir, or diverted through the 7-foot, 6-inch diameter steel Orinda Raw Water Line to Orinda Filter

Plant. Either or both Lafayette Aqueducts can be used to divert Mokelumne River water from Pardee directly or indirectly to all of the District's water treatment plants.

The Mokelumne Aqueducts cross the Sacramento-San Joaquin Delta for about fifteen miles and are protected by 51 miles of levees maintained by five reclamation districts governing Lower Roberts and Woodward Islands, Orwood and Palm, Upper Jones, and Lower Jones Tracts. The District has established a multi-pronged approach to protect the aqueducts from flooding and to recover from failures. These strategies include levee strengthening, aqueduct interconnections, and standby materials and supplies to respond to an emergency.

The District worked with the five reclamation districts to obtain $33.5 million in funding for levee strengthening and to purchase emergency supplies and the District provided the $6 million local cost share. This funding was used to bring forty-one miles of levees, adjacent to the Mokelumne Aqueducts, up to the U.S. Army Corps of Engineers standards and to purchase materials and supplies to facilitate emergency response. These levee improvements substantially improve the stability of the levees and help protect the District's water supply and the region's agriculture, cultural, and historical resources, as well as the ecosystems in the Delta.

At a cost of $14 million, the District constructed interconnections to the three Mokelumne Aqueducts on each side of the Delta. These interconnections will allow the District to restore 77% of the raw water system capacity with only one pipe in operation across the Delta. The District has six months of storage locally to serve its customers during an outage of the raw water system resulting from a failure in the Delta. This will bolster the resilience of the District's water supply system by enabling a rapid return to service after a failure with sufficient capacity to meet customer needs and begin to recover local storage.

Tunnels. Untreated water from San Pablo Reservoir is delivered to Sobrante Treatment Plant through a 5-foot, 6-inch diameter steel pipe; water from the Upper San Leandro Reservoir is delivered to the Upper San Leandro Treatment Plant through a 1.35 mile, 6-foot, 6-inch diameter horseshoe tunnel. The San Pablo Tunnel is 5-feet in diameter and can carry water 2.57 miles from the San Pablo Reservoir to the standby San Pablo Water Treatment Plant.

Raw Water Pumping Plants. The majority of the Water System is gravity-fed, with seasonal pumping. Walnut Creek No. 1, No. 2 and No. 3 Pumping Plants increase the capacities of the Mokelumne Aqueducts. When operating, these three pumping plants increase the combined capacity of the aqueducts to approximately 325 MGD. The Moraga Pumping Plant and Aqueduct supply water from the Lafayette Aqueducts to Upper San Leandro Reservoir. The plant's four pumps have a combined delivery capacity of 105 MGD; however, the configuration of the existing outlet limits delivery to a maximum rate of 58 MGD. The Moraga aqueduct is six miles of 5.5-foot, 5-foot and 4-foot diameter steel and concrete pipe between Lafayette and the Upper San Leandro Reservoir near Moraga. The Briones Pumping Plant and Aqueduct were placed in service following completion of Briones Reservoir. These facilities supply Briones Reservoir with Mokelumne River water. The four pumps in the Briones No. 2 Pumping Plant can deliver up to a total of 60 MGD.

Treatment Plants. Water delivered to the District's customers is first treated at one of six treatment plants. The six water treatment plants in the District's Water System are capable of filtering and processing a combined total of approximately 390 MGD. The water treatment plants are Upper San Leandro in Oakland, San Pablo in Kensington (standby only), Sobrante in El Sobrante, and plants located in and named for Orinda, Lafayette and Walnut Creek. Orinda Water Treatment Plant is the largest, with a peak capacity of 175 MGD.

Distribution Facilities. From the Orinda Water Treatment Plant treated water is carried 3.41 miles through the Claremont Tunnel, a 9-foot diameter horseshoe bore to three distribution aqueducts.

The water distribution network includes over 4,100 miles of pipe, 132 pumping plants and 171 neighborhood reservoirs (including approximately 143 above-ground concrete or steel reservoirs), having an operating capacity of 636 million gallons. The District's service area is divided into 124 pressure zones, ranging in elevation from sea level to 1,450 feet. About 60% of treated water is distributed to customers by gravity flow.

Pardee and Camanche Power Plants. The District operates hydropower plants at Pardee and Camanche Reservoirs pursuant to a Federal Energy Regulatory Commission ("FERC") license. The District's Pardee and Camanche hydropower plants are licensed as one project, the Lower Mokelumne River Project No. 2916. The current FERC license for these hydropower plants expires on March 31, 2031. These plants generate 185 million kilowatt hours of electricity in normal rainfall years. Other than a small amount of power being used at the District facilities at Pardee and Camanche, the power produced is currently being sold by the District to the Sacramento Municipal Utility District, which expires on June 30, 2015. See "WATER SYSTEM FINANCES – Power Sales Revenues."

Regional Intertie. In 2007, the District, the City of Hayward ("Hayward") and SFPUC completed an intertie to allow for 30 MGD of water to be conveyed between the District and SFPUC water systems via Hayward's distribution system. This project, which was funded by the participating agencies and the State through a Proposition 50 grant, provides the District and neighboring agencies increased flexibility to provide water throughout the region during an emergency. The intertie allows sharing of water among the parties during emergencies or planned critical work on facilities that would be difficult to remove from service without an alternative water source. The project consisted primarily of improvements within Hayward's water system, although there were associated minor improvements in the District and SFPUC systems.

Water Supply Operations

General. As described above, the District's water supply system consists of an integrated network of reservoirs, aqueducts, raw water pumping plants, treatment plants, and distribution facilities that extend from its principal water source, the Mokelumne River watershed basin in the Sierra Nevada range, across the San Francisco Bay – San Joaquin Delta, to the East San Francisco Bay Area. Set forth on the following page is a location map depicting the District's water supply system facilities.

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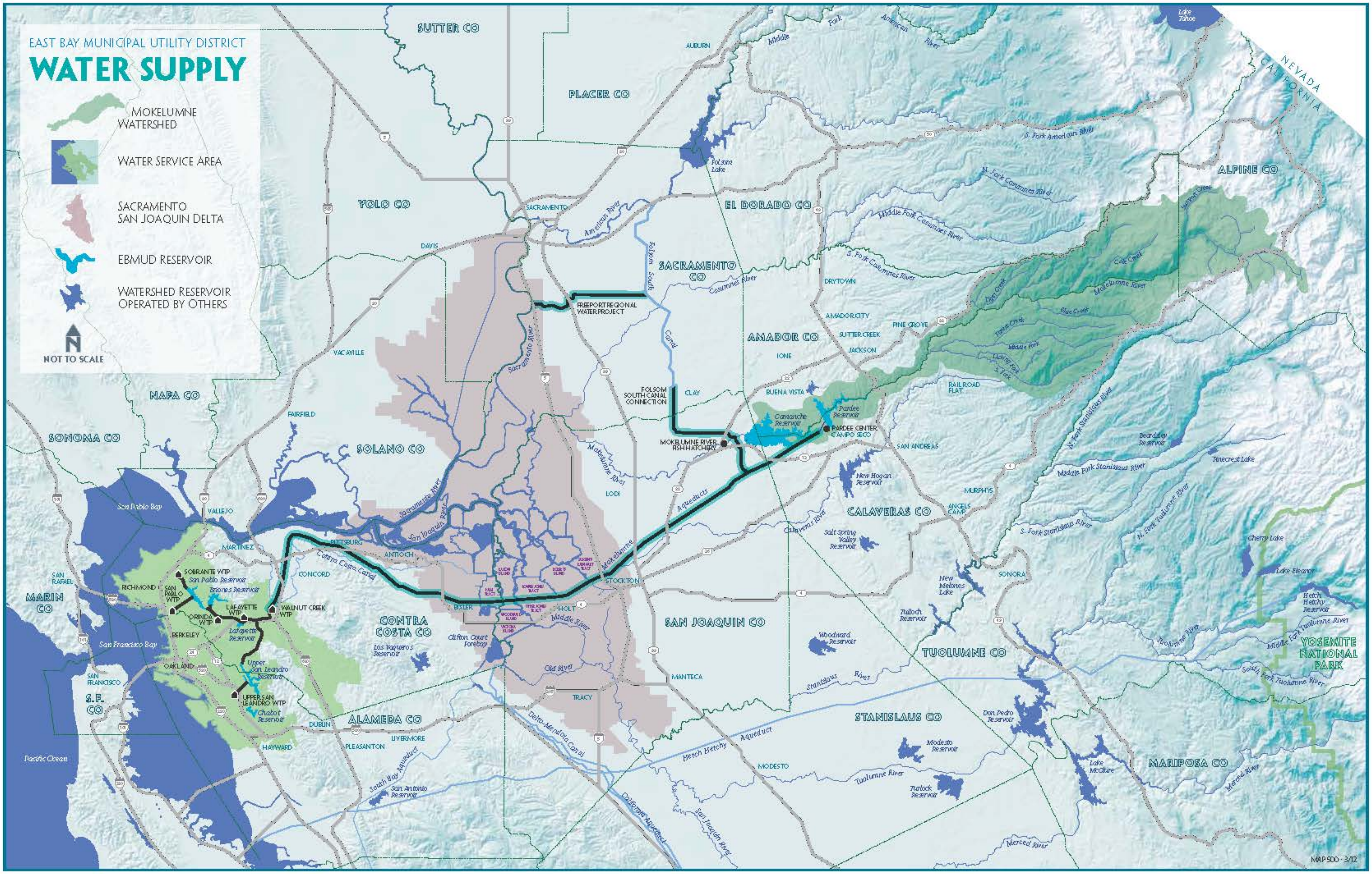

EAST BAY MUNICIPAL UTILITY DISTRICT
WATER SUPPLY
MOKELUMNE WATERSHED
WATER SERVICE AREA
SACRAMENTO SAN JOAQUIN DELTA
EBMUD RESERVOIR
WATERSHED RESERVOIR OPERATED BY OTHERS
NOT TO SCALE
SUTTER CO
PLACER CO
YOLO CO
EL DORADO CO
ALPINE CO
SACRAMENTO CO
AMADOR CO
NAPA CO
SONOMA CO
SOLANO CO
CALAVERAS CO
MARIN CO
CONTRA COSTA CO
SAN JOAQUIN CO
TUOLUMNE CO
S.F. CO
ALAMEDA CO
STANISLAUS CO
MARIPOSA CO
YOSEMITE NATIONAL PARK
NEVADA
CALIFORNIA
FREEPORT REGIONAL WATER PROJECT
FOLSOM SOUTH CANAL CONNECTION
MOKELUMNE RIVER FISH HATCHERY
PARDEE CENTER
CAMPO SECO
SOBRANTE WTP
SAN PABLO WTP
ORINDA WTP
LAFAYETTE WTP
WALNUT CREEK WTP
UPPER SAN LEANDRO WTP
Folsom Lake
Camanche Reservoir
Pardee Reservoir
San Pablo Reservoir
Briones Reservoir
Lafayette Reservoir
Upper San Leandro Reservoir
Chabot Reservoir
Mokelumne Aqueducts
Hetch Hetchy Aqueduct
Folsom South Canal
Contra Costa Canal
Delta-Mendota Canal
California Aqueduct
San Francisco Bay
San Pablo Bay
Pacific Ocean
Lake Tahoe
MAP 500 - 3/12

Streamflow from the Mokelumne River is collected and stored in the District's Pardee and Camanche Reservoirs, located in the Sierra foothills. Raw water from Pardee Reservoir is transported to the East Bay terminal reservoirs and treatment plants through the Pardee Tunnel, the three Mokelumne Aqueducts, and the Lafayette Aqueducts. The raw water is treated at one of the District's treatment plants before being delivered to customers.

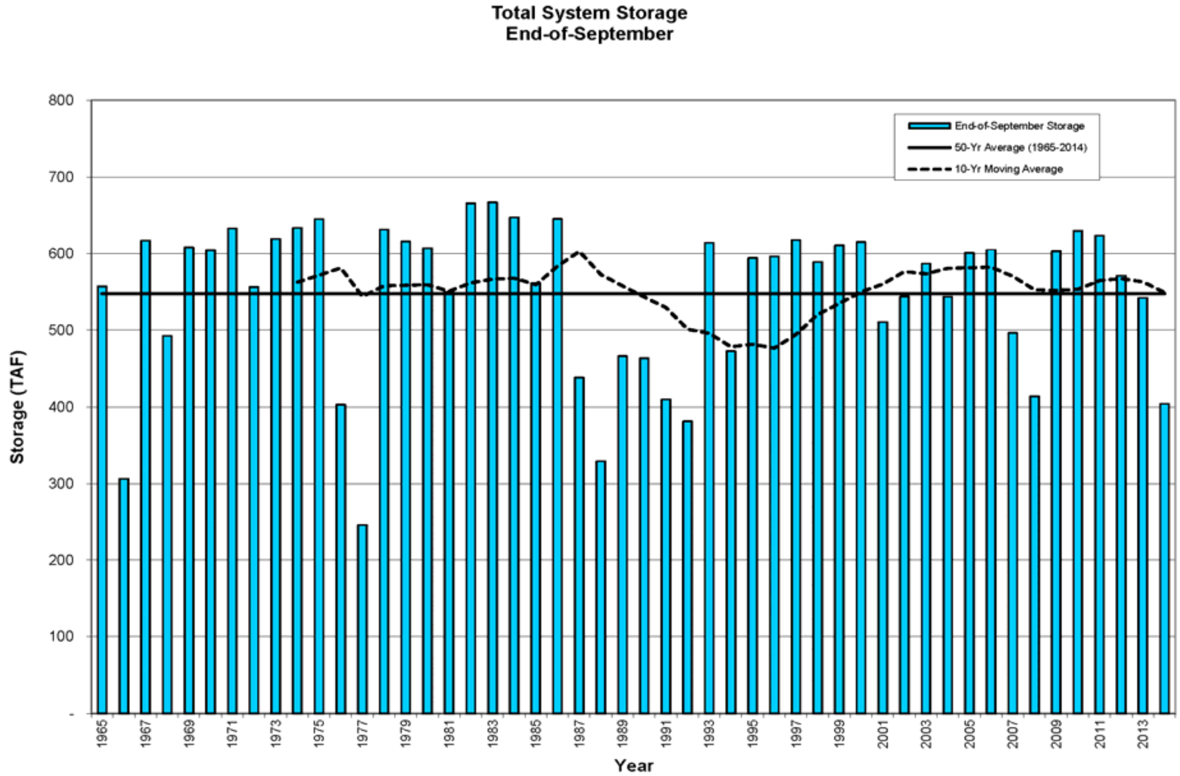
The District operates the water system to achieve multiple objectives. These objectives are to provide municipal water supply benefits, stream flow regulation, fishery/public trust interests, flood control, temperature management and obligations to downstream diverters. All of the components of the system, including Pardee and Camanche Reservoirs, the Mokelumne Aqueducts, and the East Bay terminal reservoirs are interdependent; for this reason, the District develops an annual operations plan for the entire water supply system. The annual water supply operations plan includes scheduled operations from April through September and identifies all District requirements.

The District plans its operations according to three projections: the California Department of Water Resources ("CDWR") April 1st Water Supply Forecast, the District's End-of-September (the end of the Water Year) projected total system storage, and the District's projected November 5th combined storage for Pardee and Camanche Reservoirs. Reservoir storage levels are required to be reduced by November 5th of each year to maintain the minimum level of available space necessary for flood control purposes. The projected November 5th combined storage for Pardee and Camanche is also utilized in determining the required releases for fish flows for the October through March period each year. The District monitors projections throughout the year and adjusts reservoir operations, as conditions change, to meet its goals, objectives and requirements.

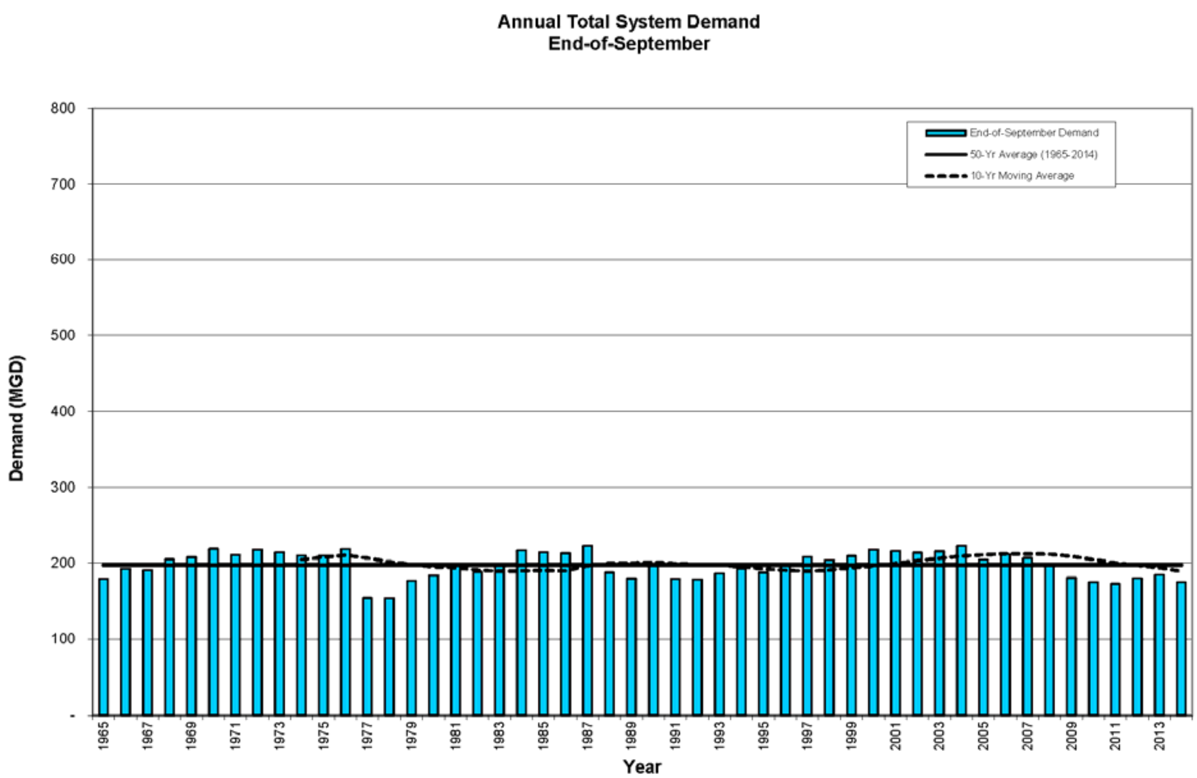
The District begins the Water Year by committing to provide the required minimum fish flows, associated with the projected November 5th storage levels for Pardee and Camanche Reservoirs, for the period October through March. Through fall and winter, the District continues to track rainfall, runoff, storage and demand to reassess reservoir operations as needed. By April, the District has a good indication of projected storage conditions for End-of-September total system storage and November 5th Pardee and Camanche reservoir storage.

On April 1st of each year, CDWR releases its snow survey water supply forecast of runoff for the Mokelumne River. The District uses the forecast to develop its Annual Water Supply Operations Plan, in which it schedules operations to meet all requirements according to the forecast for the period April through September. Scheduled operations include Camanche Reservoir releases in accordance with the prescribed flow requirements. As required by the District's Water Supply Availability and Deficiency Policy, the District Board is informed of the forecasted water supply condition for the end of the Water Year on September 30th. The September 30th storage forecast is used to determine if drought management measures will need to be implemented to reduce demand to ensure sufficient carryover storage for the following year. If dry year conditions exist (*i.e.*, projected total system storage on September 30th is less than 500,000 acre-feet), the Board will typically consider implementing demand management measures for the rest of the Water Year if the projected storage is significantly below 500,000 acre-feet. Projected End-of-September storage is required to be less than 500,000 acre-feet for the District to be able to utilize the Supplemental Supply made available under the Long-Term Renewal CVP Contract.

The graph on the following page shows historical End-of-September storage from 1965 to 2014. As shown on the below graph, the driest period for the District was 1976 to 1977. The longest dry period during such time frame was the extended drought from 1987 to 1992.



Set forth below is a graph depicting the total Water System demand for each Water Year from 1965 to 2013.



The District was able to provide water to its customers during the 1976-1977 drought, and during the extended five year drought from 1987 to 1992, without Supplemental Supply by relying on available storage. The completion of the Freeport facilities in 2011 provides the District with a Supplemental Supply during dry periods of up to 165,000 acre-feet of water under its Long-Term Renewal CVP Contract over a three-year period as described herein. See "– Water Supply – *United States Bureau of Reclamation Central Valley Project Contract; Freeport Regional Water Project*." In dry periods, the District will generally meet demands through a combination of voluntary water conservation efforts, utilization of available storage (not below certain threshold levels), available Supplemental Supply resources, including FRWP, and, when appropriate, implementation of mandatory use restrictions. See also "– Current California Drought."

Water Quality and Treatment

Federal and State regulatory agencies continually monitor and establish new water quality standards. New water quality standards could affect availability of water and impose compliance costs on the District. The federal Safe Drinking Water Act ("SDWA") establishes drinking water quality standards, monitoring, public notification and enforcement requirements for public water systems. To achieve these objectives, the United States Environmental Protection Agency (the "EPA"), as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for individual states to assume primary enforcement responsibilities. The California Department of Public Health ("CDPH"), formerly known as the Department of Health Services, has lead authority over California water agencies. On July 1, 2014, the Drinking Water Program transferred from the CDPH to the SWRCB. The Division of Drinking Water ("DDW") regulates public drinking water systems in California.

Currently, the State and the federal government regulate over 100 potential contaminants. Because the District's water supply comes primarily from a remote, semi-protected watershed, the raw water requires minimal treatment to meet or surpass all health and aesthetic standards. The District's drinking water is sampled and tested on an ongoing basis from all parts of the Water System to ensure that it meets or surpasses all primary (health related) and secondary (aesthetic) regulatory standards established by the EPA and the DDW. Test results on the District's water consistently show that regulated constituents of drinking water either are not detected at all, or they are present in amounts far below limits permitted by State and federal drinking water standards.

The District is actively involved with professional organizations at the federal and State levels related to water quality, including the American Water Works Association, ACWA and the Association of Metropolitan Water Agencies. The District serves on technical advisory committees that interact with the EPA during regulatory development or alteration, and recently worked with the EPA on updates to the Total Coliform Rule. In addition to working with the EPA, the District has developed its own water quality initiatives, including developing state and federal legislation to limit lead levels in household plumbing fixtures. The District also sits on national standards organizations which set standards for all aspects of water quality. The District was a founding member of the Water Research Foundation ("WRF") and actively participates in research projects; with the WRF, the District participates on numerous project advisory committees and carries out funded research.

Statewide Water Issues

Currently, the most significant area of attention in statewide water management is the California drought. On March 27, 2015, Governor Jerry Brown signed emergency legislation, Assembly Bill 91 and Assembly Bill 92, that fast-tracks more than $1 billion in funding for drought relief and critical water infrastructure projects. The legislation accelerates emergency food aid, drinking water, water recycling, conservation awareness, water system modeling, species tracking, infrastructure and flood protection funding. The legislative package derives funding from Proposition 1, a $7.5 billion bond measure passed by the voters in November 2014, as well as Proposition 1E, other funds that were already in the Governor's January 2015 budget, and $31 million in new funds. As further discussed under "– Current California Drought" above, the Governor subsequently issued an Executive Order on April 1, 2015, implementing mandatory reductions in urban water usage statewide by 25%, increasing enforcement of reporting requirements, and setting a goal of replacing 50 million square feet of lawns throughout the State with drought tolerant landscaping. On this same day, measurements across various monitoring locations in the Sierra Nevada indicated a record low snowpack at 6% of normal. On May 5, 2015, the SWRCB adopted emergency regulations implementing the Governor's Executive Order.

Over the last 20 years, there has been ongoing attention at the State and federal level on restoring the San Francisco Bay/Sacramento-San Joaquin Delta (the "Bay Delta"). Proceedings to achieve this end and some of the recommendations of agencies charged with this "Delta Fix" have been very controversial. The two primary proceedings are the Delta Plan and the Bay Delta Conservation Plan (the "BDCP").

CDWR is leading the development of the BDCP to meet the requirements of the federal and State Endangered Species Acts in the operation of the export projects in the Bay Delta. The BDCP is best known as a proposal for new water conveyance that would be built to divert Sacramento River water into a tunnel system that would bypass the Bay Delta (through twin tunnels following a fairly direct alignment between several intake facilities on the Sacramento River and south to the Clifton Court Forebay, a reservoir on the Bay Delta in Contra Costa County, approximately 17 miles southwest of Stockton). Numerous export water users are seeking permits through this process, which will also incorporate ecosystem restoration measures among the permit conditions. Governor Jerry Brown proposed a redesigned, downsized facility (from 15,000 cfs to 9,000 cfs) in July 2012. On December 13, 2013, the BDCP and the associated draft environmental impact report/statement were released for public review, and the extended public comment period closed on July 29, 2014. Soon after, the EPA issued a comment letter expressing significant concerns about the project. CDWR subsequently announced that portions of the environmental document would be revised and recirculated for additional public review by early 2015. In April 2015, CWDR confirmed that it is revising the complex, $25 billion project to secure permits only for the tunnels, reduce the extent of the ecosystem restoration effort, and shorten the previous 50-year permit period. The BDCP planning process is highly fluid and current expectations are that it may be further delayed by the continuing focus on the drought.

The District's water rights are not directly affected by the BDCP proceedings because the SWRCB will only be granting permits to the BDCP under water rights held by the Bureau and CDWR, and the SWRCB has explicitly indicated that other water rights holders are not intended to be harmed by any permits granted to the BDCP. Nonetheless, the District submitted detailed comments on the BDCP and the associated draft environmental impact report/statement, with an emphasis on the following concerns:

- the District's fishery restoration efforts on the Mokelumne could be impacted by restoration and/or conveyance components of the BDCP;
- the BDCP tunnels will intersect the District's aqueduct alignment and any construction impacts will need to be mitigated;
- the District's aqueducts cross the Bay Delta and are protected by miles of levees which the District believes should continue to be maintained as part of any "Delta Fix;"
- the BDCP process will likely result in new flow requirements for the State and federal pumping facilities and the District believes that upstream water users should remain unharmed by any mitigations required to maintain Delta outflows;

- the District is interested in ensuring that its ratepayers are not required to subsidize BDCP conveyance and mitigation costs that only benefit the State and federal water contractors who receive water pumped from the South Delta; and

- the BDCP fails to provide assurances of adequate funding for the project.

Another proceeding of significance to the Bay Delta is the update to be conducted by the SWRCB on its Water Quality Control Plan ("WQCP"). On January 24, 2012, the SWRCB published a Supplemental Notice of Preparation announcing its intention to review the 2006 WQCP for the Bay Delta. The WQCP sets flow standards and other water quality objectives that must be met to protect beneficial uses. The Notice of Preparation also provided that the SWRCB will prepare a substitute environmental document to evaluate potential modifications to current, and the establishment of new, objectives for the WQCP. The SWRCB also plans to approve a program of implementation that would modify water rights, which could include the District's Mokelumne water rights, to help meet WQCP objectives. The new or revised objectives and program of implementation will have regulatory effect when implemented. The program of implementation, which will occur over a series of years, may address flow requirements for the Mokelumne River, Sacramento River, and San Joaquin River and tributaries thereto. The SWRCB's schedule for adopting updated WQCP is uncertain, due in part to the State's current allocation of resources toward its drought response activities, but the adoption of updated WQCP will be followed in any event by a lengthy (multi-year) proceeding to implement the plan objectives, including any water right amendments.

The Sacramento-San Joaquin Delta Reform Act of 2009 established the Delta Stewardship Council, tasked with developing a comprehensive, long-term management plan for the Bay Delta, known as the "Delta Plan." The Delta Plan is intended to implement the State's co-equal goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Bay Delta ecosystem. The Delta Stewardship Council finalized the Delta Plan in May 2013, and the associated regulations became effective September 1, 2013. Seven different lawsuits are pending against the Delta Plan (including the EIR/EIS and associated regulations), filed by interest groups across the stakeholder spectrum, but the potential impact of the litigation on future Delta Plan implementation is unknown.

Climate Change

Global climate change is expected to create greater uncertainty in water supplies and demands in the future. The District has developed mitigation and adaptation strategies to deal with the changing climate and its effect on water resources. In 2008, the District incorporated climate change into its Strategic Plan, and has developed and implemented a climate change monitoring and response plan to inform future water supply, water quality, and infrastructure planning.

The District's response to climate change focuses on:

- keeping current with science and assessing potential effects of climate change in the Mokelumne and East Bay watersheds;
- determining water supply and infrastructure vulnerabilities;
- monitoring and reducing greenhouse gas emissions caused by the District's operations;
- integrating climate change in strategic planning and budgeting decisions;
- advocating for new legislation and regulations that help water and wastewater agencies better respond to climate change; and

- developing adaptation and mitigation strategies as part of a water supply management program, including an ongoing emphasis on water use efficiency on both the supply-side and the demand-side.

Seismic Matters

The District's service area is in a seismically active region of the State. The Hayward Fault runs through the entire western portion of the District and the Calaveras Fault runs through the southeastern portion of the District's service area. The Concord and Mt. Diablo Thrust Faults are located close to the east side of the District's service area and the San Andreas Fault is located to the west. The Pardee and Camanche Dams, and the District's three aqueducts, that carry water from Pardee Reservoir to the District's service area, are in other active earthquake fault areas. Even though the District has not experienced significant earthquake-related damage to its facilities, the District's Water System and/or its water supply could be adversely affected by a major local earthquake causing damage to the District's distribution system, the Pardee or the Camanche Dams, or the aqueducts delivering water to the District's service area.

A magnitude 7.0 earthquake on the Hayward Fault is likely to occur within the next few decades, according to the United States Geological Survey. A 1994 seismic study prepared for the District examined the likely effects of earthquakes on the Hayward Fault, the Calaveras Fault and the Concord Fault at that time on the District's Water System. The study concluded that a magnitude 7.0 earthquake on the Hayward Fault would likely cause major damage to the water transmission tunnels, substantial damage to distribution pipes, damage to potable water reservoirs and operational disruptions of the District's pumping plants, rate control stations and water treatment plants. The District could also experience significant damage as a result of lesser magnitude earthquakes on the Hayward Fault or earthquakes on the Calaveras or Concord Faults. If damage to the Claremont tunnel made it unusable, severe water rationing would be required in the western portion of the District's service area during an estimated 26-week repair period. Further, repair efforts on the District's Mokelumne Aqueducts after severe damage could take up to one year before water could be transported again to the District's terminal reservoirs. This would require stringent customer conservation, as the District's terminal reservoirs store roughly six months' supply under normal consumption patterns. A major earthquake could also have a severe adverse impact on the economy of the District's service area.

In response to the 1994 seismic study, the District initiated a multi-year Water System seismic improvement program and by 2007, the District completed a $200 million Seismic Improvement Program (the "SIP"), which focused on improving seismic performance of the distribution system and facilities, increasing the reliability of water service post-earthquake. The SIP included upgrades to 70 reservoirs, 130 pumping plants, six water treatment plants, three maintenance yards, the Administration Building, and various electrical equipment anchorages throughout the District. It also included completion of an alternate transmission pipeline, the Southern Loop; completion of a fault-line by-pass for the primary transmission tunnel, the Claremont Tunnel; and seismic upgrades of Mokelumne Aqueduct No. 3, which is the aqueduct most relied on by the District to carry water across 15 miles of the Sacramento-San Joaquin Delta.

Key projects completed within the SIP included:

Southern Loop Pipeline. The Oakland-Berkeley hills divide the District's service area into two water distribution areas, west-of-hills and east-of-hills. The Southern Loop pipeline is an 11-mile long emergency transmission pipeline that provides an alternate water supply route after a major earthquake. The Southern Loop connects San Ramon and Castro Valley to create a loop at the southern ends of the water distribution system. This benefits customers by providing increased system redundancy, flexibility and reliability in the District's transmission system across the Hayward Fault.

Claremont Tunnel Seismic Improvement Project. This project upgraded the Claremont Tunnel, a vital transmission facility providing service to 800,000 customers west of the Oakland-Berkeley Hills. This tunnel crosses the Hayward Fault and seismic analysis had suggested that in a magnitude 7.0 earthquake the tunnel would be damaged and most likely be out of service for up to six months for tunnel repairs, resulting in severe water rationing and reduced supplies for firefighting. The facility upgrade, completed in March 2007, consisted of a new 1,501-foot bypass tunnel to replace a vulnerable portion of the tunnel through the Hayward Fault zone as well as repair and reinforcement of other areas. The upgraded tunnel affords District customers substantially enhanced post-earthquake reliability.

Mokelumne Aqueduct No. 3 Seismic Upgrade Project. This project involved seismically retrofitting Mokelumne Aqueduct No. 3, the District's largest aqueduct, at a cost of approximately $40 million, to improve its ability to withstand a maximum credible seismic event.

Building Structures Seismic Improvement Project. The Building Structure Seismic Improvement Project retrofitted occupied District buildings, including, but not limited to, the upgrade of the Administration Building to meet life safety performance goals and to ensure availability of facilities for post-earthquake operation.

Reservoir Seismic Upgrades Project. The Reservoir Seismic Upgrades Project addressed seismic risks to 70 distribution tanks to assure continued water storage following an earthquake and mitigate the risks to life safety that would result from tank failure. Other accomplishments include the completion of landslide mitigations and the installation of seismic isolation valves at reservoirs and valve pit roof anchorages.

The SIP improvements collectively will allow the District to meet its service restoration goal of providing water service to 70% of its customers within ten days after a major seismic event. The District continues to enhance seismic safety as part of its comprehensive capital improvement project planning process (discussed under "– Capital Improvement Program" below). That process has, to date, resulted in the integration of seismic upgrades into ongoing facility renewal work, as well as major seismic upgrades, such as a $76 million seismic upgrade to the San Pablo Reservoir dam, the largest of the local water storage reservoirs, which was completed in 2010.

Despite the completed and continuing seismic work, in the event of significant earthquake damage to the Water System and/or the District's service area, there can be no assurance that Subordinated Water Revenues would be sufficient to pay the principal of and interest on any outstanding Water System Revenue Bonds.

Dam Licensing and Safety Issues

As part of its Water System facilities, the District manages a number of dams. These include Pardee Reservoir in the Mokelumne River watershed, its main source of water supply, Camanche Reservoir, which stores water south of Pardee Reservoir and operates to meet regulatory and environmental obligations, including flood control and for downstream users, the District's five local water supply reservoirs, and more than 20 open-cut reservoirs that hold treated water. The dams range from 8 feet to 345 feet tall and were built from the late 1800s to 1990.

Most of the District's dams are under the jurisdiction of the California Department of Water Resources' Division of Safety of Dams ("DSOD"). Pardee and Camanche Dams are also under the jurisdiction of FERC because they produce hydropower. These regulatory agencies perform independent annual dam inspections and review plans and specifications for the enlargement, alteration, repair or removal of existing dams under their respective jurisdiction. DSOD and FERC also conduct investigations of selected dams and direct the owners to do additional investigations and detailed safety evaluations when necessary.

The District has a comprehensive Dam Safety Program guided by the District's Dam Safety Program policy ("Policy 9.07"). Policy 9.07 requires management of District-owned dams and accompanying facilities to assure dam safety, structural integrity and operational safety for the protection of life, property and the environment. Engineers monitor dams using instruments, and perform monthly visual inspections and periodic reviews to ensure the safety of dams. The safety of each dam is reevaluated with advances in geotechnical, structural and earthquake engineering.

Security and Emergency Preparedness

The District has implemented a security and emergency preparedness program that includes a Security Operations Control Center (the "SOCC") that is staffed seven days a week, 24 hours a day. The SOCC houses a proprietary centralized security system to monitor access controls, digital video cameras and recorders, and security alarms. This security system includes supervisory control and data acquisition (referred to as SCADA) alarms related to entry points and critical water distribution system hatches. The dispatchers at the SOCC monitor alarms, assess conditions using a closed circuit television system, and dispatch security and law enforcement response as needed for alarms and reports of suspicious circumstances or crimes at District facilities. In addition, the District maintains access controls for its water and wastewater treatment, administrative and maintenance facilities, its storage yards and service centers, and the reservoirs and pumping plants in its water distribution system. District security includes an internal security staff and security contracts, and both units patrol the District's critical infrastructure and key resource facilities from the foothills in the Sierra Mountains to the San Francisco Bay. Contract security officers are also used to supplement automated access controls at certain key facilities.

In order to address emergency response by the District, the District has an established Emergency Operations Plan. Pursuant to the District's Emergency Operations Plan, District employees are sworn disaster services workers, and staff is trained to use the State Office of Emergency Services Standardized Emergency Management System (referred to as SEMS) in response to emergencies and security incidents. As part of its Emergency Operations Plan, the District maintains two strategically located emergency operations centers and a mobile emergency command center, and has in place an emergency operations team to lead emergency response activities. The District also has adopted business continuity plans to ensure the District's ability to respond to, work through and recover from, any emergency or other event that disrupts its normal business functions.

Capital Improvement Program

Since Fiscal Year 2002, the District has implemented a biennial budget. In the Spring of odd-numbered years, a budget is presented to the Board for consideration for the two ensuing Fiscal Years. The District's biennial budget planning process includes a review of projected long-term (10 years or longer) facilities needs and the development of a capital expenditure forecast for the ensuing five fiscal years. A series of master plans document the identified facilities needs by asset classes (such as pipes, reservoirs and other assets) and include assessments of the District's key facilities, taking into consideration condition assessments, operational performance and maintenance histories. Facilities in need of rehabilitation or replacement are identified and prioritized. Project scopes are also defined (for example, replacement of aging mechanical or electrical gear, seismic upgrades, or other defined scopes).

The results of the master plans are considered during the biennial update to the Capital Improvement Program (the "CIP"). The last adopted CIP update was completed in 2013 and included a five-year capital expenditure forecast for Fiscal Years 2014 through 2018. Based upon this CIP forecast, the District's cash expenditures for capital improvements to the Water System for Fiscal Years 2014 through 2018 were estimated to aggregate approximately $1.036 billion.

An updated forecast of projected CIP expenditures and projects covering the five Fiscal Years 2016 through 2020 has been developed in connection with the District's proposed biennial budget for Fiscal Years 2016 and 2017. The proposed biennial budget, including the five-year capital expenditure forecast for Fiscal Years 2016 through 2020, was presented to the Board on March 24, 2015. The biennial budget for Fiscal Years 2016 and 2017 is scheduled for consideration for adoption by the Board on June 9, 2015 following a public hearing to be held on such date.

In the proposed Fiscal Year 2016 through 2020 CIP, the District is continuing its focus on investments in infrastructure rehabilitation, repair and replacement. The five-year CIP cash expenditures are projected to aggregate approximately $1.376 billion, a 33% percent increase over the current budget.

Table 4 summarizes the District's Fiscal Years 2016 through 2020 projected CIP cash expenditures by major category as forecast in the proposed biennial budget for Fiscal Years 2016 and 2017.

