

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject to certain qualifications described herein, under existing statutes, regulations, rules and court decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the Bonds, defined below, is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum taxes. In the further opinion of Bond Counsel, such interest payable on the Bonds, defined below, is exempt from California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of or the amount, accrual or receipt of interest on, the Bonds. See the caption “TAX EXEMPTION.”

\$90,260,000

**WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY
WATER REVENUE BONDS, SERIES OF 2020A
(TAX-EXEMPT)**

Dated: Date of Delivery

Due: October 1, as shown on inside front cover page

The Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds is payable on October 1, 2020 and each April 1 and October 1 thereafter. Payment of the principal of and interest on the Bonds is to be made to Cede & Co., which is to disburse said payments to the Beneficial Owners of the Bonds through their nominees.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as more fully described herein.

The Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements to the District’s Water System and Sewer System; (ii) to refund all of the Authority’s outstanding: (1) Water Revenue Bonds, Series of 2010B (Federally Taxable – Build America Bonds – Direct Payment); and (2) Adjustable Rate Water Revenue Refunding Bonds, Series of 2016A; and (iii) to pay costs incurred in connection with the issuance of the Bonds.

The Bonds are being issued pursuant to the Indenture of Trust, dated as of July 1, 2020, by and between the Western Municipal Water District Facilities Authority and U.S. Bank National Association, as trustee. THE BONDS ARE A SPECIAL LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM INSTALLMENT PAYMENTS TO BE MADE BY THE DISTRICT TO THE AUTHORITY PURSUANT TO THE MASTER INSTALLMENT PURCHASE AGREEMENT, DATED AS OF MAY 1, 2009, AND THE INSTALLMENT PURCHASE AGREEMENT (SERIES 2020A), DATED AS OF JULY 1, 2020, EACH BY AND BETWEEN THE DISTRICT AND THE AUTHORITY, AND FROM CERTAIN OTHER FUNDS AND ACCOUNTS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the District to make Installment Payments is a special limited obligation of the District payable solely from Net Revenues of the District’s Water System and Sewer System on a parity with certain Parity Obligations of the District. The District may incur additional Parity Obligations payable from Net Revenues on a parity with the obligation to pay Installment Payments, subject to the terms and conditions of the Installment Purchase Agreement, as more fully described herein.

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES OF THE DISTRICT’S WATER SYSTEM AND SEWER SYSTEM AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

MATURITY SCHEDULE
(See inside front cover page)

The Bonds are offered when, as and if delivered to and received by the Underwriters, subject to the approval as to their legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by Best Best & Krieger LLP, Riverside, California, as General Counsel, and for the District by Best Best & Krieger LLP, Riverside, California, as General Counsel, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. The Underwriters are being represented by their counsel, Katten Muchin Rosenman LLP, New York, New York. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about July 8, 2020.

BofA Securities

TD Securities

MATURITY SCHEDULE

BASE CUSIP* 95874T

\$90,260,000

WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY WATER REVENUE BONDS, SERIES OF 2020A (TAX-EXEMPT)

\$80,485,000 Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP*</u>
2021	\$ 295,000	5.000%	0.120%	105.998	BU2
2022	310,000	5.000	0.130	110.843	BV0
2023	325,000	5.000	0.150	115.624	BW8
2024	340,000	5.000	0.200	120.210	BX6
2025	355,000	5.000	0.270	124.549	BY4
2026	1,100,000	5.000	0.390	128.348	BZ1
2027	2,020,000	5.000	0.520	131.750	CA5
2028	2,680,000	5.000	0.640	134.901	CB3
2029	2,825,000	5.000	0.710	138.262	CC1
2030	2,965,000	5.000	0.780	141.416	CD9
2031	3,120,000	5.000	0.840	140.698 ^C	CE7
2032	3,280,000	5.000	0.980	139.039 ^C	CF4
2033	6,215,000	5.000	1.100	137.636 ^C	CG2
2034	6,565,000	5.000	1.150	137.056 ^C	CH0
2035	6,935,000	5.000	1.220	136.249 ^C	CJ6
2036	7,320,000	5.000	1.300	135.334 ^C	CK3
2037	7,735,000	5.000	1.370	134.539 ^C	CL1
2038	8,165,000	5.000	1.410	134.087 ^C	CM9
2039	8,635,000	5.000	1.450	133.637 ^C	CN7
2040	9,300,000	5.000	1.470	133.413 ^C	CP2

\$4,295,000 5.000% Term Bonds Due October 1, 2045, Yield: 1.680%, Price: 131.084^C, CUSIP* CQ0

\$5,480,000 5.000% Term Bonds Due October 1, 2050, Yield: 1.750%, Price: 130.319^C, CUSIP* CR8

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C Priced to first optional redemption date of October 1, 2030.

WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY
Riverside County, California

Board of Directors

Donald D. Galleano, Chair
S.R. Al Lopez, Vice Chair
Brenda Dennstedt, Secretary
Gracie Torres, Director

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Riverside County, California

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S.R. Al Lopez, Vice President, Division 5
Brenda Dennstedt, Secretary-Treasurer, Division 3
Gracie Torres, Board Member, Division 2

District Staff

Craig Miller, P.E., General Manager
Tim Barr, Deputy General Manager
Rod LeMond, Assistant General Manager/Chief Financial Officer

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Verification Agent

Robert Thomas CPA, LLC
Minneapolis, Minnesota

No dealer, broker, salesperson or other person has been authorized by the District or the Authority to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement and the information that is contained herein are subject to completion or amendment without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Authority or any other parties that are described herein since the date hereof. These securities may not be sold, nor may an offer to buy them be accepted, prior to the time that the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements which are included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the captions "THE DISTRICT," "THE WATER SYSTEM," "THE SEWER SYSTEM" and "WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

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

The District maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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\$90,260,000
WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY
WATER REVENUE BONDS, SERIES OF 2020A
(TAX-EXEMPT)

INTRODUCTION

This Official Statement, including the front cover page, the inside front cover page and the appendices, provides certain information concerning the sale and delivery by the Western Municipal Water District Facilities Authority (the “**Authority**”) of its Water Revenue Bonds, Series of 2020A (Tax-Exempt) (the “**Bonds**”). Descriptions and summaries of various documents that are set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Capitalized terms that are used and not otherwise defined in this Official Statement have the meanings ascribed thereto in Appendix B.

The Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements to the District’s water and sewer system (the “**2020 Project**”), as described under the caption “THE 2020 PROJECT;” (ii) to refund all of the Authority’s outstanding: (1) Water Revenue Bonds, Series of 2010B (Federally Taxable – Build America Bonds – Direct Payment) (the “**2010B Bonds**”); and (2) Adjustable Rate Water Revenue Refunding Bonds, Series of 2016A (the “**2016A Bonds**”), as described under the caption “REFUNDING PLAN;” and (iii) to pay costs incurred in connection with the issuance of the Bonds. See the caption “ESTIMATED SOURCES AND USES OF FUNDS.”

The Bonds are being issued under the authority of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, pursuant to an Indenture of Trust, dated as of July 1, 2020 (the “**Indenture**”), by and between the Authority and U.S. Bank National Association, as trustee (the “**Trustee**”). The Bonds are limited obligations of the Authority payable solely from payments (the “**Installment Payments**”) to be made by the Western Municipal Water District of Riverside County (the “**District**”) to the Authority pursuant to an Installment Purchase Agreement (Series 2020A), dated as of July 1, 2020 (the “**Installment Purchase Agreement**”), by and between the District and the Authority, and amounts on deposit in certain funds and accounts established by the Indenture.

The obligation of the District to make Installment Payments is a special limited obligation of the District payable solely from Net Revenues of the District’s retail and wholesale water system (the “**Water System**”) and municipal wastewater system (the “**Sewer System**” and, together with the Water System, the “**System**”). Net Revenues consist of Revenues of the District’s System remaining after payment of Maintenance and Operation Costs. See the caption “SECURITY FOR THE BONDS.”

Under the terms of the Master Installment Purchase Agreement, dated as of May 1, 2009 (the “**Master Agreement**”), by and between the Authority and the District, the obligation of the District to make Installment Payments from Net Revenues is on a parity with the obligation of the District to make payments under the following contracts (collectively, the “**Parity Obligations**”), each of which is described in detail under the caption “THE DISTRICT—Outstanding Parity Obligations”):

(1) monthly payments under an interest rate swap agreement (the “**Swap Agreement**”) in the current notional amount of \$39,125,000.

(2) the Installment Purchase Agreement (Series 2010), dated as of October 1, 2010 (the “**2010 Installment Purchase Agreement**”), by and between the District and the Authority, which was outstanding in the principal amount of \$45,165,000 as of June 30, 2019. The District’s payments under the 2010 Installment Purchase Agreement secure the payment of principal of and interest on the Authority’s Water Revenue Bonds, Series of 2010A (Tax-Exempt) (the “**2010A Bonds**”) and the 2010B Bonds. A portion of the District’s

obligations under the 2010 Installment Purchase Agreement are being prepaid from proceeds of the Bonds, as discussed under the caption “REFUNDING PLAN.”

(3) the Installment Purchase Agreement (Series 2012A), dated as of June 1, 2012 (the “**2012 Installment Purchase Agreement**”), by and between the District and the Authority, which was outstanding in the principal amount of \$40,735,000 as of June 30, 2019. The District’s payments under the 2012 Installment Purchase Agreement secure the payment of principal of and interest on the Authority’s Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A (the “**2012A Bonds**”).

(4) the Installment Sale Agreement (Chino Desalter Phase 3 Expansion) (Project No. C-06-7845-110; CALSTARS Agreement No. 14-829-550) dated January 12, 2015 (the “**2015 State Contract**”), by and between the District and the State of California Water Resources Control Board (the “**SWRCB**”), which is expected to be outstanding in the maximum principal amount of \$35,794,100.

(5) the Installment Purchase Agreement (Series 2016A), dated as of January 1, 2016 (the “**2016 Installment Purchase Agreement**”), by and between the District and the Authority, which was outstanding in the principal amount of \$51,975,000 as of June 30, 2019. The District’s payments under the 2016 Installment Purchase Agreement secure the payment of principal of and interest on the 2016A Bonds. The District’s obligations under the 2016 Installment Purchase Agreement are being prepaid from proceeds of the Bonds, as discussed under the caption “REFUNDING PLAN.”

(6) the Wastewater Capacity Funding Agreement, dated as of August 1, 2017 (the “**Wastewater Capacity Funding Agreement**”), by and among the District, the Authority and the Santa Rosa Regional Resources Authority (“**SRRRA**”), which was outstanding in the principal amount of \$8,950,097 as of June 30, 2019.

(7) the Funding Agreement Pertaining to State Revolving Fund Loan from the California State Water Resources Control Board, dated January 2, 2018 (the “**2018 SRRRA Agreement**”), by and among the District, the Authority and SRRRA, which is expected to be outstanding in the maximum principal amount of \$6,085,874 (assuming SRRRA’s draw on a State Revolving Fund loan in the full available amount).

(8) the Agreement between Western Riverside County Regional Wastewater Authority and its Member Agencies for the Repayment of State Revolving Fund Loan, dated September 25, 2018 (the “**WRCRWA Agreement**”), by and among the District, the Western Riverside County Regional Wastewater Authority (“**WRCRWA**”) and other WRCRWA members, the District’s obligations under which were outstanding in the principal amount of \$603,458 as of June 30, 2019.

The District may enter into additional Parity Obligations upon satisfaction of the conditions which are described under the caption “SECURITY FOR THE BONDS—Additional Parity Obligations.”

The District regularly prepares a variety of reports, including audits, budgets and related documents. Any Bond Owner may obtain a copy of such report, as available, from the District. The District has also undertaken to provide annual reports to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (“**EMMA**”), which is accessible on the Internet at <http://emma.msrb.org>, pursuant to a continuing disclosure agreement. See the caption “CONTINUING DISCLOSURE” and Appendix E.

Changes have been made to this Official Statement since the Preliminary Official Statement dated June 16, 2020: (i) under the caption “THE DISTRICT—Budget Process” to reflect the adoption of the District’s budget for Fiscal Years 2021 and 2022; and (ii) under the caption “LITIGATION—District—SDCWA Litigation” to reflect an update to the status of the litigation described under such caption.

THE 2020 PROJECT

The 2020 Project consists of: (i) rehabilitation of wells in the Arlington Basin; (ii) pipeline replacements and upgrades; (iii) replacement of electric equipment associated with the intake pumps at the District's Cajalco Plant; (iv) meter replacements and retrofits; (v) a storage tank refurbishment; (vi) implementation of the District's supervisory control and data acquisition (SCADA) master plan; (vii) lift station improvements; and (viii) other miscellaneous capital projects. The District expects to comply with all governmental approval, environmental review, public bidding and other permitting requirements for each component of the 2020 Project as required by law, and to complete all components of the 2020 Project by mid-2023.

REFUNDING PLAN

2010B Bonds

The Authority issued the 2010B Bonds, which are currently outstanding in the aggregate principal amount of \$42,755,000, pursuant to an Indenture of Trust, dated as of October 1, 2010 (the "**2010 Indenture**"), by and between the Authority and U.S. Bank National Association, as trustee (the "**2010 Trustee**"). The 2010 Bonds are payable from installment payments made by the District under the 2010 Installment Purchase Agreement. The Authority plans to apply a portion of the proceeds of the Bonds to refund all of the outstanding 2010B Bonds. Information about the 2010B Bonds is set forth below.

<i>Principal Payment Date (October 1)</i>	<i>Outstanding Principal Amount of 2010B Bonds</i>	<i>CUSIP* (95874T)</i>
2021	\$ 1,270,000	BK4
2023	2,660,000	BL2
2025	2,835,000	BM0
2030	8,095,000	BN8
2035	9,825,000	BP3
2040	18,070,000	BQ1

Under an Escrow Agreement, dated as of July 1, 2020 (the "**2010 Escrow Agreement**"), by and among the District, the Authority and the 2010 Trustee, the Authority will deliver a portion of the proceeds of the Bonds to the 2010 Trustee for deposit in the escrow fund established under the 2010 Escrow Agreement (the "**2010 Escrow Fund**"). In addition, the Authority will cause the 2010 Trustee to deposit into the 2010 Escrow Fund certain moneys that are held by the 2010 Trustee in funds and accounts established in connection with the 2010 Bonds. The 2010 Trustee will invest a portion of the amounts deposited in the 2010 Escrow Fund as set forth in the 2010 Escrow Agreement. From the moneys on deposit in the 2010 Escrow Fund and the investment earnings thereon, the 2010 Trustee will pay on October 1, 2020 the principal of the 2010 Bonds maturing on and after such date, plus interest accrued to such date, without premium.

Sufficiency of the deposits with the 2010 Trustee for such purposes will be verified by Robert Thomas CPA, LLC, Minneapolis, Minnesota (the "**Verification Agent**"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided above, the 2010B Bonds will be defeased pursuant to the provisions of the 2010 Indenture.

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Upon the issuance of the Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information provided to it by the Underwriters relating to the adequacy of the moneys deposited with the 2010 Trustee to pay the redemption price of the 2010B Bonds.

The amounts deposited in the 2010 Escrow Fund are pledged solely to the payment of the 2010B Bonds. Neither the funds deposited with the 2010 Trustee nor any interest thereon will be available for the payments of principal of and interest on the Bonds.

2016A Bonds

The Authority issued the 2016A Bonds, which are currently outstanding in the aggregate principal amount of \$51,975,000, pursuant to the Indenture of Trust, dated as of January 1, 2016 (the “**2016 Indenture**”), by and between the Authority and U.S. Bank National Association, as trustee (the “**2016 Trustee**”). The 2016A Bonds are payable from installment payments made by the District under the 2016 Installment Purchase Agreement. The Authority plans to apply a portion of the proceeds of the Bonds to refund the 2016A Bonds. Information about the 2016A Bonds is set forth below.

<i>Principal Payment Date (October 1)</i>	<i>Outstanding Principal Amount of 2016A Bonds</i>	<i>CUSIP* (95874T)</i>
2039	\$ 51,975,000	BT5

The Authority will cause a portion of the proceeds of the Bonds to be delivered to the 2016 Trustee. Such moneys, together with certain moneys held in funds and accounts established in connection with the 2016A Bonds, will be applied on the date of issuance of the Bonds to refund the 2016A Bonds in full at a redemption price equal to the principal amount thereof, plus interest accrued to such date.

As a result of the deposit and application of funds as provided above, the 2016A Bonds will be defeased pursuant to the provisions of the 2016 Indenture and the 2016 Installment Purchase Agreement will be paid in full as of the date of issuance of the Bonds.

The amounts held by the 2016 Trustee for the redemption of the 2016A Bonds are pledged solely to the payment of the 2016A Bonds. Neither the funds deposited with the 2016 Trustee nor any interest thereon will be available for the payments of principal of and interest on the Bonds.

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ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Bonds:

Sources⁽¹⁾	
Principal Amount of Bonds	\$ 90,260,000
Plus Original Issue Premium	31,341,035
Other Moneys ⁽²⁾	<u>685,443</u>
Total Sources	\$ 122,286,478
Uses⁽¹⁾	
Deposit to 2020 Project Fund	\$ 25,500,000
Transfer to 2010B Escrow Fund	44,055,992
Transfer to 2016A Escrow Fund	52,185,066
Costs of Issuance ⁽³⁾	<u>545,420</u>
Total Uses	\$ 122,286,478

⁽¹⁾ Amounts rounded to the nearest dollar. Totals may not add due to rounding.