Table 4
Fiscal Years 2016-2020
Capital Improvement Program
Proposed FY 2016 and FY 2017 Biennial Budget[(1)]
Forecast – Cash Expenditures
(Thousands)

	Fiscal Year ended June 30					
	2016	***2017***	***2018***	***2019***	***2020***	***Total[(3)]***
Maintaining Infrastructure	$ 91,687	$102,210	$111,016	$102,686	$106,424	$ 514,024
Extensions/Improvements	22,590	30,862	42,133	58,677	54,342	208,603
Facilities, Services & Equipment	14,372	12,410	11,130	9,965	12,693	60,570
Regulatory Compliance	15,976	17,456	11,559	18,414	9,925	73,330
Water Supply	27,738	24,619	68,882	68,634	73,689	263,561
Resource Management	4,126	1,763	894	900	890	8,574
Water Quality	7,978	6,797	9,100	8,550	7,201	39,625
Admin. & General Expense[(2)]	40,000	40,000	41,200	42,400	43,700	207,300
Total[(3)]	$224,466	$236,118	$295,914	$310,226	$308,863	$1,375,586

(1) The proposed biennial budget for Fiscal Years 2016 and 2017 is scheduled for consideration for adoption by the Board on June 9, 2015 following a public hearing to be held on such date.
(2) Includes overhead, construction management and other administrative costs which are allocated to individual projects upon their completion.
(3) Totals may not add due to rounding.
Source: The District.

The cost estimates are for planning purposes only and are subject to revision in connection with the subsequent five-year CIP forecast prepared as part of the biennial budget planning process.

Included in the District's five-year capital plan for Fiscal Years 2016 through 2020 as reflected in the proposed biennial budget for Fiscal Years 2016 and 2017 are the major programs and projects described below:

Maintaining Infrastructure. These programs focus primarily on the replacement or rehabilitation of District facilities to ensure continued reliable performance. The majority of the work in this category involves pipeline projects, including pipeline improvements, replacements and extensions, and replacement of pipeline appurtenances, such as valves, hydrants and meters at the end of their useful lives. The District's inventory of approximately 4,200 miles of distribution pipe is managed to maintain reliable service and a leak rate that is consistent with industry standards. Pipes are scheduled for renewal primarily through the evaluation of maintenance histories. Fiscal Years 2016 through 2020 work includes construction of 10 miles of pipeline replacements per year. In addition, the new "10 to 40" program will be initiated which includes development of a short-term program to replace an additional 5 miles per year; a pilot study researching methods and improvements to make the pipeline work process more efficient; and creation of a long-term plan to increase the replacement rate up to 40 miles per year.

Appurtenances such as service laterals, hydrants and meters are also managed such that devices are installed to accommodate new service connections, and existing appurtenances are replaced at the end of their useful life. One focus area for several years has been cost-effective replacement of defective polybutylene service laterals. To date, approximately 73% of the estimated 64,300 polybutylene laterals have been replaced. The current strategy is to continue replacing laterals when failures occur and to pre-emptively replace laterals on a planned basis where cost-effective opportunities arise, approximately 500 per year.

Major facilities such as reservoirs, pumping plants, and rate control stations are addressed in the CIP, based on the master planning process described earlier. In general, the projects address structural integrity, worker safety, operational reliability, regulatory requirements and water quality issues. For example, the current capital plan contemplates an average of three to four of the District's 83 steel reservoirs being recoated each year during Fiscal Years 2016 through 2020, in order to prevent corrosion and thereby extend the life of the facilities. In addition, design and construction of rehabilitation projects at 28 pumping plant facilities is expected, as well as planning and design for the replacement of the San Pablo Clearwell in Kensington, and South Reservoir in Castro Valley.

System Extensions and Improvements. System Extensions and Improvements projects provide service to new customers and/or improve service to existing customers. The majority of work in this category focuses on making improvements to various components of pressure zones such as pipelines, reservoirs, pumping plants and water treatment plants to improve system reliability for existing customers, and to provide service to new customers within the ultimate service boundary.

The pressure zone improvements program addresses systematic improvements to the District's 123 pressure zones, including upgrading or replacing reservoirs, pumping plants and transmission systems to increase storage capacity and improve water quality. Over the term of the five-year capital plan for Fiscal Years 2016 through 2020, these improvements are anticipated to include reservoir replacement in Castro Valley, Berkeley and Lafayette/Walnut Creek; pumping plant rehabilitation in Oakland and El Sobrante/Pinole; and over twenty projects including improvements to water treatment plants, pumping plants, water storage reservoirs and transmission pipelines in areas west of the Berkeley hills.

The water treatment and transmission improvements program for Fiscal Years 2016 to 2020 calls for new and upgraded facilities to meet current and projected water demands. The program includes distribution improvements in the Lafayette, Orinda, Moraga and western Walnut Creek area, and also includes new facilities and upgrades to Sobrante, Upper San Leandro and Walnut Creek water treatment plants.

Facilities, Services & Equipment. Projects and programs included in the Facilities, Services and Equipment category include security improvements at various facilities, implementation of new computer systems, and replacing old vehicles and equipment. The five-year capital plan for Fiscal Years 2016 through 2020 includes a variety of improvements at the District's administration building in Oakland, including replacement of the fire alarm and life safety system, upgrades to boilers for improved energy efficiency, replacement of the cooling tower and certain chiller systems, and elevator upgrades. In addition, replacement of the District's materials management, human resources, financial information, and work management systems are anticipated. Additional projects include security improvements to numerous facilities, including fencing, lighting, alarms, video monitors, card readers, and a cybersecurity vulnerability assessment, as well as ongoing periodic replacement of construction equipment and vehicles.

Regulatory Compliance. Regulatory compliance projects are contemplated in furtherance of the District's objectives for continued compliance with all air, land and water discharge requirements and the implementation of preventative and corrective maintenance programs. The work in this area primarily focuses on dam safety improvements and modifications to reservoir towers. Planned dam safety improvements include upgrades to dams, outlet towers, clearwells and spillways to meet earthquake and flood safety requirements. In addition, seismic evaluations and dam freeboard increases are anticipated to address seismic safety. Upcoming seismic evaluations are scheduled for Moraga Reservoir, Dunsmuir Reservoir in Oakland, Leland Reservoir in Lafayette, and Sobrante Clearwell. A variety of reservoir tower upgrades are expected to be completed at the San Leandro, and Briones reservoirs during the term of the current five-year capital plan through Fiscal Year 2020. In addition, seismic upgrade of the Chabot Dam in San Leandro is expected to be completed in Fiscal Year 2017 and upgrades are planned at Camanche Dam to begin in Fiscal Year 2017. Trench spoils material generated from pipeline installation and repairs throughout the service area are temporarily stockpiled at three District-owned disposal sites for future reuse or disposal. Off-haul of trench spoils will take place at the Castro Valley site in Fiscal Year 2016, and the Orinda site in Fiscal Year 2019. Spoils disposal is anticipated to increase by 50 percent starting in Fiscal Year 2017 as the District embarks on a pilot program to increase the amount of pipeline installed.

Water Supply. Water supply projects include those capital projects being undertaken to further the District's objectives to ensure a reliable, high quality water supply for the future and to preserve current entitlements and obtain additional supplemental supplies, as well as conservation and recycling projects designed to reduce the demand for potable water. The focus of water supply projects included in the five-year capital plan for Fiscal Years 2016 through 2020 is primarily on maintaining the raw water aqueducts.

The aqueducts program consists of evaluating and improving the raw water aqueduct system to reliably meet operational requirements. Ongoing work to remove lead-based paint and recoat portions of the ten miles of above-ground pipe of the Mokelumne Aqueducts is expected to be completed during the current five-year capital plan. Planned work includes the replacement of the cement lining in the Mokelumne Aqueducts that protects the steel pipeline from corrosion. In addition, retrofit of isolation bearings and temperature anchors on the District's aqueducts will continue.

Consistent with WSMP 2040, the five-year capital plan for Fiscal Years 2016 through 2020 contemplates that the District will pursue supplemental water supply efforts, including Mokelumne regional projects, Sacramento Basin ground water banking, regional desalination, and water transfers. See also "– Water Supply Management Plan."

The WSMP 2040 also includes recycled water as a key element to offset demand for potable water. The East Bayshore Project will continue to ultimately supply up to 2.5 MGD of recycled water to portions of Alameda, Albany, Berkeley, Emeryville and Oakland for irrigation, industrial, commercial and environmental uses. Expansion will continue of the San Ramon Valley Recycled Water Program, a joint program with the Dublin San Ramon Services District to supply 2.4 MGD of recycled water to portions of San Ramon, Danville, Blackhawk and surrounding areas. Expansion of the North Richmond Water Recycling Plant by an additional 1 MGD is expected by Fiscal Year 2020, pending supply availability. The plant serves the Chevron refinery in Richmond. It is anticipated that the cost of the expansion will be borne by Chevron through reimbursements paid to the District.

In recognition of the anticipated ongoing drought conditions, in addition to the baseline water conservation programs, a number of strategies will be accelerated over the next several years including: expanded indoor and outdoor rebates; water saving device distribution; landscape irrigation water budgets; Home Water Reports for residential customers; water loss control programs; advanced metering infrastructure; WaterSmart Business Certification; and update of per capita water use calculations and targets.

Resource Management. Resource management projects further the District's objectives to manage the Mokelumne and East Bay watersheds to ensure a high quality water supply, protect natural resources, provide public access and recreational opportunities compatible with water quality and natural resource protection, and prepare master plans to protect natural resources and ensure drinking water quality. Work in this area will focus on making improvements to recreational facilities at Camanche and Pardee Reservoirs, and updating habitat conservation and watershed management plans. Planned projects include upgrades to campgrounds, docks, roadways and parking facilities in the District's recreation areas, as well as improvements in site drainage, utility services and storm water management to enhance water quality, support customer needs and protect the environment.

Water Quality. Water quality projects are designed to enable the District to meet its objectives to operate and maintain facilities to surpass federal and State drinking water regulations, and to make system improvements that meet or surpass regulatory requirements. The majority of work in this category focuses on making improvements to reservoirs and water treatment plants to improve water quality. Projects for Fiscal Years 2016 through 2020 include rehabilitation and modernization improvements to six of the District's water treatment plants, including, for example, electrical upgrades, filter backwash and control system improvements, installation and/or automation of chemical feed lines, sludge pipeline replacement and sludge thickening, emergency power supply improvements, storm drain and ventilation system improvements, and replacement of filter underdrains.

Other Potential Projects. The District also has appropriated funds to meet unanticipated capital needs and for projects that are seeking grant funding. These funds will be used to pay for capital expenditures such as replacements or repairs to facilities and equipment and to fund new or accelerate existing projects in between budget cycles. Funds will also be available for grant funded projects that normally require the District to fund the costs and then apply for reimbursements. Some of the potential grant funded projects include advanced metering infrastructure fixed network collectors to provide customers with the information they need to effectively manage their own water use with consumption information and leak detection; and water conservation rebates.

The District's estimated funding sources for its CIP for Fiscal Years 2016 through 2020 as reflected in the proposed biennial budget for Fiscal Years 2016 and 2017 is set forth in Table 5:

Table 5
Fiscal Years 2016-2020
Proposed FY 2016 and FY 2017 Biennial Budget[(1)]
Sources of Funds for Capital
Improvement Program Expenditures

Funding Sources	***(Millions)***
Commercial Paper Proceeds	$ 0
Bond Proceeds[(1)]	648.7
Advances, Contributions and Grants	187.7
Revenues	539.2
Total	$1,375.6

(1) The proposed biennial budget for Fiscal Years 2016 and 2017 is scheduled for consideration for adoption by the Board on June 9, 2015 following a public hearing to be held on such date.
Source: The District.

WATER SYSTEM FINANCES

Basis of Accounting

The District reports operations on a Fiscal Year basis (currently July 1 through June 30). Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods and services to the general public are financed or recovered primarily through user charges. Enterprise funds are accounted for using the accrual basis of accounting. The accounting policies of the District conform to generally accepted accounting principles for municipal water and wastewater utilities. The accounts are maintained substantially in accordance with the Uniform System of Accounts prescribed for investor-owned and major municipally-owned water and wastewater utilities.

Sources of Funds

The Water System's principal source of revenues is water sales. In Fiscal Year 2014, approximately 79% of the Water System's $465.0 million in total sources of funds was provided from water sales. Sources of funds other than water sales include taxes, income from the sale of energy from the District's hydroelectric power plants, investment income, and grants and contributions in aid of construction. In Fiscal Year 2014, the District's share of the countywide 1% *ad valorem* property tax levy contributed approximately 5.5%, or $25.5 million of the total sources of funds. In Fiscal Year 2014, the Water System's hydroelectric power plants produced power revenues of approximately $1.4 million and the District's income on investments was approximately $1.7 million. Contributions in aid of construction totaled $49.0 million, including $22.6 million of seismic surcharge collections, $20.4 million of system capacity charges collected during such year (which excludes accumulated system capacity charge funds available to offset debt service costs for such Fiscal Year), $5.2 million of contributions for facility relocations, main extensions and service installations, and $0.8 million of grants and other reimbursements.

Table 6 sets forth the District's Water System sources of funds for the five most recent Fiscal Years ended June 30, 2014. The sources of funds in Table 6 include certain funds which do not constitute Subordinated Water Revenues for purposes of funds pledged under the Indenture. Subordinated Water Revenues include all charges received for, and all other income and receipts derived by the District from, the operation of the Water System or arising from the Water System, which includes, without limitation, the District's water rates, system capacity charge and seismic surcharge, as well as investment income.

Property taxes are applied to reduce Operation and Maintenance Costs and are not pledged to the repayment of the Water System Revenue Bonds. See "– Property Tax Revenues." Contributions received for facility relocations, main extensions and service installations and grants and other reimbursements which are restricted to use for the specified purposes are not included in Subordinated Water Revenues for purposes of the Indenture. Only Subordinated Water Revenues are pledged to the payment of the Water System Revenue Bonds. See "SECURITY FOR THE SERIES 2015 BONDS – Pledge of Subordinated Water Revenues." Comparative summaries of the Water System's historical operating results and debt service coverage ratio for each of the last five Fiscal Years appear in Table 18.

Table 6
WATER SYSTEM SOURCES OF FUNDS
Five Fiscal Years Ended June 30, 2014
(Millions)

	Fiscal Year Ending June 30				
	2010	***2011***	***2012***	***2013***	***2014***
Operating Revenue and Other Income:					
Water sales	$271.0	$283.6	$306.2	$336.1	$367.5
Power sales	6.2	8.1	4.6	3.6	1.4
Interest[(1)]	9.6	5.7	5.5	3.7	1.7
Taxes	22.9	22.2	23.4	26.4	25.5
Other[(2)]	7.7	13.4	16.2	12.8	19.9
Total Operating Revenue and Other Income	$317.4	$333.0	$355.9	$382.6	$416.0
Capital Contributions:					
Seismic Surcharge	$ 16.7	$ 18.1	$ 19.2	$ 20.6	$ 22.6
System Capacity Charge[(3)]	12.5	17.6	16.1	22.7	20.4
Earned contributions on construction[(4)]	6.0	6.5	5.8	4.5	5.2
Grants and reimbursements	4.7	3.6	4.1	8.0	0.8
Total Contributions	$ 39.9	$ 45.8	$ 45.2	$ 55.8	$ 49.0
Total	$357.3	$378.8	$401.1	$438.4	$465.0

(1) Includes interest earnings on amounts in the Water System Fund, including earnings on proceeds of the District's Water System Revenue Bonds.

(2) Other Revenues include receipts from property sales, rental of District property, fees for use of District recreational facilities and other miscellaneous receipts. Beginning in Fiscal Year 2010, Other Revenues also includes interest subsidy payments received in each year by the District in connection with its Series 2010B Bonds which are Build America Bonds. Excludes reimbursements and other receipts applied directly to operating expenses.

(3) System capacity charge collections presented in the table above include the "buy-in" portion and the "future water supply" portion of SCC charges when collected. Does not include the "future water supply" portion of SCC charges applied from the Future Water Supply Fund to offset debt service costs. See " – System Capacity Charge" below.

(4) Includes contributions for facility relocations, main extensions and service installations.

Source: The District.

Water Sales Revenues

Water sales to residential accounts provide approximately 57% of the District's water sales revenues. Approximately 89% of the District's accounts are residential, but because residential consumption per account is lower than for other customer types, residential sales account for only 53.3% of consumption. The District's five largest customers are Chevron U.S.A. Inc. and its subsidiaries, Conoco Phillips, the University of California, Golden Rain Foundation (Rossmoor retirement community) and the C&H Sugar Company. In Fiscal Year 2014, these five largest customers consumed approximately 10.4% of the District's water; Chevron U.S.A. Inc. and its subsidiaries alone consumed 5.3%.

Table 7 sets forth water sales revenues, consumption and number of connections by customer type for the Fiscal Year ended June 30, 2014.

Table 7
WATER SALES REVENUES, CONSUMPTION AND NUMBER OF CONNECTIONS BY CUSTOMER TYPE
Fiscal Year Ended June 30, 2014

Type of Customer	*Sales Revenues* [(1)]	*Percent of Revenues*	*Consumption (MGD)*	*Percent of Consumption*	*Number of Connections*	*Percent of Connections*
Residential	$209,326,775	57.0%	89.3	53.3%	346,544	89.2%
Commercial	116,131,513	31.6	53.9	32.2	37,981	9.8
Industrial	26,845,633	7.3	16.8	10.0	1,450	0.4
Other[(2)]	15,243,348	4.1	7.5	4.5	2,444	0.6
Total[(3)]	$367,547,268	100.0%	167.5	100.0%	388,419	100.0%

(1) Excludes proceeds from the seismic surcharge which the District capitalizes in its audited financial statements in accordance with Generally Accepted Accounting Principles. Seismic surcharge revenues are Water Revenues for purposes of the Indenture. Does not include account establishment fees, recycled water fees and certain other miscellaneous charges.
(2) Includes public agencies, recycled water customers and late charges.
(3) Totals may not add due to rounding.
Source: The District.

Rates and Charges

The District's rates and rate structure are established by the District's Board after a public hearing process, and are not subject to regulation by any other agency. Under California law, the imposition of, or any increase in, a property-related fee or charge, including fees and charges for ongoing water service, is subject to specified procedural requirements (including notice, hearing and protest procedures). In addition, pursuant to California law all such property-related fees and charges meet certain substantive standards, including that such fees and charges must be proportional to the cost of providing service. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218" for a discussion of the procedural and substantive requirements to which the District's proposed rate increases are subject.

From Fiscal Year 2011 through Fiscal Year 2015, residential rates increased by an average of 7.75% per Fiscal Year. The District's most recent rate increase included the adoption on June 11, 2013 of a 9.75% and a 9.50% system-wide rate increase for Fiscal Years 2014 and 2015, respectively. In conjunction with the Board's consideration for adoption of the District's proposed biennial budget for Fiscal Years 2016 and 2017, the Board will consider for adoption proposed system-wide rate increases of 8.00% and 7.00% for Fiscal Years 2016 and 2017, respectively. The average residential rate increases enacted by the District for Fiscal Years 2011 through 2015 and the proposed average residential rate increases for Fiscal Years 2016 and 2017 are as follows:

Table 8
WATER RATE INCREASES

	Fiscal Year	*Average Rate Increase (Residential)*
	2011	7.50%
	2012	6.00
	2013	6.00
	2014	9.75
	2015	9.50
Proposed	2016[(1)]	8.00[(1)]
Proposed	2017[(1)]	7.00[(1)]

(1) A public hearing on the proposed rate increases for Fiscal Years 2016 and 2017 is scheduled for June 9, 2015 at which time the Board will consider the proposed Fiscal Year 2016 and 2017 rate increases for adoption. If adopted, the proposed rate increase for Fiscal Year 2016 would be effective on bills issued on or after July 1, 2015 and the proposed rate increase for Fiscal Year 2017 would be effective on bills issued on or after July 1, 2016.

Source: The District.

The District's water rate structure is based on a cost of service methodology.

The rate structure consists of two elements: a monthly service charge and a commodity charge for water delivered. With the exception of single family residential customers, commodity charges for water delivered are based on a uniform volume rate. Single family residential customers are billed on a three-tier inclining block rate structure.

Table 9 shows the rate schedule effective July 1, 2014 for Fiscal Year 2015 and the proposed rate schedule to be effective July 1, 2015 for Fiscal Year 2016, if approved. The monthly water bill for a typical residential account consuming 1,000 cubic feet (10 Ccf or 7,480 gallons) per month is $48.60. As noted above, the District's proposed rates for Fiscal Year 2016, if adopted, would become effective on July 1, 2015, and represent an average increase of 8.00% for residential customers from Fiscal Year 2015 rates. The monthly water bill for a typical residential account consuming 1,000 cubic feet (10 Ccf or 7,480 gallons) per month following such rate increase, if adopted, excluding any drought surcharge which may be applicable, would be $52.17. See also Table 19 under "– Projected Operating Results" for a description of projected future rate increases.

Table 9
WATER SYSTEM RATES AND CHARGES(1)

Service Charge

	Effective July 1, 2014	*Proposed July 1, 2015*
Meter Size	***Per Month***	***Per Month***
5/8-inch and ¾-inch	$16.06	$19.34
1-inch	27.08	29.20
1 ½-inch	44.99	53.88
2-inch	66.58	83.48
Over 2-inch	Various	Various

Charge for Water Delivered

	Effective July 1, 2014	*Proposed July 1, 2015*
Rate Class	***Per Hundred Cubic Feet (Ccf)***	***Per Hundred Cubic Feet (Ccf)***
Basic Rate – Single Family(2)	$2.91	$2.95
Basic Rate – Multi Family	3.68	4.17
Basic Rate – Other	3.81	4.15
Elevation Band Surcharges(3) –		
Band 2: Pressure Zones 2 through 5	0.55	0.60
Band 3: Pressure Zones 6 and higher	1.12	1.24

(1) Rates effective as of July 1, 2014 include the seismic surcharge added to each customer's water bill. The surcharge consists of a meter charge component that varies by meter size and a volume surcharge. As part of the proposed rates for Fiscal Years 2016 and 2017, on June 9, 2015, the Board will consider a sunset of the seismic surcharge effective July 1, 2015, based upon a determination by the District that revenues collected to date are sufficient to cover the remaining costs of the program. See "– Seismic Surcharge" below.

(2) Applies to first 172 gallons per day (7 Ccf) for single family residential customers. Additional consumption by residential customers is billed at $3.60 per Ccf for consumption between 173 and 393 gallons per day (16 Ccf) for Fiscal Year 2015, which is proposed to be increased to $4.06 for Fiscal Year 2016, and $4.42 for all water used in excess of 393 gallons per day for Fiscal Year 2015, which is proposed to be increased to $5.36 for Fiscal Year 2016. Currently, for a household using 10 Ccf in Fiscal Year 2015, the water usage charge for the first 7 Ccf at the first tier rate of $2.91 per Ccf would be $20.37 and the water usage charge for the additional 3 Ccf at the second tier rate of $3.60 per Ccf would be $10.80, for a total charge for water delivered of $31.17; the monthly service charge would be $14.69 and the seismic surcharge would include a $1.37 monthly meter charge component and a $1.37 water service availability component, resulting in a total monthly bill of $48.60.

(3) The water elevation surcharge provides for the increased power and facility costs needed to pump water to locations (zones) 200 or more feet above sea level.

Source: The District.

Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017. The District updates the Water System's rates and charges biennially in conjunction with the development of its budget. The rates and charges are designed to cover the expenditures identified in the biennial budget for the two ensuing Fiscal Years and to meet identified Board policy goals. In connection with the development of proposed rates and charges for Fiscal Years 2016 and 2017, the District completed a cost of service study aimed toward ensuring that its rates and charges equitably and appropriately recover costs. In addition, over the past year, the District has held a series of public workshops relating to long-term strategies designed to assure its continued financial stability. One of the goals of these activities was the development of a long-term water shortage strategy.

As a result of this planning process, including the cost of service study, a number of changes to the Water System's current rates and charges have been proposed. The recommended revisions to the Water System schedule of rates and charges for Fiscal Years 2016 and 2017 were presented to the Board at a workshop held on March 24, 2015. A public hearing on the proposed Water System rates and charges is scheduled for June 9, 2015. Following the public hearing, on such date, the Board will consider the proposed Water System rates and charges for Fiscal Years 2016 and 2017 for adoption. If adopted, the proposed Water System rates and charges would be effective on or after July 1, 2015 for Fiscal Year 2016 and on and after July 1, 2016 for Fiscal Year 2017.

The proposed revisions to the Water System schedule of rates and charges for Fiscal Years 2016 and 2017 include a number of elements which are discussed below.

- Overall Rate Increases

  Overall average rate increases (including meter, volume, elevation charges, non-potable (recycled) water and private fire service) of 8.0% for Fiscal Year 2016 and 7.0% for Fiscal Year 2017 have been recommended for adoption by the Board. These rate increases are designed to support the District's operating and capital (including debt service) expenses, excluding any drought contingency expenses.

- Implementation of Updated Cost of Service Study Recommendations

  The proposed revisions to the Water System schedule of rates and charges for Fiscal Years 2016 and 2017 include certain adjustments to individual meter, volume, elevation, non-potable and private fire service rates and charges designed to implement the results of the updated cost of service study recently completed by the District. As a result, implementation of the overall average rate increases described above, if adopted, will result in different rate increases for each customer class and for individual customers within each customer class depending on water use and meter size.

- Sunset of the Seismic Improvement Program Surcharge

  The District has imposed a seismic surcharge on each customer's water bill since May 1996. The seismic surcharge consists of a meter charge component that varies by meter size and a volume surcharge component. The surcharge was designed to provide sufficient funds to pay the costs of construction of recommended seismic improvements undertaken as part of the SIP. The District has determined that seismic surcharge revenues collected to date are sufficient to cover the remaining costs of the program. As a result, the proposed revisions to the Water System rates and charges include the sunset of seismic surcharge as of the start of Fiscal Year 2016.

- Implementation of Approved New System of Drought Surcharges

  On December 9, 2014, the Board approved the proposed design structure for a potential new system of drought surcharges using drought stages corresponding to the District's Drought Management Program (DMP) Guidelines (see "THE WATER SYSTEM – Current California Drought"). The proposed Fiscal Year 2016 and 2017 rates and charges included proposed drought surcharges for four stages of drought. If adopted, the drought surcharges may be implemented in the event that drought conditions continue and the Board declares specific drought stages pursuant to its water shortage contingency plan. The drought surcharges, corresponding to increasingly severe stages of water shortages, would be applied to each unit of water used during the billing period, and are calculated to recover costs of providing supplemental water, increased costs of water shortage-related customer service and loss of revenue. The surcharge will not apply to non-potable water. The proposed schedule of drought surcharges is set forth below.

Proposed Staged System of Drought Surcharges

Drought Stage	0	1	2	3	4
Demand Reduction		Voluntary 0-15%	Voluntary 0-15%	Mandatory Up to 15%	Mandatory $\geq$ 15%
Supplemental Supplies			Up to 35,000 acre-feet	35,000-65,000 acre-feet	$\geq$ 65,000 acre-feet
Rates and Charges	Normal rates	Normal rates	Normal rates + Up to 8% surcharge	Normal rates + Up to 20% surcharge	Normal rates Up to 25% surcharge

The proposed new system of drought rates includes a supersaver recognition program to be applicable to the single family residential customer class. Supersaver recognition would be given to single family households in drought stages 3 and 4 that use less than 100 gallons per day (gpd)/per month, or who are saving 10% more than the District's designated conservation goal at that stage.

The proposed new system of drought rates also includes a penalty on excessive water use in stages 3 and 4 to be applicable to the single family residential customer class. The proposed penalty is $2 per Ccf for monthly use over 60 Ccf per month in a drought declared to be stage 3 by the Board and for use over 40 Ccf per month in a drought declared to be stage 4 by the Board. The water use penalty was adopted by ordinance approved by the Board on April 28, 2015.

On April 14, 2015, the District declared a Stage 4 "Critical" Drought within the District's service area. See "THE WATER SYSTEM – Current California Drought."

The proposed overall rate increases and the proposed new drought surcharges (not including the proposed non-monetary supersaver recognition and the excessive water use penalty) are subject to the notice, hearing and protest procedures under Proposition 218 referenced above. The proposed overall rate increases and the proposed new drought surcharges are currently scheduled for consideration for adoption by the Board on June 9, 2015, following a public hearing on such rates and charges to be held on such date. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218. Recommended changes to other Water System rates and charges not subject to Proposition 218 (including capacity charges, recreation fees, installation charges and other one-time fees and charges) were presented to the Board on May 12, 2015. No assurances can be given that any proposed changes to the Water System rates and charges will ultimately be adopted.

Seismic Surcharge

The District's seismic surcharge is a rate surcharge designed to recover costs of the SIP. See "THE WATER SYSTEM – Seismic Matters." The basis for the surcharge is to: (i) provide fire flow availability for real property after a seismic event; and (ii) provide continued water service to residential, commercial and industrial customers after a seismic event. The surcharge is collected as part of the water bill and was established for the period of May 1, 1996 through February 28, 2025. The surcharge is sized to ensure that sufficient funds are available to fund construction of recommended seismic improvements with allowance for inflation in construction costs and growth in customer base.

For a typical residential customer in Fiscal Year 2015, the seismic surcharge consists of a $1.37/month meter charge for a typical 5/8" meter plus a charge of $1.37/month per single-family residential customer for water service availability. Outside of single-family and multi-family residential customers, the water service availability component is based on the customer's consumption and is charged at a rate of $0.15 per 748 gallon billing unit due to the wide variation in water use by non-residential customers. The District's Board annually reviews these charges and adjusts them as necessary to ensure the seismic surcharge collected will meet all obligations of the program.

As described above, the proposed Water System rates and charges for Fiscal Years 2016 and 2017 to be considered for adoption by the Board on June 9, 2015 in conjunction with the District's biennial budget for such Fiscal Years, if approved, would result in a sunset of the seismic surcharge effective July 1, 2015, based upon a determination by the District that revenues collected to date are sufficient to cover the remaining costs of the program. See "– Rates and Charges – *Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017*."

Comparison of Annual Water Service Charges

Table 10 shows comparative average annual water service charges by various Bay Area water agencies for a typical residential account with a 5/8-inch meter using 1,000 cubic feet of water (7,480 gallons) per month. Charges are for the minimum cost zone or area served by the agency based on rates to be in effect as of July 1, 2015.

Table 10
COMPARATIVE ANNUAL RESIDENTIAL WATER CHARGES
For 10 Ccf/Month and 5/8" Meter
Rates as of July 1, 2015[(1)]

Water Supplier	*Average Annual Household Water Service Charge*
City of Palo Alto	$1,005
City and County of San Francisco	908
City of San Jose	738
City of Hayward	710
Alameda County Water District	690[(2)]
Dublin San Ramon Services District	678
Contra Costa Water District	640
East Bay Municipal Utility District[(2)]	**626**[(2)]
North Marin Water District	621[(2)]
Marin Municipal Water District	578
City of Los Altos	576
City of Livermore	568
City of Pleasanton	358

(1) Reflects charges based on rates expected to be applicable as of July 1, 2015 regardless of characterization as base rates, drought rates or other characterization.
(2) Based on proposed rates.
Source: The District.

Billing and Collection Procedures

All water service customers are billed directly by the District bimonthly, with the exception of approximately 1,000 accounts consisting of the largest users in the District, which are billed monthly. Billing is staggered throughout the billing cycle by geographic location within the District. Service may be discontinued if an overdue account is not paid after appropriate customer notification. The District considers its rates of payment delinquency, service discontinuance for non-payment, and write-offs for uncollectible accounts to be low by water industry standards for urban areas. Write-offs for uncollectible accounts for the last five Fiscal Years are set forth in Table 11.

Table 11
WATER SALES UNCOLLECTIBLE REVENUES
Last Five Fiscal Years

Fiscal Year Ended June 30	*Uncollectible Revenues*	*Percent of Gross Billings*
2010	$1,745,358	0.64%
2011	1,588,746	0.56
2012	1,344,226	0.44
2013	1,898,610	0.57
2014	1,638,731	0.42

Source: The District.

System Capacity Charge

The District's system capacity charge ("SCC") is designed to recover from new accounts a portion of the costs of existing facilities, as well as the costs of additional facilities (primarily water supply projects) to be constructed in the future to provide water service to new customers based on land use plans. Under the existing SCC policy, funds collected from SCCs are applied toward the costs of the District's capital program for such facilities, and in the case of future water supply projects, to reimburse the Water System for the payment of debt service on Water System Revenue Bonds issued to finance such facilities.

The SCC includes both a "buy-in" portion and a "future water supply" portion. The "buy-in" portion includes the costs of existing District storage, treatment and distribution facilities, as well as existing water supply facilities (including reservoirs and aqueducts) and administration facilities. As the "buy-in" portion of the SCC, new accounts are charged for their share of the costs of these existing District facilities (escalated to current dollars). The "future water supply" portion of SCC receipts is collected to fund the costs of additional facilities required to serve new accounts. The "future water supply" portion of SCC receipts when collected are deposited in the Future Water Supply Fund, a segregated account of the Revenue Fund, to be applied in future years to offset debt service costs attributable to SCC-related capital facilities. In Fiscal Year 2014, SCCs collected totaled $20.4 million (the "buy-in" portion of $14.5 million and the "future water supply portion" of $5.9 million).

For purposes of the Indenture, the District has included in the SCC Revenues as shown in Table 18 for Fiscal Years 2010 through 2014, the "buy-in" portion of SCC charges when collected and the debt service repayment component of the "future water supply" portion of SCC charges when applied from the Future Water Supply Fund to offset debt service costs attributable to SCC-related capital facilities. For Fiscal Year 2014, the District recognized SCC Revenues of $20.4 million.

For financial statement purposes, however, the District has elected to account for both the "buy-in" portion of SCC charges when collected and the debt service repayment component of the SCC when applied as part of capital contributions. As a result, no SCC amounts are reflected as operating revenues in the District's financial statements.

Due to the significant capital expenditures by the District on the FRWP and other capital improvements and the associated application of SCCs to the reimbursement of debt service and other costs related thereto, the application of SCC funds to offset debt service increased significantly beginning in Fiscal Year 2010.

Supplemental Supply Surcharge

The District's current approved water rates include a supplemental supply surcharge of 14% of total potable water flow charges which is to be added to customers' water bills after the District declares the need to use the FRWP to deliver Supplemental Supply from outside of the District's normal watershed. The supplemental supply surcharge is designed to cover the costs of operating the FRWP and the costs of Supplemental Supply during dry year periods when the District takes deliveries of such Supplemental Supply.

On April 22, 2014, the District Board declared a need to use the FRWP to take delivery of Supplemental Supply for delivery to the District's service area for potable water service in May through July of 2014 (the first time such a declaration was necessary since the commercial operation of the FRWP occurred in November 2011). During Water Year 2014, the District took delivery of approximately 23,390 acre-feet of Supplemental Supply. The total cost to purchase, pump and treat this Supplemental Supply was estimated to be approximately $9.3 million. Due to the short time frame during which the FRWP was operated to deliver this Supplemental Supply to the District in Fiscal Year 2014 and the availability of unbudgeted receipts, including one-time revenue of approximately $5.6 million from the District's sale of a 24-acre parcel of District surplus property, on April 22, 2014, the Board suspended implementation of the supplemental supply surcharge for Fiscal Year 2014. The determination to suspend the supplemental supply surcharge for such Fiscal Year was made by the District based on its finding that the expenditures for the Supplemental Supply intended to be covered by revenue from the supplemental supply surcharge could be funded in Fiscal Year 2014 without adversely affecting the District's finances. As part of such action, the Board expressly reserved the right to implement the supplemental supply surcharge at any future date whenever it declares a need to operate the FRWP to deliver Supplemental Supply from outside the District's normal watershed.

As described under "THE WATER SYSTEM – Current California Drought," on April 14, 2015, the Board declared a need to use the FRWP to deliver to the District's service area during the period April 15, 2015 through February 29, 2016 at least 65,000 acre-feet of Supplemental Supply, including CVP water made available to the District under the Long-Term Renewal CVP Contract and any water purchased by the District under such water transfers as may subsequently be approved by the Board. The District has estimated the total incremental cost to purchase, treat and deliver 8,000 acre-feet of CVP water a month (the rate at which the District diverts its CVP supplies at the FRWP facilities) is approximately $4.0 million per month, and the total cost of purchasing, treating and delivering a Supplemental Supply of CVP under the District's Long-Term Renewal CVP Contract during the remainder of Fiscal Year 2015 would be a maximum of $10.0 million. Due to the short time frame during which the FRWP facilities are expected to be operated to deliver this Supplemental Supply to the District in Fiscal Year 2015 and the availability of other sources of District funds to cover these costs for Fiscal Year 2015, on April 14, 2015, the Board suspended implementation of the supplemental supply surcharge for Fiscal Year 2015. The determination by the Board to suspend the supplemental supply surcharge for Fiscal Year 2015 was made by the Board in light of (a) the proposed adoption by the Board of a new four-stage system of drought surcharges pursuant to the rate design structure approved by the Board in December 2014, that would be effective, if adopted, for Fiscal Year 2016 beginning on July 1, 2015, and (b) a finding by the Board that, due to the short time frame in which the FRWP will be operated in the remainder of Fiscal Year 2015, the expenditures intended to be recovered by the revenue from the supplemental supply surcharge can be funded in Fiscal Year 2015 from other available sources. See also "– Rates and Charges – *Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017*."

Property Tax Revenues

The District's share of the countywide 1% *ad valorem* property tax levy has provided approximately 5% to 6% of total operating revenues of the Water System in each of the past five Fiscal Years for the District. The District's share of the countywide 1% *ad valorem* property tax is not pledged as a source of payment for the Water System Revenue Bonds, although such amounts are applied to pay Water Operation and Maintenance Costs in accordance with the Indenture.

Table 12 shows a five-year record of assessed valuations, secured roll levies and delinquencies for the taxable property included within the District. Assessed valuations are expressed by county assessors as "full cash value" as defined by Article XIIIA of the State Constitution. The tax levy shown is the District's allocated share of the maximum *ad valorem* tax levy by each county of 1% of full cash value. 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 12
TAXABLE PROPERTY WITHIN THE WATER SYSTEM
Assessed Valuation and Tax Collection Record

	Fiscal Year Ending June 30				
	2010	***2011***	***2012***	***2013***	***2014***
Assessed Valuation for Taxation Purposes[(1)]					
Alameda County	$ 91,896,215,219	$ 92,498,938,097	$ 94,461,089,218	$ 98,956,612,301	$ 103,645,001,483
Contra Costa County	79,539,647,643	79,611,319,471	81,232,708,213	83,100,933,502	89,682,673,562
Total	$171,435,862,862	$172,110,257,568	$175,693,797,431	$182,057,545,803	$193,327,675,045
District Secured Roll Tax Receipts[(2)]					
Alameda County	$ 11,820,322	$ 11,404,014	$ 12,463,643	$ 14,417,608	$ 13,669,336
Contra Costa County	11,068,795	10,831,553	10,921,960	12,018,366	11,823,055
Total	$ 22,889,117[(4)]	$ 22,235,567	$ 23,385,603	$ 26,435,974	$ 25,492,391
Delinquent June 30[(3)]					
Amount	$ 463,326	$ 377,242	$ 353,191	$ 260,612	$ 211,831
Percent	2.02%	1.70%	1.51%	0.99%	0.83%

(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.