⁽²⁾ Includes moneys held in funds and accounts established in connection with the 2010B Bonds and the 2016A Bonds.

⁽³⁾ Includes certain legal, municipal advisory, financing, rating agency, Verification Agent and Trustee fees, Underwriters' discount and printing costs.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of \$90,260,000. The Bonds will bear interest from and be dated the date of initial issuance, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest on the Bonds will be payable on October 1, 2020 and each April 1 and October 1 thereafter.

Interest will be calculated at the rates set forth on the inside front cover page hereof on the basis of a year of 360 days comprised of twelve 30 day months.

The Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See the caption “—Book-Entry Only System” and Appendix D.

In the event that the book-entry only system that is described below is discontinued, the principal of and the redemption premium, if any, on all Bonds will be payable by check or draft at maturity or upon earlier redemption to the Persons in whose names such Bonds are registered on the Bond Register at the maturity or redemption date thereof, upon the presentation and surrender of such Bonds at the Designated Office of the Trustee.

Book-Entry Only System

One fully-registered Bond will be issued for each maturity of the Bonds in the principal amount of the Bonds of such maturity. Each such Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the Bonds is registered in the name of Cede & Co., the term “Owner”

as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the Bonds (the “**Beneficial Owners**”).

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The Authority cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system that is described above is discontinued, the Bonds will be printed and delivered as provided in the Indenture. Thereafter, any Bond may be transferred only upon the Bond Register upon surrender thereof to the Trustee duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as is satisfactory to the Trustee. Upon any such transfer, the Authority will execute and the Trustee will authenticate and deliver in exchange for such Bond a new Bond or Bonds, registered in the name of the transferee, of any denomination or denominations authorized by the Indenture and of the same maturity and bearing interest at the same rate.

Any Bonds, upon surrender thereof at the Designated Office of the Trustee, together with an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as is satisfactory to the Trustee, may, at the option of the Registered Owner thereof, be exchanged for an equal aggregate principal amount of Bonds of the same maturity, of any denomination or denominations authorized by this Indenture, and bearing interest at the same rate.

In all cases in which Bonds are exchanged or transferred under the Indenture, the Authority will execute and the Trustee will authenticate and deliver at the earliest practicable time such Bonds in accordance with the Indenture. All Bonds surrendered in any such exchange or transfer will forthwith be canceled by the Trustee.

The Authority, the Trustee or the Securities Depository may make a charge against the Bondowner requesting the same for every such transfer or exchange of Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange, and such charge will be paid before any such new Bond is delivered. The fees and charges of the Trustee for making any transfer or exchange under the Indenture and the expense of any bond printing necessary to effect any such transfer or exchange will be paid by the Authority. In the event that any Bondowner fails to provide a correct taxpayer identification number to the Trustee, the Trustee may impose a charge against such Bondowner sufficient to pay any governmental charge required to be paid as a result of such failure. In compliance with Section 3406 of the Internal Revenue Code, such amount may be deducted by the Trustee from amounts otherwise payable to such Bondowner under the Indenture or the Bonds.

The Trustee is not required to transfer or exchange any Bond so selected for redemption in whole or in part, during a period beginning at the opening of business on any Record Date for such Bond and ending at the close of business on the relevant Interest Payment Date therefor.

The Person in whose name any Bond is registered on the Bond Register will be deemed and regarded as the absolute owner of such Bond for all purposes, and payment of or on account of the principal or Purchase

Price of and redemption premium, if any, and interest on any such Bond will be made only to or upon the order of the Registered Owner thereof or his legal representative. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond, including the interest thereon, to the extent of the sum or sums so paid.

At reasonable times upon prior Written Request and under reasonable regulations established by the Trustee, the Bond Register may be inspected and copied by the Authority or by the Owners (or a designated representative thereof) of 10% or more in principal amount of the Bonds then Outstanding, such ownership and the authority of any such designated representative to be evidenced to the satisfaction of the Trustee.

Redemption

Optional Redemption. The Bonds maturing on or after October 1, 2031, are subject to optional redemption prior to maturity on any Business Day on or after October 1, 2030, in whole or in part, in a manner determined by the Authority and specified to the Trustee in writing by the Authority from Prepayments made at the option of the District from the Installment Payments pursuant to the Installment Purchase Agreement, at Redemption Prices equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing on October 1, 2045 are subject to mandatory sinking fund redemption by lot on October 1 commencing on October 1, 2041, in the following respective years and in the following respective principal amounts by the application of Mandatory Sinking Fund Installments in the amounts stated below:

Bonds Maturing October 1, 2045

Mandatory Sinking Fund	
Redemption Date	
<u>(October 1)</u>	<u>Principal</u>
2041	\$780,000
2042	815,000
2043	855,000
2044	900,000
2045 (maturity)	945,000

The Bonds maturing on October 1, 2050 are subject to mandatory sinking fund redemption by lot on October 1 commencing on October 1, 2046, in the following respective years and in the following respective principal amounts by the application of Mandatory Sinking Fund Installments in the amounts stated below:

Bonds Maturing October 1, 2050

Mandatory Sinking Fund	
Redemption Date	
<u>(October 1)</u>	<u>Principal</u>
2046	\$ 990,000
2047	1,040,000
2048	1,095,000
2049	1,150,000
2050 (maturity)	1,205,000

Upon any redemption of Bonds as described under the subcaption “—Optional Redemption,” the Authority may direct that an amount equal to the aggregate principal amount of Bonds so redeemed will be credited towards a part or all of any one or more yearly Mandatory Sinking Fund Installments required for the Bonds. Any such direction will be in writing, will be delivered to the Trustee for such series of Bonds at least

60 days before the scheduled date of such Mandatory Sinking Fund Installments are to be paid and will state the years in which and the amounts by which such Mandatory Sinking Fund Installments are to be reduced.

Selection of Bonds for Redemption

Bonds will be redeemed only in Authorized Denominations and in such amounts such that any remaining Bonds not redeemed are in Authorized Denominations. If less than all Bonds are to be redeemed and paid prior to maturity, such Bonds will be selected by the Trustee by such method as the Trustee deems fair and appropriate and as the Trustee may be directed by the Authority.

In the case of a partial redemption of Bonds when Bonds of denominations greater than the minimum Authorized Denomination are then Outstanding, then for all purposes in connection with such redemption each principal amount equal to the minimum Authorized Denomination will be treated as though it was a separate Bond of the minimum Authorized Denomination. If it is determined that a portion, but not all, of the principal amount represented by any Bond is to be selected for redemption, then upon notice of intention to redeem such portion, the Owner of such Bond or such Owner's attorney or legal representative will forthwith present and surrender such Bond to the Trustee: (1) for payment of the redemption price (including the premium, if any, and interest to the date fixed for redemption) of the principal amount called for redemption; and (2) for exchange, without charge to the Owner thereof for a new Bond or Bonds of the aggregate principal amount of the unredeemed portion of the principal amount of such Bond. If the Owner of any such Bond fails to present such Bond to the Trustee for payment and exchange as aforesaid, said Bond will, nevertheless, become due and payable on the redemption date to the extent of the principal amount called for redemption (and to that extent only).

Notice and Effect of Call for Redemption

Official notice of any redemption will be given by the Trustee on behalf of the Authority by mailing a copy of an official redemption notice by first class mail at least 30 days and not more than 60 days prior to the redemption date to each Registered Owner of the Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Trustee.

All official notices of redemption will be dated and will state: (1) the series of Bonds to be redeemed; (2) the redemption date; (3) the Redemption Price; (4) if less than all Outstanding Bonds are to be redeemed, the identification number and the respective principal amounts to be redeemed of the Bonds to be redeemed; (5) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon will cease to accrue from and after said date; and (6) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment will be the Designated Office of the Trustee for the payment of the Bonds.

Any notice of optional redemption of any Bonds may specify that the redemption is contingent upon the deposit of moneys with the Trustee in an amount sufficient to pay the redemption price of all Bonds or portions of Bonds that are to be redeemed on that date.

Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the Authority defaults in the payment of the redemption price) such Bonds or portions of the Bonds will cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds will be paid by the Trustee at the redemption price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest. Upon surrender for any partial redemption of any Bond, there will be prepared for the Registered Owner a new Bond or Bonds of the same maturity in the amount of the unpaid principal. All Bonds that have been redeemed will be canceled and destroyed by the Trustee in accordance with the Indenture and will not be reissued.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service on Parity Obligations of the District which are payable on a parity with the Installment Payments as well as debt service on the Bonds, which equals the Installment Payments for each annual period ending on October 1 in the years indicated.

Period Ending October 1	Existing Parity Obligations ⁽¹⁾	Bonds			Total Debt Service
		Principal	Interest	Total	
2020	\$ 6,534,406	\$ -	\$ 1,040,497	\$ 1,040,497	\$ 7,574,903
2021	5,047,613	295,000	4,513,000	4,808,000	9,855,613
2022	5,314,415	310,000	4,498,250	4,808,250	10,122,665
2023	5,329,945	325,000	4,482,750	4,807,750	10,137,695
2024	5,347,405	340,000	4,466,500	4,806,500	10,153,905
2025	5,354,602	355,000	4,449,500	4,804,500	10,159,102
2026	5,356,495	1,100,000	4,431,750	5,531,750	10,888,245
2027	5,384,931	2,020,000	4,376,750	6,396,750	11,781,681
2028	5,408,028	2,680,000	4,275,750	6,955,750	12,363,778
2029	5,377,519	2,825,000	4,141,750	6,966,750	12,344,269
2030	5,413,175	2,965,000	4,000,500	6,965,500	12,378,675
2031	5,572,287	3,120,000	3,852,250	6,972,250	12,544,537
2032	5,622,820	3,280,000	3,696,250	6,976,250	12,599,070
2033	3,103,612	6,215,000	3,532,250	9,747,250	12,850,862
2034	2,110,406	6,565,000	3,221,500	9,786,500	11,896,906
2035	2,110,406	6,935,000	2,893,250	9,828,250	11,938,656
2036	2,110,692	7,320,000	2,546,500	9,866,500	11,977,192
2037	2,110,121	7,735,000	2,180,500	9,915,500	12,025,621
2038	2,070,925	8,165,000	1,793,750	9,958,750	12,029,675
2039	2,070,925	8,635,000	1,385,500	10,020,500	12,091,425
2040	2,071,210	9,300,000	953,750	10,253,750	12,324,960
2041	10,970,639	780,000	488,750	1,268,750	12,239,389
2042	4,354,290	815,000	449,750	1,264,750	5,619,040
2043	1,760,736	855,000	409,000	1,264,000	3,024,736
2044	1,760,736	900,000	366,250	1,266,250	3,026,986
2045	1,760,736	945,000	321,250	1,266,250	3,026,986
2046	1,760,736	990,000	274,000	1,264,000	3,024,736
2047	1,760,736	1,040,000	224,500	1,264,500	3,025,236
2048	1,760,736	1,095,000	172,500	1,267,500	3,028,236
2049	1,760,736	1,150,000	117,750	1,267,750	3,028,486
2050	268,724	1,205,000	60,250	1,265,250	1,533,974
2051	268,724	-	-	-	268,724
TOTAL	\$117,009,467	\$90,260,000	\$73,616,497	\$163,876,497	\$280,885,964

⁽¹⁾ Reflects debt service on the Parity Obligations which are not being refunded as described under the caption "REFUNDING PLAN." Reflects projected payments on the 2012 Installment Purchase Agreement at the Swap Agreement rate of 2.715% per annum. See the caption "THE DISTRICT—Outstanding Parity Obligations."
Source: Underwriters.

SECURITY FOR THE BONDS

General

The Bonds constitute limited obligations of the Authority payable from the Installment Payments made by the District pursuant to the Installment Purchase Agreement, and from certain funds established under the Indenture. The Installment Purchase Agreement in an aggregate principal amount equal to the principal amount of the Bonds and the Installment Payments under the Installment Purchase Agreement are scheduled to be sufficient for the payment in full of all principal of and interest on the Bonds when due, or upon the earlier redemption thereof, including any redemption premium.

Pursuant to the Indenture, principal of and interest on the Bonds is to be secured solely by the Trust Estate. The Indenture defines the Trust Estate to be: (i) all of the rights, title and interest of the Authority in the Installment Purchase Agreement and the proceeds and collections therefrom, (ii) the proceeds of the sale of the Bonds; and (iii) moneys in all funds established by the Indenture (except the 2020 Project Fund, the Costs of Issuance Fund and the Rebate Fund), including the investments, if any, thereof, and all income and proceeds derived from such investments.

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (EXCLUSIVE OF THE REBATE FUND). NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR ITS MEMBERS IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED IN THE INDENTURE (EXCLUSIVE OF THE REBATE FUND) IS PLEDGED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY OR INTEREST ON THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

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

THE OBLIGATION OF THE DISTRICT TO PAY THE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL OBLIGATION OF THE DISTRICT, PAYABLE SOLELY FROM NET REVENUES AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA, OR OF ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS TO BE MADE PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT.

The Master Agreement

Net Revenues. The Master Agreement sets forth the conditions and terms upon which District's future obligations will be incurred and secured by Net Revenues. Under the Master Agreement, the District irrevocably grants and pledges the Net Revenues first, to secure Parity Obligations and second, to secure Subordinate Obligations. The lien and pledge to the Parity Obligations constitute a first lien on Net Revenues. The Installment Purchase Agreement and the obligations which are described under the caption "THE DISTRICT—Outstanding Parity Obligations" constitute Parity Obligations under the Master Agreement. Any additional Parity Obligations executed and delivered under the Master Agreement will be secured on a parity with the Installment Purchase Agreement.

All Parity Obligations will be of equal rank without preference, priority or distinction of any Parity Obligations over any other Parity Obligations. Unless expressly stated to the contrary in a Subordinate Obligation, all Subordinate Obligations will be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations but secured on a subordinated basis to all Parity Obligations. The District has agreed and covenanted in the Master Agreement to deposit all Revenues received by it when and as received in the Revenue Fund (as such term is defined below), and all money on deposit in the Revenue Fund will be applied and used only in the order provided therein.

As defined in the Master Agreement, the term "**Revenues**" means all income and revenue received or receivable by the District from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, together with all Ad Valorem Taxes, ad valorem assessments, standby charges, rates, fees and charges received by the District for the Service and the other services of the System and all proceeds of insurance covering business interruption loss relating to the System and all added facilities charges, service installation charges, distribution system fees and charges payable to the District for the Service made available or provided by the System and all payments for the lease of property comprising a part of the System and all other income and revenue howsoever derived by the District from the ownership or operation of the System or arising from the System, and including all Payment Agreement Receipts, and including all income from the investment of amounts on deposit in the Revenue Fund, the Parity Obligation Payment Fund, and the Rate Stabilization Fund, but excluding in all cases: (i) any proceeds of taxes (including Ad Valorem Taxes) and assessments levied and collected by or on behalf of the District for obligations that are payable solely from such taxes (including Ad Valorem Taxes) or assessments and not from any other Revenues; (ii) any refundable deposits made to establish credit and any advances or contributions of or in aid of construction; and (iii) any income from the investment of amounts on deposit in the Improvement Fund.

Notwithstanding the foregoing, and solely for purposes of the Coverage Requirement, there will be deducted from Revenues any amounts transferred into the Rate Stabilization Fund as contemplated by the Master Agreement, and there will be added to Revenues any amounts transferred out of the Rate Stabilization Fund as contemplated by the Master Agreement. Amounts on deposit in the Rate Stabilization Fund will not be included in calculating Revenues for the purpose of satisfying the conditions for executing Parity Obligations.

"**Net Revenues**" means, for any period, the Revenues during such period less the Maintenance and Operation Costs during such period.

"**Maintenance and Operation Costs**" means all reasonable and necessary costs paid or incurred by the District for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including the cost of purchased water, scheduled payments on Contract Resource Obligations, all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the System in good repair and working order, all administrative costs of the District that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Master Agreement or

of any resolution authorizing the execution of any Supplemental Contract or of such Supplemental Contract, such as compensation, reimbursement and indemnification of the trustee for any such Supplemental Contract and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

Application of Revenues. The District has covenanted in the Master Agreement to deposit all Revenues received by it in the Western Municipal Water District of Riverside County Revenue Fund (the “**Revenue Fund**”) which fund will be maintained so long as any Payments under the Master Agreement remain Outstanding. Moneys in the Revenue Fund will be used in the following order:

(A) The District will pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due; and

(B) On or before the last Business Day in each month, the District will, from the remaining money then on deposit in the Revenue Fund, deposit in the “Western Municipal Water District Parity Obligation Payment Fund,” which fund the District has agreed to hold and maintain so long as any Parity Payments due under the Master Agreement be Outstanding the following amounts in the following order of priority:

(1) a sum equal to: (a) the interest and principal payments becoming due and payable under all Supplemental Contracts that are Parity Obligations; plus (b) regularly scheduled payments or the net payments becoming due and payable on all Parity Payment Agreements (except any Termination Payments); plus (c) any other amounts due with respect to Parity Obligations (including any letter of credit and remarketing fees), in each case, during the next succeeding month; plus

(2) an amount equal to any Termination Payments with respect to the Initial Parity Payment Agreement becoming due and payable; plus

(3) all amounts due to make up any deficiency in the Reserve Funds for Parity Obligations in accordance with the provisions of the applicable Issuing Document, including all Reserve Fund Credit Facility Costs.