(2) Net basis excluding all exemptions. Levies reflect the tax reductions effected by the adoption of Article XIIIA of the State Constitution in 1978, the "Jarvis-Gann Initiative." For Alameda County, receipts include District's share of prior years' delinquencies when collected.

(3) 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.

(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 $1.85 million from property tax revenues allocable to the Water System. 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% countywide *ad valorem* property tax revenues.

See also “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

The tax rolls for property located within the District’s Water System service area for the Fiscal Year ended June 30, 2014, aggregated a total assessed valuation of approximately $193.3 billion, including redevelopment project areas incremental valuations of which the taxes payable were due to the redevelopment agency. In 2011, the State enacted legislation commonly referred to as “AB1X 26,” which required the dissolution of California redevelopment agencies and the dissolution and winding up of the operations of those agencies, which dissolution occurred on February 1, 2012. AB1X 26 provides a framework for the management of the remaining obligations of the dissolved redevelopment agencies by their respective successor agencies and oversight boards to oversee those successor agencies. Pursuant to AB1X 26, tax increment will continue to flow to the payment of “enforceable obligations” (such as tax allocation bonds) of the dissolved redevelopment agencies.

Power Sales Revenues

The District operates hydropower plants at Pardee and Camanche Reservoirs. These plants generate 185 million kilowatt hours of electricity in normal rainfall years. The power is currently sold to the Sacramento Municipal Utility District under a 10-year power purchase agreement which expires on June 30, 2015. This power purchase agreement includes the sale of hydroelectric power, available capacity during summer months, and environmental attributes (*i.e.*, credits, benefits, offsets, reductions or allowances resulting from the generation of renewable energy). The District expects to execute a successor agreement to the existing power purchase agreement with another purchaser prior to the expiration of the existing agreement. Annual revenues to the District from power sales have ranged from approximately $1.4 million to $8.1 million over the last five fiscal years. Revenues from power sales vary depending on power prices and the volume of water available for release from the reservoirs. In its biennial budget for Fiscal Years 2014 and 2015, the District budgeted $5.7 million annually in hydropower revenue based upon an assumed average rainfall year.

Developer Contributions

Cash contributions for main extension and other facilities to serve new customers depend on the level of development. In addition to collection of its SCC (as described under “System Capacity Charge” above), District policy requires new applicants for service to pay direct charges for mains, hydrants, and services necessary to serve them. In Fiscal Year 2014, developer contributions collected for facility relocation charges, mains and hydrants and service installations totaled $5.2 million. These developer contributions are treated as capital contributions and are not included in Subordinated Water Revenues for purposes of the Indenture.

Grants

Grants are received for specific projects. In Fiscal Year 2014, the District collected approximately $0.8 million in grants. An aggregate amount of $2.9 million in grants and reimbursements is budgeted for Fiscal Years 2014 through 2018. Grants and reimbursements are treated as capital contributions and are not included in Subordinated Water Revenues for purposes of the Indenture.

Operation and Maintenance Costs

The primary component of the District’s Operation and Maintenance Costs is labor costs, including wages, salaries and benefits. Operation and Maintenance Costs also include materials, supplies and services such as costs of chemicals for water treatment and electrical power, costs of purchased water such as water delivered to the District under the Long-Term Renewal CVP Project and/or water purchased by the District under other negotiated water purchase agreements, when applicable, and other general and administrative expenses.

Outstanding Debt

Table 13 shows the District's Water System debt outstanding as of April 1, 2015. As provided in the Municipal Utility District Act, prior to the exercise by the District of its power to issue Water 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 April 1, 2015, there remains $527,330,000 of authorized but unissued Water System revenue bonds under Resolution No. 33606-07 adopted on June 12, 2007, pursuant to which the Board declared its intention to authorize the issuance of up to $1,100,000,000 of Water System revenue bonds, to be issued from time to time in one or more series. Additionally, on April 28, 2015, the Board adopted Resolution No. 34031-15, declaring its intention to authorize the issuance of an additional $653,000,000 of Water System revenue bonds, to be issued 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 to be issued pursuant to Resolution No. 33606-07, expired without challenge). The referendum period for Resolution No. 34031-15 will expire on or about July 15, 2015. The District may from time to time in the future adopt other resolutions authorizing the issuance of additional Water System Revenue Bonds and Parity Debt, subject to the satisfaction of the conditions set forth in the Indenture. See "SECURITY FOR THE SERIES 2015 BONDS – Issuance of Additional Water System Revenue Bonds and Parity Debt; Junior and Subordinate Obligations."

Low-interest loans were made by the SWRCB and the CDWR to the District to finance certain water reclamation and reuse facilities within the District to conserve fresh water supplies. See "SECURITY FOR THE SERIES 2015 BONDS – Outstanding Water System Revenue Obligations – *Parity State Loans*."

Tax-exempt Extendable Municipal Commercial Paper Notes (Water Series) ("Water System CP Notes") 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 (including Wastewater System 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. The maximum authorized principal amount of commercial paper notes pursuant to the above limit has been calculated by the District to be approximately $524,700,000 as of December 31, 2014. As of April 1, 2015, $374,800,000 principal amount of commercial paper notes were outstanding, including $359,800,000 of Water System CP Notes. The Water System CP Notes are payable from and secured by a pledge of Water Revenues on a basis subordinate to the Water System Revenue Bonds.

Table 13
OUTSTANDING WATER SYSTEM DEBT
(as of April 1, 2015)

Issue	*Date of Issue*	*Last Maturity*	*Amount Issued*	*Outstanding April 1, 2015*
Water System Revenue Bonds				
Revenue Refunding Bonds, Series 2007B	5/23/07	6/01/19	$ 54,790,000	$ 30,450,000
Revenue Refunding Bonds, Series 2008A[(1)]	3/20/08	6/01/38	322,525,000	105,250,000
Revenue/Refunding Bonds, Series 2010A	2/03/10	6/01/36	192,830,000	188,135,000
Revenue Bonds, Series 2010B (Build America Bonds)	2/23/10	6/01/40	400,000,000	400,000,000
Revenue Refunding Bonds, Series 2012A	10/10/12	6/01/37	191,750,000	191,750,000
Revenue Refunding Bonds, Series 2012B	11/13/12	6/01/26	358,620,000	332,840,000
Revenue Refunding Bonds, Series 2013A	3/05/13	6/01/21	48,670,000	45,525,000
Revenue Refunding Bonds, Series 2014A	6/11/14	6/01/35	128,315,000	128,315,000
Revenue Refunding Bonds, Series 2014B	6/11/14	6/01/30	242,730,000	242,730,000
Revenue Bonds, Series 2014C	6/26/14	6/01/44	75,000,000	75,000,000
Revenue Refunding Bonds, Series 2015A	3/03/15	6/01/37	429,360,000	429,360,000
Total Water System Revenue Bonds			$2,444,590,000	$2,169,355,000
Parity Debt:				
Safe Drinking Water State Revolving Fund Loan (Upper San Leandro Reservoir)	1/01/03	1/01/24	2,188,000	1,120,276
State Water Resources Control Board Loan (East Bayshore Recycled Water Project)	5/22/08	4/01/28	20,100,000	13,931,832
Total Parity State Loans			$ 22,288,000	$ 15,052,108
Subordinate Debt:				
Extendable Municipal Commercial Paper Notes (Water Series)	Various	Various	359,800,000[(2)]	359,800,000
Total Debt			$3,478,473,000	$2,544,207,108

(1) Liquidity support currently provided by Standby Bond Purchase Agreements with Wells Fargo Bank, National Association (Series 2008A-1 Bonds and Series 2008A-4 Bonds) and U.S. Bank National Association (Series 2008A-2 and Series 2008A-3 Bonds). See "Table 14 – Liquidity Facilities and Expiration Dates" below. The District has entered into interest rate swap agreements that provide a hedge for the Series 2008A Bonds. See "Table 15 – Water Interest Rate Swap Agreements" below. See also "SECURITY FOR THE SERIES 2015 BONDS – Outstanding Water System Revenue Obligations – *Interest Rate Swap Agreements*."

(2) Commercial paper notes may be issued by the District in an amount up to the statutory limit described above.

Source: The District.

Variable Rate and Swap Obligations

As of April 1, 2015, of the District's $2,169,355,000 aggregate principal amount of outstanding Water System Revenue Bonds, $105,250,000 principal amount are variable rate obligations which are subject to tender prior to maturity in accordance with their terms, such bonds being the District's Water System Revenue Refunding Bonds, Series 2008A (the "Series 2008A Bonds"). The interest rates for the District's Series 2008A Bonds are re-set on a weekly basis (hereinafter, "Weekly Rate Bonds"), and such bonds are subject to tender prior to maturity, including optional tender by the owners thereof upon seven days' notice. Liquidity support for the purchase of the Weekly Rate Bonds is provided by standby bond purchase agreements between the District and various liquidity providers. Table 14 sets forth a listing of the liquidity providers, the expiration date of each facility and the principal amount of outstanding bonds covered under each facility as of April 1, 2015.

Table 14
LIQUIDITY FACILITIES AND EXPIRATION DATES

Water System Revenue Bond Issue	*Outstanding Principal Amount*	*Liquidity Provider*	*Facility Expiration*
Series 2008A-1	$32,395,000	Wells Fargo Bank, National Association	December 9, 2016
Series 2008A-2	24,285,000	U.S. Bank National Association	July 2, 2018[1]
Series 2008A-3	24,285,000	U.S. Bank National Association	July 2, 2018[1]
Series 2008A-4	24,285,000	Wells Fargo Bank, National Association	December 9, 2016
Total	$105,250,000		

(1) On May 12, 2015, the District and U.S. Bank National Association executed an amendment to the liquidity facility for the Series 2008A-2 Bonds and Series 2008A-3 Bonds providing for the extension of scheduled expiration date of the liquidity facility from July 1, 2015 to July 2, 2018.

Source: The District.

In connection with the District's $105,250,000 principal amount of outstanding variable rate Water System Revenue Bonds, the District has entered into various interest rate swap agreements (collectively, the "Water Interest Rate Swap Agreements"). By virtue of these Water Interest Rate Swap Agreements, the related variable rate Water System Revenue Bonds are essentially treated by the District as fixed rate debt for the purpose of calculating debt service requirements, although the variable payments that the District receives from the Swap Providers (defined below) do not usually equal the payments that the District makes on associated variable rate debt. There is no guarantee that the floating rate payable to the District pursuant to each of the Water Interest Rate Swap Agreements will match the variable interest rate on the associated Water System Revenue Bonds to which the respective Water Interest Rate Swap Agreement relates at all times or at any time. Under certain circumstances, the Swap Providers may be obligated to make a payment to the District under their respective Water Interest Rate Swap Agreement that is less than the interest due on the associated Water System Revenue Bonds to which such Water Interest Rate Swap Agreement relates. In such event, the District would be obligated to pay such insufficiency from Subordinated Water Revenues.

As of April 1, 2015, the District had outstanding the following Water Interest Rate Swap Agreements relating to variable rate Water System Revenue Bonds with the following counterparties (collectively, the "Swap Providers") in the aggregate notional amount of $105,250,000.

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Table 15
WATER INTEREST RATE SWAP AGREEMENTS

Related Water System Revenue Bond Issue	*Outstanding Notional Amount*	*Swap Provider*	*District Pays*	*District Receives*	*Scheduled Maturity/ Termination Date*
Series 2008A Bonds	$ 16,195,000	Merrill Lynch & Co., Inc.	3.115	62.3% of 30-day LIBOR	06/01/2038
Series 2008A Bonds	37,240,000	Bank of America, N.A.	3.115	62.3% of 30-day LIBOR	06/01/2038
Series 2008A Bonds	14,575,000	The Bank of New York Mellon	3.115	62.3% of 30-day LIBOR	06/01/2038
Series 2008A Bonds	37,240,000	JPMorgan Chase Bank, N.A.	3.115	62.3% of 30-day LIBOR	06/01/2038
	$105,250,000				

Source: The District.

Under certain circumstances, the Water Interest Rate Swap Agreements may be terminated and the District may be required to make a substantial termination payment to the respective Swap Providers. Pursuant to the Water Interest Rate Swap Agreements, any such termination payment owed by the District would be payable on a basis that is subordinate to the Water System Revenue Bonds but prior to the District's Water System CP Notes.

Early termination of an interest rate swap agreement could occur due to a default by either party or the occurrence of a termination event. In the event of early termination of any of the Water Interest Rate Swap Agreements, there can be no assurance that (i) the District will receive any termination payment payable to the District by the respective Swap Providers, (ii) the District will at all times have sufficient available cash on hand to pay any termination payment payable by it to the respective Swap Providers, or (iii) the District will be able to obtain a replacement Water Interest Rate Swap Agreement with comparable terms. As of March 31, 2015, the District would have been required to pay to the Swap Providers termination payments if its then outstanding Water Interest Rate Swap Agreements were terminated on that date. The District estimated its net exposure to its Swap Providers for all such termination payments as of March 31, 2015 to be approximately $30.7 million. As of March 31, 2015, the largest aggregate termination payment owed to a single Swap Provider was estimated by the District to be approximately $10.9 million. The District does not presently anticipate early termination of any of its Water Interest Rate Swap Agreements due to default by either party or the occurrence of a termination event. The District routinely monitors its Swap Providers' creditworthiness and performance under the Water Interest Rate Swap Agreements and may from time to time replace existing Swap Providers and Water Interest Rate Swap Agreements with new replacement interest rate swap agreements if the District determines such action is warranted. Additional information regarding the terms of the Water Interest Rate Swap Agreements may also be found in Note 6(F) in APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013."

Pursuant to the terms of certain of the Water Interest Rate Swap Agreements, the District is required to post collateral in favor of the respective Swap Provider to the extent that the District's total exposure for termination payments to that Swap Provider exceeds the threshold amount specified in the applicable Water Interest Rate Swap Agreement. The applicable collateral posting threshold amounts specified in such Water Interest Rate Swap Agreements would be lower in the event certain ratings assigned to the Water System Revenue Bonds were to be revised downward or withdrawn. In the case of a ratings withdrawal or significant downward rating revision, such decline in the applicable threshold amounts could significantly increase the District's collateral posting obligation thereunder. If the District's ratings are revised upward, the amount of collateral required to be posted by the District under certain of the Water Interest Rate Swap Agreements could be reduced.

Under the terms of the Water Interest Rate Swap Agreements, the Swap Providers are required to release collateral to the District as market conditions become favorable to the District and may be required to post collateral for the benefit of the District to the extent that such Swap Provider's total exposure for termination payments to the District exceeds the threshold amount specified in the applicable Water Interest Rate Swap Agreement. The highest amount of collateral the District has been required to post in connection with the Water Interest Rate Swap Agreements on any date was approximately $24.70 million, as of November 30, 2011 (at which time the District's outstanding notional amount of Water Interest Rate Swap Agreements totaled approximately $861.97 million). The amount of collateral varies from time to time due primarily to interest rate movements and can change significantly over a short period of time. In the future, the District may be required to post additional collateral, or, if it has previously posted collateral to a Swap Provider, may be entitled to a reduction or return of the required collateral amount. Collateral deposited by the District is held by the respective Swap Provider or an agent therefor. A bankruptcy of any Swap Provider holding collateral posted by the District could adversely affect the return of the collateral to the District. Moreover, posting collateral limits the District's liquidity. If collateral requirements increase significantly, the District's liquidity may be adversely affected. As of April 1, 2015, the District had $0.00 in collateral posted in favor of the Swap Providers for its Water Interest Rate Swap Agreements.

Debt Service Requirements

Table 16 on the following page shows estimated future payments on outstanding debt.

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Table 16
WATER SYSTEM ESTIMATED DEBT SERVICE[1]

Fiscal Year Ending June 30	*Series 2007B Through Series 2015A*			*Series 2015B*	*Series 2015C*	*State Parity Loans*[3]	*Total Water System Revenue Bonds and Parity Debt*	*Water System CP Notes*[4]	*Total Debt Service*[5]
	Principal	*Interest*[2]	*Total*						
2015	$ 34,675,000	$ 108,915,537	$ 143,590,537	-	-	$ 1,400,108	$ 144,990,645	$ 3,598,000	$ 148,588,645
2016	48,220,000	106,307,519	154,527,519	$ 3,097,099	$ 4,620,159	1,400,108	163,644,884	3,598,000	167,242,884
2017	51,795,000	104,154,869	155,949,869	3,241,150	4,835,050	1,400,108	165,426,176	7,196,000	172,622,176
2018	58,025,000	101,674,719	159,699,719	3,241,150	4,835,050	1,400,108	169,176,026	7,196,000	176,372,026
2019	60,445,000	99,092,719	159,537,719	3,241,150	4,835,050	1,400,108	169,014,026	7,196,000	176,210,026
2020	63,165,000	96,189,219	159,354,219	3,241,150	4,835,050	1,400,108	168,830,526	7,196,000	176,026,526
2021	65,970,000	93,130,669	159,100,669	3,241,150	4,835,050	1,400,108	168,576,976	10,794,000	179,370,976
2022	68,770,000	90,051,319	158,821,319	3,241,150	4,835,050	1,400,108	168,297,626	10,794,000	179,091,626
2023	69,675,000	86,751,369	156,426,369	5,566,150	4,835,050	1,400,108	168,227,676	10,794,000	179,021,676
2024	70,820,000	83,355,069	154,175,069	5,069,900	7,335,050	1,400,108	167,980,126	10,794,000	178,774,126
2025	73,820,000	79,943,669	153,763,669	5,067,650	7,745,050	1,260,248	167,836,616	10,794,000	178,630,616
2026	75,180,000	76,373,069	151,553,069	5,070,650	7,743,300	1,260,248	165,627,266	10,794,000	176,421,266
2027	72,010,000	72,637,519	144,647,519	5,068,400	7,744,050	1,260,248	158,720,216	10,794,000	169,514,216
2028	75,540,000	69,041,519	144,581,519	5,070,900	7,741,800	1,260,248	158,654,467	10,794,000	169,448,467
2029	79,240,000	65,266,019	144,506,019	5,067,650	7,741,300	-	157,314,969	10,794,000	168,108,969
2030	84,350,000	61,343,719	145,693,719	5,068,650	7,742,050	-	158,504,419	10,794,000	169,298,419
2031	89,720,000	57,135,719	146,855,719	5,068,400	7,743,550	-	159,667,669	10,794,000	170,461,669
2032	94,020,000	52,833,958	146,853,958	5,066,650	7,740,300	-	159,660,908	10,794,000	170,454,908
2033	98,525,000	48,324,076	146,849,076	5,068,150	7,742,050	-	159,659,276	10,794,000	170,453,276
2034	102,975,000	43,873,383	146,848,383	5,067,400	7,743,050	-	159,658,833	10,794,000	170,452,833
2035	107,635,000	39,218,083	146,853,083	5,065,800	7,717,800	-	159,636,683	10,794,000	170,430,683
2036	118,885,000	34,058,893	152,943,893	5,069,200	7,741,200	-	165,754,293	10,794,000	176,548,293
2037	124,070,000	27,960,299	152,030,299	5,067,200	7,765,800	-	164,863,299	10,794,000	175,657,299
2038	133,215,000	21,411,217	154,626,217	5,069,800	7,786,200	-	167,482,217	10,794,000	178,276,217
2039	138,150,000	13,947,851	152,097,851	5,066,600	7,817,200	-	164,981,651	10,794,000	175,775,651
2040	35,460,000	5,832,920	41,292,920	5,067,600	7,843,000	-	54,203,520	10,794,000	64,997,520
2041	17,400,000	3,750,000	21,150,000	5,067,400	8,333,400	-	34,550,800	10,794,000	45,344,800
2042	18,270,000	2,880,000	21,150,000	5,065,800	8,329,400	-	34,545,200	10,794,000	45,339,200
2043	19,185,000	1,966,500	21,151,500	5,067,600	8,329,600	-	34,548,700	10,794,000	45,342,700
2044	20,145,000	1,007,250	21,152,250	5,067,400	8,328,400	-	34,548,050	10,794,000	45,342,050
2045	-	-	-	5,070,000	8,330,400	-	13,400,400	10,794,000	24,194,400
Total[5]	$2,169,355,000	$1,748,428,663	$3,917,783,663	$139,608,949	$211,549,459	$19,042,069	$4,287,984,140	$305,830,000	$4,593,814,140

(1) Debt service is calculated on a cash basis.

(2) Includes fees to liquidity providers assuming current fee levels. Assumes debt service on outstanding Series 2008A Bonds has been fixed pursuant to interest rate swap agreements. See "– Variable Rate and Swap Obligations" above. Includes gross interest payable before application of any cash subsidy received by the District from the United States Treasury relating to the Series 2010B Bonds ("BABs Interest Subsidy Payments").

(3) See "SECURITY FOR THE SERIES 2015 BONDS – Outstanding Water System Revenue Obligations – *Parity State Loans.*"

(4) Assumes $359,800,000 principal amount outstanding at assumed interest rate of 1.0% in Fiscal Years 2015 and 2016, 2.00% in Fiscal Years 2017 through 2020, and 3.00% thereafter. Includes interest only (no principal amortization). While the commercial paper program is limited by statute to seven years, it is the District's intention to reestablish the commercial paper program prior to the expiration of each seven-year period.

(5) Totals may not add due to rounding.

Source: The District.

Financial Management Policies

The District has detailed management policies that include guidelines for debt, capital planning, investments, derivatives, and formal reserves. It is the current policy of the District to seek to maintain a debt service coverage ratio of 1.6 times on its outstanding Water System Revenue Bonds and to fund no more than 65% of its capital program over each five-year planning period from debt. The debt policy also limits unhedged variable rate debt to 25% of the total debt portfolio. Derivatives use is governed by a comprehensive derivatives policy with guidelines for counterparties, termination, and risk exposure. The District budgets for a number of formal reserves for the Water System, including: (i) a working capital reserve equal to three months of operation and maintenance expenses; (ii) a self-insurance reserve equal to 1.25 times the expected annual expenditure; (iii) a workers' compensation reserve of approximately $3.2 million in Fiscal Year 2015; and (iv) a contingency/rate stabilization reserve (which includes the Rate Stabilization Fund) of at least 20% of projected annual water volume sales revenues. The aggregate budgeted reserves level for Fiscal Year 2015 for these four formal reserves for the Water System is approximately $126.3 million, which amount the District currently maintains in accordance with its reserve policies. The current investment policy dictates investment criteria, reporting, and administrative requirements.

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. Monies in the funds and accounts held by the Trustee under the Indenture may be invested only in Investment Securities, as defined therein. 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 outstanding variable rate Water System Revenue Bonds as described herein.

Pursuant to the District's investment policy, all securities purchased from dealers and brokers are held in safekeeping by the trust department of a state or national bank 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 one who originated the transaction. Transactions are ratified by the General Manager and reported quarterly to the Finance/Administration Committee of the Board.

Cash and Investments

The District's cash and investments are segregated by restricted and unrestricted amounts. Restricted cash and investments generally include bond proceeds and debt service reserve funds, developer advances and capital contributions, and other miscellaneous restricted amounts. At June 30, 2014, the breakdown between restricted and unrestricted amounts is as follows:

Table 17
WATER SYSTEM
CASH AND INVESTMENTS
(As of June 30, 2014)
(Thousands)

Cash and investments included in current and unrestricted assets	$331,642
Cash and investments included in restricted assets	60,469
Total cash and investments	$392,111

Source: The District.

See also "– *Cash and Investments by Fund*" in the Management's Discussion and Analysis included in APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013." Additional information regarding the District's investment portfolio may also be found in Note 2 in the District's financial statements included in APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013."

Insurance

The District uses a combination of self-funding/self-insuring and insurance coverage in the District's risk management program. The program provides protection for the District's buildings and facilities, including their contents and equipment, from fire, explosion and related perils, including flood. The District's insurance program does not currently include earthquake coverage. The District self-insures for liability claims up to $10 million for bodily injury and property damage that may arise from the District's water and wastewater operations, including but not limited to use of its property, facilities or vehicles.

The District maintains a reserve of approximately $10 million that is earmarked to pay both liability and workers' compensation claims that may arise from the District's water and wastewater systems' operations. See also "WATER SYSTEM FINANCES – Financial Management Policies."

Selected insurance coverages include the following:

– $90 million of commercial general and automobile liability insurance, subject to a $10 million per occurrence self-insured retention for both the Water System and the Wastewater System;

– Statutory limits of excess workers' compensation coverage, subject to a $5 million self-insured retention for both the Water System and the Wastewater System;

– $200 million in coverage for “all risk” property insurance, subject to a $500,000 deductible, with exclusions including, but not limited to, earthquake, dams, reservoirs, under- and above-ground pipes and aqueducts;

– $25 million per occurrence/annual aggregate in coverage for flood perils, subject to a $1.5 million minimum deductible per occurrence/annual aggregate, with the same exclusions as under the “all risk” policy described above other than above-ground aqueducts for which $2.5 million in coverage is provided; the policy also provides a flood sublimit of $10 million per occurrence/annual aggregate for losses wholly or partially within the areas of 100-year flooding as defined by FEMA with a deductible of 5% of the total insurable property values at the time of the loss at each location involved in the loss or a minimum deductible of $1.5 million;

– $10 million in coverage for boiler and machinery insurance, subject to a $25,000 deductible (except for Pardee Dam, Camanche Dam and the Main Wastewater Treatment Plant, for which a $50,000 deductible applies); and

– $10 million in coverage for crime insurance for protection against fraudulent acts of employees, subject to a $25,000 deductible.

Historical Operating Results

The District’s financial statements for Fiscal Year 2014, and the Report of Maze & Associates, independent accountants, are included as Appendix B, which are incorporated by reference into this Official Statement, and should be read in their entirety. The summary of operating results for Fiscal Years 2010 through 2014 contained in Table 18 is derived from information from the audited financial statements for such Fiscal Years and is qualified in its entirety by reference to such statements, including the notes thereto.

Table 18 sets forth the historical operating results and the calculation of the debt service coverage ratio for the Water System for each of the last five Fiscal Years.

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Table 18
WATER SYSTEM
Historical Operating Results and Debt Service Coverage[1]
Fiscal Years 2010 through 2014

	2010	*2011*	*2012*	*2013*	*2014*
WATER REVENUES[2]:					
Water Sales[3]	$271,022,353	$283,643,516	$306,228,357	$336,065,516	$367,547,268
Power Revenue	6,232,524	8,081,710	4,609,259	3,595,948	1,380,348
Interest	9,567,239	5,333,109	4,551,068	3,731,406	1,691,927
SCC Revenue[4]	40,490,369	46,190,321	30,733,972	22,673,134	20,365,047
Seismic Surcharge[5]	16,657,412	18,102,265	19,172,928	20,536,924	22,628,261
Other Revenue[6]	7,726,627	13,363,139	16,159,977	12,842,012	19,937,710
TOTAL WATER REVENUES	$351,696,524	$374,714,060	$381,455,561	$399,444,940	$433,550,561
RATE STABILIZATION FUND TRANSFERS:					
Deposits to the Rate Stabilization Fund	$ 0	$ 0	$ 0	$ 0	$(35,000,000)
Withdrawals from Rate Stabilization Fund for Inclusion in revenues	0	0	0	0	0
WATER REVENUES AFTER RATE STABILIZATION TRANSFER	$351,696,524	$374,714,060	$381,455,561	$399,444,940	$398,550,561
WATER OPERATION & MAINTENANCE COSTS:					
Operating Expenses	$178,964,687	$181,709,853	$197,818,566	$197,249,098	$213,692,428
(Less Tax Receipts)[7]	(22,889,117)	(22,235,567)	(23,385,603)	(26,435,974)	(25,492,391)
TOTAL WATER OPERATION & MAINTENANCE COSTS	$156,075,570	$159,474,286	$174,432,963	$170,813,124	$188,200,037
NET WATER REVENUES	$195,620,954	$215,239,774	$207,022,598	$228,631,816	$210,350,524
PARITY DEBT SERVICE:					
Water System Revenue Bonds[8]	$125,218,271	$142,284,287	$129,330,308	$132,270,442	$125,016,887
Parity State Loans	1,400,108	1,400,108	1,400,105	1,400,105	1,400,107
TOTAL PARITY DEBT SERVICE	$126,618,379	$143,684,395	$130,730,413	$133,670,547	$126,416,994
PARITY DEBT SERVICE COVERAGE	1.54	1.50	1.58	1.71	1.66
SUBORDINATE WATER SYSTEM DEBT SERVICE[9]	$ 4,425,458	$ 3,086,117	$ 8,495,107	$ 687,369	$ 13,562,675
TOTAL PARITY AND SUBORDINATE DEBT SERVICE	$131,043,837	$146,770,512	$139,225,520	$134,357,916	$139,979,669
PARITY AND SUBORDINATE DEBT SERVICE COVERAGE	1.49	1.47	1.49	1.70	1.50

(1) Calculated in accordance with the Indenture as footnoted.

(2) Revenues exclude grant receipts, taxes, and certain developer contributions which are treated as contributions (not Water Revenues).

(3) Reflects average daily billed consumption of 160.4 MGD in Fiscal Year 2010, 160.5 MGD in Fiscal Year 2011, 162.1 MGD in Fiscal Year 2012, 168.4 MGD in Fiscal Year 2013 and 167.5 MGD in Fiscal Year 2014.

(4) System Capacity Charge ("SCC") Revenues presented in the table above include the "buy-in" portion of SCC charges when collected and the "future water supply" portion of SCC charges when applied from the Future Water Supply Fund to offset such debt service costs. See "– System Capacity Charge" above. SCC Revenues are capitalized and are not recognized as operating revenues for purposes of the District's audited financial statements.

(5) Seismic surcharge revenues are capitalized and are not recognized as operating revenues for purposes of the District's audited financial statements.

(6) Includes BABs Interest Subsidy Payments received in connection with the Series 2010B Bonds. In Fiscal Year 2011, does not include payment received by the District from Chevron for reimbursement of capital costs incurred by the District for the RARE Water Project. See "THE WATER SYSTEM – Water Recycling."

(7) Operation and Maintenance Costs exclude those expenses paid from District's share of countywide 1% property tax revenues. Under current District policy, District's share of countywide 1% property tax revenues are used to pay for operations allocable to maintenance of fire protection capacity.

(8) Includes net swap payments. Debt service on the Series 2010B Bonds is gross of the BABs Interest Subsidy Payments received by the District.

(9) Includes outstanding Water System commercial paper notes and certain federal and State subordinate loans (which subordinate loans have been retired). Commercial paper notes debt service includes interest and a one-time principal pay down in Fiscal Year 2014 of $13.1 million.

Source: The District.

District Management's Discussion of Operating Results

Operating results for Fiscal Year 2014 were strong due largely to a substantial rate increase. Revenues were driven by progressively drier conditions throughout the year. The year began with strong water use as customer water use responded to dry conditions. However, as the drought became more severe the District called for 10% voluntary conservation and customers' response was strong. In effect, the increased summer use was offset by spring conservation later. The net result was average daily billed consumption of approximately 167.5 MGD in Fiscal Year 2014, a slight decline from the 168.4 MGD level experienced in Fiscal Year 2013. However, water sales revenues increased in Fiscal Year 2014 by approximately $31.5 million from Fiscal Year 2013 primarily as a result of a water rate increase of 9.75%. An important, one-time source of revenues in Fiscal Year 2014 was the sale of a sizable property for approximately $5.6 million, which contributed to the $7.1 million increase in Other Revenue. Remaining revenue sources declined by a total of $4.5 million between Fiscal Years 2013 and 2014. Power Revenues were affected by the drought as low precipitation and run-off resulted in less power generation. Interest income also declined due to the generally lower interest rate environment.

The drought contributed to higher overall Operation and Maintenance Costs in Fiscal Year 2014 as the District elected to purchase additional water supply funded in large part by the property sale revenue. The higher Operation and Maintenance Costs reflected the increase in raw water expenses as well as increases in water treatment and distribution expenses.

The District's Fiscal Year 2014 Net Revenues reflect a substantial $35 million deposit to its Rate Stabilization Fund. Based on experience in prior drought cycles, the District anticipates that consumption will likely be depressed in Fiscal Year 2015 and beyond. The Rate Stabilization Fund provides the District with a tool to maintain stable revenues and policy level coverage as it addresses the current and anticipated future impacts of the ongoing dry weather conditions. The Rate Stabilization Fund totaled $85.0 million as of the June 30, 2014.

Parity lien debt service coverage in Fiscal Year 2014 was approximately 1.66 times, above the District's policy target of 1.6 times. The slight decline from the prior Fiscal Year's coverage level of 1.71 times was a result of the District's transfer of $35.0 million from water revenues into the Rate Stabilization Fund. Overall debt service coverage of 1.50 times in Fiscal Year 2014 was in line with typical levels over the prior five years and also reflected the impact of the Rate Stabilization Fund transfer, as well as a $13.1 million principal pay down by the District of its outstanding Water System CP Notes.

See also the "Management's Discussion and Analysis" contained in APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013."

Projected Operating Results

In the preparation of the projections in this section, the District has made certain assumptions with respect to conditions that may occur in the future. While the District believes these assumptions are reasonable for the purpose of the projections, they are dependent on future events, and actual conditions may differ from those assumed. To the extent actual future factors differ from those assumed by the District or provided to the District by others, the actual results will vary from those forecasted. This projected information has not been compiled, reviewed or examined by the District's independent accountants.

Table 19 sets forth the projected operating results and calculation of the debt service coverage ratio for the Water System for the current and next five Fiscal Years. Projected results for Fiscal Year 2015 were developed in connection with the District's biennial budget for Fiscal Years 2014 and 2015; they do not reflect financial results, water supply, or other developments since their adoption in June 2013. Projected results for Fiscal Year 2016 through 2020 were developed in connection with the District's proposed biennial budget for Fiscal Years 2016 and 2017; they have not yet been approved by the Board. The District's proposed biennial budget for Fiscal Years 2016 and 2017 and certain revisions to its Water System schedule of water charges will be considered for adoption on June 9, 2015. In the preparation of the projected operating results, the District developed forecasts of water consumption for the projection period, taking into account historical consumption levels, the continuing effects of conservation measures, limited growth in the service area, and the expectations for the future economic environment. A discussion of the potential impact of current dry weather conditions on these projections is presented below. See "–Discussion of Projected Operating Results for Fiscal Year 2015" and "–Discussion of Budget Projections for Fiscal Years 2016 through 2020" below.

The District does not expect that growth will significantly bolster net revenues. As such, maintaining the District's policy target of 1.60 times for debt service coverage on its Water System Revenue Bonds will require annual rate increases. The projection period reflects the 9.50% overall rate increase adopted for Fiscal Year 2015. Average annual rate increases of 8.00%, 7.00% and 5.00% are assumed for Fiscal Years 2016, 2017 and 2018, respectively. Any such future rate increases will be subject to Board approval. Operating expenses incorporate salary and benefit expectations. The District's service area is mature and significant increases in SCC revenues are not expected. A higher level of cash funded capital spending is assumed as a result of the cash generated by higher coverage levels and in response to the nature of the District's capital plan which is largely comprised of renewal and replacement projects.

The District's biennial budget for Fiscal Years 2014 and 2015 included a budget forecast for Fiscal Years 2014 through 2018 and rate increases for Fiscal Years 2014 and 2015. The biennial budget for Fiscal Years 2014 and 2015 was adopted on June 11, 2013. The proposed biennial for Fiscal Years 2016 and 2017 includes a budget forecast of projected operating results covering the five Fiscal Years 2016 through 2020. The proposed biennial budget for Fiscal Years 2016 and 2017 is scheduled for consideration for adoption by the Board on June 9, 2015. No assurance can be given that the proposed biennial budget for Fiscal Years 2016 and 2017 will be adopted in its current form.

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Table 19
WATER SYSTEM
Projected Operating Results and Debt Service Coverage (Millions)
Fiscal Years 2015 through 2020

	Current Adopted Budget	*Proposed FY 2016 and 2017 Budget Five-Year Financial Forecast*				
	2015(1)	*2016(2)*	*2017(2)*	*2018(2)*	*2019(2)*	*2020(2)*
WATER REVENUES(3):						
Water Sales(4)	$391.8	$422.8	$453.0	$483.5	$519.5	$549.0
Power Revenue	5.7	3.5	3.5	5.7	5.7	5.7
Interest Earnings(5)	4.0	1.7	3.3	5.1	5.2	5.3
SCC Revenue(6)	23.3	24.6	26.0	27.4	29.0	30.6
Seismic Surcharge(7)	24.6	0.0	0.0	0.0	0.0	0.0
Other Revenue(8)	13.3	13.0	13.1	13.0	13.2	13.3
TOTAL WATER REVENUES	$462.7	$465.6	$498.9	$534.7	$572.6	$603.9
RATE STABILIZATION FUND TRANSFERS:						
Deposits to the Rate Stabilization Fund	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Withdrawals from Rate Stabilization Fund for Inclusion in revenues	0.0	6.0	0.0	0.0	0.0	0.0
WATER REVENUES AFTER RATE STABILIZATION TRANSFER	$462.7	$465.6	$498.9	$534.7	$572.6	$603.9
WATER OPERATION & MAINTENANCE COSTS:						
Operating Expense(9)	$233.2	$233.2	$246.7	$256.9	$266.6	$276.7
(Less Tax Receipts)(10)	(23.8)	(24.5)	(25.1)	(25.7)	(26.4)	(27.0)
TOTAL WATER OPERATION & MAINTENANCE COSTS	$209.4	$208.7	$221.6	$231.2	$240.2	$249.7
NET WATER REVENUES	$253.3	$256.9	$277.3	$303.5	$332.4	$354.2
PARITY DEBT SERVICE:						
Water System Revenue Bonds(11)	$150.7	$162.5	$168.4	$184.2	$198.9	$207.8
Parity State Loans	1.4	1.4	1.4	1.4	1.4	1.4
TOTAL PARITY DEBT SERVICE	$152.1	$163.9	$169.8	$185.6	$200.3	$209.2
PARITY DEBT SERVICE COVERAGE	1.67	1.60	1.63	1.64	1.66	1.69
SUBORDINATE WATER SYSTEM CP NOTES DEBT SERVICE(12)	$ 7.5	$ 3.6	$ 7.2	$ 7.2	$ 7.2	$ 7.2
TOTAL PARITY AND SUBORDINATE DEBT SERVICE	$159.6	$167.5	$177.0	$192.8	$207.5	$216.4
PARITY AND SUBORDINATE DEBT SERVICE COVERAGE	1.59	1.53	1.57	1.57	1.60	1.64

(1) Fiscal Year 2015 projected results are based upon the District's biennial budget for Fiscal Years 2014 and 2015 adopted on June 11, 2013. For a discussion of currently expected operating results based upon performance to date and the effect of current drought conditions in California, see "– Discussion of Projected Operating Results for Fiscal Year 2015" below.

(2) Fiscal Years 2016 through 2020 projected results are derived from the District's five-year financial forecast prepared in connection with the proposed biennial budget for Fiscal Years 2016 and 2017 which was presented to the Board on March 24, 2015. The biennial budget for Fiscal Years 2016 and 2017 is scheduled for consideration for adoption by the Board on June 9, 2015 following a public hearing to be held on such date.

(3) Revenues exclude grant receipts, taxes, reimbursements and certain developer contributions which are treated as contributions (not Water Revenues). Revenues as projected do not take into account any amounts to be derived from the proposed new system of drought surcharges. See "– Rates and Charges – *Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017*."

(4) Assumes projected average daily billed consumption per day of 166 MGD in Fiscal Year 2015, 151 MGD in Fiscal Years 2016 and 2017, 154 MGD in Fiscal Years 2017 and 2018, 157 MGD in Fiscal Year 2019, and 160 MGD in Fiscal Year 2020. See "– Rates and Charges" above. Assumes average annual rate increases (excluding drought surcharges) of 8.00% in Fiscal Year 2016, 7.00% in Fiscal Year 2017, 5.00% in Fiscal Years 2018 and 2019 and 4.00% in Fiscal Year 2020. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

(Table footnotes continued on following page.)

(Footnotes to table continued from prior page.)

(5) Assumes approximately 1.00% earnings rate for Fiscal Year 2015, 0.50% earnings rate for Fiscal Year 2016, 1.00% earnings rate for Fiscal Year 2017 and 1.50% earning rate thereafter. Excludes non-cash change in fair market value of investments.

(6) SCC Revenues presented in the table above include the projected "buy-in" portion of SCC charges when collected and the "future water supply" portion of SCC charges when applied from the Future Water Supply Fund to offset such debt service costs. See "– System Capacity Charge" above. SCC Revenues are capitalized and are not recognized as operating revenues for purposes of the District's audited financial statements.

(7) Seismic surcharge revenues are capitalized and are not recognized as operating revenues for purposes of the District's audited financial statements. The Water System rates and charges proposed for Fiscal Years 2016 and 2017 in connection with the development of the District's biennial budget for Fiscal Years 2016 and 2017, if adopted, would result in the discontinuance of the seismic surcharge effective July 1, 2015. See "– Rates and Charges – *Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017*."

(8) Other Revenue includes the anticipated receipt of BABs Interest Subsidy Payments relating to Series 2010B Bonds. In light of the potential effect of ongoing sequestration, the District has assumed cash receipts of approximately 33.25% of the interest payable on the Series 2010B Bonds (95% of the BABs Interest Subsidy Payments of 35% provided for under the American Recovery and Reinvestment Act of 2009).

(9) Projected Operating Expenses do not take into account the incremental costs of any supplemental water supplies purchased by the District. It is expected that costs associated with the purchase, treatment and delivery of supplemental water supplies, when taken, would be funded from receipts to be derived from the new system of drought surcharges proposed for adoption by the Board on June 9, 2015. See "THE WATER SYSTEM – Water Supply Operations – Current California Drought." See also "– Rates and Charges – *Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017*."

(10) Water Operation and Maintenance Costs exclude those expenses paid from *ad valorem* taxes. Under current District policy, taxes are used to pay for operations allocable to maintenance of fire protection capacity.

(11) Assumes that interest with respect to the outstanding Series 2008A Bonds have been swapped to fixed rates. See "SECURITY FOR THE SERIES 2015 BONDS – Outstanding Water System Revenue Obligations – *Water Interest Rate Swap Agreements*." Includes assumed liquidity fees. Assumes issuance of additional Bonds of approximately $103.0 million in Fiscal Year 2016, $111.0 million in Fiscal Year 2017, $159.0 million in Fiscal Year 2018, $150.0 million in Fiscal Year 2019 and $140 million in Fiscal Year 2020. The actual size and timing of future debt issuances undertaken by the District will be determined by the District based on market considerations and other factors. Also includes additional amount budgeted by the District (not included in Table 16) for estimated basis differential between variable rate bond interest rates and related swap receipts.

(12) Assumes interest only at 2.00% per annum in Fiscal Years 2015, 1.00% per annum in Fiscal Year 2016, and 2.00% per annum in Fiscal Years 2017 through 2020 with no principal amortization. Assumes $359.8 million of Water System CP Notes outstanding.

Source: The District.

Discussion of Projected Operating Results for Fiscal Year 2015

The realization of the projected operating results set forth in Table 19 is contingent on a variety of variables, many of which are outside the control of the District, including customer demand, conservation efforts, storage levels and precipitation. As a result of these variables, actual conditions may vary substantially from the assumptions utilized in the preparation of such projections. The projected operating results set forth in Table 19 for Fiscal Year 2015 are based upon the five-year budget forecast prepared in connection with the adoption of the District's biennial budget for Fiscal Years 2014 and 2015. As part of the District's biennial budget process, at the end of the first Fiscal Year in each two-year budget cycle, the District prepares a Mid-Cycle Budget Update to review the estimated results for the first year and projections for the second year of such budget cycle. The Fiscal Year 2014-15 Mid-Cycle Budget Update was presented to the District Board in May of 2014.

No changes to the adopted budget for Fiscal Year 2015 were made as a result of the Fiscal Year 2014-15 Mid-Cycle Budget Update. However, given the potential variability for Fiscal Year 2015 as a result of the ongoing dry weather conditions being experienced over the budget cycle, District staff prepared an estimate of Water System operating results for Fiscal Year 2015 excluding the effects of hydrology, as well as a sensitivity analysis utilizing three cases: normal weather, moderate drought and severe drought. Excluding any impacts related to a prolonged dry period, including maintaining assumed consumption at the budgeted level, a positive variance of $10.7 million was projected in Fiscal Year 2015 operating results for the Water System as compared to the adopted biennial budget for Fiscal Years 2014 and 2015. Including the impact of hydrology, and excluding any unbudgeted revenue sources, the net budget variance ranged from a negative $14.3 million (normal weather), negative $27.3 million (moderate drought), to negative $53.3 million (severe drought).

In February of 2015, a semi-annual budget performance report was presented to the District Board for Fiscal Year 2015. As of that date, projections for Fiscal Year 2015 showed net positive results of $7.5 million, excluding any potential expenditure associated with the purchase, treatment and delivery of Supplemental Supply water. Although water sales revenue was consistent with the moderate drought scenario, savings in operating expenditures resulted in stronger performance than contemplated by any of the hydrology-based sensitivity analyses referred to above. In total, revenues were projected at $24.9 million below budget for the full Fiscal Year 2015. Water sales revenues, the primary component of the underperformance, were projected to be $23 million below budget as of the end of the Fiscal Year. Power sales and interest income were also projected to be below budget by $4.1 million and $2.4 million respectively. Mitigating the lower revenue projections, total expenses were projected to be $32.4 million below budget. Debt service savings contributed $15.2 million as a result of refunding and lower interest rates than budgeted, with the remainder attributable largely to savings from operating expenditures, primarily labor and benefits. The projections for net budgetary savings of $7.5 million do not include any costs associated with the purchase, treatment and delivery of Supplemental Supply water. In April of 2015, the District Board authorized the expenditure of up to $10 million for purchase, treatment and delivery of Supplemental Supply water, which may or may not all be incurred in Fiscal Year 2015. The District expects net revenues will yield debt service coverage in Fiscal Year 2015 consistent with the Board's 1.6x policy target.

Discussion of Budget Projections for Fiscal Years 2016 through 2020

The five-year financial forecast for the period between Fiscal Years 2016 and 2020 is based on specified assumptions, reflected in the footnotes to Table 19 and outlined below. These assumptions do not incorporate drought-related costs or revenues, discussed below. The first two years in the five-year financial forecast are based upon the District's proposed two-year budget. The proposed biennial budget for Fiscal Years 2016 and 2017 was presented to the Board on March 24, 2015. The biennial budget for Fiscal Years 2016 and 2017 is scheduled for consideration for adoption by the Board on June 9, 2015 following a public hearing to be held on such date.

Based upon the base budget assumptions outlined below, revenues are forecast to increase by 7.8% annually over the five-year period between Fiscal Years 2016 and 2020 while forecasted operating expenses are expected to grow by an average of approximately 5.0% per year and debt service increases by an average of 7.6% per year. Capital cash flow spending is projected at $1.38 billion over the five-year period between Fiscal Years 2016 and 2020. Projected capital expenditures are directed at sustained reinvestments in physical infrastructure, including increasing the annual replacement rate of water distribution pipeline from the projected 10 miles per year in the biennial budget for Fiscal Years 2014 and 2015 to 15 miles per year over the next five years. Other capital projects include rehabilitating aqueducts, treatment plans, pumping plants and other infrastructure, and rehabilitating reservoirs.

The average percentage of capital funded from debt is projected at 47.2% over that period, lower than the financial policy maximum of 65%. Revenue bond debt service coverage is projected to meet or exceed the 1.6x policy target each year and increase annually throughout the period. In Fiscal Year 2016 revenue bond debt service coverage ratio is projected to be 1.60x including a $6 million draw upon the Contingency/Rate Stabilization Reserve. Debt service coverage is projected to increase steadily, with no further draws on the Contingency/Rate Stabilization Reserve, to 1.63x, 1.64x, 1.66x and 1.69x in Fiscal

Years 2017, 2018, 2019 and 2020, respectively. Reserve balances, including the Contingency/Rate Stabilization Reserve, are projected to meet or exceed the policy reserve levels throughout the five-year period. Total reserves are projected at over $315 million in each year, and the Contingency/Rate Stabilization Reserve is projected to remain level at $79.0 million throughout the five-year projection period.

The five-year financial forecast for the period between Fiscal Years 2016 and 2020 is based on certain assumptions, which the District believes to be reasonable, incorporating among other factors the decreased demand for water in recent years. The forecast does not include the impact of drought on the base assumptions; management of drought costs is addressed below. Water sales volume is projected at 151 MGD in Fiscal Years 2016 and 2017, well below prior years' budget assumptions of 167.5 MGD and 166.0 MGD in Fiscal Years 2014 and 2015 respectively. Water sales volume is projected to increase only modestly to 154 MGD, 157 MGD and 160 MGD in Fiscal Years 2018, 2019, and 2020, respectively. Base rate increases are in line with prior long-term forecasts, and are projected to decrease each year for the coming five years. The assumed overall increases to base rates and charges for Fiscal Years 2016 and 2017 are 8.0% and 7.0%, consistent with the proposed budget and Proposition 218 notice, and also consistent with the prior five-year financial forecast developed when the biennial budget for Fiscal Years 2014 and 2015 was adopted in June 2013. A lower overall rate increase of 5.0% per annum is assumed for Fiscal Years 2018 and 2019, and a still lower increase of 4.0% is assumed for Fiscal Year 2020. The base rates exclude drought surcharges, discussed below.

The District has developed a comprehensive approach to managing the financial impacts of drought. The proposed budget addresses the impacts of the continuing drought through a drought contingency appropriation and the adoption of drought surcharges. The five-year financial forecast does not incorporate drought-related costs or revenues. The District has defined four stages of drought of increasing severity, Stages 1 through 4. The biennial budget for Fiscal Years 2016 and 2017 includes a drought contingency appropriation, totaling $126.3 million over the two-year budget period, sized to address Stage 4 drought expenditures including funding for purchasing, treating and delivering Supplemental Supply, and preparing and delivering additional customer outreach. To cover both the costs associated with drought and associated lost revenue from conservation, the District has proposed a staged system of drought surcharges. See "– Rates and Charges – *Proposed Revisions to Water System Schedule of Rates and Charges for Fiscal Years 2016 and 2017*." Revenues generated by the surcharges recover both the direct costs of drought and the impact of reduced water sales on District revenues. To the extent these revenues are not sufficient, the District may also draw upon its Rate Stabilization reserve. The drought surcharges are proposed to be levied on volume use at up to 8%, 20% and 25% in drought Stages 2, 3 and 4, respectively. In April 2015, the Board declared the District to be in a Stage 4 drought.

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Employees' Retirement System

General. The District has a contributory retirement system covering substantially all of its employees (including the Water System and Wastewater System). The East Bay Municipal Utility District Employees' Retirement System ("Retirement System") was established in 1937 to administer a single-employer, contributory, defined benefit pension plan (the "Plan") to provide retirement, disability, survivorship and post-employment health insurance benefits ("HIB") for eligible directors, officers and employees of the District. The Plan is funded by contributions from its members and from the District, and from investment earnings on Plan assets. The payment of benefits earned by Plan members of the Retirement System is an obligation of the District. Employees of the District are also covered by Social Security.

The Retirement System is administered by a Retirement Board composed of three members appointed by the District Board, two members elected by and from the active membership and one (nonvoting) member elected by and from the retired membership of the Retirement System. Ordinance No. 40 of the District, effective October 1, 1937, as amended (the "Retirement System Ordinance"), assigns the authority to establish Plan benefit provisions to the District Board.

Contributions to the Retirement System are made by the members and the District. Each member's contribution is based upon a percentage of that member's covered compensation. The employee contribution rates for 1955/1980 Plan members (*i.e.*, employees first hired prior to January 1, 2013) are prescribed in the Retirement System Ordinance and may be adjusted by the District Board solely pursuant to the terms of a negotiated collective bargaining agreement or MOU with employee bargaining units. Pursuant to applicable provisions of the California Public Employees' Pension Reform Act of 2013 as codified ("PEPRA"), 2013 Tier members (*i.e.*, employees first hired on or after January 1, 2013) are required to contribute at least 50% of the "normal cost" rate (see "– *California Pension Reform Act*" below). The District employees' contribution rate for 1955/1980 Plan members (which includes a 0.09% contribution to the HIB) was increased from 6.83% to 7.33% effective April 22, 2013, and further increased to 7.83% beginning April 21, 2014, and to 8.33% beginning April 20, 2015. The District employees' contribution rate for 1955/1980 Plan members (including the 0.09% contribution to the HIB) will be increased again to 8.75% beginning April 18, 2016. The District employees' contribution rate for 2013 Tier members (which also includes a 0.09% contribution to the HIB) is established by the District Board, and such rates are based upon actuarial valuations. The current District employees' contribution rate for 2013 Tier members (including the 0.09% contribution to the HIB) is 8.75%.

The District (employer) contributions are based upon percentages of the aggregate amount of members' covered compensation. Employer contribution percentages are established by the District Board. Such percentages are based upon actuarial valuations. The District's employer contribution percentage for 1955/1980 Plan members has been established at 44.06% for Fiscal Year 2014-15 (including a 5.45% contribution to the HIB) and has been established at 37.35% for 2013 Tier members (including a 5.11% contribution to the HIB). For Fiscal Year 2015-16, based upon the June 30, 2014 funding valuation reports prepared by the actuary, the recommended District employer contribution percentage for 1955/1980 Plan members is 43.22% (including a 5.51% contribution to the HIB) and is 35.98% for 2013 Tier members (including a 5.06% contribution to the HIB).

The June 30, 2014 funding valuation reports, which provide the recommended contribution rates for Fiscal Year 2015-16, were presented by the actuary to the Retirement Board at their January 15, 2015 meeting, at which time the reports were adopted by the Board.

The District estimates that approximately 85% of the District's annual contributions are attributable to the Water System and approximately 15% are attributable to the Wastewater System.

As of June 30, 2014, collectively for the Water and Wastewater Systems, there were 1,715 active (non-retired) Plan members, 237 terminated Plan members entitled to but not yet receiving benefits and 1,497 retirees and beneficiaries receiving benefits.

Table 20 sets forth the number of active (non-retired) members, total Plan assets, District and Member contributions and retirement allowances paid in the five Fiscal Years 2010 through 2014.

Table 20
RETIREMENT SYSTEM
Active (Non-Retired) Members, Total Plan Assets, District and Member Contributions and Allowances Paid
Five Fiscal Years Ended June 30, 2014[(1)]

Fiscal Year Ended June 30	*Active (Non-Retired) Members[(2)]*	*Total Plan Assets[(3)]*	*District Contribution[(4)]*	*Member Contributions*	*Allowances Paid From Retirement Plan[(5)]*
2010	1,978	$ 769,052,000	$51,756,000	$10,918,000	$58,109,000
2011	1,928	968,239,000	58,481,000	10,850,000	62,114,000
2012	1,927	986,972,000	59,651,000	10,723,000	66,843,000
2013	1,898	1,124,328,000	61,567,000	10,566,000	72,095,000
2014	1,952	1,346,888,000	70,117,000	12,133,000	78,265,000

(1) Includes Health Insurance Benefit.
(2) Includes active plan members and terminated plan members entitled to but not yet receiving benefits.
(3) Market value as of June 30 of such Fiscal Year as shown in the audited financial statements of the Retirement System.
(4) The District estimates that approximately 85% of the District's annual contributions are attributable to the Water System and approximately 15% are attributable to the Wastewater System.
(5) Includes benefits paid and refunds of contributions.
Source: The District.

The Retirement System is an integral part of the District and, as noted above, the District appoints the majority of the governing body of the Retirement System and provides for its funding. Accordingly, the Retirement System's operations are reported as a Pension and Other Employee Benefit Trust Fund in the District's basic financial statements. The Retirement System also issues separately available financial statements on an annual basis. Such financial statements can be obtained from the District at 375 Eleventh Street, Oakland, California 94607.

The amounts set forth in this discussion of the District's Retirement System, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the District's bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in the documents that are cited as the sources for such information. In addition, prospective purchasers of the District's bonds are cautioned that such sources and the underlying assumptions are made as of their respective dates, and are subject to change. Prospective purchasers of the District's bonds should also be aware that some of the information presented in this discussion of the Retirement System contains forward-looking statements and the actual results of the Retirement System may differ materially from the information presented herein.

Benefits. All regular full-time employees (as well as certain job share and intermittent employees) of the District are members of the Plan. In accordance with the Retirement System Ordinance, eligible employees become members of the Plan on the first day they are physically on the job. Retirement plan benefits are generally determined by a formula based on the employee's highest two years of compensation (last 36 months for 2013 Tier members) and the length of employment with the District. Benefits adopted by the District vest in part with members after five years of continuous full-time employment. Vested members who terminate employment may elect a refund of their contributions or leave them in the Plan until eligible to receive benefits.

In addition to retirement benefits, the District provides post-employment health benefits assistance, administered by the Retirement System, for employees who retire from the District or their surviving spouses. As of June 30, 2014, there were 1,367 participants receiving these healthcare benefits. For participants entering the Retirement System prior to July 1, 1996, a monthly allowance of up to $450 (up to $550 for married retirees and retirees with financially dependent registered domestic partners) is paid to retirees with at least five years of full-time service to reimburse the retiree-paid medical expenses (including any health, dental or long-term care insurance premiums paid by the retiree for his or her self, and current spouse or domestic partner, or any health, dental or long-term care insurance premiums paid by the eligible surviving spouse of a retiree). Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new employees. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least five years of service also become eligible for the post-employment healthcare benefits based on the same sliding scale.

Actuarial Assumptions and Funding Policy. Under the Retirement System Ordinance, the District is required to have an actuarial study performed at least every two years, but the District's current policy is to have an actuarial study performed each year. The most recent actuarial study of the Retirement System, including the pension and the HIB trusts, was performed by Segal Consulting, as of June 30, 2014.

The actuarial report provides a basis for the District Board's decision regarding the rate of contributions by the District to the Retirement System, including both the pension and the HIB trusts. The District makes its contribution using rates determined by its outside actuaries.

The Governmental Accounting Standards Board ("GASB") approved two new Statements affecting the reporting of pension liabilities for accounting purposes. Statement 67 replaces Statement 25 and is for plan reporting. Statement 68 replaces Statement 27 and is for employer reporting. Statement 67 is effective with the Fiscal Year ended June 30, 2014 for Plan reporting, and Statement 68 is effective with the Fiscal Year ending June 30, 2015 for employer reporting. The information needed to comply with Statement 67 was provided by the actuary in a separate report (*i.e.*, separate from the pension funding valuation report) dated August 20, 2014, and the information needed to comply with Statement 68 is scheduled to be provided by the actuary in a separate report in the first half of 2015. The new GASB Statements require much shorter periods for recognition of non-investment gains/losses and actuarial assumption changes, as well as for recognition of investment gains/losses. As GASB has indicated throughout their process of obtaining comments from the retirement and accounting communities, the new GASB Statements provide for a new and complete separation between financial reporting and funding requirements for pension plans. Also, under the new GASB statements, the District is required to report the Net Pension Liability (*i.e.*, the difference between the Total Pension Liability and the Pension Plan's Net Position or market value of assets) in its financial statements. See Note 8(G) and the Required Supplementary Information in the audited financial statements of the District included in APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013" for additional information regarding the net pension liability of the District for the Retirement System.

To calculate the required contribution for each Fiscal Year, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than assumed (an actuarial loss). If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

A summary of the funding method and assumptions utilized in the actuarial study as of June 30, 2014 are described below.

Funding Method. The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by the ordinance governing the Retirement System. The Entry Age Cost Method is used for this purpose. Under the Entry Age Cost Method, there are two components to the total contributions: (i) the normal cost, which is the amount of contributions required to fund the benefit allocated to the current year of service (associated with active employees only), and (ii) an amortization payment on any unfunded actuarial accrued liability ("UAAL"). The normal cost is calculated on an individual basis where the entry age normal cost is calculated as the sum of the individual normal costs. The UAAL (past service liability) is amortized as a level percentage of payroll on a closed basis over the amortization periods described below. The actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation.

Amortization Periods. As of June 30, 2014, the UAAL is currently being funded using a layered approach. Each layer of the UAAL established prior to July 1, 2011 is being funded over a separate decreasing 30-year period, starting from the date the layer was originally established. On or after July 1, 2011, changes in the UAAL attributable to plan amendments are amortized over separate decreasing 15-year periods; changes in the UAAL attributable to assumption or method changes are amortized over separate decreasing 25-year periods; and changes in the UAAL attributable to actuarial gains/losses (*i.e.*, the extent to which actual overall experience deviates from the assumptions) are amortized over separate decreasing 20-year periods. Under the layered approach, any new UAAL layer that emerges between the prior and the current actuarial valuation (due to deviations between actual and expected actuarial experience, changes in actuarial assumptions used to measure the liabilities or other factors) will be determined and factored into the District's contribution rates so that it will be paid off after its respective amortization period described above.

Actuarial Value of Assets (Asset Smoothing Method). Methods used to compute District contribution requirements include a five-year smoothing of the difference between the actual market return and the expected return on the market value of the assets (with further adjustments as may be required to keep the smoothed assets within 30% of market value). The impact of this will result in a "smoothed" valuation value of assets (or "Actuarial Value of Assets") that is higher or lower than the market value of the assets depending on whether the amount that is being smoothed is either a net deferred loss or a net deferred gain.

Actuarial Assumptions. A number of assumptions are used to calculate the costs of the Plan and to compute contribution requirements for the Plan. The principal assumptions used in preparing the pension plan and HIB funding valuation reports as of June 30, 2013 and the pension plan financial reporting (*i.e.*, GASB 67) valuation report as of June 30, 2014 include:

1. Investment rate of return: 7.75%.
2. Inflation rate: 3.25%.
3. Interest credited to member contributions: 7.75%.
4. Projected salary increases: Ranges from 4.25% to 9.75% based on years of service (includes inflation at 3.25% plus across the board salary increase of 0.50% plus merit and promotional increases).
5. Cost of living adjustments: 3.15%.

6. Increase in HIB maximum monthly allowance: The Plan does not provide for an automatic increase in the HIB allowance and no such increase is assumed in the valuation.

7. Additional assumptions: Additional assumptions were used regarding rates of termination from active membership, post-retirement mortality, active member mortality, disability rates and rates of retirement.

Adopted Changes in Actuarial Assumptions and Amortization Periods. Under the ordinance governing the Retirement System, the District is required to have an actuarial experience study conducted no less frequently than every four years in order to review the mortality, service and compensation experience of the members, retired members and beneficiaries of the Retirement System, over the study period. The experience study provides the factual information upon which the outside actuary makes recommendations to the District regarding the economic and demographic assumptions that provide the basis for the actuarial valuation of the assets and liabilities of the Retirement System. In November 2012, Segal Consulting completed and presented to the Retirement Board its Analysis of Actuarial Experience During the Period July 1, 2008 through June 30, 2012, for the Retirement System (the "2012 Experience Study"). The 2012 Experience Study utilized demographic data of the Plan's members and retirees from the last four actuarial valuations and provided recommendations regarding changes to the economic and demographic actuarial assumptions to be used in the June 30, 2012 and later actuarial valuations. Pursuant to the 2012 Experience Study, the actuary recommended changes in a number of the actuarial assumptions used to calculate the costs of the Plan and to compute the future contribution requirements for the Plan, including changes in the assumptions from those used in the actuarial study of the Plan as of June 30, 2011. At its November 15, 2012 meeting, the Retirement Board approved the changes in assumptions recommended by the actuary for the actuarial valuation to be performed as of June 30, 2012. The actuarial assumptions used in the actuarial study of the Plan as of June 30, 2013 (as described under "Actuarial Assumptions" above) also reflect these changes, including, among others, the following changes in the actuarial assumptions from those used in the actuarial study of the Plan as of June 30, 2011: (i) a reduction in the assumed investment rate of return from 8.00% to 7.75%; (ii) a reduction in the assumed inflation rate from 3.50% to 3.25%; (iii) a reduction in the assumed interest crediting rate for member contributions from 8.00% to 7.75%; (iv) a reduction in the projected salary increases from the range of 4.70% to 10.00% based on years of service (and including the 3.50% assumed inflation rate plus across the board salary increases of 0.50% plus merit and promotional increases) to a range of 4.25% to 9.75% (including the new recommended 3.25% assumed inflation rate plus across the board salary increases of 0.50% plus merit and promotional increases); and (v) a reduction in the assumed long-term annual average cost of living adjustment from 3.25% to 3.15%.

In the June 30, 2012 valuation, the actuary determined the change in the actuarial accrued liability for the pension plan (not including the HIB) due to the assumption changes (including the change in the investment return assumption from 8.00% to 7.75%) to be $53.4 million.

At the November 15, 2012 meeting, the Retirement Board also adopted a change in the amortization policy for the UAAL, effective beginning with the June 30, 2012 valuation. In particular, changes in the UAAL due to actuarial assumption or method changes (previously amortized on a 30-year period) on or after July 1, 2011 are to be amortized on a 25-year period. In their June 30, 2012 valuation report, Segal Consulting (the actuary) determined the effect of this change in the amortization policy combined with the effect of the changes in the actuarial assumptions to be an increase in the District's contribution rate for the pension plan (not including the HIB) of 2.85% of payroll.

It should also be mentioned that, at the September 20, 2012 meeting, the Retirement Board also adopted a modification from an aggregate version to an individual version of the Entry Age Cost Method. In their June 30, 2012 valuation report, the actuary determined that this modification increased the District's normal cost rate by 0.72% of payroll.

Subsequent to the June 30, 2013 funding valuations and the June 30, 2014 GASB 67 valuation, the Retirement System conducted a scheduled out-of-cycle review of the economic actuarial assumptions for use in the June 30, 2014 funding valuations. Based on that review, the following economic actuarial assumptions were adopted for use in the funding valuations of the Plan as of June 30, 2014:

1. Investment rate of return: 7.50%.
2. Inflation rate: 3.00%.
3. Interest credited to member contributions: 7.50%.
4. Projected salary increases: Ranges from 4.00% to 9.50% based on years of service (includes inflation at 3.00% plus across the board salary increase of 0.50% plus merit and promotional increases).
5. Cost of living adjustments: 3.00%.

In the June 30, 2014 valuation, the actuary determined the change in the actuarial accrued liability for the pension plan (not including the HIB) due to the subsequent assumption changes (including the change in the investment return assumption from 7.75% to 7.50%) to be $18.4 million.

Contribution History. The schedule of District contributions for each of the pension plan and the HIB plan for the last five Fiscal Years are shown in Table 21:

Table 21
RETIREMENT SYSTEM
History of Contributions
Five Fiscal Years Ended June 30, 2014
(Dollar Amounts in Thousands)

Pension Plan:

Fiscal Year Ended June 30:	*District Contribution Rate at June 30*	*Annual Required Contribution*	*Actual Contribution*	*Percentage Contributed*
2010	27.24%	$44,031	$44,031	100%
2011	31.80	50,987	50,987	100
2012	32.91	52,156	52,156	100
2013	34.46	53,795	53,795	100
2014	38.30(1)	61,660	61,660	100

Health Insurance Benefit:

Fiscal Year Ended June 30:	*District Contribution Rate at June 30*	*Annual Required Contribution(2)*	*Actual Contribution(2)*	*Percentage Contributed(3)*
2010	4.91%	$11,775	$8,000	68%
2011	4.78	10,869	7,761	71
2012	4.83	11,289	7,762	69
2013	5.10	11,145	8,039	72
2014	5.34	11,196	8,748	78

(1) Represents the aggregate rate for the 1950/1980 Plan and the 2013 Tier.
(2) Includes an interest adjustment to the end of the year.
(3) Percentage contributed was less than 100% as the District does not pre-fund the implicit retiree rate subsidy required to be valued under GASB Statements Nos. 43 and 45. See "– Schedule of Funding Progress" below.

As reflected in the funding actuarial study and shown (rounded to the nearest thousand dollars) in Table 22, the combined Actuarial Accrued Liability for pension and HIB benefits at June 30, 2014 was $1,866,563,217 and the Actuarial Value of Assets was $1,229,955,379, resulting in an Unfunded Actuarial Accrued Liability of $636,607,838 and a funded ratio of the Plan under the Entry Age Cost Method of 65.9%. As described above, the Actuarial Value of Assets has been calculated using a five-year smoothing of the difference between the actual market return and the expected return on the market value of the assets. The valuation was performed in accordance with generally accepted actuarial principles and practices and the District's funding policy that was last reviewed with the Board in 2012. The assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

Table 22 sets forth the Actuarial Accrued Liability, Actuarial Value of Assets, the Unfunded Actuarial Accrued Liability and Funded Ratio as of June 30 of each of the Fiscal Years 2010 through 2014 (the year the most recent actuarial information is available).

Table 22
RETIREMENT SYSTEM
(Pension Plan and HIB Combined)
Actuarial Accrued Liability, Actuarial Value of Assets,
Unfunded Actuarial Accrued Liability and Funded Ratio
Five Fiscal Years Ended June 30, 2014[1]
(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	*Actuarial Accrued Liability (AAL)*	*Actuarial Value of Assets*	*Market Value of Assets*	*Unfunded Actuarial Accrued Liability (UAAL)[2]*	*Funded Ratio on Actuarial Value*	*Funded Ratio on Market Value*
2010	$1,491,885	$ 925,907	$ 769,052	$565,978	62.06%	51.55%
2011	1,544,486	966,767	968,239	577,719	62.59	62.69
2012	1,659,897	1,035,786	986,972	624,111	62.40	59.46
2013	1,750,910	1,112,370	1,124,328	638,540	63.53	64.21
2014	1,866,563[3]	1,229,955	1,346,888	636,608	65.89	72.16

(1) Dollars rounded to nearest thousand.
(2) The District estimates that approximately 85% of the UAAL is attributable to the Water System and approximately 15% is attributable to the Wastewater System. The UAAL is determined based on the Actuarial Value of Assets.
(3) Of this amount, $109,857 is attributable to the HIB liabilities. The HIB liabilities as calculated for GASB reporting purposes, which include the implicit retiree rate subsidy, were $140,416 using a discount rate of 7.00%.
Source: Segal Consulting.

As of June 30, 2014, the market value of the combined pension and HIB plan's assets was $1,346,888,000 and the projected benefit obligation ("PBO") was $1,815,349,000, resulting in a funded ratio of the plan under the PBO basis of 74.2%. Under the plan provisions, determination of the funded ratio on a PBO basis is required and certain cost of living increases are granted when the funded ratio of the plan is 85% or higher as calculated on the PBO basis.

Schedule of Funding Progress. As required by GASB, the District reports the schedule of funding progress for each of the pension plan and the post-employment healthcare plan (HIB), based on the results of the funding valuations. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The schedule of funding progress for the pension plan is set forth in Table 23.

Table 23
PENSION PLAN
Schedule of Funding Progress
(Dollar Amounts in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$ 915,845	$1,396,003	$480,158	65.6%	$164,085	292.6%
2011	954,719	1,446,039	491,320	66.0	159,505	308.0
2012	1,021,546	1,556,696	535,150	65.6	158,847	336.9
2013	1,095,847	1,646,534	550,687	66.6	159,246	345.8
2014	1,210,321	1,756,706	546,385	68.9	167,196	326.8

Source: Segal Consulting's Actuarial Valuation and Review of Pension Plan as of June 30, 2014.

The schedule of funding progress for the post-employment healthcare plan is set forth in Table 24.

The retiree health liabilities reported in the actuarial study as of June 30, 2014 (and referred to in Table 22 above) will not match those required to be used for GASB reporting purposes as shown in Table 24. The liabilities as reflected in the actuarial study have not been adjusted to include the implicit retiree rate subsidy as required under GASB reporting requirements. (Note that when premiums for active employees are determined on a pooled basis with premiums for retirees under age 65, a significant accounting obligation may exist even though the retiree under age 65 contributes most or all of the blended premium cost of the plan. The average costs for retirees if determined on a stand-alone basis is likely to exceed the average cost for the whole group, leading to an implicit subsidy for these retirees. The GASB accounting standard requires the employer to identify and account for this implicit subsidy as well as any explicit subsidies the employer may provide.) In addition, the liabilities for GASB reporting purposes for the HIB portion of the obligations shown below were determined based upon a lower discount rate (*i.e.,* 7.00%) than the 7.50% investment rate of return used in Segal Consulting's prefunding study. The liabilities calculated for GASB reporting purposes shown in Table 24 are therefore higher than those reflected in the actuarial study as of June 30, 2014 and described above.

Table 24
POST-EMPLOYMENT HEALTHCARE BENEFIT (HIB)
Schedule of Funding Progress
(Dollar Amounts in Thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$10,061	$135,379	$125,318	7.4%	$164,085	76.4%
2011	12,047	135,360	123,312	8.9	159,505	77.3
2012	14,240	138,240	123,999	10.3	158,847	78.1
2013	16,522	138,120	121,598	12.0	159,246	76.4
2014	19,634	140,416	120,782	14.0	167,196	72.2

Source: Segal Consulting's Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2014 in accordance with GASB Statements No. 43 and 45.

Net Pension Liability. Under GASB 67, the pension plan is required to disclose the Net Pension Liability for financial reporting purposes. When measuring pension liability, GASB uses the same actuarial cost method (entry age method) and the same type of discount rate (expected return on assets) as the District uses for funding. This means that the Total Pension Liability ("TPL") measure for financial reporting is determined on the same basis as the District's AAL measure for funding. The Net Pension Liability ("NPL") is equal to the difference between the TPL and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the market value of assets and therefore, the NPL measure is very similar to a UAAL calculated on a market value basis. The Net Pension Liability as of June 30, 2013 and June 30, 2014 is set forth in Table 25.

Table 25
PENSION PLAN
Net Pension Liability

	June 30, 2014	**June 30, 2013**
Total pension liability	$ 1,737,846,913	$ 1,646,936,153
Plan fiduciary net position	(1,325,387,000)	(1,107,628,000)
Net pension liability	$ 412,459,913	$ 539,308,153
Plan fiduciary net position as a % of the total pension liability	76.27%	67.25%

The NPLs measured as of June 30, 2014 and 2013 have been determined by rolling forward the results of the actuarial valuations as of June 30, 2013 and June 30, 2012, respectively.

The discount rates originally used to determine the TPL and NPL as of June 30, 2014 and 2013 were 7.75% and 7.75%, respectively, following the same assumptions used by the System in the pension funding valuations as of June 30, 2013 and June 30, 2012. As previously noted, the Retirement Board has adopted a 7.50% investment return assumption for the June 30, 2014 funding valuation after the June 30, 2014 GASB 67 valuation had been completed. The 7.50% assumption will be used in updating the Net Pension Liability when the actuary performs the June 30, 2015 GASB 67 valuation. It should be further noted that, according to GASB, the discount rate used for financial reporting purposes should be based on the long-term expected rate of return on a retirement system's investments, just as it is for funding. However, GASB requires that this assumption should be net of investment expenses but not net of administrative expenses (*i.e.*, without reduction for administrative expenses). Currently, the District's investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses.

Related Matters. In the past few years, the Internal Revenue Service (the "IRS") has focused its auditing activities towards governmental retirement plans to determine if those plans are complying with federal tax laws. While the District has consistently amended its Retirement Ordinance to comply with changes in the federal tax code, other governmental plans failed to amend their plans to reflect changes in tax laws. The failure to include these amendments put those plans at risk of a range of consequences from being assessed significant penalties to losing its tax-qualified status, wherein all assets under the plan would become immediately taxable. Because so many governmental plans were at risk, the IRS instituted a voluntary correction program ("VCP"), which provided such plans the opportunity to voluntarily report any failures and institute corrective measures. In participating in the voluntary correction program, governmental plans would be protected from enforcement actions for such failures. Under the VCP, the IRS would review and approve the corrective measures proposed by the plan and at the end of the review, issue a letter of determination of tax qualified status. A letter of determination of tax qualified status would serve as protection against liability for prior violations of federal tax laws as well as serve as a safe harbor for future IRS audits. The District has taken advantage of this "safe harbor" opportunity by participating in the IRS' voluntary correction program to make additional necessary corrections to its Plan while protecting itself against potential tax liability. In May 2013, the District received a favorable letter of determination of the tax qualified status of the Plan, conditioned on certain minor amendments to the

Retirement System Ordinance. All of the IRS' requested amendments to the Retirement System Ordinance have been approved by the District Board.

California Pension Reform Act. On August 31, 2012, the California legislature enacted Assembly Bill 340, the California Public Employees' Pension Reform Act of 2013 (the "PEPRA"). The PEPRA was signed into law by Governor Jerry Brown on September 12, 2012 and became effective on January 1, 2013. Pursuant to the provisions of the PEPRA, as enacted, the PEPRA is intended to apply to all state and local public retirement systems, independent public retirement systems, and to individual retirement plans offered by public employers, with the exception of the University of California, and California charter cities and counties, except to the extent such entities participate in any retirement system governed by State statute. The impacts of the PEPRA primarily apply to employees first hired by a public agency on or after January 1, 2013. Some of these provisions include certain limits on the amount and types of compensation that may be included by a retirement system in calculating pension benefits, the imposition of new formulas for the calculation of pension benefits for employees, certain requirements for the sharing of the costs of pension benefits by employees, and certain limitations on the adoption of new defined benefit plans. The PEPRA prohibits certain retroactive enhancements to pension benefit formulas for all employees, imposes certain limits on post-retirement employment for all employees, prohibits the purchase of non-qualified permissive service credit by all employees after January 1, 2013, and requires for any employee the forfeiture of pension and retirement-related benefits for certain felony convictions.

The District Board has adopted certain amendments to the Retirement System Ordinance effective as of January 1, 2013 in order to implement applicable provisions of the PEPRA. Because the interpretation and application of the PEPRA will likely be subject to judicial determination and further implementing legislation, it is too early to assess at this time what all of the impacts of PEPRA ultimately will be on the District's Retirement System.

Additional information concerning the Retirement System may be found in APPENDIX B – "EAST BAY MUNICIPAL UTILITY DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013."

APPENDIX B

EAST BAY MUNICIPAL UTILITY DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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EAST BAY MUNICIPAL UTILITY DISTRICT

BASIC FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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EAST BAY MUNICIPAL UTILITY DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Bay Municipal Utility District
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of each major fund and the discretely presented component unit, of the East Bay Municipal Utility District as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund and the discretely presented component unit of the East Bay Municipal Utility District as of June 30, 2014 and 2013, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014 which had no material effects on the financial statements, but affected note disclosures.