From time to time, moneys on deposit in the Parity Obligation Payment Fund will be transferred by the District to the Trustee or other third party payee thereof in accordance with the terms of the Parity Obligations to make and satisfy the Parity Payments due on the next applicable Payment Dates on such Parity Obligations.

Moneys on deposit in the Parity Obligation Payment Fund for payment of Termination Payments under Parity Payment Agreements under clause (2) above will be transferred by the District to the applicable counterparty under such Parity Payment Agreement in accordance with the terms of the related Parity Payment Agreement to make and satisfy the Termination Payment payable under such Parity Payment Agreement.

(C) After the payments contemplated by subparagraphs (A) and (B) above have been made, any amounts thereafter remaining in the Revenue Fund will be used for the payment of the interest and principal payments and other regularly scheduled payments becoming due and payable under all Supplemental Contracts that are Subordinate Obligations and the net payments becoming due and payable on all Subordinate Payment Agreements (except any Termination Payments) and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees and any other amounts becoming due and payable to make up any deficiency in the Reserve Funds for Subordinate Obligations, including all Reserve Fund Credit Facility Costs) so long as the following conditions are met: (I) all Maintenance and Operation Costs are being and have been paid and are then current; and (II) no deficiency in

any Reserve Fund for Parity Obligations will exist and no Reserve Fund Credit Facility Costs will be due and payable, and there will have been paid, or segregated within the Revenue Fund, the amounts currently payable pursuant to subparagraphs (A) and (B) above.

(D) After deposits contemplated by subparagraphs (A) through (C) have been made, any amounts thereafter remaining in the Revenue Fund will be used for the payment of any Termination Payments on all Subordinate Payment Agreements.

(C) After deposits contemplated by subparagraphs (A) through (D) have been made, any amounts thereafter remaining in the Revenue Fund may be used for any lawful purpose.

Rate Covenant

The District has covenanted under the Master Agreement to fix, prescribe and collect rates, fees and charges for the Service during each Fiscal Year which are reasonably fair and nondiscriminatory and which are established to yield Adjusted Annual Net Revenues, for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but may not reduce the rates, fees and charges then in effect unless the Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the foregoing requirements.

“**Adjusted Annual Net Revenues**” means, for any Fiscal Year or 12 calendar month period, the Revenues during such Fiscal Year or 12 calendar month period, minus any interest earnings from amounts on deposit in all Reserve Funds established in connection with Parity Obligations, minus the Maintenance and Operation Costs for such period.

“**Adjusted Annual Debt Service**” means, for any Fiscal Year or 12 calendar month period, the Annual Debt Service for such Fiscal Year or 12 calendar month period minus the amount of such Annual Debt Service paid from the proceeds of Parity Obligations or from any interest earnings on and releases of amounts on deposit in all Reserve Funds established in connection with Parity Obligations, as set forth in a Certificate of the District.

“**Coverage Requirement**” means generally, for any Fiscal Year or 12 calendar month period, an amount of Adjusted Annual Net Revenues: (i) which equals at least 110% of the Adjusted Annual Debt Service for such Fiscal Year or 12 calendar month period; and (ii) which is sufficient to cover payments due on all Parity Obligations and Subordinate Obligations for such Fiscal Year or 12 calendar month period (but excluding payments that are one-time or extraordinary payments, such as termination payments on Payment Agreements). For purposes of determining compliance with the Coverage Requirement, it will be assumed that all Obligations accrue interest at the applicable Assumed Interest Rate (as such term is defined in Appendix B under the caption “MASTER AGREEMENT.”

For purposes of satisfying the Coverage Requirement, the District may release funds from the Rate Stabilization Fund to the Revenue Fund for inclusion in Revenues to the extent set forth in the Master Agreement. See the caption “—Rate Stabilization Fund.”

The District has further covenanted under the Master Agreement to have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the System to pay the rates, fees and charges applicable to the Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The District will not permit any part of the System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof); provided that the District may without charge use the System and, so long as no Event of Default exists under the Master Agreement, may waive or reduce rates,

fees and charges for one or more customers and consumers so long as the total amount waived or reduced does not exceed 1% of Revenues collected in the most recent Fiscal Year and such waiver or reduction, upon implementation, will not cause the District to be in default of its covenants in the Master Agreement.

See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218—Article XIID” for a discussion of certain State Constitutional provisions that affect the foregoing rate covenant.

No Reserve Fund

No reserve fund or account has been established under the Indenture or the Installment Purchase Agreement in connection with the issuance of the Bonds.

Additional Parity Obligations

The District is currently obligated to make payments under outstanding Parity Obligations which are described under the caption “THE DISTRICT—Outstanding Parity Obligations.” The District may at any time execute or issue additional Parity Obligations, as the case may be, in accordance with the Installment Purchase Agreement; provided that:

There is on file with the District either:

(1) A Certificate of the District demonstrating that, during the last audited Fiscal Year any consecutive 12 calendar month period during the immediately preceding 18 calendar month period, the Adjusted Annual Net Revenues were at least equal to 110% of Maximum Annual Debt Service on all Outstanding Parity Obligations plus the Parity Obligations proposed to be executed; provided, that for the purpose of providing such Certificate, the District may adjust the foregoing Adjusted Annual Net Revenues to reflect:

(a) An allowance for Net Revenues that would have been derived from each new connection to the System that during all or any part of such Fiscal Year or 12 calendar month period, was not in existence, in an amount equal to the estimated additional Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12 calendar month period; and

(b) An allowance for Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Service which during all or any part of such Fiscal Year or 12 calendar month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or 12 calendar month period; or

(2) A Certificate of the District based: (1) on audited figures; or (2) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the District’s books and records, showing: (i) the end of the period during which interest on the Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Parity Obligations proposed to be executed is executed; or (ii) the date on which substantially all Projects financed with the Parity Obligations or Supplemental Contracts proposed to be executed are expected to commence operations, Adjusted Annual Net Revenues will be at least equal to 110% of the Maximum Annual Debt Service on all Outstanding Parity Obligations plus Parity Obligations proposed to be issued and payments on additional Supplemental Contracts (if any Supplemental Contracts are included in the calculations under clause (b) below) for such period; provided that for the purpose of providing this Certificate of the District, the District may adjust the foregoing estimated Adjusted Annual Net Revenues to reflect:

(a) An allowance for Net Revenues that would have been derived from each new connection to the System that during all or any part of such Fiscal Year or 12 calendar month period, was not in existence, in an amount equal to the estimated additional Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12 calendar month period; and

(b) An allowance for Net Revenues that are estimated to be derived from customers of the System anticipated to be served by the additions, betterments or improvements to the System to be financed by the Parity Obligations proposed to be executed together with any additional Supplemental Contracts expected to be executed and entered into during such five year period.

Notwithstanding the foregoing provisions, there will be no limitations on the ability of the District to execute any Parity Obligations at any time to refund any outstanding Parity Obligations so long as the Annual Debt Service payable by the District with respect to such refunding Parity Obligations for each Fiscal Year is less than or equal to 105% of the Annual Debt Service for each Fiscal Year for such Parity Obligations being refunded.

Under the Master Agreement, the District may at any time execute any Subordinate Obligations so long as no Event of Default has occurred and is continuing and so long as the District will satisfy the test contained in paragraph (ii) of the definition of “Coverage Requirement” (as set forth under the caption “—Rate Covenant”) upon the issuance of such Subordinate Obligations.

Rate Stabilization Fund

The Master Agreement establishes the Rate Stabilization Fund, which fund the District has agreed to hold and maintain as directed by the District so long as any Payments due thereunder are Outstanding. The District is not required to maintain a minimum amount of funds in the Rate Stabilization Fund. The District made an initial deposit of \$20,000,000 to the Rate Stabilization Fund in 2009, which is the current balance therein.

The District may at any time deposit in the Rate Stabilization Fund any Net Revenues and any other money available to be used therefore, the District may at any time withdraw from the Rate Stabilization Fund any money therein for the deposit in the Revenue Fund and the District will withdraw from the Rate Stabilization Fund any money therein for deposit in the Revenue Fund in the event that there are insufficient amounts in the Revenue Fund to make the deposits and transfers required by the Master Agreement; provided, that any such deposits or withdrawals may be made up to and including the date that is 180 days after the end of the Fiscal Year or 12 calendar month period for which such deposit or withdrawal will be taken into account in determining Revenues; and provided further, that no deposit of Net Revenues may be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in any Fiscal Year or 12 calendar month period. Interest earnings on amounts in the Rate Stabilization Fund will be transferred to the Revenue Fund immediately upon receipt.

THE DISTRICT

General

The District was established in 1954 under the provisions of the Municipal Water District Law (Division 20 of the California Water Code). The District’s service area comprises 527 square miles in western Riverside County (the “**County**”), although the District provides retail water and sewer service only to portions of the territory within its service area comprising approximately 104 square miles. The District had an estimated population of approximately 973,400 people within its service area as of June 30, 2019, including a retail service area population of approximately 99,600. Land use in the District is primarily residential, with

areas of commercial, industrial and agricultural development. See the caption “—Land Use and Service Area.”

The District is situated between Interstates 15 and 215 at or near the boundary of the County and the adjacent County of Orange to the west, approximately 60 miles southeast of the City of Los Angeles. Within the District’s boundaries are the communities of Jurupa Valley, Rubidoux, Riverside, Norco, Corona, Lake Elsinore, Canyon Lake, Temecula and Murrieta.

The District supplies potable water to approximately 22,913 residential and 1,313 commercial, industrial, agricultural, irrigation and other customers and non-potable water to approximately 145 agricultural and irrigation customers. The District also sells potable and non-potable water at wholesale to several water agencies and cities. The District’s water sources include both treated and untreated imported water which the District purchases from The Metropolitan Water District of Southern California (“**MWD**”), groundwater pumped from a District-owned well, water produced at a District-owned desalter facility and water purchased at wholesale from other water producers. The District’s municipal water system (including the retail system and the wholesale system) is referred to herein as the “**Water System**.” The Water System includes approximately 590 miles of water mains, 32 storage tanks with a total storage capacity of 87 million gallons and 21 pump stations. See the caption “**THE WATER SYSTEM**.”

The District supplies recycled water to 61 retail customers. The District produces such water through the treatment of wastewater at the District-owned Western Water Recycling Facility (the “**WWRF**”). The District’s recycled water system is accounted for as part of the Water System and includes approximately 50 miles of water mains, 2 storage tanks with a total storage capacity of 5.2 million gallons and 3 pump stations. See the caption “**THE WATER SYSTEM—The Recycled Water System**.”

The District provides sewer collection and treatment service to approximately 8,450 residential and 386 commercial, industrial and other customers. The District’s municipal sewer system (the “**Sewer System**”) includes approximately 198 miles of sanitary sewer lines, 1 treatment plant (the WWRF), which has a treatment capacity of approximately 3 million gallons per day (“**MGD**”), and 19 lift stations. Wastewater collected by the District is treated at the WWRF, at wastewater treatment plants which are owned by joint powers authorities of which the District is a member or at facilities owned by Eastern Municipal Water District (“**EMWD**”), a neighboring agency. See the caption “**THE SEWER SYSTEM**.”

Land Use and Service Area

General. The District provides retail water and sewer service to various portions of the territory comprising approximately 104 square miles within its 527-square mile service area. The population served by the retail service area is approximately 99,600 people, although the water and sewer service areas do not directly overlap and certain customers receive water service from the District and sewer service from other agencies or vice versa.

The District provides retail water service to three main areas: (1) the Riverside area, which includes the southeast portion of the City of Riverside and surrounding unincorporated areas of the County in the northeast portion of the District’s territory, including El Sobrante, Eagle Valley, Gavilan Hills, Victoria Grove, Orangecrest, Mission Grove, Temescal Creek, Woodcrest, Lake Mathews and March Air Reserve Base; (2) the Murrieta area, which comprises approximately 6.5 square miles within the City of Murrieta in the southeast portion of the District’s territory; and (3) the Rainbow area, which includes fewer than 50 connections in the far southern portion of the District’s territory.

The District provides sewer service to three main areas: (1) the WWRF area, consisting of March Air Reserve Base and other residential and commercial customers located in unincorporated areas of the County which are southeast of the City of Riverside in the northeast portion of the District’s territory; (2) the La Sierra

area of the City of Riverside in the northern portion of the District’s territory; and (3) portions of the City of Murrieta in the southeast portion of the District’s territory.

Large areas within the District’s boundaries remain undeveloped, portions of which are expected to be developed in the future. The District currently projects that it will have a population of 1,385,242 people in 2040.

The District’s retail service area encompasses single family and multi-family residences, as well as areas of commercial, industrial and agricultural land uses. With the exception of certain properties that have privately owned wells, all of the land within the Water System retail service area is served by the Water System and, with the exception of certain properties that have septic tanks, all of the land within the Sewer System retail service area is served by the Sewer System. New residents and businesses in the District’s retail service areas are required to connect to the Water System and the Sewer System, except in certain cases in which the County Health department grants an exception for on-site septic system.

Murrieta Retail Area Focused Municipal Service Review. Residents of the City of Murrieta have historically received water service from multiple providers, including the District, EMWD and Rancho California Water District (“RCWD”). For several years, such providers, together with the City of Murrieta and its residents, have held discussions concerning the optimal means of serving the Murrieta community. The City of Murrieta initiated a formal request for the Riverside County Local Agency Formation Commission (“LAFCO”) to conduct a municipal service review (the “MSR”) in order to analyze water service delivery and infrastructure within a portion of the City of Murrieta. In late 2018, LAFCO awarded a contract to a consultant to undertake the MSR. The costs of the MSR, which are currently estimated at approximately \$260,000, are being shared equally by the District, EMWD, RCWD and the City of Murrieta.

The District is unable to predict the timing of the completion of the MSR at this time, or whether LAFCO or the applicable agencies will act upon any of the recommendations in the MSR. In the event that another agency were ultimately to provide water service to areas within the City of Murrieta that are currently served by the District, resulting in a loss of revenues to the District, the District notes that associated operating and maintenance costs would also be reduced, with the overall financial impact to the District not expected to be material.

Seismic Considerations

The District is located in a seismically active region. Significant faults are located near the District, including the Elsinore, Chino and Whittier Faults. There is potential for destructive ground shaking during the occurrence of a major seismic event. In addition, land along fault lines may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure within the District, including the Water System and the Sewer System. The District has an emergency response plan that would be implemented under such circumstances.

Newer Water System and Sewer System facilities are designed to comply with California Building Code requirements. The District has also undertaken a vulnerability assessment of critical Water System and Sewer System facilities. The vulnerability assessment ranks District infrastructure by importance, builds redundancy into existing operations and includes contingency plans in the event of damage to District assets and succession plans for critical staff. The impact of lesser magnitude events is expected by the District to be temporary, localized and repairable. The Water System and the Sewer System have never sustained major damage to their facilities or experienced extended incidences of service interruptions as a result of seismic disturbances. All facilities have been designed and constructed in compliance with the District’s construction standards.

The District does not maintain earthquake insurance on Water System or Sewer System facilities. See the captions “—District Insurance” and “CERTAIN RISKS TO BONDHOLDERS—Natural Disasters.”

Governance and Management

General. The District is governed by a five-member Board of Directors (the “**Board**”), the members of which are elected by division for staggered four year terms. Board members select a President, a Vice President and a Secretary-Treasurer from among the Board members, and each serves a one-year term. The current Board members are listed below. As of May 2020, there is a vacancy on the Board for Division 1. Pursuant to California Government Code § 1780, the Board may appoint a resident of Division 1 to fill the seat. Applications for such appointment are being accepted through June 24, 2020, after which time the Board may choose to interview applicants and make an appointment. Regardless of whether the Board makes an appointment, this Board seat will be up for election at the November 3, 2020 election.

Western Municipal Water District Board of Directors

<i>Board Member</i>	<i>Occupation</i>	<i>Expiration of Term</i>
Donald D. Galleano, President, Division 4	Business Owner	December 2020
S.R. Al Lopez, Vice President, Division 5	Business Owner	December 2020
Brenda Dennstedt, Secretary-Treasurer, Division 3	Water Education Advocate	December 2022
Gracie Torres, Board Member, Division 2	Chemist/Water Quality Compliance Planner	December 2022
Vacant, Division 1	N/A	December 2020

Day-to-day management of the District is delegated to Craig Miller, P.E., General Manager since 2018. Prior to his appointment as General Manager, Mr. Miller served as the District’s Deputy General Manager, as an executive director of engineering and planning at Orange County Water District and as a private consultant, specializing in water resource development, water rights, groundwater management, water and sewer system operations and capital project development. Mr. Miller has a Bachelor of Science degree in Civil Engineering from California State University, Long Beach. He is a registered professional civil engineer.