Statement 67 – *Financial Reporting for Pension Plans.* See note 8 to the financial statements for relevant disclosures.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and certain schedules related to the Pension and Post Employment Healthcare Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Bay Municipal Utility District's basic financial statements as a whole. The Supplemental Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014 on our consideration of the East Bay Municipal Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
September 5, 2014

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This section presents management's analysis of the East Bay Municipal Utility District's (the District) financial condition and activities as of and for the year ended June 30, 2014. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements. This information should be read in conjunction with the audited financial statements that follow this section. The District, as the primary governmental entity, includes within the financial statements, the financial position and activities of the District's Employees' Retirement System (Employees' Retirement System) as a component unit. The Employees' Retirement System issues its own financial statements and MDA under separate cover. Significant matters pertaining to the Employees' Retirement System have been included in the notes to the financial statements as deemed appropriate.

The information in this MDA is presented under the following headings:

Organization and Business

Overview of the Basic Financial Statements

Financial Analysis

Capital Assets

Debt Administration

Request for Information

ORGANIZATION AND BUSINESS

The District provides water and wastewater services to industrial, commercial, residential and public authority users. The Water System collects, transmits, treats, and distributes high-quality water to approximately 60% (332 square miles) of the developed area within Alameda and Contra Costa counties of California and serves a population of about 1.3 million. The Wastewater System intercepts and treats wastewater from residences and industries within an 88 square miles service area including the communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and the Stege Sanitary District and serves a population of about 650,000. The District recovers cost of service primarily through user fees.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's basic financial statements are comprised of two components: (1) Fund Financial Statements and (2) Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special purpose governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

Proprietary Funds. The District's proprietary funds consist of two enterprise funds, the Water System and the Wastewater System. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The District's proprietary fund statements include:

The *Balance Sheet* presents information on the District's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

While the Balance Sheet provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the District's operations over the course of the fiscal year and information as to how the net position changed during the year. This statement can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expense of employee earned but unused vacation leave.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes noncash accounting measures of depreciation or amortization of assets.

Fiduciary Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District's fiduciary fund consists of the Pension and Other Employee Benefit Trust fund, which is maintained to account for assets held by the Employees' Retirement System in a trustee capacity for vested and retired employees. The accounting used for fiduciary funds is much like that used for the proprietary funds.

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 29 to 74 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages 77 to 80 of this report.

FINANCIAL ANALYSIS

Financial Highlights

In fiscal year 2014, EBMUD continued to effectively manage its finances and strengthen its financial position by adopting sufficient water and wastewater rates to fund capital infrastructure improvements and to maintain strong financial performance. The following results of operations indicate a continuing strong and stable fiscal position.

The total assets and deferred outflows of the District exceeded the total liabilities and deferred inflows by $1.7 billion (*net position*).

Net position increased by $35 million or 2% during the fiscal year.

Capital assets increased by $93 million or 2% to $4.2 billion.

During the year, operating revenue increased by $35 million or 8% to $462 million.

Operating expense increased by $21 million or 6% to $406 million.

Non-operating net expense increased by $8 million or 13% to ($71) million.

Capital contributions, consisting of capital facility fees, decreased by $7 million or 12% from the prior fiscal year.

Financial Position

In the current year, the District's total net position increased by $35 million or 2%. Current and other assets decreased by $13 million or 2%. Capital assets increased by $93 million or 2%. By far the largest portion of the District's net position, 65% or $1.0 billion, represents its investment in capital assets necessary to provide services.

- The Water System's net position increased by $21 million or 2% during the year ended June 30, 2014.
- The Wastewater System's net position increased by $14 million or 5% during the year ended June 30, 2014.

In the previous fiscal year, the District's total net position decreased by $37 million or 2%. Current and other assets decreased by $18 million or 2%. Capital assets increased by $97 million or 2%. By far the largest portion of the District's net position, 62% or $1.0 billion, represents its investment in capital assets necessary to provide services.

Table 1 shows the District's net position for the fiscal years ended June 30, 2014, 2013 and 2012:

Table 1
Net Position
Water and Wastewater
June 30, 2014 and 2013
(In thousands)

	2014	2013	Variance	%
Current and other assets	$ 788,030	800,858	(12,828)	(2)%
Capital assets	4,244,628	4,151,206	93,422	2%
Deferred outflow of resources	45,753	90,752	(44,999)	(50)%
Total assets and deferred outflow	5,078,411	5,042,816	35,595	1%
Current and other liabilities	211,351	206,553	4,798	2%
Long-term liabilities	3,133,074	3,092,410	40,664	1%
Deferred inflow of resources	70,304	115,303	(44,999)	(39)%
Total liabilities and deferred inflow	3,414,729	3,414,266	463	0%
Net position:				
Net investment in capital assets	1,083,394	1,031,360	52,034	5%
Restricted	297,740	314,519	(16,779)	(5)%
Unrestricted	282,548	282,671	(123)	(0)%
Total net position	$ 1,663,682	1,628,550	35,132	2%

Net Position
Water and Wastewater
June 30, 2013 and 2012
(In thousands)

	2013	2012	Variance	%
Current and other assets	$ 800,858	818,838	(17,980)	(2)%
Capital assets	4,151,206	4,053,724	97,482	2%
Deferred outflow of resources	90,752	192,716	(101,964)	(53)%
Total assets and deferred outflow	5,042,816	5,065,278	(22,462)	(0)%
Current and other liabilities	206,553	209,587	(3,034)	(1)%
Long-term liabilities	3,092,410	3,046,800	45,610	1%
Deferred inflow of resources	115,303	217,267	(101,964)	(47)%
Total liabilities and deferred inflow	3,414,266	3,473,654	(59,388)	(2)%
Net position:				
Net investment in capital assets	1,031,360	983,487	47,873	5%
Restricted	314,519	347,554	(33,035)	(10)%
Unrestricted	282,671	260,583	22,088	8%
Total net position	$ 1,628,550	1,591,624	36,926	2%

Results of Operations

In the current fiscal year, the District's total operating revenue of $462 million for the year increased by $35 million and total operating expense of $406 million for the year increased by $21 million. The District's net position increased in the current and prior fiscal years. The change in net position (including capital contributions) decreased from $37 million in the previous fiscal year to $35 million in the current fiscal year. The District's total net position increased from $1,629 million to $1,664 million during the current fiscal year.

The major components of the District's results of operations in the current fiscal year were:

- Water revenues increased by $31 million, mainly reflecting a 9.75% water rate increase in the current fiscal year.
- Wastewater revenues increased by $4 million, mainly reflecting a 9% rate increase in the current fiscal year.
- Power revenues decreased by $2 million over the previous year due to lower precipitation and run-off for power generation in the current fiscal year as compared to the previous fiscal year.
- Operating expense increased by $21 million, primarily as a result of an increase in raw water expenses of $6 million from the purchase of additional drought water supply, and water treatment and distribution expenses increased by approximately $8 million as a result of $5 million increase in the maintenance of distribution mains and $4 million increase in sewer lines and pumps expenses and sewer treatment plant operation expenses.
- Non-operating net expense increased by $8 million primarily due to the reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense.
- Capital contributions decreased by $7 million primarily reflecting a decrease of $7 million in grant received in current fiscal year compared to the prior year. Page 12 contains additional capital contributions information.

In the previous fiscal year, the District's total operating revenue of $427 million for the year increased by $34 million and total operating expense of $385 million for the year increased by $13 million. The District's change in net position (including capital contributions) increased from negative $27 million in fiscal year 2012 to $37 million fiscal year 2013. The District's total net position increased from $1,592 million to $1,629 million during the fiscal year 2013.

The major components of the District's results of operations in fiscal year 2013 were:

- Water revenues increased by $30 million, mainly reflecting a 6% water rate increase and a 3.9% increase in consumption in fiscal year 2013.
- Wastewater revenues increased by $4 million, mainly reflecting a 6% rate increase in the current fiscal year 2013.
- Power revenues decreased by $1 million over the fiscal year 2012 due to lower precipitation and run-off for power generation in the fiscal year 2013 as compared to the previous fiscal year.
- Operating expense increased by $13 million, primarily due to a $15 million increase in General Administration that includes an increase of $5 million in information services equipment, regulatory compliance, public information and emergency preparedness, no adjustment to amortization expense of $10 million as in fiscal year 2012, offset by $2 million reduction in expenses related to water and wastewater operations because of cost containment measures based on lower projected water consumption.
- Non-operating net expense decreased by $34 million primarily due to a $4 million increase by a one-time state reimbursement of borrowed property taxes (Prop 1A) and one-time redevelopment agency property tax reimbursements, no $25 million charge for swap counterparty change as in fiscal year 2012, and a $5 million reduction in amortization of bond expenses.
- Capital contributions increased by $9 million primarily reflecting increased funds received from state grants ($4 million from Mokelumne Aqueducts Interconnection Project) and an increase in net funds from System Capacity Fees, mainly reflecting an 11% rate increase and a one-time major construction project in Walnut Creek. In addition, there were $1 million fewer refunds in the fiscal year 2013 versus the prior year with overall connections staying the same. Page 12 contains additional capital contributions information.

Table 2 shows changes in the District's net position for the fiscal years ended June 30, 2014, 2013, and 2012:

Table 2
Changes in Net Position
Water and Wastewater
June 30, 2014 and 2013
(In thousands)

	2014	2013	Variance	%
Operating Revenue:				
Water	$ 367,547	336,066	31,481	9%
Sewer	72,345	68,050	4,295	6%
Power	2,479	4,289	(1,810)	(42)%
Wet weather facilities charges	19,389	18,321	1,068	6%
Total operating revenue	461,760	426,726	35,034	8%
Operating Expense:				
Raw water	41,066	33,076	7,990	24%
Water treatment & distribution	97,610	89,596	8,014	9%
Recreation areas, net	5,166	5,341	(175)	(3)%
Sewer lines & pumps	13,658	12,530	1,128	9%
Sewer treatment plant operations	31,748	28,683	3,065	11%
Customer accounting & collecting	20,323	18,518	1,805	10%
Financial and risk management	17,019	17,227	(208)	(1)%
Facilities management	9,054	8,829	225	3%
General administration	57,724	61,690	(3,966)	(6)%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	112,662	109,162	3,500	3%
Total operating expense	406,030	384,652	21,378	6%
Net operating income (expense)	55,730	42,074	13,656	32%
Nonoperating income (expense):				
Investment income	2,512	5,192	(2,680)	(52)%
Taxes & subventions	35,373	35,844	(471)	(1)%
Interest & amortization of bond expenses, net	(121,069)	(116,270)	(4,799)	4%
Increase (decrease) of Equity in JPA partnership fund	(8,146)	—	(8,146)	N/A
Other income	20,501	12,698	7,803	61%
Total nonoperating income (expense), net	(70,829)	(62,536)	(8,293)	13%
Loss before contributions	(15,099)	(20,462)	5,363	(26)%
Capital contributions	50,231	57,388	(7,157)	(12)%
Change in net position	35,132	36,926	(1,794)	(5)%
Total net position – beginning	1,628,550	1,591,624	36,926	2%
Total net position – ending	$ 1,663,682	1,628,550	35,132	2%

Table 2 (Continued)
Changes in Net Position
Water and Wastewater
June 30, 2013 and 2012
(In thousands)

	2013	2012	Variance	%
Operating Revenue:				
Water	$ 336,066	306,228	29,838	10%
Sewer	68,050	64,252	3,798	6%
Power	4,289	4,943	(654)	(13)%
Wet weather facilities charges	18,321	17,228	1,093	6%
Total operating revenue	426,726	392,651	34,075	9%
Operating Expense:				
Raw water	33,076	31,777	1,299	4%
Water treatment & distribution	89,596	91,751	(2,155)	(2)%
Recreation areas, net	5,341	5,549	(208)	(4)%
Sewer lines & pumps	12,530	12,515	15	0%
Sewer treatment plant operations	28,683	30,387	(1,704)	(6)%
Customer accounting & collecting	18,518	18,903	(385)	(2)%
Financial and risk management	17,227	18,213	(986)	(5)%
Facilities management	8,829	11,814	(2,985)	(25)%
General administration	61,690	46,855	14,835	32%
Depreciation (excluding amounts reported within the Water and Wastewater operations)	109,162	103,452	5,710	6%
Total operating expense	384,652	371,216	13,436	4%
Net operating income (expense)	42,074	21,435	20,639	96%
Nonoperating income (expense):				
Investment income	5,192	5,244	(52)	(1)%
Taxes & subventions	35,844	31,693	4,151	13%
Interest & amortization of bond expenses, net	(116,270)	(121,315)	5,045	(4)%
Hedge fund termination\	—	(24,551)	24,551	N/A
Other income	12,698	12,202	496	4%
Total nonoperating income (expense), net	(62,536)	(96,727)	34,191	(35)%
Loss before contributions	(20,462)	(75,292)	54,830	(73)%
Capital contributions	57,388	48,034	9,354	19%
Change in net position	36,926	(27,258)	64,184	(235)%
Total net position – beginning	1,591,624	1,632,424	(40,800)	(2)%
Prior period adjustment per implementation GASB 65	—	(13,542)	13,542	N/A
Total net position – ending	$ 1,628,550	1,591,624	36,926	2%

Liquidity

The District had $488 million in combined current and non-current District Cash and Investments as of June 30, 2014, an increase of $11 million compared to $477 million as of June 30, 2013. Components of cash and investments for the year ended June 30, 2014 were:

- Water System total combined current and non-current Cash and Investments increased by $21 million or 6% from $371 million as of June 30, 2013 to $392 million as of June 30, 2014. Net current Cash and Cash Equivalents increased by $75 million compared to the prior year primarily due to an increase of $22 million from operating revenues, a decrease of $15 million capital and related expenses, and an increase of $39 million from the reallocation of investments between short-term and long-term investments. Investments decreased by $26 million primarily due to the aforementioned reallocation of investments between short-term and long-term investments.

- Wastewater System Total combined current and non-current Cash and Investments decreased by $9 million or 9% from $105 million as of June 30, 2013 to $96 million as of June 30, 2014. Net current Cash and Cash Equivalents decreased by $51 million compared to the prior year primarily due to a an increase of $7 million from operating revenue offset by a larger decrease of $59 million from the reallocation of investments between short-term and long-term investments. Investments increased by $7 million primarily due to the aforementioned reallocation of investments between short-term and long-term investments.

Table 3 shows the District's cash flow for the fiscal years ended June 30, 2014, 2013 and 2012:

Table 3
Cash Flows
Water and Wastewater System
June 30, 2014 and 2013
(In thousands)

	2014	2013	Variance	%
Net cash provided by operating activities	$ 234,083	$ 206,025	28,058	14%
Net cash provided by financing activities	35,373	35,844	(471)	(1)%
Net cash provided by (used in) capital and related financing activities	(260,545)	(277,220)	16,675	(6)%
Net cash provided by (used in) investing activities	21,005	41,713	(20,708)	(50)%
Net increase (decrease) in cash and cash equivalents	29,916	6,362	23,554	370%
Cash and cash equivalents:				
Beginning of year	217,601	211,239	6,362	3%
End of period	$ 247,517	$ 217,601	29,916	14%
Investments	240,718	259,341	(18,623)	(7)%
Total District Cash and Investments	$ 488,235	$ 476,942	11,293	2%

Table 3 (Continued)
Cash Flows
Water and Wastewater System
June 30, 2013 and 2012
(In thousands)

	2013	2012	Variance	%
Net cash provided by operating activities	$ 206,025	$ 152,284	53,741	35%
Net cash provided by financing activities	35,844	31,693	4,151	13%
Net cash provided by (used in) capital and related financing activities	(277,220)	(347,472)	70,252	(20)%
Net cash provided by (used in) investing activities	41,713	180,970	(139,257)	(77)%
Net increase (decrease) in cash and cash equivalents	6,362	17,475	(11,113)	(64)%
Cash and cash equivalents:				
Beginning of year	211,239	193,764	17,475	9%
End of period	$ 217,601	$ 211,239	6,362	3%
Investment	259,341	295,575	(36,234)	(12)%
Total District cash and investments	$ 476,942	$ 506,814	(29,872)	(6)%

Cash and Investments by Fund

In fiscal years 2014 and 2013, total cash and investments available for operating and capital activities are reported in current and noncurrent assets as unrestricted and restricted funds. Significant activities were as follows: Water System reserved an additional $35 million in revenue in the rate stabilization funds and used $14 million in capital reserves to fund capital projects. Wastewater System reserved an additional $3 million in revenues in the rate stabilization fund, used $6 million in borrowed funds and $7 million in capital reserves to fund capital projects and equipment, and restricted $2 million in Funds Received for Construction for the Private Sewer Lateral Incentive program.

In the previous fiscal year, significant activities were as follows: Water System reserved an additional $21 million in revenue to fund future capital projects, used $3 million in capital reserves to purchase vehicles and reduced the Debt Service and Bond Interest reserves as part of the fiscal year 2013 refinancing activity. Wastewater System reserved an additional $16 million in revenue to fund future capital projects and used $30 million in Construction Funds from borrowing.

Operating and Capital Reserves are components of Unrestricted Cash and Investments. Individual funds within Operating and Capital Reserves are funded pursuant to Board policy but are unrestricted as to use. For additional information see Note 1H on page 32.

Table 4 shows the District's cash and investment by fund for the fiscal years ended June 30, 2014, 2013 and 2012:

Table 4

Cash and Investment by Fund
Water and Wastewater
June 30, 2014 and 2013
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2014	2013	2014	2013	2014	2013	Amount	%
Unrestricted cash and investment								
Operating reserves:								
Rate stabilization fund	$ 85,000	50,000	17,590	15,000	102,590	65,000	37,590	58%
Working capital reserve	59,200	56,700	15,200	14,900	74,400	71,600	2,800	4%
Self-insurance	5,000	5,000	1,700	1,700	6,700	6,700	—	0%
Workers compensation	3,200	3,200	600	600	3,800	3,800	—	0%
Total operating reserves	152,400	114,900	35,090	32,200	187,490	147,100	40,390	27%
Capital reserves:								
Reserved for capital projects	174,307	188,347	36,836	41,422	211,143	229,769	(18,626)	(8)%
Reserve funded CIP - Wastewater	—	—	14,430	14,390	14,430	14,390	40	0%
Vehicle replacements	4,625	5,067	—	—	4,625	5,067	(442)	(9)%
Equipment replacements	310	—	4,907	7,525	5,217	7,525	(2,308)	(31)%
Total capital reserves	179,242	193,414	56,173	63,337	235,415	256,751	(21,336)	(8)%
Total Unrestricted cash and investment	331,642	308,314	91,263	95,537	422,905	403,851	19,054	5%
Restricted Cash and Investments								
Bond construction fund	—	—	—	5,720	—	5,720	(5,720)	(100)%
Capitalized interest fund	—	—	—	1,582	—	1,582	(1,582)	(100)%
Bond interest and redemption fund	848	139	109	19	957	158	799	506%
Debt service reserve fund	29,368	34,175	2,538	2,538	31,906	36,713	(4,807)	(13)%
Funds received for construction	27,447	26,081	2,214	—	29,661	26,081	3,580	14%
FERC partnerhsip fund	2,247	2,232	—	—	2,247	2,232	15	1%
Monetary reserve	534	534	—	—	534	534	—	0%
ABAG program restricted fund	25	71	—	—	25	71	(46)	(65)%
Total restricted cash and investments	60,469	63,232	4,861	9,859	65,330	73,091	(7,761)	(11)%
Total District Cash and Investments	$ 392,111	371,546	96,124	105,396	488,235	476,942	11,293	2%

Cash and Investment by Fund
Water and Wastewater
June 30, 2013 and 2012
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
Unrestricted cash and investment								
Operating reserves:								
Rate stabilization fund	$ 50,000	50,000	15,000	15,000	65,000	65,000	—	0%
Working capital reserve	56,700	54,100	14,900	14,200	71,600	68,300	3,300	5%
Self-insurance	5,000	5,000	1,700	1,700	6,700	6,700	—	0%
Workers compensation	3,200	3,200	600	600	3,800	3,800	—	0%
Total operating reserves	114,900	112,300	32,200	31,500	147,100	143,800	3,300	2%
Capital reserves:								
Reserved for capital projects	188,347	167,670	41,422	25,338	229,769	193,008	36,761	19%
Reserve funded CIP - Wastewater	—	—	14,390	14,288	14,390	14,288	102	1%
Vehicle replacements	5,067	7,844	—	—	5,067	7,844	(2,777)	(35)%
Equipment replacements	—	—	7,525	8,674	7,525	8,674	(1,149)	(13)%
Total capital reserves	193,414	175,514	63,337	48,300	256,751	223,814	32,937	15%
Total Unrestricted cash and investment	308,314	287,814	95,537	79,800	403,851	367,614	36,237	10%
Restricted Cash and Investments								
Bond construction fund	—	411	5,720	35,532	5,720	35,943	(30,223)	(84)%
Capitalized interest fund	—	—	1,582	3,327	1,582	3,327	(1,745)	(52)%
Bond interest and redemption fund	139	24,210	19	—	158	24,210	(24,052)	(99)%
Debt service reserve fund	34,175	46,730	2,538	2,538	36,713	49,268	(12,555)	(25)%
Funds received for construction	26,081	23,492	—	—	26,081	23,492	2,589	11%
FERC partnerhsip fund	2,232	2,238	—	—	2,232	2,238	(6)	(0)%
Monetary reserve	534	722	—	—	534	722	(188)	(26)%
ABAG program restricted fund	71	—	—	—	71	—	71	N/A
Total restricted cash and investments	63,232	97,803	9,859	41,397	73,091	139,200	(66,109)	(47)%
Total District Cash and Investments	$ 371,546	385,617	105,396	121,197	476,942	506,814	(29,872)	(6)%

Capital Contributions

Capital contributions primarily consist of System Capacity Charges (SCC) and Seismic Improvement Program (SIP) surcharges. Additionally, the District receives contributions when the District's facilities need to be relocated during construction projects. The District also receives state and federal grants to fund capital projects.

The Water System's SCC consists of charges collected from all applicants who request a new water service connection or a larger water meter size, and varies depending on geographic region. The SCC pays for the applicant's share of the capital facilities, including those that serve the entire water system such as the aqueducts and raw water facilities, regional facilities such as treatment plants and distribution facilities, and future water supply upgrades needed to meet long-term increases in water demand created by new customers. The portion of the SCC that pays for the future water supply is restricted and the remainder is unrestricted.

The Wastewater System's Capacity Fee is treated as unrestricted funds and pays for the share of Wastewater facilities attributed to new customers.

A flat Seismic Improvement Program (SIP) surcharge is imposed on each Single Family Residential or Multiple Family Residential account to pay for system-wide seismic improvements of the Water System being made from 1995-2025. The SIP surcharge is designed to recover costs of the SIP, the objective of which is to provide fire flow availability for real property, and provide continued water service to residential, commercial, industrial and public authority customers after a seismic event. SIP program costs are being paid over 30 years; the charge is effective on each water bill through February 28, 2025.

Grants and other reimbursements decreased from $8 million to $1 million primarily due to less grant money received in the current year compared to the prior year.

Table 5 shows the District's capital contributions received for the fiscal years ended June 30, 2014, 2013 and 2012:

Table 5

Capital Contributions
Water and Wastewater
June 30, 2014 and 2013
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2014	2013	2014	2013	2014	2013	Amount	%
System capacity charges	$ 20,365	22,673	806	1,264	21,171	23,937	(2,766)	(12)%
Earned contributions on construction	5,240	4,540	—	—	5,240	4,540	700	15%
Seismic improvement surcharge	22,682	20,585	—	—	22,682	20,585	2,097	10%
Grants and other reimbursements	752	7,993	386	333	1,138	8,326	(7,188)	(86)%
Totals	$ 49,039	55,791	1,192	1,597	50,231	57,388	(7,157)	(12)%

Capital Contributions
Water and Wastewater
June 30, 2013 and 2012
(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
System capacity charges	$ 22,673	16,075	1,264	2,824	23,937	18,899	5,038	27%
Earned contributions on construction	4,540	5,870	—	—	4,540	5,870	(1,330)	(23)%
Seismic improvement surcharge	20,585	19,173	—	—	20,585	19,173	1,412	7%
Grants and other reimbursements	7,993	4,092	333	—	8,326	4,092	4,234	103%
Totals	$ 55,791	45,210	1,597	2,824	57,388	48,034	9,354	19%

CAPITAL ASSETS

Table 6 shows the District's capital assets for the fiscal years ended June 30, 2014, 2013 and 2012:

Table 6

Capital Assets, Net of Depreciation

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

	Water System		Wastewater System		Total		Increase/(decrease)	
	2014	2013	2014	2013	2014	2013	Amount	%
Structures, buildings, and equipment	$ 3,269,155	3,176,727	597,687	546,182	3,866,842	3,722,909	143,933	3.9%
Land and rights of way	55,274	55,455	20,231	20,048	75,505	75,503	2	0.0%
Construction work in progress	243,219	252,473	59,062	100,321	302,281	352,794	(50,513)	(14.3)%
Totals	$ 3,567,648	3,484,655	676,980	666,551	4,244,628	4,151,206	93,422	2.3%

Capital Assets, Net of Depreciation

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

	Water System		Wastewater System		Total		Increase/(decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
Structures, buildings, and equipment	$ 3,176,727	3,135,153	546,182	545,799	3,722,909	3,680,952	41,957	1.1%
Land and rights of way	55,455	55,432	20,048	19,986	75,503	75,418	85	0.1%
Construction work in progress	252,473	209,802	100,321	87,570	352,794	297,372	55,422	18.6%
Totals	$ 3,484,655	3,400,387	666,551	653,355	4,151,206	4,053,742	97,464	2.4%

The District had $4.2 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2014. Total capital assets were $4.2 billion as of June 30, 2013. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, pump stations, water reclamation facilities, wastewater and wet weather treatment facilities, machinery and equipment (*see Table 6 above*). In the current fiscal year, capital assets increased by $93 million or 2.3% over the prior fiscal year. In fiscal year 2013, capital assets increased $97 million or 2.4% over fiscal year 2012. Annual changes are consistent with the District's capital improvement program.

The Water System had $3.6 billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2014. The investment in capital assets includes land, buildings, improvements, water treatment plants, filter plants, aqueducts, water transmission and distribution mains, water storage facilities, power generation, pump stations, water reclamation facilities, machinery and equipment.

The Wastewater System had $677 million (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 2014. The investment in capital assets includes land, buildings, improvements, power generation, wastewater and wet weather treatment facilities, machinery and equipment.

The District's net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

This year's major capital expenditures included:

Water System:	
Pipeline Infrastruct Renewals	$30,661
Large Diameter Pipelines	28,994
Pumping Plant Rehabilitation	21,595
Treatment Plant Upgrades	15,235
Reservoir Rehab/Maintenance	14,644
WTTIP WTP Improvements	10,902
Adm Bldg Modifications	10,770
SRV Recycled Water Program	8,443
Summit Pressure Zone Improve	8,002
Addl Supplemental Supply Projs	7,120
Pipeline Relocations	6,264
Freeport Regional Wtr Project	5,193
Water Conservation Project	4,645
Open Cut Reservoir Rehab	4,343
Dam Seismic Upgrades	4,001
Srvc Latl Repl Polybutylene	3,828
Raw Water Studies and Improves	2,896
Pipeline System Improvements	2,835
Transmission System SIP	2,479
Wastewater System:	
Treatment Plant Infrastructure	14,725
Infiltration/Inflow Contrl Prj	11,815
Wood St Sewer Intercept Rehab	7,234
Concrete Rehab at SD1	6,306
Routine Cap Equip Replacement	3,041
PGS Engine Overhaul	2,809
Wet Weather Plant Imprmts	2,198
MWWTP Master Plan	1,828
Interceptor Corrosion Prevent	1,617
DCS Upgrades	1,576

DEBT ADMINISTRATION

The District had total long-term debt outstanding of $3.1 billion as of June 30, 2014, a 1% increase from June 30, 2013. Total long-term debt outstanding was $3.1 billion as of June 30, 2013, a 1% increase from June 30, 2012. Components of the District's long-term debt portfolio as of June 30, 2014 are:

- The Water System had total long-term debt outstanding of $2.7 billion. During fiscal year 2014, the District redeemed $13.1 million of commercial paper and issued a total of $446 million Water System Revenue Bonds, of which $371 million was issued to refund Water System Subordinated Revenue Refunding Bond Series 2005A, 2008A, 2008B-3 and 2011A.
- The Wastewater System had total long-term debt outstanding of $455 million. During fiscal year 2014, the District issued $14 million of Wastewater System General Obligation Refunding Bonds Series G to refund Wastewater System General Obligation Bond Series F.

Table 7 shows the District's long-term debt outstanding for the fiscal years ended June 30, 2014, 2013 and 2012:

Table 7

Long -Term Debt

(Net of Unamortized Costs)

Water and Wastewater

June 30, 2014 and 2013

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2014	2013	2014	2013	2014	2013	Amount	%
General obligation bonds	$ —	—	15,225	18,812	15,225	18,812	(3,587)	(19)%
Revenue bonds	2,330,450	2,266,515	424,748	435,337	2,755,198	2,701,852	53,346	2%
Extendable commercial paper	359,800	372,900	15,000	15,000	374,800	387,900	(13,100)	(3)%
Loans	16,011	17,002	—	—	16,011	17,002	(991)	(6)%
Totals	$ 2,706,261	2,656,417	454,973	469,149	3,161,234	3,125,566	35,668	1%

Long -Term Debt

(Net of Unamortized Costs)

Water and Wastewater

June 30, 2013 and 2012

(In thousands)

	Water System		Wastewater System		Total		Increase (decrease)	
	2013	2012	2013	2012	2013	2012	Amount	%
General obligation bonds	$ —	—	18,812	21,847	18,812	21,847	(3,035)	(14)%
Revenue bonds	2,266,515	2,294,115	435,337	444,366	2,701,852	2,738,481	(36,629)	(1)%
Extendable commercial paper	372,900	312,900	15,000	15,000	387,900	327,900	60,000	18%
Loans	17,002	17,970	—	—	17,002	17,970	(968)	(5)%
Totals	$ 2,656,417	2,624,985	469,149	481,213	3,125,566	3,106,198	19,368	1%

It is the policy of the District to maintain a reasonable balance between debt and current revenue financing of capital projects. The following targets provide the framework for financing capital projects:

Debt Service Coverage Ratio: Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage. As of 6/30/2014, the coverage ratio for Water was 1.66 and for Wastewater was 1.60; the overall District's ratio was 1.65.

Debt-Funded Capital Spending: Limit debt-funded capital to no more than 65% of the total capital program over each five-year planning period. As of 6/30/2014, the percentage of debt-funded capital spending for Water was 61.6% and for Wastewater was 66.0%; the overall District's percentage was 62.4%.

Extended Commercial Paper and Un-hedged Variable Rate Debt: Limit to 25% of outstanding long-term debt. As of 6/30/2014, the percentage of extended commercial paper and un-hedged variable rate debt compared to total outstanding long-term debt for Water was 13.8% and for Wastewater was 3.3%; the overall District's percentage was 12.2%.

The District's credit ratings are outlined in Table 8.

Table 8

Credit Ratings

Water and Wastewater

June 30, 2014

	Rating by		
District debt by type	**Standard & Poor's**	**Moody's Investors Service**	**Fitch**
Water system:			
Fixed Rate Revenue Bonds	AAA	Aa1	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa1	AA+
Short-Term Rating	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+
Wastewater system:			
General Obligation Bonds	AAA	Aa1	-
Fixed Rate Revenue Bonds	AAA	Aa2	AA+
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AAA	Aa2	AA+
Short-Term Rating	A-1+	VMIG-1	F1+
Extendable Commercial Paper	A-1+	P-1	F1+

For detail credit rating by bond issue, please visit our website at http://www.ebmud.com.

Revenue-supported debt authorization for the District can be approved by the District's board of directors, subject to a referendum process. At June 30, 2014, the Water System had $527.3 million and the Wastewater System had $204.3 million in authorized but unissued revenue bonds.

Additional information on the District's long-term debt can be found in Note 6 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide ratepayers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: the Controller, Accounting Division, P.O. Box 24055, Oakland, CA 94623-1055 or visit our website at http://www.ebmud.com.

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current assets:						
Cash and cash equivalents (Note 2)	$134,171	$87,960	$66,715	$78,381	$200,886	$166,341
Investments (Note 2)	197,471	220,354	24,548	17,156	222,019	237,510
Receivables:						
Customer	41,909	47,566	5,512	6,504	47,421	54,070
Interest and other	2,268	5,002	2,081	2,905	4,349	7,907
Materials and supplies	6,177	6,641	-	-	6,177	6,641
Prepaid Insurance	1,133	1,115	-	-	1,133	1,115
Total current assets	383,129	368,638	98,856	104,946	481,985	473,584
Noncurrent assets:						
Restricted cash and investments (Note 2):						
Cash and cash equivalents	41,770	41,401	4,861	9,859	46,631	51,260
Investments	18,699	21,831	-	-	18,699	21,831
Total restricted cash and investments	60,469	63,232	4,861	9,859	65,330	73,091
Other assets:						
Equity in JPA partnership fund (Note 2J)	240,260	253,720	-	-	240,260	253,720
Other	140	135	315	328	455	463
Total other assets	240,400	253,855	315	328	240,715	254,183
Capital assets (Note 3):						
Structures, buildings, and equipment	4,779,391	4,600,402	969,603	899,906	5,748,994	5,500,308
Less accumulated depreciation	(1,510,236)	(1,423,675)	(371,916)	(353,724)	(1,882,152)	(1,777,399)
Subtotal	3,269,155	3,176,727	597,687	546,182	3,866,842	3,722,909
Land and rights-of-way	55,274	55,455	20,231	20,048	75,505	75,503
Construction in progress	243,219	252,473	59,062	100,321	302,281	352,794
Total capital assets, net	3,567,648	3,484,655	676,980	666,551	4,244,628	4,151,206
Total noncurrent assets	3,868,517	3,801,742	682,156	676,738	4,550,673	4,478,480
Total assets	4,251,646	4,170,380	781,012	781,684	5,032,658	4,952,064
Deferred outflows of resources:						
Accumulated decrease in fair value of hedging derivatives (Note 6)	30,756	74,848	14,997	15,904	45,753	90,752
Total deferred outflows	30,756	74,848	14,997	15,904	45,753	90,752
Total assets and deferred outflows	$4,282,402	$4,245,228	$796,009	$797,588	$5,078,411	$5,042,816

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
BALANCE SHEETS
JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Totals	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current liabilities:						
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)	$35,690	$19,576	$12,470	$13,580	$48,160	$33,156
Accounts payable and accrued expenses (Note 4)	70,837	60,616	9,149	9,198	79,986	69,814
Current reserve for claims (Note 9)	7,903	6,498	780	845	8,683	7,343
Accrued interest	8,552	8,930	1,811	1,854	10,363	10,784
Total current liabilities	122,982	95,620	24,210	25,477	147,192	121,097
Noncurrent liabilities:						
Advances for construction	7,850	6,571	-	-	7,850	6,571
OPEB liabilities (Note 8)	18,363	16,367	3,322	2,965	21,685	19,332
Reserve for claims (Note 9)	30,125	30,130	4,589	4,728	34,714	34,858
Other liabilities	13,873	18,543	6,037	6,152	19,910	24,695
Long-term liabilities, net of current maturities (Note 5 & 6)	2,670,571	2,636,841	442,503	455,569	3,113,074	3,092,410
Total noncurrent liabilities	2,740,782	2,708,452	456,451	469,414	3,197,233	3,177,866
Total liabilities	2,863,764	2,804,072	480,661	494,891	3,344,425	3,298,963
Deferred inflows of resources						
Derivative instrument (Note 6)	30,756	74,848	14,997	15,904	45,753	90,752
Swap Novation (Note 6F)	24,551	24,551	-	-	24,551	24,551
Total deferred inflows	55,307	99,399	14,997	15,904	70,304	115,303
Total liabilities and deferred inflows	2,919,071	2,903,471	495,658	510,795	3,414,729	3,414,266
Net position (Note 7):						
Net investment in capital assets	861,386	828,238	222,008	203,122	1,083,394	1,031,360
Restricted for construction (Note 1H)	19,597	19,510	2,214	1,582	21,811	21,092
Restricted for debt service (Note 1H)	30,216	34,314	2,647	2,557	32,863	36,871
Restricted for JPA	240,260	253,720	-	-	240,260	253,720
Restricted - other (Note 1H)	2,806	2,836	-	-	2,806	2,836
Unrestricted	209,066	203,139	73,482	79,532	282,548	282,671
Total net position	1,363,331	1,341,757	300,351	286,793	1,663,682	1,628,550
Total liabilities and net position	$4,282,402	$4,245,228	$796,009	$797,588	$5,078,411	$5,042,816

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Operating revenue:						
Water	$367,547	$336,066	-	-	$367,547	$336,066
Sewer	-	-	$72,345	$68,050	72,345	68,050
Power	1,380	3,596	1,099	693	2,479	4,289
Wet weather facilities charges	-	-	19,389	18,321	19,389	18,321
Total operating revenue	368,927	339,662	92,833	87,064	461,760	426,726
Operating expense:						
Raw water	41,066	33,076	-	-	41,066	33,076
Water treatment and distribution	97,610	89,596	-	-	97,610	89,596
Recreation areas, net	5,166	5,341	-	-	5,166	5,341
Sewer lines and pumping	-	-	13,658	12,530	13,658	12,530
Sewer treatment plant operations	-	-	31,748	28,683	31,748	28,683
Customer accounting and collecting	17,995	16,140	2,328	2,378	20,323	18,518
Financial and risk management	16,379	16,637	640	590	17,019	17,227
Facilities management	9,054	8,829	-	-	9,054	8,829
General administration	50,052	53,339	7,672	8,351	57,724	61,690
Depreciation on utility plant and vehicle	90,426	87,303	22,236	21,859	112,662	109,162
Total operating expense	327,748	310,261	78,282	74,391	406,030	384,652
Net operating income	41,179	29,401	14,551	12,673	55,730	42,074
Nonoperating income (expense):						
Investment income	2,243	2,608	269	2,584	2,512	5,192
Taxes and subventions	25,492	26,436	9,881	9,408	35,373	35,844
Interest and amortization of bond expenses, net of capitalized interest of $7,637 and $7,836 for the Water System and $3,470 and $2,934 for the Wastewater System in 2014 and 2013, respectively	(104,339)	(97,865)	(16,730)	(18,405)	(121,069)	(116,270)
Increase (decrease) of equity in JPA partnership fund	(8,146)	-	-	-	(8,146)	-
Other income	16,106	9,342	4,395	3,356	20,501	12,698
Total nonoperating income (expense), net	(68,644)	(59,479)	(2,185)	(3,057)	(70,829)	(62,536)
Income (loss) before capital contributions	(27,465)	(30,078)	12,366	9,616	(15,099)	(20,462)
Capital contributions	49,039	55,791	1,192	1,597	50,231	57,388
Change in net position	21,574	25,713	13,558	11,213	35,132	36,926
Total net position - beginning	1,341,757	1,316,044	286,793	275,580	1,628,550	1,591,624
Total net position - ending	$1,363,331	$1,341,757	$300,351	$286,793	$1,663,682	$1,628,550