Tim Barr serves as the District’s Deputy General Manager, with oversight of strategic planning, policies and budgets for the District and of the District’s water resources, engineering and operations teams. Prior to his appointment as Deputy General Manager, Mr. Barr served as the District’s director of water resources, deputy director of water resources, water use efficiency manager and communication specialist. Prior to coming to the District, Mr. Barr served as a senior water resources planner at Rancho California Water District. Mr. Barr has a Bachelor’s degree in Business Administration from the University of California, Riverside, and he is a certified Water Conservation Practitioner through the Cal-Nevada American Water Works Association.

Rod LeMond serves as the District’s Assistant General Manager/Chief Financial Officer. Mr. LeMond has been with the District since 2009. Prior to coming to the District, Mr. LeMond served as an auditor for public agencies with the firm of McGladrey & Pullen. Mr. LeMond has a Bachelor’s degree in Business Administration, Accounting Concentration, from California State University, Fullerton, and a Masters in Business Administration, Finance, from California State University, San Bernardino. Mr. LeMond has an active license as a Certified Public Accountant in the State of California.

Management Policies. The District has adopted several policies which are designed to ensure the prudent and effective management of District operations, including an investment policy, a cash reserve policy, a debt and financial management policy and an interest rate and hedge agreement policy. Further information about each such policy is set forth below. Such policies are periodically reviewed and updated by the District.

Investment Policy. The District invests its funds in accordance with the District’s investment policy (the “**Investment Policy**”), which was last revised by the District on July 17, 2019. The Investment Policy sets forth the policies and procedures that are applicable to the investment of District funds and designates eligible investments. The Investment Policy also sets forth stated objectives, including the assurance of the safety of invested funds, the maintenance of sufficient liquidity, compliance with law and the attainment of the best yield or returns on investments. Funds are invested in the following order of priority:

- Safety of Principal;
- Liquidity; and
- Yield.

The Board has delegated the authority to invest funds of the District to the Chief Financial Officer under the supervision of the General Manager. The Chief Financial Officer must invest District funds in accordance with the prudent person standard under California Civil Code § 2261 *et seq.*

The Investment Policy provides a number of permitted investment categories, including: (i) the State of California Local Agency Investment Fund; (ii) United States Treasury Securities (limited to maximum maturities of 10 years); (iii) State of California and other municipal obligations which are rated “A” or higher (limited to 30% of the District’s portfolio and maximum maturities of 5 years); (iv) negotiable certificates of deposit (limited to 30% of the District’s portfolio and maximum maturities of 5 years); (v) money market mutual funds in the highest rating category (limited to 20% of the District’s portfolio); (vi) United States agencies (limited to 25% of the District’s portfolio per issuer and maximum maturities of 10 years); (vii) United States corporate notes which are rated “A” or higher (limited to 30% of the District’s portfolio and maximum maturities of 5 years); (viii) asset-backed securities which are rated “AA” or higher (limited to 20% of the District’s portfolio and maximum maturities of 5 years); (ix) supranationals which are rated “AA” or higher (limited to 30% of the District’s portfolio and maximum maturities of 5 years); and (x) commercial paper which is rated “A-1” or higher (limited to 25% of the District’s portfolio and maximum maturities of 270 days).

As of February 29, 2020, the District had total moneys invested in the amount of \$150,566,325 (unrestricted) and \$24,492,656 (restricted) in permitted investments under the Investment Policy.

The District’s investments are reported monthly to the Board. For additional information relating to the Investment Policy, see Note 2 to the District’s audited financial statements for the fiscal year of the District ended June 30 (each, a “**Fiscal Year**”), 2019 set forth in Appendix A.

Cash Reserve Policy. Under the District’s cash reserve policy, the District maintains the following reserves:

(i) restricted cash and investments, which are comprised of unspent bond proceeds, bond reserve funds, customer deposits, construction advances and other customer-paid balances that have a corresponding liability;

(ii) restricted capital reserve funds, which are used to fund growth-related capital projects, including: (a) a water added facility fund, which is used to construct Water Master Plan facilities in areas impacted by growth; (b) a wastewater added facility fund, which is used to construct Wastewater Master Plan facilities in areas impacted by growth; and (c) a distribution system fund, which is used to upgrade and improve the District’s retail water distribution system;

(iii) unrestricted capital reserve funds, including: (a) a system improvement fund, which is used to make improvements to existing water or wastewater facilities; (b) an asset replacement fund, which is used to effect replacements or major refurbishments of aging capital assets, with a minimum target level equal to the estimated replacement cost of assets that are expected to be replaced within the next five years; and (c) a water

reliability fund, which is used to increase water system reliability and capacity, improve the long-term sustainability of water supplies and/or enhance and improve water supply management; and

(iv) an operating reserve, which is used to cover temporary cash flow deficiencies caused by timing differences between revenues and expenditures or to phase in the impact of unforeseen increases in operation and maintenance costs, with a minimum target level equal to three months of average budgeted operating expenses.

As of June 30, 2019, the District's operating reserve exceeded the maximum target level by \$4.0 million, or 6%. The asset replacement fund was below the minimum target level by \$7.5 million, or 9%.

Debt Management Policy. The District's debt management policy addresses the matters that are required by California Government Code § 8855(i), including: (i) the purposes for which debt proceeds may be used; (ii) the types of debt that may be issued; (iii) the relationship of the debt to, and integration with, the District's capital improvement program or budget; (iv) policy goals related to the District's planning goals and objectives; and (v) the internal control procedures which ensure that the proceeds of each debt issuance are directed to their intended use. The District's debt management policy also includes procedures relating to continuing disclosure compliance. See the caption "CONTINUING DISCLOSURE."

Interest Rate Swap and Hedge Agreement Policy. The District's interest rate swap and hedge agreement policy establishes guidelines for the District's use of derivatives, including interest rate swap agreements, rate locks and similar products. Under the policy:

(i) the District may enter into such products only for limited purposes, including: (a) reducing exposure to changes in interest rates; (b) lowering borrowing costs; (c) managing exposure to variable interest rates or changing market conditions; or (d) providing customized cash flows to match payment obligations or revenue projections;

(ii) the mark-to-market and termination value of the District's swap portfolio must be measured at least annually by an independent third party, and the District must measure the termination risk for a swap counterparty each time that it enters into a new derivative instrument;

(iii) the District's goal is to limit entering into swaps when the maximum portfolio termination value is equal to approximately 50% of the District's available reserves;

(iv) swap counterparties must have a rating of at least: (a) "A1" or "A+" by two of the nationally recognized rating agencies and not be rated lower than "A2" or "A" by any nationally recognized rating agency; or (b) "A1" or "A+" by two of the nationally recognized rating agencies and have a continuing "AAA" subsidiary as rated by at least two nationally recognized credit rating agencies; and

(v) swap counterparties must post collateral (consisting of cash, United States Treasury Securities, or federally-chartered agency securities) with a third party trustee if their credit rating falls below "A-" or A3," and the market value of collateral must be determined monthly.

Employees and Employee Benefits

Employees. As of June 30, 2019, the District had approximately 148 full-time employees. Certain employees of the District are represented by the Western Municipal Water District Employees Association (the "Association"). Relations between the District and the Association are governed by a memorandum of understanding which expires on June 30, 2021. The District has also entered into a confirmation of understanding with certain management employees which also expires on June 30, 2021. The District has never experienced a strike, slowdown or work stoppage.

Pension Obligations. Accounting and financial reporting by state and local government employers for defined benefit pension plans is governed by Governmental Accounting Standards Board (“GASB”) Statement No. 68 (“GASB 68”). GASB 68 governs the accounting treatment of defined benefit pension plans, including how expenses and liabilities are calculated and reported by state and local government employers in their financial statements. GASB 68 includes the following components: (i) unfunded pension liabilities are included on the employer’s balance sheet; (ii) pension expense incorporates rapid recognition of actuarial experience and investment returns and is not based on the employer’s actual contribution amounts; (iii) lower actuarial discount rates are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. GASB 68 changed the District’s accounting reporting and disclosure requirements, but it did not change the District’s pension plan funding obligations.

The District participates in a Miscellaneous plan to fund pension benefits for its employees. The District’s Miscellaneous plan is administered by the California Public Employees Retirement System (“CalPERS”). CalPERS administers an agent multiple-employer public employee defined benefit pension plan for all of the District’s full-time and certain part-time employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries and acts as a common investment and administrative agent for participating public entities within the State, including the District. CalPERS plan benefit provisions and all other requirements are established by State statute and the Board.

District employees who were hired before January 1, 2013 are subject to different benefit levels than employees who were hired on or after January 1, 2013 and who were not previously CalPERS members. Benefit provisions for District employees are set forth below.

**Western Municipal Water District
CalPERS Miscellaneous Pension Plan – Summary of Benefit Provisions**

	<i>Employees Hired Before January 1, 2013</i>	<i>Employees Hired On or After January 1, 2013 (Second Tier (Previously CalPERS Members))</i>	<i>Employees Hired On or After January 1, 2013 (AB 340)</i>
Benefit Formula	2.5% @ age 55	2.0% @ age 55	2.0% @ age 62
Benefit Vesting	5 years of service	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	50-55	50-63	52-67
Monthly Benefits as % of Salary	2.0% - 2.5%	1.426% - 2.418%	1.0% - 2.5%
Employee Contribution Rate	8.0% ⁽¹⁾	7.0% ⁽²⁾	6.25% ⁽²⁾
Number of Participants ⁽³⁾	195	26	37

⁽¹⁾ For Fiscal Year 2020, the District pays 2.0% of the required employee contribution for employees who were hired before January 1, 2013. Beginning July 1, 2020, employees who were hired before January 1, 2013 will be required to make the full employee contribution themselves.

⁽²⁾ Employees who were hired on or after January 1, 2013 are required to make the full employee contribution.

⁽³⁾ Includes active employees and retired participants as of actuarial valuation date of June 30, 2018.

Source: District.

District employees who were hired on or after January 1, 2013 and who were not previously CalPERS members receive benefits based on a 2.0% at age 62 formula; such employees are required to make the full amount of required employee contributions themselves under the California Public Employees’ Pension Reform Act of 2013 (“AB 340”), which was signed by the State Governor on September 12, 2012. AB 340 established a new pension tier – 2.0% at age 62 formula, with a maximum benefit formula of 2.5% at age 67. Benefits for such participants are calculated on the highest average annual compensation over a consecutive 36

month period. Employees are required to pay at least 50% of the total normal cost rate. AB 340 also caps pensionable income as noted below. Amounts are set annually, subject to Consumer Price Index increases, and retroactive benefits increases are prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

**Western Municipal Water District
Pensionable Income Caps for 2019 (AB 340 and Non-AB 340 Employees)**

	<i>Before January 1, 2013 (Non-AB 340 Employees)</i>	<i>After January 1, 2013 (AB 340 Employees)</i>
Maximum Pensionable Income	\$275,000	\$146,666
Maximum Pensionable Income if also Participating in Social Security	N/A	\$121,388

Source: District.

Additional employee contributions, limits on pensionable compensation and higher retirement ages for new members as a result of the passage of AB 340 are expected to reduce the District’s unfunded pension liability and potentially reduce District contribution levels in the long term.

The District is also required to contribute the actuarially determined remaining amounts necessary to fund benefits for its members. Employer contribution rates for all public employers are determined on an annual basis by the CalPERS actuary and are effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The total minimum required employer contribution is the sum of the plan’s employer normal cost rate (expressed as a percentage of payroll) plus the employer unfunded accrued liability contribution amount (billed monthly). The normal cost rate is the annual cost of service accrual for the upcoming Fiscal Year of active employees.

The required employer contribution rates for Fiscal Years 2018 and 2019 were as follows: (i) 10.110% and 10.609%, respectively, for the 2.5% at age 55 benefit level; (ii) 8.418% and 8.892%, respectively, for the 2.0% at age 55 benefit level; and (iii) 6.533% and 6.842%, respectively, for the 2.0% at age 62 AB 340 benefit level. The total required employer contribution rates for Fiscal Year 2020 are 11.432% for the 2.5% at age 55 benefit level, 9.680% for the 2.0% at age 55 benefit level and 6.985% for the 2.0% at age 62 AB 340 benefit level.

Beginning in Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan’s unfunded liability as dollar amounts instead of the prior method of a percentage of payroll. According to CalPERS, this change was intended to address potential funding issues that could arise from a declining payroll or a reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to underfunding of pension plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection for informational purposes only. Contributions toward a pension plan’s unfunded liability will continue to be collected as set dollar amounts.

The District’s required contributions to CalPERS fluctuate each year and, as noted, include a normal cost component and a component equal to an amortized amount of the unfunded liability. Many assumptions are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the District’s required contributions to CalPERS in future years. Accordingly, the District cannot provide any assurances that the District’s required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions. CalPERS earnings reports for Fiscal Years 2010

through 2019 report investment gains of approximately 13.3%, 21.7%, 0.1%, 13.2%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6% and 6.7%, respectively.

On December 21, 2016, the CalPERS Board of Administration voted to lower its discount rate from the current rate of 7.50% to 7.00% over a three-year period. For public agencies such as the District, the first discount rate reduction took effect July 1, 2018. Lowering the discount rate means that employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 who were not previously CalPERS members will also see their contribution rates rise under AB 340. The reduction in the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most Miscellaneous retirement plans such as the District's plan. Additionally, many employers will see a 30% to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long term.

For Fiscal Years 2018 and 2019, the District made total required Miscellaneous plan contributions of \$2,029,535 and \$2,390,220, respectively. The District currently expects its annual required contribution in Fiscal Years 2020 and 2021 to be approximately \$2,860,000 and \$3,480,000, respectively (assuming that the District elects the monthly payment option for Fiscal Year 2021). The District understands that CalPERS' earnings may be reduced in Fiscal Year 2020 as a result of stock market declines in the wake of the COVID-19 outbreak, which could (depending on the results of an actuarial valuation which will be released in Fiscal Year 2022) increase future contribution rates for plan participants, including the District. The District is currently unable to assess the likelihood or magnitude of such increases. Accordingly, the District's projections of Maintenance and Operation Costs do not reflect significant increases in CalPERS contributions in the future. See the caption "—COVID-19 Outbreak."

Portions of the above information are primarily derived from information that has been produced by CalPERS, its independent accountants and its actuaries. The District has not independently verified such information and neither makes any representations nor expresses any opinion as to the accuracy of the information that has been provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on CalPERS' Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information that concerns benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The District and the Authority cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

The District's Miscellaneous plan had a total net pension liability of approximately \$15,734,556 for the Fiscal Year ended June 30, 2017, approximately \$18,425,168 for the Fiscal Year ended June 30, 2018 and approximately \$18,070,806 for the Fiscal Year ended June 30, 2019. The net pension liability is the difference between the total pension liability and the fair market value of pension assets. The District's total pension assets include funds that are held by CalPERS, and its net pension asset or liability is based on such amounts.

A summary of principal assumptions and methods used to determine the total pension liability for Fiscal Year 2019 is shown below.

**Western Municipal Water District
Actuarial Assumptions for CalPERS Miscellaneous Pension Plan**

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
<i>Actuarial Assumptions:</i>	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.15% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.50%
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' membership data for all funds

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP 2016.
Source: District.

Changes in the net pension liability for the District's Miscellaneous plan were as follows:

**Western Municipal Water District
Changes in CalPERS Miscellaneous Pension Plan Net Pension Liability**

	<i>Increase / (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2017	\$71,505,876	\$53,080,708	\$18,425,168
Balance at June 30, 2018	<u>76,445,981</u>	<u>58,375,175</u>	<u>18,070,806</u>
Net Changes for period from July 1, 2017 through June 30, 2018	\$ 4,940,105	\$ 5,294,467	\$ (354,362)

Source: District.

The following table presents the net pension liability of the District's Miscellaneous plan, calculated using the discount rate as of June 30, 2018 (which was applicable to Fiscal Year 2019 (7.15%)), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

**Western Municipal Water District
Sensitivity of the Miscellaneous Plan Net Pension Liability to Changes in the Discount Rate**

	<i>Discount Rate – 1% (6.15%)</i>	<i>Current Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
Plan's Net Pension Liability/(Asset)	\$28,411,744	\$18,070,806	\$9,534,532

Source: District.

The District does not expect that any increased funding of pension benefits, whether as a result of the COVID-19 outbreak (as discussed above) or otherwise, will have a material adverse effect on the ability of the District to make the Installment Payments.

For additional information relating to the District's CalPERS Miscellaneous pension plan, see Note 10 to the District's audited financial statements set forth in Appendix A.

Post-Employment Benefits. In addition to the pension benefits that are described under the subcaption “—Pension Obligations,” the District provides certain health care benefits for retired employees and eligible dependents. Substantially all of the District’s full-time employees who are eligible for pension benefits may become eligible for such other post-employment benefits. As of June 30, 2019, 142 employees meet these eligibility requirements and 72 retirees or their beneficiaries participate in the plan. Actuarially determined contributions of \$708,338 and \$729,432, respectively, were recognized for post-employment health care benefits in Fiscal Years 2018 and 2019. The District makes such payments to a voluntary employees’ beneficiary association trust established by the District. The trust accumulates assets and pays benefits to eligible retirees.

GASB Statement No. 75 (“**GASB 75**”) requires governmental agencies to account for and report outstanding obligations and commitments related to post-employment benefits in essentially the same manner as for pensions. For the District, the reporting obligation began in Fiscal Year 2018.