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash flows from operating activities						
Cash received from customers	$374,584	$333,279	$93,825	$86,431	$468,409	$419,710
Cash received from other income	16,106	9,342	4,395	3,356	20,501	12,698
Cash payments for judgments and claims	(5,154)	(5,669)	(196)	(131)	(5,350)	(5,800)
Cash payments to suppliers for goods and services	(49,634)	(22,678)	(27,256)	(24,492)	(76,890)	(47,170)
Cash payments to employees for services	(146,184)	(146,076)	(26,403)	(27,337)	(172,587)	(173,413)
Net cash provided by operating activities	189,718	168,198	44,365	37,827	234,083	206,025
Cash flows from noncapital financing activities:						
Tax receipts	25,492	26,436	9,881	9,408	35,373	35,844
Net cash provided by financing activities	25,492	26,436	9,881	9,408	35,373	35,844
Capital and related financing activities:						
Capital contributions	49,039	55,791	1,192	1,597	50,231	57,388
Proceeds from advances for construction	1,279	2,462	-	-	1,279	2,462
Proceeds from sale of capital assets	6,454	439	-	-	6,454	439
Net proceeds and premiums from sale of bonds	535,210	90,102	15,879	1,240	551,089	91,342
Acquisition and construction of capital assets	(203,942)	(204,500)	(34,059)	(36,230)	(238,001)	(240,730)
Change in Investment in JPA	5,314	-	-	-	5,314	-
Principal retirement on long-term debt and commercial paper	(482,665)	(943)	(29,743)	(13,303)	(512,408)	(14,246)
Amount paid to refunding bond escrow agent	(1,826)	(57,455)	(305)	-	(2,131)	(57,455)
Costs and discounts from issuance on long-term debt	(875)	(273)	(7)	-	(882)	(273)
Interest paid on long-term debt	(104,717)	(97,689)	(16,773)	(18,458)	(121,490)	(116,147)
Net cash provided by (used in) capital and related financing activities	(196,729)	(212,066)	(63,816)	(65,154)	(260,545)	(277,220)
Cash flows from investing activities:						
Proceeds from securities	524,430	262,124	15,716	64,291	540,146	326,415
Expenditures from purchases of securities	(498,415)	(276,118)	(23,108)	(14,065)	(521,523)	(290,183)
Interest received on investments	2,084	3,361	298	2,120	2,382	5,481
Net cash provided by (used in) investing activities	28,099	(10,633)	(7,094)	52,346	21,005	41,713
Net increase (decrease) in cash and cash equivalents	46,580	(28,065)	(16,664)	34,427	29,916	6,362
Cash and cash equivalents:						
Beginning of year	129,361	157,426	88,240	53,813	217,601	211,239
End of period	$175,941	$129,361	$71,576	$88,240	$247,517	$217,601

(Continued)

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Reconciliation of net operating income to net cash provided by operating activities:						
Net operating income	$41,179	$29,401	$14,551	$12,673	$55,730	$42,074
Adjustments to reconcile net operating income to net cash provided by operating activities:						
Depreciation on utility plant and vehichle	90,426	87,303	22,236	21,859	112,662	109,162
Depreciation within recreation areas	1,547	1,537	-	-	1,547	1,537
Amortization	22,522	25,639	1,394	1,176	23,916	26,815
Other income	16,106	9,342	4,395	3,356	20,501	12,698
Changes in assets/liabilities:						
Materials and supplies	464	132	-	-	464	132
Prepaid insurance	(18)	(32)	-	-	(18)	(32)
Customer receivables	5,657	(6,383)	992	(633)	6,649	(7,016)
Other assets	2,888	908	808	(876)	3,696	32
OPEB liability	1,996	2,859	357	530	2,353	3,389
Reserve for claims	1,400	(826)	(204)	(596)	1,196	(1,422)
Accounts payable and accrued expenses	5,551	18,318	(164)	338	5,387	18,656
Net cash provided by operating activities	$189,718	$168,198	$44,365	$37,827	$234,083	$206,025
Schedule of Non-Cash Activities						
Change in Fair Value	($417)	($968)	($60)	($97)	($477)	($1,065)

See accompanying notes to financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST
(COMPONENT UNIT)
JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Assets:		
Cash and cash equivalents (Note 2)	$36,658	$34,397
Invested securities lending collateral (Note 1.L and 2)	129,511	101,523
Receivables:		
Contributions	3,501	2,973
Interest and other	5,019	14,405
Prepaid expenses	477	459
Investments, at fair value (Note 2):		
U.S. government obligations	82,377	86,483
Municipal bonds	4,385	5,774
Domestic corporate bonds	153,500	123,929
International bonds	10,847	13,877
Domestic stocks	783,177	604,676
International stocks	204,458	208,130
Real estate	68,194	53,222
Total Investments	1,306,938	1,096,091
Total assets	1,482,104	1,249,848
Liabilities:		
Accounts payable and accrued expenses	1,507	1,472
Payables to brokers, securities purchased	4,198	22,525
Securities lending collateral (Note 1.L.)	129,511	101,523
Total liabilities	135,216	125,520
Net position:		
Held in trust for pension benefits	1,325,387	1,107,628
Held in trust for post-employment healthcare benefits	21,501	16,700
Total net position	$1,346,888	$1,124,328

See accompanying notes to basic financial statements

EAST BAY MUNICIPAL UTILITY DISTRICT
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND - PENSION AND OTHER EMPLOYEE BENEFIT TRUST
(COMPONENT UNIT)
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Additions:		
Contributions (Note 8)		
Employer	$70,117	$61,567
Plan members	12,133	10,566
Total contributions	82,250	72,133
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Traded securities	197,439	120,223
Real estate	2,129	877
Interest	7,193	7,794
Dividends	15,470	12,348
Real estate operating income, net	1,104	1,144
Total investment income	223,335	142,386
Less:		
Investment expense	(3,437)	(3,729)
Borrowers' rebates and other agent fees on securities lending transactions	(67)	(122)
Net investment income	219,831	138,535
Total additions, net	302,081	210,668
Deductions:		
Benefits paid	78,149	71,760
Refund of contributions	116	335
Administrative expenses	1,256	1,217
Total deductions	79,521	73,312
Change in net position	222,560	137,356
Net position:		
Beginning of year	1,124,328	986,972
End of year	$1,346,888	$1,124,328

See accompanying notes to basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Description of the Primary Government*

The East Bay Municipal Utility District (the District) was formed in May 1923 under the provisions of the Municipal Utility District Act of 1921, as amended in 1941. The District is comprised of two financially independent entities: the Water System and the Wastewater System. These two entities are governed by the same elected seven-member board of directors which determines such matters as rates and charges for services, approval of contracts, and District policies. The Water System provides administrative and other support services to the Wastewater System. These costs are charged to the Wastewater System.

B. *Description of the Component Unit*

The District's Employees' Retirement System (the Employees' Retirement System or the Plan) has been reported as a Pension and Other Employee Benefit Trust fund (a fiduciary fund) in the accompanying basic financial statements and is discretely presented. The District appoints the voting majority of the governing body of the Employees' Retirement System and provides for its funding.

Copies of the audited financial statements of the Employees' Retirement System may be obtained by writing to the Controller, P.O. Box 24055, Oakland, CA 94623 or visit our website at http://www.ebmud.com.

C. *Basis of Presentation*

The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses.

The basic financial statements include prior year comparative information. A complete presentation of the prior year information can be found in the District's financial statements for the year ended June 30, 2013.

The District reports the following major proprietary (enterprise) funds:

The **Water System** is engaged in the collection, transmission, and distribution of water to communities within Alameda and Contra Costa counties of California.

The **Wastewater System** is engaged in the interception and treatment of wastewater from residences and industries in the California communities of Alameda, Albany, Berkeley, Emeryville, Oakland, Piedmont, and the Stege Sanitary District.

Additionally, the District reports the following fiduciary fund:

The **Pension and Other Employee Benefit Trust** is used to account for the resources held by the Employees' Retirement System which provides retirement, disability, and survivorship benefits for eligible directors, officers, and employees of the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Pension and Other Employee Benefit Trust fund is maintained to account for assets held by the Employees' Retirement System in a trustee capacity.

D. Basis of Accounting

Proprietary funds and the Pension and Other Employee Benefit Trust fund are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets, deferred outflows, liabilities and deferred inflows associated with operations are included on the balance sheet, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes wet weather facilities charges as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

In addition, the accounting policies of the District conform to accounting policies generally accepted in the United States of America for water utilities. The accounts are maintained substantially in accordance with the Uniform System of Accounts for Water Utilities followed by investor-owned and major municipally owned water utilities.

Balance Sheet – The balance sheet is designed to display the financial position of the District. The District's fund equity is reported as net position, which is broken down into three categories defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and related deferred inflows and outflows.

- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and other income.

E. *Use of Estimates and Assumptions*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. *Capital Assets*

Utility Plant – at Original Cost

The cost of additions to utility plant and replacement of retired units of property are capitalized. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

The depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

Water Supply Management Program

Costs incurred in this program are debt funded and capitalized in construction in progress. These costs are transferred to utility plant upon completion of the project and depreciated over their useful life. Debt service costs on the debt used to finance the program are recovered in future periods through rates and charges for service to those benefiting from the program.

Preliminary Survey and Investigation Costs

The District capitalizes initial costs incurred to study and evaluate certain potential long-term capital projects. These costs are transferred to property, plant and equipment upon completion of the project and are depreciated over the life of the asset. In the event the project is abandoned, these costs are expensed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Water Rights

The District has contracted with the U.S. Bureau of Reclamation for water deliveries from the Central Valley Project (CVP) through February 2046 (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to EBMUD of capital costs for CVP storage and conveyance facilities (EBMUD's current allocation is $4,510) and the Operation & Maintenance Deficit (EBMUD's current balance is $6,781).

The Water Enterprise Fund capitalizes the two components and amortizes, using the straight-line method, over the remaining entitlement period starting in fiscal year 2013 with the completion of the Freeport and Folsom South Canal Projects in fiscal year 2012.

G. Depreciation

Depreciation of capital assets is computed on a straight-line basis using the estimated service lives of the related assets (5 to 100 years).

H. Restricted Assets

The District segregates cash and investments into funds that are "Restricted" and "Unrestricted." Funds are "restricted" when limitations on use of the resources are imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provision or by enabling legislation. "Unrestricted" resources are committed by the Board of Directors through the passage of a resolution, or constrained for a specific purpose by committees or officials with authority delegated by the Board. The exception is the Reserve for Capital Projects which is anticipated but not committed or constrained to be used for the District's capital improvement program.

Unrestricted cash and investments are further categorized into Operating and Capital Reserves:

Operating Reserves:

- Rate Stabilization Fund (RSF) reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain at least 20% of projected annual water volume sales for Water and at least 5% of projected annual operating and maintenance expenses for Wastewater. Funding of the RSF is consistent with Bond documents. In fiscal year 2014, the District combined the Rate Stabilization Fund and the Contingency and Rate Stabilization Reserve into a single Rate Stabilization Fund (RSF) reserve to enhance transparency.
- Working Capital is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain at least three times the District's monthly operating and maintenance expenses.
- Self-insurance reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain 1.25 times the expected annual costs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Workers' compensation reserve is established by Policy 4.02, as adopted by the Board of Directors in the bi-annual budget, to maintain levels equal to the estimated future liability for workers' compensation claims.

  Capital Reserves:

- Reserve for Capital Projects comprises the resources available for cash funding of the District's capital improvement program as projected in conjunction with the bi-annual budget.
- Reserve Funded CIP (Wastewater) balance is a specific designation [Board Motion 029-94] used to fund wet and dry weather eligible construction projects.
- Vehicle Replacement Fund [Board Motion 94-030] is financed by deposits based on internal user rate charges, and used to reimburse operational expenditures and vehicle replacement purchases.
- Equipment Replacement Fund was established by the District with the implementation of the Wastewater Capacity Fees effective July 1, 1984. The balance in this account represents funds set aside for future wastewater department equipment replacements.

Restricted funds include the following:

- Debt funded construction funds are the proceeds of bond or commercial paper issues that are restricted for use on eligible projects in the District's capital program. The current year balance is $0 for Water and Wastewater.
- Debt Service Reserve fund is created and required to be maintained at a specified level in connection with certain series of the District's outstanding bonds. Amounts in a Bond Reserve Fund may only be used (a) for the payment of principal of and interest on the related series of bonds in the event the District fails to transfer the required payment from the related system Revenue Fund (the respective designated part of the General Fund), (b) for the payment of redemption of all of the related series of bonds then outstanding, or (c) for the payment of the final principal and interest payments on the related series of bonds. As of June 30, 2014 and 2013, respectively, the balances were $29,638 and $34,175 for Water, and $2,538 and $2,538 for Wastewater.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Bond Interest and Redemption fund is required, under the District's bond indentures, in order for the District to transfer funds to the Trustee for the payment of principal and interest on the outstanding bonds one business day prior to the date such payment is due. The District uses the Bond Interest and Redemption Fund to segregate funds accumulated for such payments. In addition, under certain of the interest rate swap agreements related to the District's outstanding bonds, the District is required to post collateral to the swap counterparty to the extent that the District's total exposure for termination payments under the swap agreement exceeds the threshold amount specified in the applicable swap agreement. The District also uses the Bond Interest and Redemption Fund to segregate District funds held by the applicable custodian to satisfy this collateral posting obligation. As of June 30, 2014 and 2013, respectively, the balances were $848 and $139 for Water, and $109 and $19 for Wastewater.
- Capitalized Interest fund is restricted by the specific bond issue for the purpose of defraying that bond issue's debt service payments for a specified period. As of June 30, 2014 and 2013 respectively, the balances were $0 and $0 for Water, and $0 and $1,582 for Wastewater.
- Funds received for construction reflect advances received from applicants for work to be performed by the District and the unspent future water supply component of system capacity charges. This fund is used for the construction of major facilities, applicant requested services, and the design and construction of water supply improvement program projects. The balance as of June 30, 2014 was $27,447 for Water ($19,037 for Future Water Supply projects, $8,410 for Applicant Work) and $2,214 for Wastewater (Private Lateral Sewer incentive Program). The balance as of June 30, 2013 was $26,081 for Water ($18,994 for Future Water Supply, $7,087 for Applicant Work) and $0 for Wastewater.
- FERC partnership fund of $2,000 was established January 11, 1999, in compliance with the Federal Energy Regulatory Commission (FERC) order which brought resolution to its Mokelumne River Proceeding. The District will manage the fund and income derived from investing the funds will provide operating support to the joint settlement agreement with U.S. Fish and Wildlife and California Fish and Game to protect the Mokelumne River Ecosystem from Pardee Reservoir to the Delta. The principal and any unused earnings shall remain the property of the District and will revert to the District upon expiration of the agreement in March 2031 or upon withdrawal of any party to the agreement. As of June 30, 2014 and 2013, respectively, the balance was $2,247 and $2,232 for Water.
- Monetary Reserve represents money on deposit in the name of the District with the Automated Power Exchange Inc. (APX) in accordance with the terms and conditions of the Automated Power Exchange Inc. California Master Service Agreement of July 15, 1999, entered into between the District and APX for the sale and purchase of electric power. The funds held on deposit shall be withdrawn by the Depository and Clearing Agent in the event that sufficient funds are not deposited in the District settlement account to cover power exchange transactions. As of June 30, 2014 and 2013, respectively, the balance was $534 and $534 for Water.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ABAG (Association of Bay Area Governments) Restricted Fund was established as an interest bearing account for Regional General Permit effort by 7 local water agencies in October 2013. The agreement between the District and ABAG, approved by Board motion 029-12 on March 13, 2012, requires the District to collect deposits and pay invoices in accordance with a cost allocation agreed among the water agencies. As of June 30, 2014 and 2013, respectively, the balance was $25 and $71 for Water.

I. Deferred Amount on Bond Refundings

Gains and losses incurred in connection with debt refunding transactions are deferred and amortized over the shorter of the life of the refunded debt or the new debt.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

K. District Investments

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments.

Measurement of the fair value of investments is based upon quoted market prices, if available. The estimated fair value of investments that have no quoted market price is determined based on equivalent yields for such securities or for securities of comparable maturity, quality, and type as obtained from market makers.

Each of the financial instruments invested in by the District represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified, and issuers of securities are dispersed throughout many industries and geographic locations, the concentrations of credit risk are limited.

L. Retirement System Investments

Investments are reported at fair value. Securities and bonds traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that have no quoted market price are reported at estimated fair value, which is determined based on yields equivalent for such securities or for securities of comparable maturity, quality, and type as obtained from market makers. Measurement of the fair value of real estate investments is estimated by the investment managers and reflects both internal and independent appraisals of real estate properties.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The System presents in the Statements of Changes in Plan Net Position the net change in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Each of the financial instruments invested in by the System represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified and issuers of securities are dispersed throughout many industries and geographical locations, the concentrations of credit risk are limited.

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 2014, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 2014, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 2014, had a weighted average maturity of 37 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the collateral investment generally matches the term of the loan. Noncash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans for the System was approximately 115 days. There are no dividends or coupon payments owing on the securities lent. Cash received as collateral on securities lending transactions is reported as an asset of the System with a corresponding liability.

As of June 30, 2014, the fair value of securities on loan was $129,511. The total cash and noncash collateral held by the System's custodian to secure these securities on loan was valued at $126,604 (all cash collateral).

(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Material and Supplies

Material and supplies inventories are valued at cost, which approximates market, using the average-cost method.

N. Compensated Absences

Compensated absences as of June 30, 2014, are included on the balance sheet in accounts payable and accrued expenses. In previous years, trends have shown that the District employees utilize the accruals annually, therefore, amounts payable are accrued and reported as a current liability on the financial statements.

The changes in compensated absences were as follows:

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Beginning Balance	$23,452	$24,399	$4,066	$4,371	$27,518	$28,770
Additions	(22,014)	24,418	(4,195)	4,248	(26,209)	28,666
Payments	24,187	(25,365)	4,361	(4,553)	28,548	(29,918)
Ending Balance	$25,625	$23,452	$4,232	$4,066	$29,857	$27,518

O. Revenue

Water billings include charges for water flow, elevation, and a monthly meter charge. Customer water meters are read on a cyclical basis throughout a monthly or bimonthly period. Bills are rendered and revenue is recognized in the period that meters are read.

Wastewater treatment billings are a combination of flow, strength charges, and a monthly service charge. Customer bills are rendered on a cyclical basis throughout a monthly or bimonthly period, and revenue is recognized in the period in which bills are rendered.

Wet weather facilities charges are designed to finance the operating and capital costs related to wet weather sewage flows and are billed annually on the property tax bill.

P. Interest Rate Swap

The District enters into interest rate swap agreements to modify interest rates on some outstanding debt. The net interest is recorded in the financial statements annually. In the current year, the hedge fund termination has been recorded, see Note 6F for further details.

(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. The District implemented GASB 53 in fiscal 2010.

Q. Deferred Outflows/Inflows of Resources

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

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

NOTE 2 - CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 2014, are as follows:

District Enterprise Funds:	Water System	Wastewater System	Total
Cash and investments included in current assets	$331,642	$91,263	$422,905
Cash and investments included in restricted investments	60,469	4,861	65,330
Total District cash and investments	392,111	96,124	488,235
Less investments	(216,170)	(24,548)	(240,718)
Cash and cash equivalents	$175,941	$71,576	$247,517
System Pension Trust Funds:			
Cash and cash equivalents			$36,658
Invested securities lending collateral			129,511
Retirement system investments			1,306,938
Total System cash and investments			$1,473,107

(Dollars in Thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

B. District Enterprise Fund Investments Authorized by the California Government Code and the District's Investment Policy

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive and provides information as to the limitations as they relate to interest rate risk, credit risk and concentration risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	270 Days	N/A	20%	10%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	$50,000 per account	N/A
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	0 to 100%	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	0 to 100%	40% in each Agency
Bankers' Acceptances	180 Days	N/A	40%	10%
Commercial Paper	270 Days	A1, P1 or F1	25%	10%
Negotiable Certificates of Deposit	5 Years	AA	30%	10%
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	30%	10%
Medium Term Corporate Notes	5 Years	AA	30%	10%
Money Market Mutual Funds	N/A	AAA	40%	10%
Municipal Bonds	5 Years	AA	40%	10%
Calif Asset Management Pgm (CAMP)	Upon Demand	Highest Rating	10%	10%

The District does not enter into reverse repurchase agreements.

C. District Enterprise Fund Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

NOTE 2 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Minimum Credit Quality
Repurchase Agreements	Top Four Short term Rating Category
U.S. Treasury Bonds, Notes and Bills	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligation	N/A
State Obligations	Not lower than District's bond rating
Commercial Paper	Top Rating Category
Negotiable Certificates of Deposit	FDIC insured or collateralised
Time Certificates of Deposits - Banks or Savings and Loans	FDIC insured or collateralised
Corporate Notes and Bonds	Not lower than District's bond rating
Variable Rate Obligations	Not lower than District's bond rating
Cash Swap Agreements	Top Rating Category
Guaranteed Investement Contract	Not lower than District's bond rating
Shares of Beneficial Interest	Top Rating Category

D. Employees Retirement System Authorized Investment Strategy

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. 6789*.

The Retirement Board is authorized to designate multiple investment managers to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the Retirement Board. Allocation of assets to the investment managers shall be determined by the Retirement Board to accommodate changing conditions and laws. The long-range asset allocation goal is as follows:

Core Fixed Income	10%
Non-Core Fixed Income	10%
Domestic Equity	40%
Covered Calls	20%
International Equity	15%
Real Estate	5%
Allocation to Cash	0%

The composite asset allocation goal will be pursued by the Retirement System on a long-term basis and be revised if significant changes occur within the economic and/or capital market environment. Progress toward the goal will be reviewed at least annually.

NOTE 2 - CASH AND INVESTMENTS (Continued)

The Director of Finance is authorized to transfer assets from any asset class which exceeds the long-term asset allocation goal by more than 3% at the end of two or more consecutive quarters, allocating the excess assets to a manager or group of managers with the exception of real estate managers. The Director of Finance is further authorized to withdraw assets from assigned managers as necessary to efficiently meet operating needs.

The domestic equity allocation target (40% of the total portfolio) will consist of approximately 37% in large cap market related growth and value (average risk) securities, 3% in small capitalized securities, and 20% in international securities. The international equity allocation target will consist of approximately 17% international equities and 3% emerging markets. It is expected this allocation will allow for exposure to mid cap securities based on tactical decisions by the Retirement Fund's large cap and small cap domestic equity managers.

The equity and fixed income asset allocations may vary by up to ± 5% from the long-range asset allocation goals.

The core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 20% of their assets in international fixed income securities.

The non-core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 35% of their assets in international fixed income securities. It is expected that this allocation may have a material allocation to below investment grade securities.

The covered calls target allocation (20% of the total portfolio) may consist of a combination of Chicago Board Options Exchange S&P 500 BuyWrite Index (the "BXM Index") replication strategy and/or active non-replication strategies and their underlying domestic equity portfolios.

The international equity target allocation (15% of the total portfolio) will consist of approximately 12% in international equities and 3% in emerging markets equities.

The real estate target allocation (5% of the total portfolio) will consist of either equity (ownership) and/or fixed income participation in commercial, industrial, or residential properties. Investments may include interests in mortgages pools secured by loans of underlying properties.

The allocation goal recognizes that at any time equity and fixed income managers may have transactional cash on hand and the District will maintain enough cash as working capital to effectively meet cash flow demands on the system. However, there is no specific allocation for cash as all investable cash is allocated to specific investment disciplines.

Holdings of securities issued by the United States Government or any of its agencies need not be diversified. Securities of any one issuer with maturities of more than one year, other than the United States Government or any of its agencies, shall not exceed 5% of the value of the total portfolio. Securities of any one issuer of foreign government issues shall not exceed 10% of the value of the total portfolio at the time of purchase. Fixed income managers have the authority to make international investments, not to exceed 20% of their total portfolio.

NOTE 2 - CASH AND INVESTMENTS (Continued)

The use of futures and options in the fixed income accounts may be used as part of their portfolio management strategy and will be incidental to their securities trading activities. The resulting aggregate risk profile (volatility) of the portfolio will not be different from that permissible by using securities only.

Short (sold) options positions will generally be hedged, either with current portfolio security holdings, other options or futures options. Mortgage derivatives with significant short option characteristics will not exceed 5% of the portfolio, and will generally be a) offset by positions in other mortgage derivatives, or b) offset by other portfolio positions.

No derivatives will be executed which will increase the value at risk of the portfolio by more than 25 basis points of the portfolio's market value.

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value. Structured notes issued by the U.S. Government (treasuries and agencies) will be considered allowable investments, and are exempt from the 5% restriction.

Fixed income managers are authorized to use futures and options contracts to supplement their investment capabilities to provide flexibility in managing the fixed income portfolios and reduce the cost of implementing strategies to respond to changing market conditions without incurring the higher transaction costs associated with buying and selling specific securities. These transactions are authorized to enable the manager to reduce the exposure of the portfolio to interest rate changes by reducing or increasing the duration of the portfolio without selling any of the actual holdings.

No more than 5% of the portfolio will be invested in original futures margin and options premiums, exclusive of any in-the-money portion of the premiums.

Each equity portfolio shall be diversified. When fully invested in equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single equity investment exceed 5% of the value of the total retirement fund.

Each international equity portfolio shall be diversified. When fully invested in international equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single international equity investment exceed 5% of the value of the total retirement fund.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the market value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its market value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the market values of the District's and System's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date.

(Dollars in Thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

District Enterprise Funds:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Government-Sponsored Enterprise Agencies:				
Non-callable	$102,654	$21,681	$12,914	$137,249
Callable		14,989	26,964	41,953
Corporate Securities	404	3,554	10,566	14,524
Municipal Bonds	7,765	4,256	1,991	14,012
Commercial Paper Discounted	9,992			9,992
Guaranteed Investment Contracts	12,000			12,000
Demand Deposits and Certificate of Deposit	10,945			10,945
Mutual Funds (U.S. Securities)	133,160			133,160
California Asset Management Program	40,002			40,002
California Local Agency Investment Fund	43,528			43,528
Total Investments	$360,450	$44,480	$52,435	457,365
Cash in banks				30,870
Total District Cash and Investments				$488,235

System Pension Trust Fund:

Investment Type	Less than 12 Months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity not Determined	Total
Asset Backed Securities	$847	$5,920	$1,103	$1,653		$9,523
Equity Securities	980,808					980,808
Commercial Mortgage - Backed Securities				8,865		8,865
Corporate Bonds	317	42,040	15,231	5,434	$32,077	95,099
Government Agencies		8,148	6,284	2,894		17,326
Government Bonds		29,348	8,612	5,163		43,123
Government Mortgage - Backed Securities	1		209	14,262		14,472
Government Issued Commercial Mortgage - Backed Securities				239		239
Index Linked Government Bonds	1,811	4,507		899		7,217
Short Term Investment Funds					6,829	6,829
Municipal Bonds		549	1,629	2,207		4,385
Mutual Funds				267		267
Real Estate					68,194	68,194
Other Fixed Income		18,662			31,929	50,591
Total System Investments	$983,784	$109,174	$33,068	$41,883	$139,029	$1,306,938

(Dollars in Thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

The District and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the market value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. On June 30, 2014, these investments matured in an average of 232 days.

The System's investments include the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated above:

Highly Sensitive Investments	Year End
Commercial Mortgage - Backed Securities	$8,865
Government Mortgage - Backed Securities	14,472
Government Issued Commercial Mortgage - Backed Securities	239

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 2014, for each investment type as provided by Moody's.

District Enterprise Funds:

Investment Type	Aaa	Aa2	Aa3	A1	A2	Total
U.S. Government-Sponsored						
Enterprise Agencies:						
Non-Callable	$137,249					$137,249
Callable	41,953					41,953
Corporate Securities	4,420	$4,569	$5,131	$404		14,524
Municipal Bonds		11,053				11,053
Commercial Paper Discounted		9,992				9,992
Guaranteed Investment Contracts					$12,000	12,000
Mutual Funds (U.S. Securities)	133,160					133,160
Totals	$316,782	$25,614	$5,131	$404	$12,000	359,931
Not rated:						
Demand Deposits and Certificate of Deposit						10,945
Municipal Bonds						2,959
California Local Agency Investment Fund						43,528
California Asset Management Program						40,002
Cash in Banks						30,870
Total District Cash and Investment						$488,235

(Dollars in Thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

System Pension Trust Fund:

Investment Type	Aaa	Aa	A	Baa	Ba	U.S. Government Guaranteed	Not Rated	Total
Asset Backed Securities	$6,981	$475		$200			$1,867	$9,523
Equity Securities							980,808	980,808
Commercial Mortgage - Backed Securities	5,498	634	$172	11			2,550	8,865
Corporate Bonds	445	14,977	27,803	18,100	$331		33,443	95,099
Government Agencies	14,393					$1,146	1,787	17,326
Government Bonds	43,123							43,123
Government Mortgage - Backed Securities						14,246	226	14,472
Government Issued								
Commercial Mortgage - Backed Securities						239		239
Index Linked Government Bonds	7,217							7,217
Short Term Investment Funds							6,829	6,829
Municipal Bonds		3,786					599	4,385
Mutual Funds			145				122	267
Real Estate							68,194	68,194
Other Fixed Income							50,591	50,591
Total System Investments	$77,657	$19,872	$28,120	$18,311	$331	$15,631	$1,147,016	$1,306,938

G. Concentration Risk

Significant District investments in the securities of any individual issuers, other than U. S. Treasury securities, LAIF, and mutual funds, are set forth below:

District Enterprise Funds:

Reporting Unit	Issuer	Investment Type	Reported Amount
District-Wide			
	FHLB	Federal Agency Securities	$105,393
	FNMA	Federal Agency Securities	37,070
Major Funds:			
Water System			
	FHLB	Federal Agency Securities	96,844
	FNMA	Federal Agency Securities	35,025
	FHLMC	Federal Agency Securities	19,750
Wastewater System			
	FHLB	Federal Agency Securities	8,549
	FFCB	Federal Agency Securities	5,996

System Pension Trust Fund:

Significant System Pension Trust Fund investments are:

Nature of investment	Fair Value at Year End
Northern Trust Collective Daily Russell 1000 Equity Index Fund	$216,642

(Dollars in Thousands)

NOTE 2 - CASH AND INVESTMENTS (Continued)

H. Foreign Currency Risk

System Pension Trust Fund:

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 2014:

Foreign Currency	Equity Securities Investment Type
Euro	$65,666
British Pound Sterling	33,665
Hong Kong Dollar	15,660
Swiss Franc	14,544
Japanese Yen	12,394
South Korean Won	8,614
Canadian Dollar	5,032
Danish Krone	4,643
Australian Dollar	3,248
Swedish Krona	2,897
Brazilian Real	2,691
Singapore Dollar	2,463
Norwegian Krone	2,427
Indonesian Rupiah	1,281
Mexican Peso	1,268
Thai Baht	863
Turkish Lira	793
Malaysia Ringgit	376
Total	$178,525

The Fund's investment policy permits it to invest up to 20% of total investment on foreign currency-denominated investments. The Fund's current position is 14%.

I. Custodial Credit Risk

Custodial credit risk for *cash on deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District or System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

NOTE 2 - CASH AND INVESTMENTS (Continued)

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District and System invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the District and System employ the Trust Department of a bank or trustee as the custodian of certain District and System managed investments, regardless of their form.

As of June 30, 2014 and 2013, the System's brokers/dealers held $77 and $117, respectively, in cash and US government bonds exposed to custodial credit risk.

J. Joint Powers Authority

DSRSD/EBMUD Regional Water Authority - On June 28, 1995, the Dublin San Ramon Service District (DSRSD) and East Bay Municipal Utility District (District) entered into a Joint Powers Agreement (JPA) and established the DSRSD/EBMUD Recycled Water Authority (DERWA) with the purpose of creating a recycle water program in the San Ramon and Livermore-Amador Valleys. The JPA governing body is not substantially the same at the District and its independent Board consists of two directors from the DSRSD and District. The JPA books and records are being maintained separately from DSRSD and the District. The DSRSD and District make member contribution to fund the JPA start-up and capital projects at the request of the JPA on an as needed basis. Although DERWA has a significant relationship with the District, DERWA does not provide services solely to the District, and therefore, is not considered a component unit of the District.

Freeport Regional Water Authority - The Freeport Regional Water Project (FRWP) is a regional water supply project undertaken by the District in partnership with the Sacramento County Water Agency (SCWA). In February 2002, with the support of the United States Bureau of Reclamation, the District and SCWA formed the Freeport Regional Water Authority (FRWA) under a joint powers agreement to develop the FRWP. The FRWP provides the permanent infrastructure to allow the District to receive water deliveries pursuant to the Long-Term Renewal Central Valley Project Contract at a new point of diversion along the Sacramento River. In addition to providing the District up to 100 MGD of supplemental water in dry years as described above, the FRWP can provide up to 85 MGD to SCWA in all years. The District's share of the facilities is recorded as Investment in JPA and is presented on the balance sheet.

(Dollars in Thousands)

NOTE 3 – CAPITAL ASSETS

A. Summary

The District capitalizes all assets with a historical cost of at least $5 and a useful life of at least three years. Contributed property is recorded at estimated fair market value at the date of donation.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight line method of depreciation, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Utility plant:	Years
Source of supply	25-100
Raw water transmission and storage	20-100
Interception and outfall	60-75
Pumping	25-75
Treatment	20-75
Distribution	25-75
Power Generation	25-75
Equipment	5-20
Plant Structures	25-75
Other	5-40

(Dollars in Thousands)

NOTE 3 – CAPITAL ASSETS (Continued)

B. Additions and Retirements

Capital assets activity for all business-type activities for the year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2014
Water System:				
Capital assets, not being depreciated:				
Land	$52,488		($181)	$52,307
Rights-of-way	2,967			2,967
Construction in progress - Land	489		(77)	412
Construction in progress	251,984	$216,580	(225,757)	242,807
Total capital assets, not being depreciated	307,928	216,580	(226,015)	298,493
Capital assets, being depreciated:				
Buildings and improvements	217,567	352		217,919
System and improvements	4,302,503	220,446	(44,831)	4,478,118
Machinery and equipment	80,332	4,959	(1,937)	83,354
Total capital assets, being depreciated:	4,600,402	225,757	(46,768)	4,779,391
Less accumulated depreciation for:				
Buildings and improvements	(86,756)	(4,810)		(91,566)
System and improvements	(1,275,741)	(84,038)	3,643	(1,356,136)
Machinery and equipment	(61,178)	(3,125)	1,769	(62,534)
Total accumulated depreciation	(1,423,675)	(91,973)	5,412	(1,510,236)
Total capital assets, being depreciated, net	3,176,727	133,784	(41,356)	3,269,155
Water System capital assets, net	$3,484,655	$350,364	($267,371)	$3,567,648
Wastewater System:				
Capital assets, not being depreciated:				
Land	$19,857	$183		$20,040
Rights-of-way	191			191
Construction in progress - Land	259	193	($183)	269
Construction in progress	100,062	35,130	(76,399)	58,793
Total capital assets, not being depreciated	120,369	35,506	(76,582)	79,293
Capital assets, being depreciated:				
Buildings and improvements	75,473	236		75,709
System and improvements	814,968	75,745	(6,702)	884,011
Machinery and equipment	9,465	418		9,883
Total capital assets, being depreciated	899,906	76,399	(6,702)	969,603
Less accumulated depreciation for:				
Buildings and improvements	(31,818)	(1,679)		(33,497)
System and improvements	(316,016)	(20,042)	4,044	(332,014)
Machinery and equipment	(5,890)	(515)		(6,405)
Total accumulated depreciation	(353,724)	(22,236)	4,044	(371,916)
Total capital assets, being depreciated, net	546,182	54,163	(2,658)	597,687
Wastewater System capital assets, net	$666,551	$89,669	($79,240)	$676,980
Business-type activities capital assets, net	$4,151,206	$440,033	($346,611)	$4,244,628

(Dollars in Thousands)

NOTE 3 – CAPITAL ASSETS (Continued)

C. Construction in Progress

Construction in Progress in fiscal 2013-2014 comprises:

		Expended to Date
Water System:		
Pipeline Infrastruct Renewals	$	30,661
Large Diameter Pipelines		28,994
Pumping Plant Rehabilitation		21,595
Treatment Plant Upgrades		15,235
Reservoir Rehab/Maintenance		14,644
WTTIP WTP Improvements		10,902
Adm Bldg Modifications		10,770
SRV Recycled Water Program		8,443
Summit Pressure Zone Improve		8,002
Addl Supplemental Supply Projs		7,120
Pipeline Relocations		6,264
Freeport Regional Wtr Project		5,193
Water Conservation Project		4,645
Open Cut Reservoir Rehab		4,343
Dam Seismic Upgrades		4,001
Srvc Latl Repl Polybutylene		3,828
Raw Water Studies and Improves		2,896
Pipeline System Improvements		2,835
Transmission System SIP		2,479
Small Capital Improvements		2,440
Other Construction Projects		47,929
	$	243,219
Wastewater System:		
Treatment Plant Infrastructure	$	14,725
Infiltration/Inflow Contrl Prj		11,815
Wood St Sewer Intercept Rehab		7,234
Concrete Rehab at SD1		6,306
Routine Cap Equip Replacement		3,041
PGS Engine Overhaul		2,809
Wet Weather Plant Imprmts		2,198
MWWTP Master Plan		1,828
Interceptor Corrosion Prevent		1,617
DCS Upgrades		1,576
Digester Upgrade		871
MWWTP Pwr Dist Sys Upgrade		871
West End Property Development		859
Resource Recovery Project		847
So Interceptor Reloc High St		540
Other Construction Projects		1,925
	$	59,062
Total District Construction in Progress	$	302,281

At June 30, 2014, the District's remaining current major project commitments are estimated to be $20,495 for the Water System and $9,643 for the Wastewater System.

(Dollars in Thousands)

NOTE 4 – ACCOUNTS PAYABLE & ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2014 and 2013 consist of:

	Water System		Wastewater System		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Accounts payable	$27,262	$13,848	$2,911	$3,537	$30,173	$17,385
Accrued salaries	3,454	2,800	600	492	4,054	3,292
Accrued compensated absences	25,625	23,452	4,232	4,066	29,857	27,518
Other	14,496	20,516	1,406	1,103	15,902	21,619
Total	$70,837	$60,616	$9,149	$9,198	$79,986	$69,814

NOTE 5 – EXTENDABLE COMMERCIAL PAPER NOTES

The District's Board of Directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the District's total outstanding bonds. As of June 30, 2014, the District had $475 million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Water System or the Wastewater System may issue commercial paper and bank notes at prevailing interest rates for periods not more than 270 days from the date of issuance. The program was last authorized on March 10, 2009.

The District replaced the commercial paper program with an extendable commercial paper program in March 2009. Under the extendable commercial paper program, no liquidity support agreement (line of credit) with a commercial bank is needed. Instead, the District limits the term of the extendable commercial paper to 120 days, and the investor agrees to extend the maturity of their investment by 150 days at a higher interest rate in the event of a failed remarketing which gives the District sufficient time to find a replacement investor or refund the extendable commercial paper with a different form of debt (e.g. fixed or variable rate revenue bonds) to repay the investor.

As of June 30, 2014, $359.8 million in Water Series and $15.0 million in Wastewater Series extendable commercial paper notes were outstanding under this program. The Water Series included terms of 50 to 119 days and interest rates ranging from 0.07% to 0.11% as of June 30, 2014, and terms of 51 to 119 days and interest rates ranging from 0.14% to 0.20% as of June 30, 2013. The Wastewater Series included the term of 84 days and an interest rate of 0.11% as of June 30, 2014, and terms of 97 days and an interest rate of 0.17% as of June 30, 2013. There were no unused proceeds as of June 30, 2014. It is the District's practice to use extendable commercial paper as a portion of the District's long-term variable rate debt exposure.

(Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT

A. Composition and Changes

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount due within one year
Water System Revenue Bonds:						
Subordinated Series 2005 A						
5.00%, due 6/1/35	$300,000	$228,250		$144,360	$83,890	
Subordinated Series 2007 A						
5.00%, due 6/1/37	450,000	330,000			330,000	
Subordinated Series 2007 B						
3.75 - 5.00%, due 6/1/19	54,790	35,700		5,250	30,450	$5,510
Subordinated Series 2008 A						
.04% variable rate, due 6/1/38	322,525	200,550		95,300	105,250	
Subordinated Series 2008 B						
.03% variable rate, due 6/1/35	160,000	15,100		15,100		
Subordinated Series 2009 A						
.26% variable rate, due 6/1/26	331,155	82,075			82,075	
Subordinated Series 2010 A						
3.00 - 5.00%, due 6/1/36	192,830	190,570		2,435	188,135	2,435
Subordinated Series 2010 B						
5.87%, due 6/1/40	400,000	400,000			400,000	
Series 2011 A						
.42% variable rate, due 6/1/25	159,210	148,170		148,170		
Series 2012 A						
5.00% , due 6/1/37	191,750	191,750			191,750	
Series 2012 B						
1.00 -5.00%, due 6/1/26	358,620	339,995		7,155	332,840	20,590
Series 2013 A						
5.00%, due 6/1/21	48,670	48,670		3,145	45,525	5,510
Series 2014 A						
3.00-5.00%, due 6/1/35	128,315		$128,315		128,315	
Series 2014 B						
2.00-5.00%, due 6/1/30	242,730		242,730		242,730	630
Series 2014C						
5.00%, due 6/1/44	75,000		75,000		75,000	
Total water long-term bonds		2,210,830	446,045	420,915	2,235,960	34,675

(Continued)

(Dollars in Thousands)

NOTE 6 - LONG TERM DEBT (Continued)

	Original Issue Amount	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount due within one year
Wastewater System General Obligation Bonds:						
Series F						
2.5 % - 5.00%, due 4/1/18	$41,730	$18,555		$18,555		
Series G						
5.00%, due 4/1/18	14,160		$14,160		$14,160	$3,250
Wastewater System Revenue Bonds:						
Subordinated Series 2007 A						
5.00%, due 6/1/37	80,630	60,630			60,630	
Subordinated Series 2007 B						
3.75 - 5.00%, due 6/1/26	46,670	35,290		2,700	32,590	2,775
Subordinated Series 2008 C						
.06% variable rate, due 6/1/27	65,300	51,690		2,590	49,100	2,740
Subordinated Series 2010 A						
2.00 - 5.00%, due 6/1/29	58,095	51,705		3,240	48,465	1,905
Subordinated Series 2010 B						
5.03 - 5.18%, due 6/1/40	150,000	150,000			150,000	
Series 2011 A						
.38% variable rate, due 6/1/38	65,905	60,845		1,750	59,095	1,800
Series 2012 A						
5.00% , due 6/1/37	20,000	20,000			20,000	
Total wastewater long-term bonds		448,715	14,160	28,835	434,040	12,470
Total long-term bonds		2,659,545	460,205	449,750	2,670,000	47,145
Water Loans:						
State Water Resources Control Board						
2004 Upper San Leandro Reservoir Project						
2.51%, due 1/1/24	2,188	1,283		108	1,175	111
2008 East Bayshore, Recycled Water Project						
2.40%, due 4/1/28	20,100	15,719		883	14,836	904
Total water loans		17,002		991	16,011	1,015
Total long-term loans		17,002		991	16,011	1,015
Commercial Paper (see Note 5)						
Water System Commercial Paper		372,900	1,615,500	(1,628,600)	359,800	
Wastewater System Commercial Paper		15,000	75,000	(75,000)	15,000	
Total commercial paper		387,900	1,690,500	(1,703,600)	374,800	
Amount due within one year		(33,156)		(15,004)	(48,160)	
Add: Unamortized premium, net		61,119	39,304		100,423	
Total long-term liabilities, net		$3,092,410	$2,175,005	$2,154,341	$3,113,074	$48,160

NOTE 6 - LONG TERM DEBT (Continued)

B. Description of the District's Long-Term Debt Issues

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are repaid from property taxes levied on property within the District.

Revenue-supported debt can be authorized by the District's Board of Directors, subject to a referendum process.

The net revenues of the Water System are pledged toward the repayment of the Water Revenue Bonds and the State Water Resources Control Board Parity Loans of the Water System. The net revenues of the Wastewater System are pledged toward the repayment of the Wastewater Revenue Bonds and the State Water Resources Control Board Parity Loans of the Wastewater System.

The District is subject to certain revenue bond covenants on outstanding debt, the most restrictive of which requires the setting of rates and charges to yield net revenue, as defined, equal to at least 110% of the current annual debt service requirements of the combined senior and subordinated Water System and Wastewater System Revenue Bonds, respectively. The District has designated $102.6 million ($85.0 million for the Water System and $17.6 million for the Wastewater System) in net revenues as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

Water Issuance During the Year

2014 Water System Revenue Refunding Bonds, Series 2014A – The District issued $128.3 million principal amount of Series 2014A Bonds on May 19, 2014, to refund $144.4 million principal amount of the District's Water System Subordinated Revenue Bonds, Series 2005A and to pay the costs of issuance of the Bonds. The Series 2014A Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2027 and are payable annually on June 1 thereafter. Interest payments are payable on June 1 and December 1 of each year, commencing December 1, 2014.

The refunding of Water System Revenue Bonds, Series 2014A created an economic gain of $18.9 million.

NOTE 6 – LONG-TERM DEBT (Continued)

2014 Water System Revenue Refunding Bonds, Series 2014B - The District issued $242.7 million principal amount of Series 2014B Bonds on May 19, 2014. A portion of the proceeds of the Series 2014B Bonds was applied to refund $95.3 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2008A, as well as $15.1 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2008B Bonds, $148.2 million principal amount of the District's Water System Subordinated Revenue Refunding Bonds variable rate Series 2011A Bonds, to pay the costs of terminating certain interest rate swap agreements related to the Water System Revenue Bonds to be refunded, and to pay the costs of issuance of the Bonds. The Series 2014B Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2015, and are payable annually on June 1 thereafter. Interest payments are payable on June 1 and December 1 of each year, commencing December 1, 2014.

The refunding of Water System Revenue Bonds, Series 2014B, created an economic gain of $0.7 million.

2014 Water System Revenue Bonds, Series 2014C – The District issued $75.0 million principal amount of Series 2014C Bonds on June 26, 2014, to provide additional funding to finance improvements to the Water System of the District and pay the costs of issuance of the Bonds. The Series 2014C Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Water Revenues. Principal payments commence on June 1, 2041 and are payable annually on June 1 thereafter. Interest payments are payable on June 1 and December 1 of each year, commencing December 1, 2014.

Wastewater Issuance During the Year

Wastewater System General Obligation Refunding Bonds, Series G – The District issued $14.2 million principal amount of General Obligation Refunding Bonds, Series G, on February 20, 2014 to refund $15.3 million principal amount of the District's Wastewater General Obligation Refunding Bonds, Series F, and paying the cost of issuance of the Bonds. The General Obligation Bonds are payable as to both principal and interest from ad valorem taxes which may be levied upon all property within the Wastewater System. Principal payments commence on April 1, 2015 and are payable annually on April 1 thereafter. Interest payments are payable on April 1 and October 1 of each year, commencing October 1, 2014.

The refunding of Wastewater GO G Bonds created an economic gain of $1.4 million.

(Dollars in Thousands)

NOTE 6 - LONG TERM DEBT (Continued)

C. Debt Service Requirements

Annual debt service requirements, including the swap payments discussed in F., are shown below for the above debt issues:

For the Year Ending	Water System		Wastewater System		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2015	$35,690	$110,152	$12,470	$19,021	$48,160	$129,173
2016	49,260	108,827	13,430	18,460	62,690	127,287
2017	52,979	106,609	14,140	17,866	67,119	124,475
2018	59,119	104,081	14,280	16,871	73,399	120,952
2019	61,565	101,431	11,180	16,738	72,745	118,169
2020 - 2024	348,266	460,872	59,935	76,757	408,201	537,629
2025 - 2029	400,158	374,783	66,600	65,384	466,758	440,167
2030 - 2034	498,015	269,091	94,920	48,304	592,935	317,395
2035 - 2039	636,460	132,964	54,195	28,907	690,655	161,871
2040 - 2043	110,459	14,951	92,890		203,349	14,951
Totals	$2,251,971	$1,783,761	$434,040	$308,308	$2,686,011	$2,092,069

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 2014.

D. Prior-Year Defeasances

In prior years, the District defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. On June 30, 2014, none of the bonds outstanding are considered defeased.

(Dollars in Thousands)

NOTE 6 - LONG TERM DEBT (Continued)

E. Variable Rate Debt

The District has a number of bond issues with variable interest rates. The Water Series 2008A Bonds, and Wastewater Series 2008C Bonds are subject to purchase on the demand of the holder with seven days prior notice at a price equal to the principal plus accrued interest. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. In the event that they not sold, under Standby Bond Purchase Agreements (SBPAs) issued by banks for the above variable rate debt issues, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of delivered bonds. The District is required to pay an annual commitment fee to the banks issuing SBPAs. Expiration dates of these SBPAs are presented below by debt issue. In addition, the remarketing agent receives an annual fee of seven basis points of the outstanding principal amount of the bonds.

The Water Series 2009A Bonds and Wastewater Series 2011A Bonds are subject to mandatory tender for purchase by the District on the dates indicated in the table below (or on certain earlier dates as may be selected by the District). On those dates the bonds are remarketed, at which point a new mandatory tender date is established. In connection with each remarketing of the bonds the District enters into remarketing agreements and pays the remarketing agent a fee.

	Standby Purchase Agreement Terms		
Issue	Expiration Date	Interest Rate	Rate Swap Swap Rate
Water System Revenue Subordinated Bonds:			
Series 2008A-1	12/9/2016	Reset Weekly	See below
Series 2008A-2	7/1/2015	Reset Weekly	See below
Series 2008A-3	7/1/2015	Reset Weekly	See below
Series 2008A-4	12/9/2016	Reset Weekly	See below
Series 2009A-1	12/1/2015	Weekly SIFMA Index + 0.20%	See below
Series 2009A-2	12/1/2015	Weekly SIFMA Index + 0.20%	See below
Wastewater System Revenue Subordinated Bonds:			
Series 2008C	12/9/2016	Reset Weekly	See below
Series 2011A	7/8/2015	Weekly SIFMA Index + 0.32%	See below

(Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT (Continued)

F. Interest Rate Swap Agreements

The District has entered into a number of matched interest rate swap contracts with providers in which the District contracted to pay a fixed rate on the nominal amount of outstanding bonds, in exchange for a floating rate payment, set monthly, two business days prior to the end of each month. The combination of variable rate bonds and a floating-rate swap creates synthetic fixed-rate debt for the District. The synthetic fixed rate on the bonds protects the District against increases in short-term interest rates. The terms, fair value, and credit risk of each of the swap agreements are discussed below.

Term and credit risks. The terms and credit ratings of the outstanding swaps, as of June 30, 2014, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Counterparty Credit Ratings (Moody's/ S&P)	Issuer Pays	Issuer Receives	Maturity/ Termination Date
2008A Water System Refunding Bonds	$37,240	6/2/2005	JP Morgan Chase & Co.	Aa3/A+	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	37,240	6/1/2011	Bank of America National Assoc.	A2/A	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	16,195	6/1/2012	Merrill Lynch Capital Services	Baa2/A-	3.115%	62.3% of 30-day LIBOR	6/1/2038
2008A Water System Refunding Bonds	14,575	9/25/2008	The Bank of New York Mellon	Aa2/AA-	3.115%	62.3% of 30-day LIBOR	6/1/2038
2009A Water System Refunding Bonds	61,725	6/1/2012	Deutsche Bank AG	A2/A	3.407%	91.0% of SIFMA	6/1/2026
2009A Water System Refunding Bonds	20,350	5/23/2007	Merrill Lynch Capital Services	Baa2/A-	3.407%	91.0% of SIFMA	6/1/2026
2011A Wastewater System Refunding Bonds	59,950	12/16/2008	Dexia Credit Local	Baa2/BBB	3.098%	62.3% of 3-month LIBOR	6/1/2038
2008C Wastewater System Refunding Bonds	24,550	3/5/2003	Citigroup, Inc.	Baa2/A-	3.468%	65% of 30-day LIBOR	6/1/2027
2008C Wastewater System Refunding Bonds	24,550	3/5/2003	JP Morgan Chase & Co.	Aa3/A+	3.468%	65% of 30-day LIBOR	6/1/2027

(Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT (Continued)

The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate on the Bonds, since the inflow of payments from the swaps are anticipated to approximate the outflow of payments on the variable rate Bonds. Only the net difference in interest payments to the swap providers is made under the swap contracts.

Fair value. The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The fair values of each swap at June 30, 2014, are included below:

Related Bond Issuance	Fair Value	
	2014	2013
Water		
2011A Water System Refunding Bonds		($28,005)
2008A Water System Refunding Bonds	($19,543)	(33,768)
2009A Water System Refunding Bonds	(11,213)	(13,075)
Total Water	(30,756)	(74,848)
Wastewater		
2011A Wastewater System Refunding Bonds	(8,131)	(8,417)
2008C Wastewater System Refunding Bonds	(6,866)	(7,487)
Total Wastewater	(14,997)	(15,904)
Totals	($45,753)	($90,752)

Credit risk. As of June 30, 2014, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of $46 million. The District faces a maximum possible loss equivalent to the swaps' fair value. However, if interest rates increase and the fair value of the swaps were to become positive, the District would be exposed to credit risk.

The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions determining if and when the District or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. At June 30, 2014, the District provided no collateral between all SWAP counterparties.

Basis risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR and/or SIFMA Municipal Swap Index to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary. Currently, the District has basis difference on it swaps ranging from a positive 7 basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt) to negative basis difference of 22 basis points.

(Dollars in Thousands)

NOTE 6 – LONG-TERM DEBT (Continued)

Termination risk. The District or the counterparty may terminate if the other party fails to perform under the terms of the SWAP contract. The District will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated as it will lose the hedge provided by the SWAP. A termination of the swap contracts may also result in the District's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

The District exchanged the counterparty of the 2002 Water System Refunding Bonds swap counterparty from Citigroup Financial Products Inc. to The Bank of New York Mellon by executing a swap novation transaction for $113,550 on December 14, 2011. In accordance with GASB Statement Number 64, the fair value of the swap at the date of novation is recorded as a $24,551 deferred liability and loss. The fair value of the swap with The Bank of New York Mellon is reported at the fair value similar to existing swaps. The elimination of the $24,551 liability and booking of the associated gain will be made at the maturity/termination date of the bonds and underlying swap on June 1, 2025.

Swap payments and associated debt. Using rates as of June 30, 2014, debt service requirements of the District's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at C. above:

For the Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	
	Principal	Interest	Interest	Total
2015	$4,540	$495	$9,187	$9,682
2016	4,705	487	9,036	9,523
2017	4,915	478	8,878	9,356
2018	5,125	469	8,713	9,182
2019	5,305	459	8,542	9,001
2020 - 2024	78,580	1,910	37,219	39,129
2025 - 2029	67,020	699	20,627	21,326
2030 - 2034	58,845	414	14,375	14,789
2035 - 2038	66,485	98	3,143	3,241
Totals	$295,520	$5,509	$119,720	$125,229

NOTE 7 – NET POSITION

Net Position is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets and any related deferred outflows and inflows.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

NOTE 8 – EMPLOYEES' RETIREMENT PLAN

A. Description

The Employees' Retirement System is a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and post-employment healthcare benefits for eligible directors, officers, and employees of the District. The Plan is administered by a Retirement Board composed of three members appointed by the District's Board of Directors and two members elected by and from the active membership of the Plan, and a nonvoting member elected by the retirees of the Plan. Retirement Ordinance No. 40 assigns the authority to establish Plan benefit provisions to the District's Board of Directors. A stand-alone financial report of the Employees' Retirement System is available. Please send request to the Controller, Accounting Division, P.O. Box 24055, Oakland, CA 94623-1055 or visit the District website at http://www.ebmud.com.

All regular full-time employees of the District are members of the Plan. In accordance with the ordinance governing the Plan, eligible employees become members on the first day they are physically on the job. District-defined benefits vest in part with members after completion of five years of continuous, full-time employment.

The Plan is funded by contributions from its members and from the District. District contribution percentages are recommended by the Retirement Board; employee contribution rates are established by the Board of Directors pursuant to the Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding.

B. Retirement Benefits and Allowances

There are two tiers in effect currently, the 1980 Plan and the 2013 Plan. Employees who became Members of the retirement system prior to January 1, 2013, or who have reciprocal Membership are in the 1980 Plan, Employees who became Members on or after January 1, 2013 are in the 2013 Plan.

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

1980 Plan Members may elect voluntary reduced service retirement upon attaining the age of 54 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 62 and completing 5 years of continuous full-time employment or age 65 without restriction. Members who continue to work upon attaining the normal retirement age of 65 continue to contribute to the Plan, and at the time they retire, computation of their retirement allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on date of employment, length of employment, age at date of retirement, and compensation earned during employment.

2013 Plan Members may elect voluntary reduced service upon attaining the age of 52 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 67, and completing 5 years of continuous full-time employment. Members who continue to work upon attaining the normal retirement age of 67 continue to contribute to the Plan, and at the time they retire, computation of their allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on length of service, age at retirement, and compensation earned during employment.

C. Post-employment Healthcare Cost

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees' Retirement System) for employees who retire from the District or their surviving spouses. As of June 30, 2014, there were 1,367 participants receiving these health care benefits.

Effective July 1, 1996, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 1999, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 2003, the District reimbursed up to $450 per month ($550 per month effective July 1, 2004, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 2002, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled $7,033 in the year ended June 30, 2014. Effective June 18, 2002, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

Through June 30, 1999, the medical premium subsidy was not a vested benefit and the District reserved the right to modify or terminate the benefit at any time. If the medical subsidy were terminated, assets accumulated from contributions made for the subsidy would be used to provide other pension benefits. Effective July 1, 1999, the medical premium subsidy became a vested benefit to a maximum of $200 per month, was changed effective October 1, 2000, to a maximum of $250 per month, and was changed effective July 1, 2002, to a maximum of $400 per month, and was changed effective July 1, 2003, to a maximum of $450 per month, and was changed again effective July 1, 2004, to a maximum of $450 per month for a single retiree or survivor and $550 per month for retiree and a spouse or a registered domestic partner.

D. Actuarial Assumptions and Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual entry age normal method is used to determine the normal cost for other post-employment benefits (OPEB) and service cost for pension, and the OPEB unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future payroll over 30 years open period.

District contributions for the year ended June 30, 2014 are as follows:

1980 Plan:	
Pension plan:	
Employer service cost	16.04%
Toward unfunded pension liability	22.32%
Other post-employment benefits:	
Employer normal cost	1.19%
Unfunded actuarial accrued liability	4.15%
2013 Plan:	
Pension plan:	
Employer service cost	8.81%
Toward unfunded pension liability	22.32%
Other post-employment benefits:	
Employer normal cost	1.19%
Unfunded actuarial accrued liability	4.15%

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

Effective June 30, 2014, contributions for fiscal year 2014/2015 are as follows:

1980 Plan:	
Pension plan:	
Employer service cost	15.02%
Toward unfunded pension liability	23.59%
Other post-employment benefits:	
Employer normal cost	1.21%
Unfunded actuarial accrued liability	4.24%
2013 Plan:	
Pension plan:	
Employer service cost	8.65%
Toward unfunded pension liability	23.59%
Other post-employment benefits:	
Employer normal cost	0.87%
Unfunded actuarial accrued liability	4.24%

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing the costs between the employer and plan members to that point.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

Significant assumptions used to compute contribution requirements from the latest unaudited actuarial are as follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; and experience gains/losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.75%
Average projected salary increases	0.50%
Inflation rate	3.25%
Cost-of-living adjustments	3.15%
Annual healthcare cost trend rates	7.25% reduced by increments to a rate of 5.00% after 10 years.

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7% for the funded and unfunded portions.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

E. Contributions Required and Contributions Made

Contributions for the years ended June 30, based on the actuarial valuation, were as follows:

	2014			2013
	Pension	Healthcare Benefit Plan	Totals	
Regular contributions:				
District contributions	$61,660	$8,457	$70,117	$61,567
Member contributions	11,933	170	12,103	10,530
	73,593	8,622	82,220	72,097
Other contributions:				
Member buybacks	30		30	36
	$73,623	$8,627	$82,250	$72,133

Regular District and member contributions in fiscal 2014 represent an aggregate of 43.83% and 7.58% of covered payroll, respectively. The District's contributions include amounts for post-employment healthcare benefits at a rate of 5.45% of covered payroll, determined by the actuarial dated June 30, 2013. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2014, was $159,961 which was 90.34% of the total District payroll of $177,063.

The total District contribution of $70,491 as of June 30, 2014, consisted of $70,117 regular contribution ($27,584 for normal cost and $42,533 for amortization of the unfunded actuarial accrued liability) and $374 interest on contribution.

Regular District and member contributions in fiscal 2013 represent an aggregate of 39.94% and 6.85% of covered payroll, respectively. The District's contributions include amounts for post-employment healthcare benefits at a rate of 5.10% of covered payroll, determined by the actuarial dated June 30, 2012. The actual payroll for the District employees covered by the Plan for the year ended June 30, 2013, was $154,136 which was 90.49% of the total District payroll of $170,336.

The total District contribution of $61,849 as of June 30, 2013, consisted of $61,567 regular contribution ($24,294 for normal cost and $37,273 for amortization of the unfunded actuarial accrued liability) and $282 interest on contributions.

Member buyback contributions relate to prior years' service credits for Plan participants. The Plan was amended in 1998 for limited temporary construction workers and in 2003 for intermittent employees to allow current members, who previously worked for the District in a status which did not qualify for membership in the System, to establish retirement service credit for prior service with payments over a period of two to eight years.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

F. Schedule of Employer Contributions

The District's annual OPEB costs and schedules of contributions for the past three years are as follows:

	Actual contribution	Annual OPEB cost	Percentage contributed	Net OPEB obligation
Fiscal year ended June 30:				
2012	$7,833	$11,517	68%	$15,943
2013	8,054	11,443	70%	19,332
2014	8,831	11,184	79%	21,685

The annual required contributions for fiscal years ended June 30, 2014, 2013 and 2012, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

Health Insurance Benefit Plan:

During the fiscal year ended June 30, 2014, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to $8,457 which represented 4.78% of the $177,063 total District payroll. During the fiscal year ended June 30, 2013, the District made contributions toward the ARC amounting to $7,772 to the plan which represented 4.56% of the $170,336 total District payroll. As a result, the District has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

Net OPEB obligation at June 30, 2012		$15,943
Annual required contribution (ARC)	$11,145	
Interest on net OPEB obligation	1,164	
Adjustments to the ARC	(866)	
Annual OPEB cost - fiscal year 2012/2013	11,443	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(7,772)	
Interest on Contributions to Northern Trust	(282)	
	(8,054)	
Contributions less than ARC		3,389
Net OPEB obligation at June 30, 2013		19,332
Annual required contribution (ARC)	11,196	
Interest on net OPEB obligation	1,362	
Adjustments to the ARC	(1,374)	
Annual OPEB cost - fiscal year 2013/2014	11,184	
Less contributions made during fiscal year:		
Contributions to Northern Trust	(8,457)	
Interest on Contributions to Northern Trust	(374)	
Contributions to Northern Trust	(8,831)	
Increase in net OPEB obligations		2,353
Net OPEB obligation at June 30, 2014		$21,685

A schedule of funding progress for the retirement and post-employment healthcare plans presenting multiple-year trend information as to whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented immediately following the notes to basic financial statements in the Required Supplementary information section.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

G. Net Pension Liability

The net pension liability (i.e., the Plan's liability determined in accordance with GASB No. 67 less the fiduciary net position) as of June 30 is as shown below:

	2014	2013
Total pension liability	$1,737,847	$1,646,936
Plan fiduciary net position	(1,325,387)	(1,107,628)
Employer net pension liability	$412,460	$539,308
Plan fiduciary net position as a percentage of total pension liability	76.27%	67.25%
Covered payroll	$159,246	$158,847
Liability as a percentage of covered employee payroll	259.01%	339.51%

Actuarial valuation of the ongoing Systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Employers' net pension liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The net pension liabilities measured as of June 30, 2014 and 2013 have been determined by rolling forward the results of the actuarial valuations as of June 30, 2013 and June 30, 2012, respectively. The District will record its net pension liability in fiscal year ending June 30, 2015, when it implements GASB No. 68, *Accounting and Financial Reporting for Pensions*.

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap Equity	45%	6.17%
Domestic Small Cap Equity	5%	6.90%
Developed International Equity	17%	6.75%
Emerging Markets Equity	3%	8.84%
Domestic Bonds	25%	1.08%
Real Estate	5%	4.90%
Total	100%	

The discount rates used to measure the total pension liability were 7.75% as of June 30, 2014 and June 30, 2013, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following table presents the net pension liability of the Plan as of June 30, 2014, calculated using the discount rate of 7.75%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Net Pension Liability	\$635,732	\$412,460	\$226,119

(Dollars in Thousands)

NOTE 8 – EMPLOYEES' RETIREMENT PLAN (Continued)

H. Public Employees' Pension Reform Act (PEPRA)

Assembly Bill 340 (AB 340) created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member under PEPRA.

The table below provides the details of the new provisions.

Benefit Formula	2.5% at Age 67
Final Compensation Period	Average of last 3 years
Employer Contribution Rate as a percentage payroll	8.81% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	8.75% of Reportable Compensation

The employer contribution rate listed above is in effect until June 30, 2014. In accordance with the provisions of AB 340, the member contribution rate shown above was set at 50 percent of the expected total normal cost rate for the benefits that will apply to new members on January 1, 2013. The total normal cost rate used for this calculation is 17.56% of payroll for new members.

NOTE 9 – RISK MANAGEMENT

The District has purchased commercial insurance for general, property, public officials' liability and workers' compensation. During the fiscal year ended June 30, 2014, the District paid $1,592 for current year coverage.

The District's liability, property, and workers' compensation risks are insured by commercial insurance carriers, all of which are subject to the District's self-insurance retentions, which vary by type of coverage.

Selected other coverages are:

Coverage	Policy Limit	Self-insurance retention
Workers' Compensation	Statutory Limit	$5,000
All risk property (except flood)	$200,000	500
Flood	25,000	1,500
Liability	90,000	10,000 Water/ 10,000 Wastewater
Crime	10,000	25
Boiler and Machinery	10,000	25
Pardee and Camanche Dams	10,000	50
Main Wastewater Treatment Plant	10,000	50

Settled claims have not exceeded the District's policy limits in any of the past five fiscal years.

(Dollars in Thousands)

NOTE 9 – RISK MANAGEMENT (Continued)

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 2014, the amount of these liabilities was $43,397. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

	2014	2013
Liability at beginning of year	$42,201	$43,623
Current year claims and changes in estimates	6,731	4,378
Payments of claims	(5,535)	(5,800)
Liability at end of year	$43,397	$42,201
Estimated liability:		
Due within one year	$8,683	$7,343
Due in more than one year	34,714	34,858
	$43,397	$42,201

NOTE 10 – KNOWN ENVIRONMENTAL MATTERS

Following is a summary of the District's known environmental matters as of June 30, 2014, that meets the requirements of GASB Statement No. 49:

- Under a NPDES permit issued by the San Francisco Regional Water Quality Control Board, discharges from the District's wet weather facilities are prohibited. Under an accompanying Cease and Desist Order, there is recognition of continued discharge while working toward full compliance. In 2009, the District also signed a Federal Stipulated Order on this matter that focuses on the excess wet weather flow entering the District's system. The Order requires the District to do a range of work including working with property owners to address leaks in their private sewer laterals. The cost to meet the requirements in the Order is approximately $5 million a year. The District, along with the seven satellite collection system agencies, reached agreement with the Federal and State governments on a long-term Consent Decree that identifies actions that will achieve compliance and resolve the issue. If approved by the Court, the Consent Decree will take effect later this year.

- The District submitted a Best Practicable Treatment and Control Evaluation Report to the Central Valley Regional Water Quality Control Board (CVRWQCB) on June 22, 2010 to address potential groundwater impacts from the wastewater treatment facility at Camanche North Shore Recreation Area. Based on the results of this evaluation, the no-action alternative was selected as the preferred alternative because the constituents of concern only slightly exceed recommended target groundwater concentrations and there are no significant impacts upon beneficial uses. Uncertainty exists as to whether or not the CVRWQCB will concur with this recommendation as they have not provided any response to the District's evaluation. If the CVRWQCB does not concur, it is possible that the District will be required to construct wastewater treatment pond upgrades. At this preliminary planning stage, it is estimated that the cost would be approximately $6.6 million to upgrade the existing facilities, or alternatively, approximately $7.8 million to construct a joint wastewater project with Amador County.

NOTE 10 – KNOWN ENVIRONMENTAL LIABILITIES (Continued)

- The CVRWQCB has requested that the District and U.S. Bureau of Land Management (BLM) address three abandoned ponds near Camanche Reservoir that contain mine wastes. The District and BLM have both been named as Potential Responsible Parties and are jointly completing this site investigation/remediation project. An Engineering Evaluation/Cost Analysis was completed in 2013 to present remediation alternatives. The final site remedy and cost allocations between the District and BLM have yet to be determined as the parties are preparing a value engineering study which will be completed in 2014. The purpose of the value engineering study is to evaluate alternatives to achieve essential functions at the lowest life-cycle cost consistent with required performance, reliability, quality, safety, and achievement of mission priorities.

- The CVRWQCB has requested that the District address elevated concentrations of petroleum hydrocarbons in soil and groundwater associated with former underground storage tanks (USTs) at the District's Bixler facility. The District has completed site investigation work, including groundwater and soil gas monitoring and the production of a draft Fact Sheet to be distributed to the public in advance of regulatory closure of the site. However, the CVRWQCB has not officially closed the site or required further actions to be taken.

- The Alameda County Environmental Health Agency requested that the District conduct additional site investigations at the Adeline Maintenance Center Shops to further define the extent of petroleum hydrocarbons in soil and groundwater associated with former USTs. The District completed additional site investigations in accordance with an approved work plan. The results indicate that elevated concentrations of petroleum hydrocarbons still remain in onsite soil and groundwater in localized areas near the former USTs. The scope of additional work remaining at this site is unknown and the County has requested a meeting with the District to discuss the steps necessary to obtain regulatory closure of the site. The meeting with the County is scheduled to take place in fiscal year 2015.

- The Alameda County Environmental Health Agency has notified the District that they have initiated the path to closure for the South Area Service Center UST site. Sampling of the site has indicated that there is no contamination at this location and it is anticipated that the closure process should be straight forward. The most recent step in the path to closure was formal public notification which was completed by the County on January 27, 2014.

- The District operates many facilities throughout Northern California that have NPDES permits, waste discharge requirements, and air permits. The total estimated liability for all known violations is less than $250 thousand.

NOTE 11 - CONTINGENT LIABILITIES

The District is a defendant in a number of lawsuits which have arisen in the normal course of business including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Central Valley Project

In December 1970, the District entered into a contract with the US Bureau of Reclamation for access to up to 150,000 acre feet per year of Central Valley Project (CVP) water from a diversion point on the American River. The successor contract, the Long Term Renewal Contract, was executed in in April 2006 with a 40 year term. The Long Term Renewal Contract provides for delivery of up to 133,000 acre feet per year of CVP water in dry years to supplement the District's surface water supplies. Deliveries to the District are limited to a 165,000 acre foot total over any three successive dry years. In years in which the District takes delivery of CVP water, the District's allocated CVP capital cost and the District's operations and maintenance deficit balance will be paid down commensurately with the quantity of water delivered. For example, if the District had to take delivery of 80,000 acre feet in fiscal year 15, the District's CVP capital and deficit balances would each be reduced by approximately 20%. The balances must be paid off by 2030.

NOTE 13 – SUBSEQUENT EVENT

On July 29, 2014, the District issued $84.7 million in Wastewater System Revenue Refunding Bonds, for the purpose of providing funds, together with certain other available monies, to refund a portion of the District's outstanding variable rate Wastewater System Revenue Bonds, fund the costs of terminating (in whole or in part) certain interest rate swap agreements relating thereto and pay the costs of issuance in connection with the Series 2014 Bonds. The Wastewater Revenue Refunding Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Wastewater Revenues. Principal payments commence on June 1, 2015 and are payable annually on June 1 thereafter. Interest payments are payable semi-annually on June 1 and December 1, commencing on December 1, 2014.

REQUIRED SUPPLEMENTAL INFORMATION

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EAST BAY MUNICIPAL UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014
(Dollars in thousands)

(1) Pension Plan

Schedule of Changes in Employer's Net Pension Liability (in thousands):

	2014	2013
Total pension liability		
Service cost	$34,987	$34,857
Interest	127,558	120,810
Change of benefit terms	0	0
Differences between expected and actual experience	(402)	(30,629)
Changes of assumptions	0	0
Benefit payments, including refunds of employee contributions	(71,232)	(65,427)
Net change in total pension liability	90,911	59,611
Total pension liability - beginning	1,646,936	1,587,325
Total pension liability - ending (a)	$1,737,847	$1,646,936
Plan fiduciary net position		
Contributions - employer	$61,660	$53,795
Contributions - employee	11,968	10,427
Net investment income	216,601	136,630
Benefit payments, including refunds of employee contributions	(71,232)	(65,427)
Administrative expense	(1,238)	(1,200)
Net change in plan fiduciary net position	217,759	134,225
Plan fiduciary net positon - beginning	1,107,628	973,403
Plan fiduciary net position - ending (b)	1,325,387	1,107,628
Plan's net pension liability - ending (a) - (b)	$412,460	$539,308

Unaudited

(2) Pension Plan

Schedule of Employer's Net Pension Liability (in thousands):

	2014	2013
Total pension liability	$1,737,847	$1,646,936
Plan fiduciary net position	(1,325,387)	(1,107,628)
Net pension liability	$412,460	$539,308
Plan fiduciary net position as a percentage of total pension liability	76.27%	67.25%
Covered employee payroll	$159,246	$158,847
Plan net pension liability as percentage of covered employee payroll	259.01%	339.51%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(3) Pension Plan

Schedule of Employer's Contributions (in thousands):

Year ended June 30	Actuarially determined contributions	Contributions in relation to the actuarially determined contributions	Contributions deficiency (excess)	Covered-employee payroll *	Contributions as a percentage of covered employee payroll
2005	$27,670	$27,670	$0	$138,836	19.93%
2006	30,600	30,600	0	142,991	21.40%
2007	33,698	33,698	0	145,125	23.22%
2008	37,387	37,387	0	152,538	24.51%
2009	39,485	39,485	0	158,193	24.96%
2010	44,031	44,031	0	161,641	27.24%
2011	50,987	50,987	0	160,336	31.80%
2012	52,156	52,156	0	158,481	32.91%
2013	53,795	53,795	0	156,109	34.46%
2014	61,660	61,660	0	160,992	38.30%

* "Derived" by dividing the contributions in relation to the actuarial determined contributions by the contributions as a percentage of covered employee payroll. These amounts may therefore be different from the actual payrolls of the District.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(4) Pension Plan

Schedule of Investment Returns:

	2014
Annual money weighted rate of return, net of investment expense	19.42%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(5) Post-Employment Healthcare Plan

Schedule of funding progress for the post-employment healthcare plan (in thousands):

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
6/30/2002	$1,265	$50,358	$49,093	2.5%	$129,791	37.8%
6/30/2003	2,113	58,752	56,639	3.6%	133,678	42.4%
6/30/2004	2,715	62,357	59,642	4.4%	137,138	43.5%
6/30/2005	3,409	71,892	68,483	4.7%	139,514	49.1%
6/30/2006	3,608	71,409	67,801	5.1%	142,373	47.6%
6/30/2007	4,208	105,409	101,201	4.0%	153,394	66.0%
6/30/2008	7,010	137,055	130,045	5.1%	158,499	82.0%
6/30/2009	7,354	130,245	122,891	5.6%	161,893	75.9%
6/30/2010	10,061	135,379	125,318	7.4%	164,085	76.4%
6/30/2011	12,048	135,360	123,312	8.9%	159,505	77.3%
6/30/2012	14,240	138,240	123,999	10.3%	158,847	78.1%
6/30/2013	16,522	138,120	121,598	12.0%	159,246	76.4%

Unaudited

(Dollars in thousands)

(6) Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; experience gains/ losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.75%
Average projected salary increases	0.50%
Inflation rate	3.25%
Cost-of-living adjustments	3.15%
Annual healthcare costs trend rates	7.75% reduced by increments to a rate of 5.00% after 10 years

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7.00%, for the funded and unfunded portions.

Unaudited.

SUPPLEMENTAL INFORMATION

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EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the East Bay Municipal Utility District)
STATEMENTS OF PLAN NET POSITION
June 30, 2014
(With summarized comparative financial information as of June 30, 2013)
(DOLLARS IN THOUSANDS)

	2014			
	Pension plan benefits	Post-employment healthcare benefits	Total	2013 Total
Assets:				
Cash and cash equivalents, at fair value	$36,094	$564	$36,658	$34,397
Invested securities lending collateral	127,519	1,992	129,511	101,523
Prepaid expenses		477	477	459
Receivables:				
Brokers, securities sold	2,900	45	2,945	12,127
Employer	2,596	368	2,964	2,572
Plan members	537		537	401
Interest and dividends	2,042	32	2,074	2,278
Total receivables	8,075	445	8,520	17,378
Investments, at fair value:				
U.S. government obligations	81,110	1,267	82,377	86,483
Municipal bonds	4,318	67	4,385	5,774
Domestic corporate bonds	151,139	2,361	153,500	123,929
International bonds	10,680	167	10,847	13,877
Domestic stocks	771,131	12,046	783,177	604,676
International stocks	201,313	3,145	204,458	208,130
Real estate	67,145	1,049	68,194	53,222
Total investments	1,286,836	20,102	1,306,938	1,096,091
Total assets	1,458,524	23,580	1,482,104	1,249,848
Liabilities:				
Accounts payable and accrued expenses	1,484	23	1,507	1,472
Payables to brokers, securities purchased	4,134	64	4,198	22,525
Securities lending collateral	127,519	1,992	129,511	101,523
Total liabilities	133,137	2,079	135,216	125,520
Net position held in trust for pension benefits and post-employment healthcare benefits	$1,325,387	$21,501	$1,346,888	$1,124,328

EAST BAY MUNICIPAL UTILITY DISTRICT
EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the East Bay Municipal Utility District)
STATEMENTS OF CHANGES IN PLAN NET POSITION
For the Year Ended June 30, 2014
(With summarized comparative financial information for the year ended June 30, 2013)
(DOLLARS IN THOUSANDS)

	2014			
	Pension plan benefits	Post-employment healthcare benefits	Total	2013 Total
Additions:				
Contributions:				
Employer	$61,660	$8,457	$70,117	$61,567
Plan members	11,968	165	12,133	10,566
Total contributions	73,628	8,622	82,250	72,133
Investment income:				
Net appreciation (depreciation) in fair value of investments:				
Traded securities	194,537	2,902	197,439	120,223
Real estate	2,098	31	2,129	877
Interest	7,087	106	7,193	7,794
Dividends	15,243	227	15,470	12,348
Real estate operating income, net	1,088	16	1,104	1,144
Total investment income	220,053	3,282	223,335	142,386
Less:				
Investment expense	(3,386)	(51)	(3,437)	(3,729)
Borrowers' rebates and other agent fees on securities lending transactions	(66)	(1)	(67)	(122)
Net investment income	216,601	3,230	219,831	138,535
Total additions, net	290,229	11,852	302,081	210,668
Deductions:				
Benefits paid	71,116	7,033	78,149	71,760
Refund of contributions	116		116	335
Administrative expenses	1,238	18	1,256	1,217
Total deductions	72,470	7,051	79,521	73,312
Change in net position	217,759	4,801	222,560	137,356
Net position:				
Beginning of year	1,107,628	16,700	1,124,328	986,972
End of year	$1,325,387	$21,501	$1,346,888	$1,124,328

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
East Bay Municipal Utility District
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the East Bay Municipal Utility District, as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated September 5, 2014. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated September 5, 2014 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
September 5, 2014

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary is not to be considered a full statement of the terms of the Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or elsewhere in the Official Statement have the respective meanings set forth in the Indenture.