The District retained SageView Advisory Group (the “**Actuarial Consultant**”) to calculate the District’s post-employment benefits funding status. In a report dated September 25, 2019 (the “**Report**”), the Actuarial Consultant concluded that, as of June 30, 2019, the District’s net liability for post-employment benefits was \$1,004,747. A prior actuarial consultant had previously concluded that the District’s actuarially determined contribution for Fiscal Year 2020 (the actuarial value of benefits earned during Fiscal Year 2020 plus costs to amortize the unfunded actuarial accrued liability, or “**ADC**”) is \$729,432.

Changes in the net liability for the District’s post-employment benefit plan were as follows.

**Western Municipal Water District
Changes in Post-Employment Benefit Plan Liability**

	<i>Increase / (Decrease)</i>		
	<i>Total Post-Employment Benefit Plan Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Post-Employment Benefit Plan Liability / (Asset)</i>
Balance at June 30, 2018	\$18,934,583	\$16,653,515	\$2,281,068
Balance at June 30, 2019	<u>18,675,589</u>	<u>17,670,842</u>	<u>1,004,747</u>
Net Changes for period from July 1, 2018 through June 30, 2019	\$ (258,994)	\$ 1,017,327	(\$1,276,321)

Source: District.

The following table presents the net liability of the District’s post-employment benefits plan, calculated using the discount rate applicable to Fiscal Year 2019 (7.00%), as well as what the net post-employment benefit liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the Fiscal Year 2019 rate:

**Western Municipal Water District
Sensitivity of the Post-Employment Benefit Plan Net Liability to Changes in the Discount Rate**

	<i>Discount Rate – 1% (6.00%)</i>	<i>Applicable Discount Rate (7.00%)</i>	<i>Discount Rate + 1% (8.00%)</i>
Plan’s Net Liability/(Asset)	\$3,477,908	\$1,004,747	\$(1,056,291)

Source: District.

The District's projections of Maintenance and Operation Costs under the caption "WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" do not assume unusual increases in post-employment benefit funding expenses in the future. However, future changes in funding policies and assumptions, including those related to assumed rates of investment return and healthcare cost inflation, could trigger increases in the District's annual required contributions, and such increases could be material to the finances of the District. No assurance can be provided that such expenses will not increase significantly in the future. The District does not expect that any increased funding of post-employment benefits will have a material adverse effect on the ability of the District to make the Installment Payments.

For additional information relating to the post-employment benefit plan, see Note 11 to the District's audited financial statements set forth in Appendix A.

Budget Process

The District's Board of Directors approves a biennial operating budget. This two-year budget is formulated on a divisional basis and by department. Prior to the end of the second Fiscal Year of the previous approved biennial operating budget, the Finance Department and other District department heads for the District prepare the next biennial budget. The budget is prepared using budgeting by objectives in determining the annual goals and objectives for each department of the District. Such goals and objectives are then detailed into specific action plans and translated into dollars through the budget process. In preparing the budget, staff projects sources of operating income and operating expenses and incorporates rates and charges for water and sewer service to cover such expenses. Both the District's biennial budget and its Capital Improvement and Facilities Plan for major capital projects for Fiscal Years 2021 and 2022 were adopted on June 17, 2020.

District Insurance

The District maintains insurance for the Water System and the Sewer System through the Association of California Water Agencies/Joint Powers Insurance Authority ("ACWA/JPIA"), an intergovernmental risk-sharing joint powers authority created to provide insurance programs for water agencies in the State. The role of ACWA/JPIA is to arrange and administer pooled coverage programs where loss is retained and shared among its member agencies, and to purchase excess or specialty-insurance coverage above retained limits.

As of June 30, 2019, the District participated in the liability, property and workers' compensation programs of ACWA/JPIA as follows:

- General, auto and errors and omissions liability coverage up to the ACWA/JPIA pooled self-insured limits of \$5,000,000 per occurrence. ACWA/JPIA has purchased additional excess coverage layers which increase the coverage limits to \$60,000,000 per occurrence (limited to one occurrence). Claims under \$30,000,000 have no aggregate limit.
- Employee dishonesty coverage up to \$1,100,000, which includes employee dishonesty, forgery, alteration and computer fraud, with a \$1,000 deductible.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, and otherwise paid on an actual cash value basis, to a combined total of \$500,000,000 subject to a deductible that generally ranges from \$25,000 to \$50,000, depending on the type of property. Certain portions of the Water System and the Sewer System, including certain pipelines, are not covered by the District's property insurance. In addition, the District does not maintain insurance coverage for earthquake damage. See the caption "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."
- Workers' compensation insurance up to the ACWA/JPIA pooled self-insured limit of \$2,000,000 for all work-related injuries and illnesses covered by State law.

The District has purchased Pollution and Remediation Legal Liability insurance through an private carrier which provides coverage of \$2,000,000 per occurrence and a \$10,000,000 aggregate. Coverage includes pollution products for water supply and biosolids, sewer backup, mold, remediation, emergency response cost, on-site clean-up cost, third-party claims for off-site clean-up and transportation pollution liability, with a \$100,000 deductible.

In addition, the District maintains cyber liability coverage through its membership in ACWA/JPIA. This coverage is not included in the ACWA /JPIA risk-sharing pool, but is provided through a commercial insurance policy purchased by ACWA/JPIA on behalf of its member agencies. Coverages include security liability, privacy liability, privacy regulatory defense, business interruption, data recovery, cyber-extortion and ransomware, data breach response and crisis management. The coverage limits are \$3,000,000 per occurrence, with an aggregate limit of \$5,000,000 and a \$50,000 deductible.

The District has not settled any claims that exceeded its insurance coverage in the past three years.

The District can provide no assurance that it will maintain the above insurance coverage amounts while the Bonds are outstanding. See Appendix B under the caption “MASTER INSTALLMENT PURCHASE AGREEMENT—Covenants of the District—Insurance” for a description of insurance coverages that are required to be maintained while the Bonds are outstanding.

1% Ad Valorem Tax

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

For Fiscal Year 2019, the District’s allocation, including unitary tax (which constitutes “**Property Tax Revenues**”), was \$23,641,810, compared to \$21,728,238 actually received in Fiscal Year 2018. Property Tax Revenues as a percentage of the total Revenues of the District averaged approximately 14.6% over the last five Fiscal Years. See the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION” for further information with respect to historical and projected Property Tax Revenues.

From time to time legislation has been considered as part of the State budget to shift 1% *ad valorem* property tax revenues from special districts to school districts or other governmental entities. The State fiscal year 2004-05 and 2009-10 budgets reallocated portions of special districts’ shares of the countywide 1% *ad valorem* property tax, shifting a portion of the 1% *ad valorem* property tax revenues collected by the County from special districts to school districts.

On November 2, 2010, California voters approved Proposition 22, which: (i) prohibits the State from shifting or delaying the distribution of funds from special districts to schools and community colleges; (ii) eliminates the authority to shift property taxes temporarily during a severe financial hardship of the State; and (iii) restricts the State’s authority to use fuel tax revenues to pay debt service on transportation bonds, to borrow or change the distribution of fuel tax revenues or to use Vehicle License Fee revenues to reimburse local governments for state-mandated costs.

Despite the passage of Proposition 22, there can be no assurance that 1% *ad valorem* property tax revenues which the District currently expects to receive will not be temporarily shifted from the District or reduced pursuant to State legislation enacted in the future, including in response to the COVID-19 outbreak

that is discussed under the caption “—COVID-19 Outbreak.” If the property tax formula is permanently changed in the future, it could have a material adverse effect on the receipt of its share of 1% *ad valorem* property tax revenues by the District.

Assessed Valuations and Tax Collections. The following tables show secured and unsecured assessed valuations within the District and Property Tax Revenues received by the District during the five most recent Fiscal Years. Although the County has implemented the tax distribution system that is commonly referred to as the “Teeter Plan” (Section 4701 *et seq.* of the State Revenue and Taxation Code), the District does not participate in the Teeter Plan. As a result, the District is exposed to the risk of delinquencies in the collection of Property Tax Revenues, and the District receives late payment penalty revenues when delinquent Property Tax Revenues are collected.

**Western Municipal Water District
Property Tax Revenue Collections**

<i>Fiscal Year</i>	<i>Taxable Assessed Valuation within District</i>	<i>Property Tax Revenues Levied on Behalf of District⁽¹⁾</i>	<i>Property Tax Revenues Collected by District⁽²⁾</i>
2015	\$ 84,861,529,145	\$16,057,198	\$18,220,982
2016	89,274,829,782	16,807,905	18,837,555
2017	93,927,533,434	17,570,391	20,053,654
2018	99,403,206,463	18,344,789	21,728,238
2019	106,160,081,429	19,314,329	23,641,810

⁽¹⁾ Includes secured, unsecured, homeowner and State Board of Equalization taxes.

⁽²⁾ Includes collections for current and prior Fiscal Year assessments, and redevelopment collections.

Source: District.

The District intends to allocate approximately 43% of Property Tax Revenues per year for the current and future Fiscal Years to the Water System, with the remainder of Property Tax Revenues each year being allocated to general District purposes. The allocation of Property Tax Revenues is reviewed periodically in conjunction with the rate-setting process.

**Western Municipal Water District
Principal Property Taxpayers
Fiscal Year Ending June 30, 2020**

<i>Property Owner</i> ⁽¹⁾	<i>Primary Land Use</i>	<i>Fiscal Year 2020 Assessed Valuation</i> ⁽²⁾	<i>% of Total</i> ⁽³⁾
Costco Wholesale Corporation	Industrial	\$ 345,203,055	0.32%
Riverside Healthcare System	Commercial	319,987,621	0.30
SCG Atlas Ashton	Residential	284,532,736	0.26
Tarpon Properties Ownership 2	Industrial	244,754,684	0.23
Tyler Mall LP	Commercial	223,822,710	0.21
Castle and Cooke Corona Crossings	Commercial	187,605,322	0.17
Teachers Insurance Annuity Association	Industrial	185,206,154	0.17
Rohr Inc.	Industrial	171,267,770	0.16
Walmart Stores Inc./Sam's Club	Commercial	<u>133,636,077</u>	<u>0.12</u>
TOTAL		<u>\$2,096,016,129</u>	1.94%

⁽¹⁾ Each of the District's largest taxpayers has filed a property tax assessment appeal relating to property taxes payable in Fiscal Year 2020. There can be no assurance as to the timing of the resolution of any of such appeals or the magnitude of any reduction in property taxes as a result of such appeals.

⁽²⁾ Reflects secured valuation only.

⁽³⁾ The total Fiscal Year 2020 secured assessed valuation within the District is \$112,374,068,059.

Source: HdL Coren & Cone.

Outstanding Parity Obligations

The following obligations are payable from Net Revenues on a parity with the Installment Payments, which secure the Bonds:

Interest Rate Swap. In 2008, in connection with execution of a previously outstanding installment purchase agreement (the "**2009 Installment Purchase Agreement**"), the District entered into a variable-to-fixed interest rate swap agreement in a notional amount of \$48,000,000 (the "**Original Swap Agreement**") with Merrill Lynch Capital Services Inc. ("**MLCS**") for the purpose of converting the floating rate interest payments that the District was obligated to make under the 2009 Installment Purchase Agreement into fixed payments. In 2012, a portion of the proceeds of the 2012 Installment Purchase Agreement was applied to prepay the 2009 Installment Purchase Agreement. The Original Swap Agreement was amended and restated at that time (as so amended and restated, the Swap Agreement) and thereafter applied to hedge the 2012 Installment Purchase Agreement.

The 2012 Installment Purchase Agreement bears interest at a Weekly Rate, which is equal to the lowest rate of interest that, in the judgment of the remarketing agent therefor, will produce as nearly as practical a par bid for the associated 2012A Bonds, as of the date of determination. Under the Swap Agreement, the District pays a fixed rate of interest of 2.715% on the notional amount. In return, MLCS pays a variable rate of interest equal to 67% of the London Interbank Offered Rate one-month index on a like notional amount. The periodic amounts payable by a party under the Swap Agreement are netted against the payments to be received by such party thereunder.

As a result of the difference between the calculation of the Weekly Rate that is payable under the 2012 Installment Purchase Agreement and the terms of the Swap Agreement (as described in the previous paragraph), the floating rate that is payable to the District pursuant to the Swap Agreement does not match the variable interest rate that is due on the 2012 Installment Purchase Agreement at all times or at any time. Under certain circumstances, MLCS may be obligated to make a payment to the District under the Swap Agreement which is less than the interest that is due on the 2012 Installment Purchase Agreement. In such event, the District would be obligated to pay such insufficiency from Net Revenues. This has occurred on certain occasions.

The Swap Agreement has a stated termination date of October 1, 2042. Both the District and MLCS have the right to terminate the Swap Agreement prior to its stated termination date under certain circumstances, including at the option of the District or upon a default or the occurrence of certain termination events, and the District may be thereupon be required to make a substantial termination payment to MLCS.

The current notional amount of the Swap Agreement is \$39,125,000. The Swap Agreement had a fair market value of approximately negative \$405,048 as of June 30, 2019.

Regularly scheduled payments of the District under the Swap Agreement are payable by the District from Net Revenues on a parity with the Installment Payments.

2010 Installment Purchase Agreement. In 2010, the District entered into the 2010 Installment Purchase Agreement to finance the acquisition and construction of certain water and wastewater facilities and water capacity. The 2010 Installment Purchase Agreement, which bears interest at rates ranging from 4% to 6.51% per annum, was outstanding in the principal amount of \$45,165,000 as of June 30, 2019 and is payable by the District in semiannual installments, with a final payment due in 2040.

A portion of the interest payments under the 2010 Installment Purchase Agreement are covered by a federal subsidy (the “**BAB Credits**”) for the benefit of Build America Bonds, including the Authority obligations that are secured by the 2010 Installment Purchase Agreement. Build America Bonds were authorized under Section 54AA of the Internal Revenue Code of 1986 (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009).

On March 1, 2013, the federal government announced the implementation of certain automatic budget cuts known as the sequester, including reductions in BAB Credits. The originally scheduled BAB Credit was reduced by 8.7% in federal fiscal year 2013 (which ended September 30, 2013), and by 7.2%, 7.3%, 6.8%, 6.9%, 6.6% and 6.2% in federal fiscal years 2014, 2015, 2016, 2017, 2018 and 2019, respectively. Under a federal budget bill enacted in 2019, the reduction of BAB Credits will continue through September 30, 2029, and the BAB Credit will be reduced by 5.9% in federal fiscal year 2020. The historical and estimated operating results of the District for Fiscal Year 2020 reflect such actual reductions in BAB Credits relating to the 2010 Installment Purchase Agreement. See the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION.”

See the caption “REFUNDING PLAN” for a discussion of the prepayment of a portion of the 2010 Installment Purchase Agreement from proceeds of the Bonds. To the extent that the 2010 Installment Purchase Agreement is prepaid, the District will no longer be eligible to receive BAB Credits.

2012 Installment Purchase Agreement. In 2012, the District entered into the 2012 Installment Purchase Agreement to refinance the cost of certain water and wastewater facilities. The 2012 Installment Purchase Agreement, which bears interest at variable rates, was outstanding in the principal amount of \$40,735,000 as of June 30, 2019 and is payable by the District in monthly installments, with a final payment due in 2042.

WRCRWA Agreement (WRCRWA SRF Loan). In 2013, the District entered into the WRCRWA Agreement to finance the cost of certain improvements to a regional wastewater treatment plant that is operated by the District. See the caption “THE SEWER SYSTEM—General.” The District’s obligations under the WRCRWA Agreement, which bears interest at the rate of 1.9% per annum, were outstanding in the principal amount of \$603,458 as of June 30, 2019 and are payable in annual installments, with a final payment due in 2039. The WRCRWA Agreement is payable from Net Revenues on a parity with the Installment Payments.

2015 State Contract (SRF Loan). In 2015, the District entered into the 2015 State Contract to finance the cost of certain capital projects. The 2015 State Contract, which bears interest at the rate of 1.5% per annum, is expected to be outstanding in the maximum principal amount of \$35,794,100 and is payable by the District in annual installments beginning in 2021, with a final payment due in 2051. The 2015 State Contract is payable from Net Revenues on a parity with the Installment Payments.

2016 Installment Purchase Agreement. In 2016, the District entered into the 2016 Installment Purchase Agreement to refinance the cost of certain water and wastewater facilities. The 2016 Installment Purchase Agreement, which bears interest at variable rates, was outstanding in the principal amount of \$51,975,000 as of June 30, 2019 and is payable by the District in monthly installments, with a final payment due in 2039. The 2016 Installment Purchase Agreement is payable from Net Revenues on a parity with the Installment Payments. See the caption “REFUNDING PLAN” for a discussion of the prepayment of the 2016 Installment Purchase Agreement from proceeds of the Bonds.

Wastewater Capacity Funding Agreement (SRRRA). In 2017, the District entered into the Wastewater Capacity Funding Agreement to finance the cost of certain water reclamation capital projects. The Wastewater Capacity Funding Agreement, which bears interest at rates ranging from 3% to 5% per annum, was outstanding in the principal amount of \$8,950,097 as of June 30, 2019 and is payable by the District in semiannual installments, with a final payment due in 2034. The Wastewater Capacity Funding Agreement is payable from Net Revenues on a parity with the Installment Payments.

2018 SRRRA Agreement (SRRRA SRF Loan). In 2018, the District entered into the 2018 SRRRA Agreement to finance the cost of certain water reclamation capital projects. Under the SRRRA Agreement, a portion of the amounts payable by the District thereunder (amounts that are attributable to operation and maintenance costs of certain SRRRA facilities) are payable by the District as Maintenance and Operation Costs of the District’s Sewer System, while a portion of the amounts payable by the District thereunder (amounts that are attributable to the District’s participation in an SWRCB-SRRRA installment contract) are payable from Net Revenues of the Sewer System on a parity with the Installment Payments. The 2018 SRRRA Agreement, which bears interest at the rate of 1.8% per annum, is expected to be outstanding in the maximum principal amount of \$6,085,874 (assuming SRRRA’s draw on a State Revolving Fund loan in the full available amount and excluding amounts payable by the District as Maintenance and Operation Costs). The 2018 SRRRA Agreement is payable by the District in annual installments which are expected to commence in 2022, with a final payment due in 2052.

The District is permitted to incur additional obligations that are payable from Net Revenues on a parity with the Installment Payments in the future upon satisfaction of the conditions that are described under the caption “SECURITY FOR THE BONDS—Additional Parity Obligations.”

Financial Statements

A copy of the most recent audited financial statements of the District prepared by White Nelson Diehl Evans LLP, Irvine, California (the “**Auditor**”) is set forth in Appendix A. The Auditor’s letter dated December 19, 2019 is located at the beginning of the Financial Section therein.

The summary operating results that are contained under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Historical Operating Results and Debt Service Coverage” are derived from these financial statements and audited financial statements for prior Fiscal Years (excluding certain non-cash items and after certain other adjustments), and are qualified in their entirety by reference to such statements, including the notes thereto.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to public entities (“**GAAP**”). Generally, the District recognizes revenues and expenses on the full accrual basis of accounting, meaning that revenues are recognized in the accounting

period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. However, in certain cases, GAAP requires or permits moneys that are collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses that are paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. See Note 1 to the financial statements that are set forth in Appendix A. Except as otherwise expressly noted herein, all financial information that has been derived from the District's audited financial statements reflects the application of GAAP.

The Water Fund and the Sewer Fund of the District are accounted for as proprietary fund types (enterprise funds) using the economic resources measurement focus. In governmental accounting, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

COVID-19 Outbreak

The spread of the novel strain of coronavirus called COVID-19 (“COVID-19”) is having significant negative impacts throughout the world, including within the District. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the City of Riverside, the County, the State and the United States. The District declared a local state of emergency on April 1, 2020 in response to the COVID-19 pandemic. The purpose of these declarations is to coordinate and formalize emergency actions across federal, State and local governmental agencies and to proactively prepare for a wider spread of COVID-19.

To date there have been a number of confirmed cases of COVID-19 in the County and health officials are expecting the number of confirmed cases to grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including schools within the District). The United States is also restricting certain non-citizens and permanent residents from entering the country. In addition, financial markets in the United States and globally have been volatile, with significant declines attributed to COVID-19 concerns.

Potential impacts to the District associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the District, cancellations of public events and disruption of the regional and local economy.

As part of the District's response to the COVID-19 outbreak, the District has moved operations staff to separate locations, staggered shifts and allowed certain employees to telecommute in order to prevent large gatherings of personnel at any one time. The District does not currently foresee an impact on Water System or Sewer System operations at this time.

In addition, the Board in late March 2020 moved to suspend water shutoffs and water and sewer service late payment penalties through the end of June 2020, and the District will not seek to collect late fees or penalties. Although no service charges are being forgiven, the District expects its accounts receivable amount and uncollectible and write-off expenses to increase as a result of the foregoing policy. To date, the District has not experienced any corresponding decreases in water and sewer revenues; however unemployment levels may affect the ability or willingness of homeowners to pay property taxes, which in turn could affect the District's receipt of property tax revenues. See the captions “THE WATER SYSTEM—Water System Collection Procedures,” “THE SEWER SYSTEM—Sewer System Collection Procedures” and “—1% Ad Valorem Tax.”

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the District is unknown and there can be no assurance that the outbreak of COVID-19 will not affect the District's ability to pay the Installment Payments, which secure the Bonds. In light of the suspension of water shutoffs and late payment penalties through June 2020, the District has reduced anticipated delinquency charge revenues for the fourth quarter of Fiscal Year 2020 and the first half of Fiscal Year 2021. Increases in write-off expenses are anticipated in Fiscal Years 2020 through 2022. In addition, the District projects an increase in property tax delinquencies in Fiscal Years 2020 through 2022 and slower growth in assessed values from sales of existing properties, which will be reflected in Fiscal Years 2022 and 2023. See the caption "WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage."

THE WATER SYSTEM

General

The District supplies potable water to approximately 22,913 residential and 1,313 commercial, industrial, agricultural, irrigation and other retail customers and non-potable water to approximately 145 agricultural and irrigation retail customers. See the caption "—Historical Water System Connections."

The District also sells potable and non-potable water at wholesale to several water agencies and cities. The District's wholesale water customers account for over two-thirds of the water sold by the District and two-thirds of the Water System Revenues generated by the District. See the caption "—Wholesale Customers."

The District's water sources include both treated and untreated imported water which the District purchases from MWD, groundwater pumped from a District-owned well, water produced at a District-owned desalter facility and water purchased at wholesale from other water producers. See the caption "—Water Supply."

The Water System includes approximately 590 miles of water mains, 32 storage tanks with a total storage capacity of 87 million gallons and 21 pump stations.

See the caption "—The Recycled Water System" for a description of the District's recycled water system. The recycled water system is accounted for as part of the Water System and recycled water system revenues are pledged to repayment of the Installment Payments.

The Recycled Water System

The District has provided recycled water to customers since Fiscal Year 2012. Currently, the District has 61 recycled water customers, including cemeteries, golf courses, schools, nurseries and parks. The District's recycled water system is accounted for as part of the Water System and includes approximately 50 miles of water mains, 2 storage tanks with a total storage capacity of 5.2 million gallons and 3 pump stations.

Recycled water is produced at the WWRF, as described under the caption "THE SEWER SYSTEM—General—Western Water Recycling Facility." The WWRF can produce up to 3,300 acre feet of recycled water per year, although in Fiscal Year 2019, recycled water sales totaled 1,166 acre feet. See the caption "—Historical Water System Supply." Recycled water that is not sold to retail customers is stored on-site at the WWRF until it can be sold.

Water Quality

General. The District’s primary water source is imported water which is supplied by MWD. The District predominantly purchases previously treated water which meets all applicable health and safety standards from MWD. Treated water is sold to both retail and wholesale customers of the District. The District also purchases untreated water from MWD. Such supplies are sold to the District’s wholesale customers and to retail irrigation and agricultural customers in an untreated state.

The District produces potable water which meets all applicable health and safety standards at its Arlington Desalter facility. The source of such supply is groundwater that is extracted from wells in the Arlington Groundwater Basin (the “**Arlington Basin**”). See the caption “—Water Supply—Arlington Desalter.”

The District also produces potable water from a District-owned well in the City of Murrieta in the southeast portion of the District’s territory. Such water is treated with chlorine as a disinfectant measure prior to delivery to retail customers in the Murrieta area.

PFAS. In 2019, the SWRCB’s Division of Drinking Water (the “**Division**”) lowered the Notification Levels for Perfluorooctanoic acid (“**PFOA**”) and Perfluorooctanesulfonic acid (“**PFOS**”) to 5.1 and 6.5 parts per trillion (“**PPT**”), respectively. Notification Levels are non-regulatory, precautionary health-based measures for concentrations of chemicals in drinking water that warrant notification and further monitoring and assessment. In 2020, the Division lowered the Response Level for PFOA and PFOS from 70 PPT, combined, to 10 to 40 PPT, each. Response Levels are non-regulatory, precautionary health-based measures that are set at higher levels than Notification Levels and represent thresholds at which the Division recommends that water systems remove a water source from use or treat it.

PFOA and PFOS are fluorinated organic chemicals which are part of a family of synthetic compounds referred to as per- and polyfluoroalkyl substances (“**PFAS**”). PFAS are water and lipid resistant substances that are useful for a variety of manufacturing processes and industrial applications. The District understands that recent technological advances have enabled water agencies to detect PFAS compounds at very low concentrations.

The District has not detected PFAS to date in the District’s Murrieta groundwater sources or in the water produced at the Arlington Desalter Plant. The District has tested the water within its distribution system served to customers for PFAS under the UCMR3 (Unregulated Contaminant Monitoring Rule), resulting in a “non-detect” determination. The District notes that the Arlington Desalter treats groundwater using a reverse osmosis process, which removes PFAS.

The District does not anticipate that implementation of the lowered PFAS Response Level by the Division will have a material adverse effect on the operation of the Water System or the costs thereof. The projected operating results which are set forth under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” do not assume significant increases in water treatment costs to meet State regulations relating to PFAS.

Water Supply

The District currently has five sources of water: (i) treated and untreated water which is imported from MWD, as discussed under the subcaption “—Imported Water” below; (ii) groundwater which is pumped from a District well, as discussed under the subcaption “—Groundwater” below; (iii) water which is produced at the Arlington Desalter facility, as discussed under the subcaption “—Arlington Desalter” below; (iv) water which is purchased at wholesale from other water producers, as discussed under the subcaption “—Wholesale Purchases” below; and (v) recycled water, as discussed under the caption “—The Recycled Water System.”

See the captions “—Historical Water System Supply” and “—Projected Water System Supply” for historical and projected information with respect to the District’s sources of water supply.

Imported Water. In Fiscal Year 2019, treated imported water purchased from MWD, a metropolitan water district of which the District is a member agency, comprised approximately 53% of the District’s total water supply (including recycled water supplies, which are discussed under the caption “—The Recycled Water System”), while untreated imported water purchased from MWD comprised approximately 28% of the District’s total water supply.

MWD was created in 1928 by vote of the electorates of a number of Southern California cities to provide a supplemental supply of water for domestic and municipal uses at wholesale to its member agencies. The MWD service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 26 member agencies of MWD, consisting of 14 cities, 11 municipal water districts (including the District) and one county water authority. MWD is governed by a Board of Directors (the “**MWD Board**”), which currently has 38 members. Each member agency has at least one representative on the MWD Board. Representation and voting rights are based upon each member agency’s assessed valuation. The District has one representative on the MWD Board. The total population of the MWD service area is approximately 19 million.

MWD member agencies request water from MWD at various delivery points within MWD’s service area and pay for such water at uniform rates that are established by the MWD Board for each class of service. For planning purposes, each MWD member agency advises MWD annually in May of its anticipated delivery requirements for each of the five following fiscal years. Charges for water delivered are billed monthly and payable by the end of the second month following delivery.

MWD’s principal sources of water are Colorado River supplies which are imported through the Colorado River Aqueduct and supplies from the Lake Oroville watershed in northern California which are imported through the State Water Project. The same water rate is charged for water provided from each source.

Colorado River water is transported from Lake Havasu through the Colorado River Aqueduct to a terminus at Lake Mathews in the District’s service area. State Water Project water is delivered to MWD through the 444-mile California Aqueduct to a terminus at Lake Perris, which is located east of the eastern boundary of the District. Short of the Lake Perris terminus, MWD delivers water to its Henry J. Mills Treatment Plant (the “**Mills Plant**”), which is located within the District’s service area, for treatment. The Mills Plant serves as the primary source of potable imported water for the District. MWD’s Robert A. Skinner Treatment Plant (the “**Skinner Plant**”), which is located east of the southeast boundary of the District, also treats water that is delivered to the District.

The District has access to MWD imported water through active potable and non-potable raw water connections with MWD facilities, including the Mills Plant and the Skinner Plant. The Mills Plant and the Skinner Plant can deliver up to approximately 242 MGD to the District under maximum operating conditions, although District facilities are not capable of pumping such amounts in full into the District’s transmission-distribution system.

MWD’s water rates are established by majority vote of the MWD Board and are not subject to regulation by the California Public Utilities Commission or any other local, State or federal agency. Rates must be uniform for any class of service, and no water may be provided free of charge. Under the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended (the “**MWD Act**”), MWD is required, so far as practicable, to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability charge or assessment, will pay the operating expenses of MWD, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by MWD and provide for the payment of the interest and principal

of the bonded debt of MWD, subject to the applicable provisions of the MWD Act authorizing the issuance and retirement of such bonds.

MWD is empowered to impose an annual water standby or availability service charge, to be allocated among MWD’s member agencies as determined by the MWD Board based on, among other factors: historical water deliveries by MWD; contracted or projected water service demands by member agencies; service connection capacity; acreage; property parcels; population; and assessed valuation. The charge may be collected from the member agencies or from individual parcels or may be converted into a benefit assessment. MWD imposes a water standby charge ranging from \$6.94 to \$12.23 for each acre or parcel less than an acre within MWD’s service area, subject to specific exempt categories. The water standby charge within the District is currently \$9.23 per acre. A majority of the MWD Board can approve a higher rate. Different rates may be established for parcels situated within different member agencies.

MWD also levies *ad valorem* taxes upon all of the property that is taxable for MWD purposes in the MWD service area, including the District’s service area. Between July 1, 1990 and June 30, 2013, in accordance with the MWD Act, MWD limited its tax levy to the amount that was needed to pay: (i) the general obligation bond debt service of MWD; and (ii) that portion of MWD’s payment obligation under its water supply contract with the State which was attributable to debt service on certain State general obligation water bonds. The MWD tax levy amount has remained at the Fiscal Year 2013 level since Fiscal Year 2013. Taxes will cease to be levied when the general obligation bonds of MWD and the State’s general obligation water bonds are fully paid, although the MWD Act permits the MWD Board to continue to levy taxes upon a declaration of fiscal necessity.

The following table sets forth MWD’s current rates for treated and untreated water.

**The Metropolitan Water District of Southern California
Summary of Water Rates in Dollars per Acre Foot**

<i>Rates Effective Beginning⁽¹⁾</i>	<i>Full Service Domestic</i>		<i>Supply Rate</i>	<i>System Access Rate</i>	<i>Water Stewardship Rate⁽²⁾</i>	<i>System Power Rate</i>	<i>Treatment Surcharge</i>
	<i>Treated</i>	<i>Untreated</i>					
January 1, 2020 Tier 1	\$1,078	\$755	\$208	\$346	\$65	\$136	\$323
January 1, 2020 Tier 2	1,165	842	295	346	65	136	323
January 1, 2021 Tier 1	1,104	777	243	373	0	161	327
January 1, 2021 Tier 2	1,146	819	285	373	0	161	327

⁽¹⁾ The Tier 1 rate is calculated as the amount of MWD’s total supply revenue requirement that is not covered by the Tier 2 rate divided by the estimated amount of Tier 1 water sales. The Tier 2 rate is a volumetric rate that reflects MWD’s cost of purchasing water transfers from northern California. The higher cost of purchasing water at the Tier 2 rate is intended to encourage MWD customers and retail users to maintain existing local supplies and develop cost-effective local supply resources and conservation.

⁽²⁾ The Water Stewardship Rate will not be imposed in calendar years 2021 or 2022. The Water Stewardship Rate for calendar year 2023 and thereafter has not yet been determined by the MWD Board.

Source: District.

In addition to the above rates, MWD imposes a readiness-to-serve charge in the amount of \$59,061 per month (Retail only) or \$224,152 per month (Retail and Wholesale) for the period from January 1 to June 30, 2020 (decreasing to \$52,678 per month for Retail only and \$220,100 per month for Retail and Wholesale for Fiscal Year 2021) to recover the cost of maintaining system capacity for emergencies, and a capacity charge in the amount of \$8,800 per cubic feet per second for calendar year 2020 (increasing to \$10,700 per cubic feet for calendar year 2021) to recover the cost of providing peak capacity through the distribution system.

The District purchases both treated and untreated water from MWD. Treated supplies are sold to the District's wholesale customers and retail customers. Untreated supplies are sold to the District's wholesale customers and to certain retail irrigation and agricultural customers, but are not treated by the District prior to delivery to such customers. The projected operating results which are set forth under the caption "WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" reflect no significant changes in deliveries of untreated water to retail agricultural, irrigation and wholesale customers in the future.

MWD faces various challenges in the continued supply of imported water to the District. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. MWD has also entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, including audited financial statements and notice of certain events, pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). Such official statements, other disclosure documents, annual reports and notices (collectively, the "MWD Information") are filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>. The MWD Information is not incorporated herein by reference thereto, and the District makes no representation as to the accuracy or completeness of such information. MWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE AUTHORITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT OR THE OWNERS OF THE BONDS.

MWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION THAT IS CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

See the caption "LITIGATION—District—SDCWA Litigation" for a discussion of certain litigation by another MWD member against MWD and the District.

Groundwater. In Fiscal Year 2019, groundwater pumped from a District-owned well in the City of Murrieta comprised less than 1% of the District's total water supply (including recycled water supplies, which are discussed under the caption "—The Recycled Water System"). This well serves retail customers in the Murrieta area. See the caption "THE DISTRICT—Land Use and Service Area." The District is currently constructing a new well in the City of Murrieta to replace a well that was taken out of service in 2017. The additional well is expected to be in service by mid-2020.