There are no senior Water Bonds outstanding, and the District has covenanted in the Indenture not to issue any senior Water Bonds in the future. Therefore, all references hereto to "Water Bonds" may be disregarded.

Certain Definitions

"Accreted Value" means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified in the Indenture.

"Act" means the Municipal Utility District Act, constituting Division 6 of the Public Utilities Code of the State of California, and all laws of the State of California amendatory thereof or supplemental thereto, including the Revenue Bond Law of 1941, as made applicable by Article 6a of Chapter 6 of said Division 6, and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

"Annual Debt Service" (I) prior to the Effective Date, means, for any Fiscal Year the aggregate amount of principal and interest on all Water Bonds, Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Maximum Annual Debt Service; and

(II) on and after the Effective Date, means, for any Fiscal Year, the aggregate amount of principal and interest on all Water Bonds, Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

"Assumed Debt Service" (I) prior to the Effective Date, means, for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Water Bonds, Bonds and Parity Debt if each Excluded Principal Payment were amortized for a period specified by the District (but no longer than thirty (30) years from the date of the issuance of the Water Bonds, Bonds or Parity Debt to which such Excluded Principal Payment relates) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the District could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee, who may rely conclusively on such certificate, within thirty (30) days of the date of calculation; and

(II) on and after the Effective Date, means, for any Fiscal Year, the aggregate amount of principal and interest which would be payable on all Water Bonds, Bonds and Parity Debt if each Excluded Principal Payment were amortized for a period specified by the District (but no longer than thirty (30) years from the date of the issuance of the Water Bonds, Bonds or Parity Debt to which such Excluded Principal Payment relates) on a substantially level debt service basis or other amortization basis provided by the District, calculated based on a fixed interest rate equal to the rate at which the District could borrow for such period, as certified by a certificate of a financial advisor or investment banker delivered to the Trustee, who may rely conclusively on such certificate, within thirty (30) days of the date of calculation.

"Bond Obligation" means, as of any given date of calculation, (1) with respect to any Outstanding Bond or Water Bond which is Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Outstanding Bond or Water Bond which is Capital Appreciation Indebtedness, the Accreted Value thereof.

"Bonds" means the bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Business Day" means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State of California or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions related to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed.

"Capital Appreciation Indebtedness" means Water Bonds, Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

"Code" means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, as amended from time to time.

"Current Interest Indebtedness" means the Water Bonds, Bonds and Parity Debt on which interest is paid at least annually.

"Debt Service" (I) prior to the Effective Date, means, the amount of principal and interest becoming due and payable on all Water Bonds, Bonds and Parity Debt provided, however, that for the purposes of computing Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Water Bonds, Bonds or Parity Debt are Variable Rate Indebtedness, the interest rate thereon for periods when the actual interest rate cannot yet be determined shall be assumed to be twelve percent (12%) per annum;

(c) principal and interest payments on Water Bonds, Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or another fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Water Bonds, Bonds or Parity Debt held by the Trustee or another fiduciary as capitalized interest;

(d) in determining the principal amount, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Water Bonds, Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Indebtedness;

(e) if any interest rate swap agreement is in effect with respect to, and is payable on a parity with, the Water Bonds, Bonds or Parity Debt to which it relates, no amounts payable under such interest rate swap agreement shall be included in the calculation of Debt Service unless the sum of (i) interest payable on such Water Bonds, Bonds or Parity Debt, plus (ii) amounts payable by the District under such interest rate swap agreement, less (iii) amounts receivable by the District under such interest rate swap agreement are greater than the interest payable on the Water Bonds, Bonds or Parity Debt to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Water Bonds, Bonds or Parity Debt shall be included in such calculation. For such purposes, the variable amount under any such interest rate swap agreement shall be assumed to be equal to twelve percent (12%) per annum; and

(f) if any Water Bonds, Bonds or Parity Debt include an option or an obligation to tender all or a portion of such Water Bonds, Bonds or Parity Debt to the District, the Trustee or another fiduciary or agent and require that such Water Bonds, Bonds or Parity Debt or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due, the options or obligations to tender shall be treated as a principal maturity occurring on the first date on which holders or owners thereof may or are required to tender, except that any such option or obligation to tender shall be ignored and not treated as a principal maturity, if (1) such Water Bonds, Bonds or Parity Debt are in one of the two highest Rating Categories by Moody's and by Standard & Poor's or such Water Bonds, Bonds or Parity Debt are rated in the highest short-term, note or commercial paper Rating Categories by Moody's and by Standard & Poor's and (2) funds for the purchase price are to be provided by a letter of credit or standby bond purchase agreement and the obligation of the District with respect to the provider of such letter of credit or standby bond purchase agreement, other than its obligations on such Water Bonds, Bonds or Parity Debt, shall be subordinated to the obligation of the District on the Bonds and Parity Debt or, if not subordinate, shall be incurred (assuming such immediate tender) under the conditions and meeting the tests for the issuance of Parity Debt set forth in the Indenture; and

(II) on and after the Effective Date, means, the amount of principal and interest becoming due and payable on all Water Bonds, Bonds and Parity Debt provided, however, for the purpose of computing Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Water Bonds, Bonds or Parity Debt are Variable Rate Indebtedness, the interest rate thereon for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Municipal Swap Index for the five (5) years preceding such date of calculation (provided, however, that if such index is no longer published, the interest rate on such Water Bonds, Bonds or Parity Debt shall be calculated based upon such similar index as the District shall designate in writing to the Trustee) (the "Assumed SIFMA-based Rate");

(c) principal and interest payments on Water Bonds, Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or another fiduciary in escrow or trust specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Water Bonds, Bonds or Parity Debt held by the Trustee or another fiduciary as capitalized interest;

(d) in determining the principal amount, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Water Bonds, Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Indebtedness;

(e) if any interest rate swap agreement is in effect with respect to, and the regularly scheduled payments thereunder are payable on a parity with, the Water Bonds, Bonds or Parity Debt to which it relates, interest deemed to be payable on any such Water Bonds, Bonds or Parity Debt with respect to which an interest rate swap agreement is in effect shall be based on the net economic effect expected by the District to be produced by the terms of such Water Bonds, Bonds or Parity Debt and such interest rate swap agreement, including but not limited to the effects that (i) such Water Bonds, Bonds or Parity Debt would, but for such interest rate swap agreement, be treated as Variable Rate Indebtedness instead shall be treated as Water Bonds, Bonds or Parity Debt bearing interest at a fixed interest rate, and (ii) such Water Bonds, Bonds or Parity Debt would, but for such interest rate swap agreement, be treated as Water Bonds, Bonds or Parity Debt bearing interest at a fixed interest rate instead shall be treated as Variable Rate Indebtedness; and accordingly, the amount of interest deemed to be payable on any Water Bonds, Bonds or Parity Debt with respect to which an interest rate swap agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Water Bonds, Bonds or Parity Debt plus the amounts payable by the District under such interest rate swap agreement, minus the amounts receivable by the District under such interest rate swap agreement, and for the purpose of calculating as nearly as practicable such amounts, the following assumptions shall be made:

(1) if an interest rate swap agreement has been entered into by the District with respect to Water Bonds, Bonds or Parity Debt providing for the payment of a net variable interest rate under such interest rate swap agreement with respect to such Water Bonds, Bonds or Parity Debt by the District, the interest rate on such Water Bonds, Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the interest rate swap agreement is in effect) to be equal to the sum of (A) the fixed rate or rates stated in such Water Bonds, Bonds or Parity Debt minus (B) the fixed rate paid by the counterparty of such interest rate swap agreement to the District, plus (C) the lesser of (x) the interest rate cap, if any, provided by a counterparty with respect to such interest rate swap agreement (but only during the period that such interest rate cap is in effect) and (y) the applicable variable interest rate calculated in accordance with paragraph (b) above; and

(2) if an interest rate swap agreement has been entered into by the District with respect to Water Bonds, Bonds or Parity Debt providing for the payment of a fixed rate of interest to maturity or for a specific term under such interest rate swap agreement with respect to such Water Bonds, Bonds or Parity Debt by the District, the interest on such Water Bonds, Bonds or Parity Debt shall be included in the calculation of payments (but only during the period the interest rate swap agreement is in effect) by including for each period of calculation an amount equal to the amount of interest payable at the fixed interest rate pursuant to such interest rate swap agreement.

Notwithstanding any other paragraph of this definition of Debt Service, except as set forth in this paragraph (e), no amounts payable under any interest rate swap agreement (including termination payments) shall be included in the calculation of Debt Service;

(f) if any Water Bonds, Bonds or Parity Debt are Variable Rate Indebtedness subject to tender for purchase and funds for the purchase price may be provided by a letter of credit, line of credit, revolving credit agreement, standby bond purchase agreement or other liquidity facility which, if drawn upon, could create a repayment obligation which has a lien on Subordinated Water Revenues on parity with the lien of the Water Bonds, Bonds or Parity Debt, then for purposes of determining the amounts of principal due in any Fiscal Year on such Water Bonds, Bonds or Parity Debt, (i) the options or obligations of the owners of such Water Bonds, Bonds or Parity Debt to tender the same for purchase or payment prior to the stated maturity or maturities shall be ignored and not treated as a principal maturity; and (ii) any repayment obligations of the District to the provider of such letter of credit, line of credit, revolving credit agreement, standby bond purchase agreement or other liquidity facility, other than its obligations on such Water Bonds, Bonds or Parity Debt, shall be treated as Excluded Principal Payments; and

(g) if interest on any Water Bonds, Bonds or Parity Debt is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code, or any future similar program, then interest payments with respect to such Water Bonds, Bonds or Parity Debt shall be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

"Effective Date" means the earlier to occur of: (i) the first date upon which all of the Outstanding Series 2001 Bonds, Series 2002 Bonds, Series 2003 Bonds, Series 2005A Bonds, Series 2007A Bonds, Series 2007B Bonds, Series 2008A Bonds, Series 2008B Bonds and Series 2009A Bonds have been paid or discharged in accordance with their terms and shall no longer be Outstanding for purposes of the Indenture and all obligations of the District under any interest rate swap agreements and any standby bond purchase agreements or other liquidity facilities relating thereto shall have been discharged and satisfied, or (ii) the first date upon which the District has filed with the Trustee the written consents to the amendments to the Indenture set forth in the Sixteenth Supplemental Indenture of (a) the Owners of a majority in aggregate principal amount of Bond Obligation then Outstanding and (b) the providers of any interest rate swap agreements and any standby bond purchase agreements, other liquidity facilities or other agreements relating to such Bond Obligation then Outstanding to the extent the consent thereof shall be required by the terms of such interest rate swap agreements and any standby bond purchase agreements, other liquidity facilities or other agreements.

"Excluded Principal Payments" means each payment of principal (or the principal component of lease or installment purchase payments) of Water Bonds, Bonds or Parity Debt which the District determines on a date not later than the date of issuance thereof that the District intends to pay with moneys which are not Water Revenues or Subordinated Water Revenues but from the proceeds of future debt obligations of the District and the Trustee may rely conclusively on such determination of the District.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official fiscal year period of the District, which designation shall be provided to the Trustee in a certificate of the District.

"Indenture" means the Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, by and between the Trustee and the District, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof.

"Investment Securities" means the following:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies and Federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks and Federal Home Loan Mortgage Corporation;

(iv) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that at the time of their purchase such obligations are rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(v) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or their obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i), (ii) or (iii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i), (ii) or (iii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (v) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (v), as appropriate, and (d) which have been rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vi) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (iv), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(ix) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in their respective highest Rating Categories for its short-term rating, if any, and not lower than their respective ratings on the Bonds for its long-term rating, if any, by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds), and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(x) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars ($100,000,000) and with short-term debt rated by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) in their respective four highest short-term rating categories or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii) or (iii) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(xi) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv) and (x) of this definition of Investment Securities and which money market fund is rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds); provided that as used in this clause (xi) and clause (xii) investments will be deemed to satisfy the requirements of clause (x) if they meet the requirements set forth in clause (x) ending with the words "clauses (i), (ii) or (iii) above" and without regard to the remainder of such clause (x);

(xii) a guaranteed investment contract with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds);

(xiii) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xii) of this definition of Investment Securities and which companies are rated in their respective highest Rating Categories by Moody's (if Moody's is then rating the Bonds) and Standard & Poor's (if Standard & Poor's is then rating the Bonds) or have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in such securities and obligations and with assets under management in excess of $500,000,000; and

(xiv) any investment approved by the Board for which confirmation is received from each rating agency then rating any of the Bonds that such investment will not adversely affect such agency's rating on such Bonds.

"Mandatory Sinking Account Payment" means the amount required to be deposited by the District in a sinking account for the payment of term Bonds.

"Maximum Annual Debt Service" (I) prior to the Effective Date, means, the greatest amount of principal and interest becoming due and payable on all Water Bonds, Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Water Bonds, Bonds or Parity Debt are Variable Rate Indebtedness, the interest rate thereon for periods when the actual interest rate cannot yet be determined shall be assumed to be twelve percent (12%) per annum;

(c) principal and interest payments on Water Bonds, Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or another fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Water Bonds, Bonds or Parity Debt held by the Trustee or another fiduciary as capitalized interest;

(d) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Water Bonds, Bonds or Parity Debt on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Indebtedness;

(e) if any interest rate swap agreement is in effect with respect to, and is payable on a parity with, the Water Bonds, Bonds or Parity Debt to which it relates, no amounts payable under such interest rate swap agreement shall be included in the calculation of Maximum Annual Debt Service unless the sum of (i) interest payable on such Water Bonds, Bonds or Parity Debt, plus (ii) amounts payable by the District under such interest rate swap agreement, less (iii) amounts receivable by the District under such interest swap agreement are greater than the interest payable on the Water Bonds, Bonds or Parity Debt to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Water Bonds, Bonds or Parity Debt shall be included in such calculation. For such purposes, the variable amount under any such interest rate swap agreement shall be assumed to be equal to twelve percent (12%) per annum; and

(f) if any Water Bonds, Bonds or Parity Debt include an option or an obligation to tender all or a portion of such Water Bonds, Bonds or Parity Debt to the District, the Trustee or another fiduciary or agent and require that such Water Bonds, Bonds or Parity Debt or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year, the options or obligations to tender shall be treated as a principal maturity occurring on the first date on which holders or owners thereof may or are required to tender, except that any such option or obligation to tender shall be ignored and not treated as a principal maturity, if (1) such Water Bonds, Bonds or Parity Debt are rated not lower than their respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) and by Standard & Poor's (if Standard and Poor's is then rating the Bonds) or such Water Bonds, Bonds or Parity Debt are rated in the highest short-term note or commercial paper Rating Categories by Moody's (if Moody's is then rating the Bonds) and by Standard & Poor's (if Standard and Poor's is then rating the Bonds) and (2) funds for the purchase price are to be provided by a letter of credit or standby bond purchase agreement and the obligation of the District with respect to the provider of such letter of credit or standby bond purchase agreement, other than its obligations on such Water Bonds, Bonds or Parity Debt, shall be subordinated to the obligation of the District on the Bonds and Parity Debt or, if not subordinate, shall be incurred (assuming such immediate tender) under the conditions and meeting the tests for the issuance of Parity Debt set forth in the Indenture; and

(II) on and after the Effective Date, means, the greatest amount of principal and interest becoming due and payable on all Water Bonds, Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District and not objected to by the Trustee.

"Opinion of Bond Counsel" means a written opinion of a law firm of national standing in the field of public finance selected by the District and not objected to by the Trustee.

"Outstanding," when used at any particular time with reference to Bonds, means (subject to the provisions relating to disqualified bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the District shall have been discharged under the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" or **"Bondholder"** or **"Bondowner,"** whenever used with respect to a Bond, means the person in whose name such Bond is registered.

"Parity Debt" means any indebtedness, installment sale obligation, lease obligation or other obligation of the District for borrowed money or interest rate swap agreement having an equal lien and charge upon the Subordinated Water Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

"Person" means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Rating Category" means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Redemption Price" means with respect to any Bond (or portion thereof) the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

"Revenue Fund" means the fund held in trust by the District to which the Subordinated Water Revenues are required to be deposited.

"Series" whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

"SIFMA Municipal Swap Index" means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or by any Person acting in cooperation with or under the sponsorship of SIFMA and effective from such date.

"Standard & Poor's" means Standard & Poor's Corporation, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District and not objected to by the Trustee.

"Subordinated Water Revenues" for any fiscal period means the sum of (a) the Water Revenues for such fiscal period plus (b) the amounts, if any, withdrawn by the District from the Rate Stabilization Fund created in the Water Bond Resolution for treatment as Water Revenues for such fiscal period, less the sum of (c) all Water Operation and Maintenance Costs for such fiscal period, (d) the amounts, if any, withdrawn by the District from Water Revenues for such fiscal period for deposit in such Rate Stabilization Fund, and (e) all amounts required to be paid under the Water Bond Resolution for principal, interest, reserve fund and any other debt service requirements on the Water Bonds as the same become due and payable.

"Variable Rate Indebtedness" means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire term of the indebtedness.

"Water Bond Resolution" means Resolution No. 30050 of the District, adopted on January 26, 1982, as amended and supplemented from time to time. All obligations of the District under the Water Bond Resolution have ceased and been discharged; provided, however, that the Rate Stabilization Fund created thereunder shall continue.

"Water Bonds" means all bonds and other obligations of the District issued pursuant to the Water Bond Resolution.

"Water Operation and Maintenance Costs" means the reasonable and necessary costs of maintaining and operating the Water System, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes and other similar costs, but excluding in all cases depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, and excluding all costs paid from the proceeds of taxes received by the District.

"Water Revenues" (I) prior to the Effective Date, means, all charges received for, and all other income and receipts derived by the District from, the operation of the Water System, or arising from the Water System, together with income from the investment of any moneys in any fund or account established under the Water Bond Resolution or the Indenture; and

(II) from and after the Effective Date, means, all charges received for, and all other income and receipts derived by the District from, the operation of the Water System, or arising from the Water System, together with income from the investment of any moneys in any fund or account established under the Water Bond Resolution or the Indenture; provided, however, there shall be excluded therefrom any amounts reimbursed to the District by the United States of America pursuant to Section 54AA of the Code, or any future similar program.

"Water System" means the entire water system of the District and all of the facilities thereof, including all facilities for the storage, transmission or distribution of water or the generation or transmission of hydroelectric power, together with all additions, betterments, extensions and improvements to said system or any part thereof. The term "Water System" does not include the sewage disposal system or facilities of Special District No. 1 of the District (including any power generation facilities constituting a part of said system).

Pledge of Revenues

The Bonds are revenue obligations of the District and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Subordinated Water Revenues and other amounts held by the Trustee (except for amounts held in the Rebate Fund). The Subordinated Water Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other. Said pledge constitutes a first lien on the Subordinated Water Revenues and such other amounts referred to in this paragraph.

Allocation of Subordinated Water Revenues

The District is to transfer the moneys in the Revenue Fund, into the following respective funds, in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Subordinated Water Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

> (1) Interest Fund. The District shall transfer to the Trustee and the Trustee shall set aside in the Interest Fund on or before the Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds which are Current Interest Indebtedness (excluding any interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).
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> (2) Principal Fund; Sinking Accounts. The District shall transfer to the Trustee and the Trustee shall set aside in the Principal Fund on or before the Business Day prior to each principal or Sinking Account payment date therefor an amount equal to (a) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (b) the Mandatory Sinking Account Payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the District certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in a bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment.
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> (3) Bond Reserve Funds. Upon the occurrence of any deficiency in any Bond Reserve Fund established under the Indenture for any Series of Bonds, the District shall transfer to the Trustee and the Trustee shall set aside in such Bond Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund until there is on deposit in such Bond Reserve Fund an amount equal to the respective reserve requirement.

Any Subordinated Water Revenues remaining after the foregoing transfers shall be held free and clear of the Indenture by the District and it may use and apply such Subordinated Water Revenues for any lawful purpose of the District, including the redemption and purchase of Bonds.

If on any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein are insufficient to make such payments, the Trustee shall immediately notify the District of such deficiency and direct that the District transfer the amount of such deficiency to the Trustee on such payment date. The District covenants and agrees to transfer to the Trustee from any Subordinated Water Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

Investments

All moneys in any of the funds and accounts held by the Trustee shall be invested, as directed by the District, solely in Investment Securities.

The District may and the Trustee shall, upon the Request of the District, enter into a financial futures or financial option contract with an entity the debt securities of which are rated in their respective highest short-term Rating Categories by Moody's and Standard & Poor's.

The District may and the Trustee shall, upon the Request of the District, and provided that the Trustee is supplied with an Opinion of Bond Counsel to the effect that such action is permitted under the laws of the State of California, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof and the amounts received by the District or the Trustee, if any, pursuant to such a swap agreement may be applied to the deposits required hereunder; in which case, the entity with which the District or the Trustee may contract for an interest rate swap is limited to entities the debt securities of which are rated in their respective highest short-term debt Rating Categories by Moody's and Standard & Poor's. If the District so designates, amounts payable under the interest rate swap agreement shall be secured by Subordinated Water Revenues and other assets pledged hereunder to the Bonds on a parity basis therewith and, in such event, the District shall pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided in the Indenture, the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap agreement relates, and the Trustee shall pay to the other party to the interest rate swap agreement, to the extent required thereunder, amounts deposited in the Interest Fund for the payment of interest on the Bonds with respect to which such agreement was entered into.

Additional Bonds; Parity Debt

The issuance of additional Water Bonds was not initially limited by the Indenture. *However, the District has covenanted pursuant to the Eighteenth Supplemental Indenture that it will not issue any senior Water Bonds in the future.*

The District may issue Bonds and Parity Debt payable from Subordinated Water Revenues and secured equally and ratably with Bonds previously issued, subject to the following specific conditions precedent to the issuance of any such additional Bonds or Parity Debt:

(a) No Event of Default shall have occurred and then be continuing.

(b) The aggregate principal amount of Bonds or Parity Debt shall not exceed any limitation imposed by law or by any Supplemental Indenture.

(c) The District shall have placed on file with the Trustee a Certificate of the District certifying that the sum of: (1) the Subordinated Water Revenues plus all amounts required to be paid under the Water Bond Resolution for principal, interest, reserve fund and any other debt service requirements on the Water Bonds for any period of 12 consecutive months during the 18 months immediately preceding the date on which such additional Bonds or Parity Debt will become Outstanding; plus (2) 90% of the amount by which the District projects Subordinated Water Revenues for such period of 12 months would have been increased had increases in rates, fees and charges during such period of 12 months been in effect throughout such period of 12 months; plus (3) 75% of the amount by which the District projects Subordinated Water Revenues will increase during the period of 12 months commencing on the date of issuance of such additional Series of Bonds due to improvements to the Water System under construction (financed from any source) or to be financed with the proceeds of such additional Series of Bonds, shall (4) have been at least equal to 1.1 times the amount of Maximum Annual Debt Service on all Water Bonds, Bonds and Parity Debt then Outstanding and the additional Bonds or Parity Debt then proposed to be issued.

Refunding Bonds

Refunding Bonds may be authorized and issued by the District without compliance with the provisions described above under "Additional Bonds; Parity Debt," provided that Maximum Annual Debt Service on all Water Bonds, Bonds and Parity Debt Outstanding following the issuance of such refunding Bonds is less than or equal to Maximum Annual Debt Service on all Water Bonds, Bonds and Parity Debt Outstanding prior to the issuance of such refunding Bonds.

Covenants

Among other covenants the District has agreed as follows:

The District will not create any pledge, lien or charge upon any of the Subordinated Water Revenues having priority over or having parity with the lien of the Bonds except only as described above. The District will not amend or change the Water Bond Resolution in any manner which would permit the issuance of additional Water Bonds in a greater principal amount than would have been permitted thereunder prior to such amendment or change or reduce the debt service percentage or coverage requirements contained therein. The District will not issue Water Bonds pursuant to the Water Bond Resolution in such amount as would cause the District to fail to be in compliance with the rate covenant described in the second succeeding paragraph hereof.

The District will 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 the interest on the Bonds under Section 103 of the Code, if applicable. The District will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the District, or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code, if applicable. To that end, the District will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds.

The District will, at all times while any of the Bonds remain Outstanding, fix, prescribe and collect rates, fees and charges in connection with the services and facilities furnished by the Water System so as to yield Water Revenues in each Fiscal Year sufficient so that the sum of the Subordinated Water Revenues for such year plus all amounts required to be paid under the Water Bond Resolution for such year for principal, interest, reserve fund and any other debt service requirements on the Water Bonds shall be at least equal to 1.1 times the amount of Debt Service on all Water Bonds, Bonds and Parity Debt Outstanding for such Fiscal Year.

The District will maintain and preserve the Water System in good repair and working order at all times, and will operate the Water System in an efficient and economical manner. Subject in each case to the condition that insurance is obtainable at rates deemed reasonable by the District and upon terms and conditions deemed reasonable by the District, the District will procure and maintain at all times: (a) insurance on the Water System against such risks as and in such amounts as the District deems prudent taking into account insurance coverage for similar utilities, and (b) public liability insurance in such amounts as the District deems prudent taking into account insurance coverage for similar utilities.

Events of Default; Remedies

The following events are Events of Default under the Indenture:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if the District shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (a) or (b), for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the District by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the District has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the District shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if any default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the therein stated grace period, if any, with respect to such default;

(e) if any default shall exist under the Water Bond Resolution and such default shall continue beyond the therein stated grace period, if any, with respect to such default;

(f) if the District files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or Federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(g) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the District insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the District, or approving a petition filed against the District seeking reorganization of the District under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof; and

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the Subordinated Water Revenues, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control.

If an Event of Default shall occur and be continuing, the District is to immediately transfer to the Trustee all Subordinated Water Revenues held by it and received thereafter and the Trustee shall apply all Subordinated Water Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

In each and every such case during the continuance of such Event of Default, the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the District, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the District shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, by written notice to the District and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

The Trustee is appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) to represent the Owners in the matter of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon any default or other occasion, giving rise to a right in the Trustee to represent the Bondholders, the Trustee may take such action as may seem appropriate and, upon the request in writing of Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate actions as it shall deem most effectual to protect and enforce any such right.

No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Amendments

The Indenture and the rights and obligations of the District, the Owners of the Bonds and the Trustee may be modified or amended at any time by a Supplemental Indenture, with the written consent of the Owners of a majority in the aggregate amount of Bonds then Outstanding. No such modification or amendment shall (a) extend the fixed maturity of any Bond or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bonds, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Subordinated Water Revenues and other assets pledged under the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Subordinated Water Revenues and other assets, without the consent of the Owners of all of the Bonds then Outstanding.

The Indenture may also be modified or amended at any time with the written consents of each provider of a letter of credit or a policy of bond insurance for the Bonds, provided that at such time the payment of all the principal of and interest on all Outstanding Bonds shall be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which shall be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, rated not lower than the respective ratings on the Bonds by Moody's (if Moody's is then rating the Bonds) or Standard & Poor's (if Standard & Poor's is then rating the Bonds).

The Indenture and the rights and obligations of the District, of the Trustee and the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the District or to surrender any right or power reserved to or conferred upon the District;

(2) to make such provisions for the purpose of curing any omission or ambiguity, or of curing or correcting any defective provision contained in the Indenture, or in regard to questions arising under the Indenture, as the District may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify the Indenture in such manner as to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal

statutes and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt, with such interest rate, payment, maturity and other terms as the District may deem desirable, subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that such provisions shall not materially and adversely affect the interest of the Owners of the Bonds;

(6) if the District agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Defeasance

Bonds may be paid by the District in any of the following ways:

(a) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the District in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the District shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payments.

The District may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Investment Securities described in clauses (i), (ii) or (v) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as required by the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the District) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

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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 Series 2015 Bonds, Norton Rose Fulbright US LLP, Los Angeles, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel, propose to render their final approving opinion with respect to the Series 2015 Bonds in substantially the following form:

[Closing Date]

East Bay Municipal Utility District
Oakland, California

**$185,050,000
EAST BAY MUNICIPAL UTILITY DISTRICT
(Alameda and Contra Costa Counties, California)
WATER SYSTEM REVENUE BONDS**

$74,335,000 SERIES 2015B (Green Bonds)	**$110,715,000 SERIES 2015C**

Ladies and Gentlemen:

We have acted as co-bond counsel to the East Bay Municipal Utility District (the "District") in connection with the issuance of its $74,335,000 aggregate principal amount of Water System Revenue Bonds, Series 2015B (Green Bonds) (the "Series 2015B Bonds") and $110,715,000 aggregate principal amount of Water System Revenue Bonds, Series 2015C (the "Series 2015C Bonds" and, together with the Series 2015B Bonds, the "Series 2015 Bonds"). The Series 2015 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 the Revenue Bond Law of 1941 as made applicable by Article 6a of Chapter 6 of Division 6 of the Municipal Utility District Act, as amended (collectively, the "Act"), and a Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, by and between the District and First Interstate Bank of California, which has been succeeded by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented, including as amended and supplemented by a Twenty-Seventh Supplemental Indenture, dated as of June 1, 2015, providing for the issuance of the Series 2015 Bonds (collectively, the "Indenture").

In our capacity as co-bond counsel, we have reviewed the Act, the Indenture, certifications of the District, the Trustee, and others, opinions of counsel to the District and the Trustee, 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 Indenture.

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 Indenture. In addition, we call attention to the fact that the rights and obligations under the Series 2015 Bonds and the Indenture 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. Furthermore, the imposition of fees and charges by the District relating to the Water System may be subject to the provisions of Articles XIIIC and XIIID of the California Constitution.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2015 Bonds constitute the valid and binding special limited obligations of the District.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the District. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2015 Bonds, of the Subordinated Water Revenues of the District, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Series 2015 Bonds are special limited obligations of the District and are payable exclusively from and are secured by a pledge of Subordinated Water Revenues of the District and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. The general fund of the District is not liable, and neither the credit nor taxing power of the District is pledged, for the payment of the Series 2015 Bonds or the interest thereon.

4. Other bonds and parity debt of the District have been and may from time to time hereafter be issued under the Indenture which are payable from Subordinated Water Revenues on a parity basis with the Series 2015 Bonds.

We express no opinion as to any federal, state or local tax consequences of the ownership or disposition of the Series 2015 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 Series 2015 Bonds.

Respectfully submitted,

Respectfully submitted,

PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the delivery of the Series 2015 Bonds, Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel to the Initial Purchaser, proposes to render its tax opinion with respect to the Series 2015 Bonds in substantially the following form:

[Closing Date]

East Bay Municipal Utility District
Oakland, California

East Bay Municipal Utility District
Water System Revenue Bonds, Series 2015B (Green Bonds) and Series 2015C
(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 $74,335,000 aggregate principal amount of its Water System Revenue Bonds, Series 2015B (Green Bonds) and $110,715,000 aggregate principal amount of its Water System Revenue Bonds, Series 2015C (collectively, the Bonds). The Bonds are being issued pursuant to a Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, as supplemented by supplemental indentures, including a Twenty-Seventh Supplemental Indenture, dated as of June 1, 2015 (collectively, the "Indenture"), between the District and First Interstate Bank of California, which has been succeeded by The Bank of New York Mellon Trust Company, N.A., as trustee. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the District, dated the date hereof and relating to the Bonds (the "Tax Certificate"), opinions of counsel to the Trustee and the District, certificates of the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. In particular, we have relied on the opinion of Norton Rose Fulbright Jaworski US LLP and Curls 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 are valid and binding obligations of the District. 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 Indenture 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 Indenture 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 advice 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

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APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning The Depository Trust Company, New York, New York ("DTC"), and DTC's book-entry system has been obtained from DTC and the District and the Trustee take no responsibility for the completeness or accuracy thereof. The District and the Trustee 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 Series 2015 Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2015 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2015 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 E. The District and the Trustee 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 Series 2015 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 Series 2015 Bonds. The Series 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each Series of the Series 2015 Bonds of the same terms and bearing the same interest at the same coupon rate, 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 Series 2015 Bonds under the DTC book-entry system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2015 Bond documents. For example, Beneficial Owners of the Series 2015 Bonds may wish to ascertain that the nominee holding the Series 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2015 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 Series 2015 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 Series 2015 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 Series 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants" accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, 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 Trustee, 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 Series 2015 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2015 Bonds at any time by giving notice to the Trustee and the District. Under certain circumstances, in the event that a successor depository is not obtained, Series 2015 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 Series 2015 Bonds through DTC (or a successor securities depository). In that event, Series 2015 Bond certificates will be printed and delivered as provided in the Indenture. In addition, the following provisions would apply: the principal or redemption price of the Series 2015 Bonds will be payable upon presentation thereof, at the principal corporate trust office of the Trustee, in San Francisco, California; interest on the Series 2015 Bonds will be payable by check mailed on each interest payment date to the registered owners thereof as shown on the registration books of the Trustee as of the close of business on the 15th day of the calendar month immediately preceding the applicable interest payment date (the "record date"), except that in the case of an owner of $1,000,000 or more in aggregate principal amount of Series 2015 Bonds, upon written request of such owner to the Trustee received at least 10 days prior to the record date for the payment of interest, specifying the account or accounts to which such payment shall be made (which request shall remain in effect until revoked by such owner in a subsequent writing delivered to the Trustee), such interest shall be paid in immediately available funds by wire transfer to such account or accounts on the following interest payment date; and the Series 2015 Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture.

The information in this Appendix E 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.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated June 17, 2015, is executed and delivered by the East Bay Municipal Utility District (the "District") and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee") in connection with the issuance of $74,335,000 aggregate principal amount of Water System Revenue Bonds, Series 2015B (Green Bonds) and $110,715,000 aggregate principal amount of Water System Revenue Bonds, Series 2015C (collectively, the "Bonds"). The Bonds are being issued pursuant to a Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, by and between the District and the Trustee, as amended and supplemented, including as amended and supplemented by the Twenty-Seventh Supplemental Indenture, dated as of June 1, 2015, providing for the issuance of the Bonds (collectively, the "Indenture"). In connection therewith the District and the Trustee covenant and agree as follows:

Section 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Trustee 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 Indenture, 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 or the Treasury Manager 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 Trustee from time to time.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the Trustee 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 Market Access (EMMA) website of the MSRB, currently located at *http://emma.msrb.org*.

"Official Statement" shall mean the Official Statement for the Bonds dated June 2, 2015, as it may be updated prior to the delivery of the Bonds.

"Participating Underwriter" shall mean any underwriter of the Bonds listed on the cover page of the Official Statement required to comply with the Rule in connection with 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 December 31 of each year in which the Bonds are outstanding, commencing with the report for the 2014-15 Fiscal Year (which is due not later than December 31, 2015), 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 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 Trustee, the Trustee) 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 the Gross Water Production (including annual production and average production per day) for the preceding Fiscal Year;

(c) A table showing Water Sales Revenues, Consumption and Number of Connections by Customer Type for the preceding Fiscal Year;

(d) A table showing Water System Sources of Funds by Source;

(e) A table showing Water System Rates and Charges for the preceding Fiscal Year (as well as average rate increases);

(f) A table showing Outstanding Water System Debt as of the preceding Fiscal Year;

(g) A table showing water revenues, operating and maintenance expenses, debt service on water revenue bonds and debt service coverage for the water revenue bonds for the most recent Fiscal Year; and

(h) Any material changes in the sources of water supply.

Financial and operating information relating to the District referenced in items 3(b)-(h) above may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer material.

Any or all of the items listed above may also 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 the debt service reserves reflecting financial difficulties;

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. substitution of the 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 trustee or the change of name of a 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 Water 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 Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. 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 (10) business days after the occurrence of the event.

Section 6. <u>Termination of Reporting Obligation</u>. The District's obligations under this Disclosure Agreement shall terminate with respect to all Bonds upon the maturity, defeasance, prior redemption, acceleration or payment in full of all of the Bonds and with respect to any Bonds upon the maturity, defeasance, prior redemption or payment in full of such Bonds.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a 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 Trustee, upon notice from the District, shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee. 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 Trustee 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 Trustee, 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 Indenture, 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 Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if the Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations on liability afforded to the Trustee thereunder. The Dissemination Agent (if other than the Trustee 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:

To the District:

East Bay Municipal Utility District
375 Eleventh Street, MS 801
Oakland, California 94607-4240
Attention: Debt Administrator
Phone: 510-287-0248
Fax: 510-287-0293

To the Dissemination Agent:

The Bank of New York Mellon
Trust Company, N.A.
100 Pine Street, Suite 3100
San Francisco, California 94111
Phone: 415-263-2420
Fax: 415-399-1647

Section 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriters 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 and the Trustee by their duly authorized representatives.

Dated*:* June 17, 2015 EAST BAY MUNICIPAL UTILITY DISTRICT

By:______________________________________

Sophia D. Skoda
Treasury Manager and
Acting Director of Finance

Dated: June 17, 2015 THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By:______________________________________

Vice President

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	EAST BAY MUNICIPAL UTILITY DISTRICT
Name of Bond Issue:	$74,335,000 Water System Revenue Bonds, Series 2015B (Green Bonds) and $110,715,000 Water System Revenue Bonds, Series 2015C
Date of Issuance:	June 17, 2015

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 June 17, 2015, by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") and in accordance with Section 42.14 of the Twenty-Seventh Supplemental Indenture, dated as of June 1, 2015, by and between the District and the Trustee, supplementing the Water System Subordinated Revenue Bond Indenture, dated as of April 1, 1990, as supplemented and amended, by and between the District and the Trustee, providing for the issuance of the Bonds. 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 Trustee on behalf of the District

By:____________________________________
Authorized Officer

cc: East Bay Municipal Utility District

EBMUD