Temecula-Murrieta Basin. The District's well in the City of Murrieta is located in the Temecula-Murrieta Basin, an alluvial sub-basin within the larger Temecula Valley Groundwater Basin, a 137 square mile groundwater basin in the southwestern area of the County and northern San Diego County. The State of California Department of Water Resources ("DWR") has estimated that the Temecula-Murrieta Basin has a total storage capacity of approximately 250,000 acre feet. The District's existing well in the City of Murrieta is capable of producing up to approximately 420 acre feet of groundwater per year, while the new well which is expected to come online in mid-2020 is capable of producing up to approximately 1,089 acre feet of groundwater per year.

The Temecula-Murrieta Basin is an adjudicated groundwater basin which has been managed by a watermaster (the "**Temecula-Murrieta Watermaster**") since 1989 pursuant to the terms of a judgment (the

“**1989 Judgment**”) that was entered by the United States District Court for the Southern District of California (the “**District Court**”) in 1966. The Temecula-Murrieta Watermaster administers and enforces the provisions of the 1989 Judgment and subsequent orders of the District Court. The 1989 Judgment adjudicated all groundwater rights in the Temecula-Murrieta Basin and contains a physical solution to meet the requirements of water users which have rights in or dependent upon the Temecula-Murrieta Basin. The 1989 Judgment declared that the safe yield of the Temecula-Murrieta Basin is approximately 2,600 acre feet per year. Historically, combined pumping by the District and RCWD (which also has rights in the Temecula-Murrieta Basin) has been less than the established safe yield.

A Steering Committee, which is currently comprised of representatives of the United States, EMWD, the District, Fallbrook Public Utility District, MWD, the Pechanga Band of Luiseño Indians and RCWD, has also been appointed to assist the District Court and the Temecula-Murrieta Watermaster in administering the water rights in the Temecula-Murrieta Basin. RCWD is tasked with preparing an annual groundwater audit and a recommended groundwater production report for the operation of groundwater wells and recharge facilities within the Temecula-Murrieta Basin.

As an adjudicated groundwater basin, the Temecula-Murrieta Basin is not subject to the provisions of the Sustainable Groundwater Management Act (“**SGMA**”), a legislative effort to regulate groundwater in high and medium priority basins on a Statewide basis.

San Bernardino Basin Area. In 2019, the District acquired 22,652 shares of common stock in the Meeks and Daley Water Company (“**Meeks & Daley**”), a mutual water company. Meeks & Daley has groundwater extraction rights in the San Bernardino Basin Area (the “**SBBA**”), a 141 square mile groundwater basin that is located northeast of the District. The District estimates that its ownership of shares in Meeks & Daley will entitle the District to a supply of approximately 226 acre feet of potable water each year. The District expects to sell such water to retail customers in the Riverside area. See the caption “**THE DISTRICT—Land Use and Service Area.**”

The SBBA is an adjudicated groundwater basin which is managed by a watermaster pursuant to the terms of a judgment (the “**Western Judgment**”) that was entered by the Superior Court of California, County of Riverside in 1969. The Western Judgment adjudicated all groundwater rights in the SBBA and contains a physical solution to meet the requirements of water users which have rights in or dependent upon the SBBA. The Western Judgment established the natural safe yield of the SBBA to be 232,100 acre feet per year for both surface water diversions and groundwater extractions, of which Meeks & Daley has been allocated 13,731 acre feet per year.

As an adjudicated groundwater basin, the SBBA is not subject to the provisions of SGMA.

Arlington Desalter. In Fiscal Year 2019, groundwater pumped from five District wells in the Arlington Basin and treated at the Arlington Desalter comprised approximately 6% of the District’s total water supply (including recycled water supplies, which are discussed under the caption “—The Recycled Water System”). The District sells groundwater which is treated at the Arlington Desalter to its wholesale customers. See the caption “—Wholesale Customers.”

The Arlington Basin is estimated to have a total groundwater storage capacity of 80,000 acre feet. Groundwater in the Arlington Basin is brackish, with high concentrations of total dissolved solids and nitrates, and is not suitable for drinking without extensive treatment to remove salts. The Santa Ana Watershed Project Authority (“**SAWPA**”), a joint powers authority of which the District is a member, constructed the Arlington Desalter in the late 1990s in order to treat groundwater which is extracted from the Arlington Basin, and the District acquired the Arlington Desalter from SAWPA in 2005. The Arlington Desalter, which is the only potable water treatment facility that the District operates, consists of a reverse osmosis water treatment facility, including associated wells and distribution pipelines, with a design capacity of 7.2 MGD. The byproduct of the District’s production of potable water at the Arlington Basin, which is commonly referred to as “brine,” is

disposed of through the Inland Empire Brine Line. See the caption “THE SEWER SYSTEM—General—Brine Line.”

In June 2019, the District completed construction of the La Sierra Pipeline, a \$36 million project that connects the Arlington Desalter (and the Chino Basin desalters, which are discussed under the subcaption “—Wholesale Purchases—Chino Basin”) below) to the Sterling Reservoir, which stores water for delivery to the District’s Riverside retail service area. The Sterling Pump Station, which is located in the City of Riverside, will connect water delivered through the La Sierra Pipeline to the District’s retail water distribution system. The Sterling Pump Station is expected to be completed in spring 2020.

In early 2020, the District commenced operation of the Victoria Recharge Basin. The Victoria Recharge Basin, which is located in the City of Riverside, is designed to capture up to 2,500 acre feet per year of local stormwater and runoff, and will ultimately boost production at the nearby Arlington Desalter, where water collected at the basin can be treated to potable water standards and supplied to District customers.

The operation of the La Sierra Pipeline, the Sterling Pump Station and the Victoria Recharge Basin is expected to reduce the District’s reliance on imported water purchases from MWD and enable the District to produce more potable water at the Arlington Desalter. The costs of treating water at the Arlington Desalter are generally less than purchasing imported water from MWD.

The Arlington Basin is an unadjudicated subsection of the Riverside-Arlington Groundwater Basin, which is considered to be a sub-basin of the larger Upper Santa Ana Valley Groundwater Basin. Pursuant to SGMA, DWR initially designated the Arlington Basin as a high priority basin for purposes of groundwater management. However, after a reassessment, DWR designated the Arlington Basin as a very low priority basin, which eliminated the legal obligation to develop a groundwater sustainability plan under SGMA for the Arlington Basin. Nonetheless, the District had previously developed a groundwater management plan for the Arlington Basin in 2012 (prior to the enactment of SGMA), and the District has elected to become the groundwater sustainability agency (the “**Arlington Basin GSA**”) for the Arlington Basin pursuant to SGMA.

The Arlington Basin GSA is currently developing a groundwater sustainability plan to manage the Arlington Basin. Under SGMA, the Arlington Basin GSA must consider the interests of all groundwater users in the Arlington Basin and may require registration of groundwater users, the installation of flow meters to measure groundwater extractions and annual reporting of extractions. In addition, the Arlington Basin GSA is authorized to impose spacing requirements on new wells, monitor, regulate and limit or condition groundwater production and establish production allocations among groundwater producers, among other powers. The Arlington Basin GSA is authorized to impose fees to fund such activities and to fine or issue cease and desist orders against producers that violate the Arlington Basin GSA’s regulations. Groundwater sustainability plans must include sustainability goals and a plan to implement such goals within 20 years.

The District does not currently expect its costs to extract groundwater from the Arlington Basin to change significantly as a result of the establishment of the Arlington Basin GSA, nor does the District currently expect the enactment of SGMA to have a material adverse effect on the District’s ability to pay the Installment Payments.

Wholesale Purchases. In Fiscal Year 2019, potable and non-potable water purchased at wholesale from water service providers (other than MWD) comprised approximately 11% of the District’s total water supply (including recycled water supplies, which are discussed under the caption “—The Recycled Water System”). Wholesale suppliers to the District include the following entities:

Elsinore Valley Municipal Water District. In 2003, the District entered into an amended agreement with Elsinore Valley Municipal Water District (“**EVMWD**”) under which the District is entitled to purchase up to 9 cubic feet per second (equivalent to approximately 6,520 acre feet per year) of EVMWD’s entitlement to local groundwater supplies. In order to take physical delivery of EVMWD’s entitlement, the

District entered into an agreement in 2003 (the “**Riverside Agreement**”) under which the City of Riverside pumps potable and non-potable groundwater from wells in the Bunker Hill groundwater basin (a sub-basin of the SBBA) and transports it through the City of Riverside’s distribution system to the District. The Riverside Agreement also governs the District’s wholesale water purchases from the City of Riverside, as discussed under the subcaption “—City of Riverside” below. The District is currently in discussions with EVMWD to develop a new long-term lease arrangement. Such an agreement is anticipated to be completed by summer 2020, although there can be no assurance as to the timing or terms of such an agreement.

Eastern Municipal Water District. The District regularly purchases potable water from EMWD for the District’s Murrieta service area at wholesale rates that are determined by EMWD. In Fiscal Years 2019, 2018 and 2017, the District purchased 1,744 acre feet of water at a cost of \$2,169,308, 1,880 acre feet of water at a cost of \$2,381,825 and 1,619 acre feet of water at a cost of \$2,000,233, respectively. The District’s purchases from EMWD are not undertaken pursuant to contract and there can be no assurance that the District will be able to purchase potable water from EMWD in future years.

City of Riverside. In 2017, the District entered into the Cooperative Agreement for Long-Term Wheeling and Surplus Water Sales (the “**Cooperative Agreement**”) with the City of Riverside. Under the Cooperative Agreement, the District is entitled to purchase up to 5,408 acre feet per year of water that the District has acquired and up to 2,000 acre feet per year of surplus water from the City of Riverside. The District also purchases non-potable water from the City of Riverside. These purchases are subject to available capacity in the Riverside Canal, through which water purchased by the District is delivered. The District may also use capacity in the Riverside Canal to convey water that the District purchases from other providers, such as the purchases which are described under the subcaption “—Elsinore Valley Municipal Water District” above. Under the Cooperative Agreement, the District will pay the City of Riverside the incremental costs to the City of Riverside to produce and deliver the water supplied and/or transported. Under the Cooperative Agreement, City of Riverside surplus deliveries are scheduled to terminate in 2027 and Western-acquired water deliveries are scheduled to terminate in 2037.

Chino Basin. The District is a member agency of the Chino Basin Desalter Authority (“**CDA**”), a joint powers authority that manages the production, treatment and distribution of highly treated potable water extracted from the Chino Groundwater Basin (the “**Chino Basin**”). The Chino Basin encompasses an area of approximately 235 square miles and currently holds approximately 5,000,000 acre feet of groundwater, with an estimated unused capacity of an additional 1,000,000 acre feet.

CDA was established in 2001 by the Inland Empire Utilities Agency (“**IEUA**”), the Cities of Chino, Chino Hills, Norco and Ontario, Jurupa Community Services District (“**JCSD**”) and the Santa Ana River Water Company. The District became a member of CDA in 2008 and a voting member of CDA in 2011. The District’s participation in CDA is accounted for as a joint venture without an equity interest.

CDA purifies brackish groundwater extracted from the Chino Basin by removing total dissolved solids and nitrates. Treatment occurs at CDA’s Chino Desalter I and Chino Desalter II facilities. Chino Desalter I, which was originally constructed in 2000, consists of a reverse osmosis water treatment facility, including associated wells and distribution pipelines, with a design capacity of 14.2 MGD. Chino Desalter II, which was originally constructed in 2006, consists of reverse osmosis (6 MGD) and ion exchange treatment (4 MGD) facilities, including associated wells and distribution pipelines.

CDA recently completed the construction of the Chino Desalter II Phase 3 Expansion project, which is designed to increase groundwater pumping from the lower Chino Basin and provide additional water capacity of 10,600 acre feet per year (or approximately 9.5 MGD). The District is a participant in the Phase 3 Expansion project together with JCSD and the City of Ontario. The District, JCSD and the City of Ontario are responsible for funding the remaining cost of the \$154 million project, net of grants. Through June 30, 2019, the District’s total share of the cost of the project is expected to be \$68 million, excluding the District’s internal costs and capitalized interest, less \$33 million in expected grant funding, for a net expected cost of \$35

million. The District's share of costs incurred through June 30, 2019, including the District's internal costs and capitalized interest, was \$74 million. The District's share of the costs of the Chino Desalter II Phase 3 Expansion project is being capitalized throughout construction, resulting in capacity rights of 3,534 acre feet of water per year. Final cost reconciliation will be completed by June 30, 2020.

The delivery of desalter water from CDA to the District is governed by the terms of an Agreement, dated as of July 1, 2011 (the "**LRP Agreement**"), by and among MWD, the District, IEUA and CDA. Under the MWD Agreement, MWD agreed to provide a financial contribution toward the cost of water produced by CDA from the Chino Desalter I and Chino Desalter II facilities. The contribution was initially set at \$139 per acre foot and is subject to reduction by 0.000071 cents per each dollar in grants above \$27,800,000 that the District, IEUA or CDA receives to fund the Chino Desalter II Phase 3 Expansion project. MWD's contribution is currently \$102 per acre foot based on the grants that have been approved.

MWD's financial contribution under the LRP Agreements arises from MWD's Local Resources Program, which was established to provide financial assistance for water recycling and groundwater recovery projects that reduce demand on MWD's imported water supplies. Pursuant to the LRP Agreement, MWD's financial contribution is effectuated by crediting MWD's bills to the District for imported water purchases.

The term of the LRP Agreement is twenty years from the commencement date of July 1, 2011. As a result of MWD's contributions under the LRP Agreement, the District's effective costs to purchase water from CDA are currently \$621 per acre foot. The District is obligated to purchase water up to its capacity right when water is available from CDA, and payments are due to CDA only to the extent that CDA makes available water to the District. See the caption "**—Arlington Desalter**" for a discussion of the La Sierra Pipeline, which will connect CDA's desalters to the Sterling Reservoir, where water can be stored for later delivery to the District's Riverside retail service area.

The Chino Basin is managed by a watermaster (the "**Chino Basin Watermaster**"), which was created pursuant to the terms of a judgment (the "**1978 Judgment**") entered in Superior Court of California, County of San Bernardino (the "**Superior Court**") Case No. RCV 51010 (formerly Case No. SCV 164327), entitled *Chino Basin Municipal Water District v. City of Chino, et al.*, to administer the terms of the 1978 Judgment. The Chino Basin Watermaster provides a forum for Chino Basin stakeholders to work cooperatively to manage the Chino Basin to meet regional water supply needs. The 1978 Judgment, which was entered on January 27, 1978, adjudicated all groundwater rights in the Chino Basin and contains a physical solution to meet the requirements of water users having rights in or dependent upon the Chino Basin.

The 1978 Judgment declared that the safe yield of the Chino Basin is 140,000 acre feet per year, which is allocated among three classes of water users (or "pools"): (1) the Agricultural Pool, which includes the State and all overlying producers of water for uses other than industrial or commercial purposes (82,800 acre feet per year); (2) the overlying Non-Agricultural Pool, which represents producers of water for industrial or commercial purposes (7,366 acre feet per year); and (3) the Appropriative Pool, which represents cities, districts, other public or private utilities and certain other users (49,834 acre feet per year). The representatives of the pool committees constitute an Advisory Committee that advises the Chino Basin Watermaster's nine-member board, which is comprised of representatives of each of the three pools as well as representatives from the wholesale water agencies within the Chino Basin.

The 1978 Judgment was amended in 2000 through the signing of the Peace Agreement, which, among other things, established procedures to implement an Optimum Basin Management Program (the "**OBMP**") to preserve and enhance the Chino Basin's safe yield and water quality through the construction of desalters and other measures, and again in 2007 through the signing of the Peace II Agreement, which, among other things, provided for the expansion of desalters to treat groundwater degraded by past agricultural practices.

Chino Basin Watermaster staff provide accounting services for water appropriations and groundwater storage, groundwater monitoring services, services related to the implementation of special projects within the

Chino Basin service area and services related to the purchase of replenishment water, when available. The Chino Basin Watermaster's operations are governed by the 1978 Judgment, the OBMP, the Peace Agreement, the Peace II Agreement and rules and regulations adopted by the Chino Basin Watermaster's board. The Chino Basin Watermaster is considered an arm of the Superior Court and reports to the Superior Court on a regular basis as part of the Superior Court's ongoing jurisdiction to enforce the 1978 Judgment.

The amount of groundwater held in the Chino Basin fluctuates depending upon precipitation, pumping demand and the availability of replenishment water. Replenishment water has not been available every year, resulting in limitations on the Chino Basin Watermaster's ability to recharge the Chino Basin. However, local replenishment supplies have been available in the form of purchases of water held in local storage accounts to offset overproduction.

A fundamental premise of the physical solution embodied by the 1978 Judgment is that all Chino Basin water users (*not* including the District, which does not hold pumping rights in the Chino Basin) will be allowed to pump sufficient water from the Chino Basin to meet such users' requirements. To the extent that pumping by such users exceeds the share of the safe yield assigned to the overlying pools (or the operating safe yield in the case of the Appropriative Pool), each pool will provide funds to the Chino Basin Watermaster to replace the overproduction with supplemental water (primarily, water imported into the Chino Basin).

As an adjudicated groundwater basin, the Chino Basin is not subject to the provisions of SGMA.

CDA faces various challenges in the continued supply of water to the District. A description of these challenges as well as a variety of other operating information with respect to CDA is included in certain disclosure documents prepared by CDA. CDA has certain publicly available documents and has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated for the benefit of owners of certain of its outstanding obligations to file annual reports, notices of enumerated events as defined under Rule 15c2-12 and annual audited financial statements (the "**CDA Information**") with EMMA. None of the CDA Information is incorporated into this Official Statement by reference thereto, and the District and the Authority make no representation as to the accuracy or completeness of such information. CDA HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE AUTHORITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE CDA INFORMATION TO THE DISTRICT, THE AUTHORITY OR THE OWNERS OF THE BONDS.

CDA HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO CDA. CDA IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE DISTRICT, THE AUTHORITY OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Recycled Water. In Fiscal Year 2019, recycled water deliveries comprised approximately 1.4% of the District's total water supply. See the caption "—The Recycled Water System" for a description of the District's recycled water system.

Future Water Supplies. See the caption "—Water Storage and Banking" for a discussion of water supplies that the District expects will become available in the future.

Wholesale Customers

The District is able to supply treated and untreated water at wholesale to 14 retail water service providers, although only 7 of such providers currently purchase water from the District on a regular basis in significant quantities. The District's sales to its wholesale customers consist primarily of imported water

purchased from MWD, although the District sells water produced at the Arlington Desalter to the City of Norco. See the caption “—Water Supply—Arlington Desalter” above and the subcaption “—City of Norco” below.

The District’s charges to its wholesale customers include the District’s cost of purchasing water from MWD as well as a per-acre foot surcharge, a maintenance fee for all connections to the District’s gravity line, a monthly capacity charge, a readiness-to-serve charge, or, in the case of the City of Norco, a rate that is determined by operation and maintenance costs and capital costs of the Arlington Desalter. For each wholesale customer that owns service rights in the Mills Gravity Line, a proportional amount to fund the Mills Gravity Line Major Maintenance Reserve is assessed.

A summary of the District’s wholesale water deliveries for the last five Fiscal Years is set forth under the caption “—Historical Water System Deliveries.” A summary of the District’s wholesale water deliveries and the revenues therefrom for the most recent Fiscal Year is set forth below.

**Western Municipal Water District
Fiscal Year 2019 Wholesale Customer Deliveries**

<i>Wholesale Customer</i>	<i>Water Deliveries in Acre Feet</i>	<i>Percentage of Wholesale Sales</i>	<i>Revenues⁽¹⁾</i>	<i>Percentage of Wholesale Sales Revenues</i>
Elsinore Valley Municipal Water District	18,932	33.51%	\$18,987	37.17%
City of Corona	16,023	28.36	11,769	23.03
Rancho California Water District	13,811	24.44	12,433	24.34
City of Norco	4,634	8.20	4,717	9.23
Temescal Valley Water District	2,888	5.11	2,974	5.82
Box Springs Mutual Water Company	117	0.21	142	0.28
Eagle Valley Mutual Water District	<u>91</u>	<u>0.16</u>	<u>65</u>	<u>0.13</u>
Total ⁽²⁾	56,496	100.00%	\$51,087	100.00%

⁽¹⁾ Dollars in thousands.

⁽²⁾ Includes both treated and untreated water deliveries. Excludes 2 acre feet sold to MWD in Fiscal Year 2019. MWD is not a retail water service provider.

Source: District.

A description of each of the District’s wholesale customers is set forth below.

Elsinore Valley Municipal Water District. EVMWD’s 96 square mile service area is located in the central portion of the District’s service area near Lake Elsinore. EVMWD serves over 155,000 people through over 46,000 connections with water extracted from EVMWD-owned wells, surface water from Canyon Lake (a 12,000 acre foot EVMWD-owned reservoir that impounds runoff from the San Jacinto River watershed) and treated water purchased from the District. Wholesale purchases from the District account for approximately 55% of EVMWD’s water supply each year.

City of Corona. The City of Corona’s 45 square mile service area includes territory both inside city limits and in unincorporated areas of the County in the northwestern portion of the District’s service area. The City of Corona’s Department of Water and Power serves over 150,000 customers through over 43,000 connections with water extracted from city-owned wells in the Bedford, Coldwater and Temescal Groundwater Basins and treated and untreated water purchased from the District. The City of Corona operates its own water treatment plants to treat untreated water that it purchases from the District prior to delivery to customers. Wholesale purchases from the District account for approximately 45% of the City of Corona’s water supply each year.

Rancho California Water District. RCWD’s 156 square mile service area includes territory inside the city limits of the cities of Temecula and Murrieta and unincorporated areas of the County in and near the southern portion of the District’s service area. RCWD serves over 155,000 customers through over 45,000 connections with water extracted from RCWD-owned wells in the Temecula-Murrieta Basin, recycled water and treated and untreated water purchased from the District and EMWD. Wholesale purchases from the District account for approximately 25% of RCWD’s water supply each year.

City of Norco. The City of Norco’s 14 square mile service area is contiguous with city limits in the northwestern portion of the District’s service area. The City of Norco serves over 26,000 customers through over 7,400 connections with water extracted from city-owned wells in the Temescal Groundwater Basin, treated groundwater purchased from CDA and water purchased from the District. Pursuant to a Water Purchase Agreement, dated as of July 1, 2003, by and among the City of Norco, the District and the Santa Ana Watershed Project Authority, the City of Norco may purchase up to 4,400 acre feet of water from the District each year through 2036. The District primarily supplies the City of Norco with treated groundwater that is produced at the Arlington Desalter (as discussed in detail under the caption “—Water Supply—Arlington Desalter”), although the District also supplies a small amount of treated imported MWD water to the City of Norco pursuant to a memorandum of understanding among the City of Norco, the District and the City of Corona dated May 15, 1996. Wholesale purchases from the District account for approximately 60% of the City of Norco’s water supply each year.

Temescal Valley Water District. Temescal Valley Water District’s (“TVWD”) 10.5 square mile service area is located in an unincorporated area of the County between the cities of Corona and Lake Elsinore in the central portion of the District’s service area. TVWD serves over 15,000 people with treated water purchased from the District, which is TVWD’s sole water source.

Box Springs Mutual Water Company. Box Springs Mutual Water Company (“BSMWC”) is a mutual water company that is located in the northeastern portion of the District’s service area. BSMWC serves approximately 3,300 people through approximately 600 connections with a blend of water extracted from a BSMWC-owned well in the Riverside South Groundwater Basin and treated water purchased from the District. Wholesale purchases from the District account for approximately 40% of BSMWC’s water supply each year.

Eagle Valley Mutual Water Company. Eagle Valley Mutual Water Company (“EVMWC”) is a mutual water company that is located in the northwestern portion of the District’s service area. EVMWC serves non-potable irrigation water to an agricultural area of approximately 3,070 acres. Purchases of untreated water from the District are EVMWC’s sole water source.

Other Potential Wholesale Customers. The District has the physical capability to deliver water at wholesale to the following water service providers, none of which currently purchase water from the District on a regular basis or in significant quantities: (i) the City of Riverside; (ii) JCSD; (iii) Home Gardens County Water District; (iv) Riverside Highland Water Company; (v) Rubidoux Community Services District; (vi) the Santa Ana River Water Company; and (vii) MWD.

Following the completion of the Chino Desalter II Phase 3 Expansion project in August 2019, JCSD began purchasing a portion of the District’s CDA water entitlement from the District. See the caption “—Water Supply—Chino Basin.”

Water Storage and Banking

The Santa Ana River Conservation and Conjunctive Use Program (“SARCCUP”) is a multi-agency watershed-wide program that will provide significant regional benefits to the Santa Ana River Watershed. The participants in SARCCUP are the District, EMWD, IEUA, Orange County Water District and San Bernardino Valley Municipal Water District. Other local agencies may participate in SARCCUP through one of the aforementioned agencies. The governance of SARCCUP will be through separate project agreements.

SARCCUP is expected to include: (1) the creation of a groundwater bank; (2) the implementation of water conservation measures; and (3) habitat enhancements and restoration. The total estimated cost of SARCCUP is approximately \$150,000,000, which is partially being funded by a \$55,000,000 DWR grant.

SARCCUP participants have collaborated and identified large-scale water supply reliability and water use efficiency projects within their own service areas that benefit the entire Santa Ana Watershed. The District's share of groundwater storage is 36,000 acre feet of the 180,000 acre feet of available storage that will be created through SARCCUP.

The total cost of the District's SARCCUP capital projects is approximately \$46.9 million, of which \$18.8 million will be funded from the DWR grant that is discussed above, for a net cost to the District of \$28.1 million. Of the total cost and grant reimbursement, approximately \$34.9 million of project costs and \$9.3 million in grant reimbursements have been expended and will be reimbursed, respectively, by June 30, 2020. Remaining project cost commitments of \$12.0 million and grant reimbursements of \$9.5 million, with a net cost of \$2.5 million, are expected to be incurred and received in the subsequent years with final completion by 2023. The District expects to pay for costs that are not funded from proceeds of the DWR grant from proceeds of the Bonds, from Net Revenues remaining after the payment of debt service on Parity Obligations and from proceeds of the 2015 State Contract. See the caption "THE DISTRICT—Outstanding Parity Obligations—2015 State Contract."

Recent Drought

State Orders. On January 17, 2014, after several years of below-average precipitation in the State, the State Governor declared a drought state of emergency (the "**Declaration**") with immediate effect. The Declaration encouraged local urban water suppliers, including the District, to implement their local water shortage contingency plans; the District's plan is discussed under the caption "—Water Shortage Contingency Plan." The Declaration also required DWR and the SWRCB to craft and enforce numerous emergency regulations that were designed to reduce water usage and increase water supplies.

For instance, a May 2015 SWRCB regulation required the District to effect a 32% reduction from its 2013 potable water usage. On May 18, 2016, the SWRCB adopted a revised regulation that gave water agencies the ability to establish their own conservation standards based on a "stress test" of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they had sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands became the water agency's updated mandatory conservation target.

The District's self-certification demonstrated that it had sufficient supplies to meet its projected demands, even if the State were to have endured three more years of drought. Consequently, the District's mandatory conservation target was eliminated retroactive to June 1, 2016.

On April 7, 2017, after significant improvement in water supply conditions across the State, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most California counties (including the County).

In 2018, the California Governor signed Senate Bill 606 and Assembly Bill 1668 into law. These bills relate to water conservation and drought planning and empower DWR and the SWRCB to adopt long-term standards on water use. The District is unable to predict the substance, timing of adoption or effect on the Water System of the implementation of Senate Bill 606 and Assembly Bill 1668 or any future legislation with respect to water conservation. District staff is actively participating in all applicable working groups in order to ensure the effective implementation of Senate Bill 606 and Assembly Bill 1668.

Water Shortage Contingency Plan. The District’s water shortage contingency plan, which is referred to as the Water Supply Shortage Contingency Program, is set forth in Ordinance 384 adopted by the Board on February 18, 2015. Under the District’s plan, the District responds to a water shortage in stages as follows:

- Stage 1 (Water Supply Watch) applies during normal supply conditions and is intended to foster responsible water use. Under Stage 1, wasteful use of water (including using hoses without shutoff nozzles, irrigating landscaping between the hours of 8:00 a.m. and 8:00 p.m. and washing down paved areas) is prohibited. In addition, plumbing leaks must be repaired within 96 hours.

- Stage 2 (Water Supply Alert) is intended to effect a reduction in water use of up to 4%. Under Stage 2, the restrictions applicable to Stage 1 will be in effect, and the District will develop a public information campaign and incentives to encourage conservation.

- Stage 3 (Mandatory Waste Reduction) is intended to effect a reduction in water use of up to 15%. Under Stage 3, which has three sub-stages that the Board can elect to implement, the District will not make any variances from customers’ water budgets (as described under the caption “—Water System Rates and Charges”) and certain pricing tiers are eliminated, resulting in higher water bills for customers that do not keep usage to within their water budgets.

- Stage 4 (Mandatory Outdoor Reduction) is intended to effect a reduction in water use of up to 50%. Under Stage 4, which has three sub-stages that the Board can elect to implement, the District will not provide new water meters and outdoor water budgets are reduced by increasing percentages (depending on the sub-stage). In addition, commercial and industrial customers must reduce their total water use by increasing percentages (depending on the sub-stage).

- Stage 5 (Mandatory Indoor/Outdoor Reduction) is intended to effect a reduction in indoor water use for domestic purposes. Under Stage 5, which has three sub-stages that the Board can elect to implement, indoor water budgets are reduced by increasing percentages (depending on the sub-stage) and irrigation meters will be locked by the District. In addition, commercial and industrial customers must reduce their total water use by increasing percentages (depending on the sub-stage).

The District is empowered to enforce its water shortage contingency plan with successively increasing fines and the installation of flow restriction devices.

The projected Water System operating results that are set forth under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” reflect continued normal supply conditions. The District does not currently expect that the implementation of its water shortage contingency plan in the future will have a material adverse effect on its ability to pay the Installment Payments from Net Revenues. As discussed under the caption “—Water System Rates and Charges,” the District’s rate structure consists of variable and fixed rate components. Decreased water consumption is partially offset by a decrease in related variable costs, while fixed water charges largely cover the District’s fixed operating and maintenance costs. In addition, the District has covenanted to set Water System rates and charges in amounts that it expects to be sufficient to pay the portion of the Installment Payments attributable to the Water System from Net Water System Revenues. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

If a water shortage should arise again in the future, legal issues exist as to whether different California Water Code provisions or State regulations will be invoked to manage the allocation of water. Any curtailment pursuant to State orders could necessitate an increase in the District’s water rates to Water System customers. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for a discussion of certain restrictions on the District’s ability to raise water rates.

Historical Water System Supply

The following table shows sources of supply for the Water System for the last five Fiscal Years.

Table 1
Western Municipal Water District
Historical Water Sources in Acre Feet

Fiscal Year Ended June 30	Purchased Water				Wells	Arlington Desalter	Recycled Water	Total	Percentage Increase/(Decrease)
	Purchased Treated Water⁽¹⁾	Purchased Untreated Water⁽²⁾	Total Purchased Water	Total Purchased Water					
2015	57,714	17,636	75,350	1,081	5,498	1,109	83,038	N/A%	
2016 ⁽³⁾	45,896	18,992	64,888	866	4,969	887	71,610	(13.8)	
2017	52,080	22,804	74,884	379	5,523	899	81,685	14.1	
2018	57,621	26,885	84,506	427	5,006	917	90,856	11.2	
2019 ⁽⁴⁾	50,778	24,178	74,956	393	4,627	1,166	81,142	(10.7)	

⁽¹⁾ Includes wholesale purchases of treated water from other retail water service providers. See the caption “—Water Supply—Wholesale Purchases.”

⁽²⁾ Includes wholesale purchases of untreated water from other retail water service providers. See the caption “—Water Supply—Wholesale Purchases.”

⁽³⁾ Decrease reflects the impact of mandatory conservation measures described under the caption “—Recent Drought.”

⁽⁴⁾ Decrease reflects wet hydrological year.

Source: District.

Historical Water System Deliveries

The following table shows water deliveries to wholesale and retail customers for the last five Fiscal Years.

Table 2
Western Municipal Water District
Historical Wholesale and Retail Water Sales in Acre Feet

<i>Customer</i>	<i>Fiscal Year</i> 2015	<i>Fiscal Year</i> 2016⁽²⁾	<i>Fiscal Year</i> 2017	<i>Fiscal Year</i> 2018	<i>Fiscal Year</i> 2019⁽³⁾
<u>Wholesale Customers</u>					
Elsinore Valley Municipal Water District	17,751	14,539	15,230	14,899	18,932
City of Corona	14,461	12,268	17,883	18,153	16,023
Rancho California Water District	16,770	15,055	15,719	21,965	13,811
City of Norco	4,310	4,241	4,604	4,530	4,634
Temescal Valley Water District	3,013	2,451	3,171	3,409	2,888
Box Springs Mutual Water Company	81	68	91	102	117
Eagle Valley Mutual Water District	<u>118</u>	<u>90</u>	<u>56</u>	<u>88</u>	<u>91</u>
Total Wholesale Customers ⁽⁴⁾	56,504	48,712	56,754	63,146	56,496
<u>Retail Customers</u>	<u>24,401</u>	<u>22,971</u>	<u>21,933</u>	<u>24,933</u>	<u>21,917</u>
Total Water Sales	80,905	71,683	78,687	88,079	78,413

⁽¹⁾ Differences between water sales and water supplies set forth under the caption “—Historical Water System Supply” reflect unaccounted for water, including water losses and inaccuracies in water meter readings.

⁽²⁾ Decrease reflects the impact of mandatory conservation measures described under the caption “—Recent Drought.”

⁽³⁾ Decrease reflects wet hydrological year.

⁽⁴⁾ Includes both treated and untreated water deliveries. Excludes 2 acre feet sold to MWD in Fiscal Year 2019. MWD is not a retail water service provider.

Source: District.

Historical water deliveries reflect connections to the Water System as well as water demand, which can be affected by weather conditions, State mandates and other factors.

Historical Water System Connections

The following table shows the number of retail connections to the Water System for the last five Fiscal Years.

Table 3
Western Municipal Water District
Historical Water System Retail Customers

<i>Fiscal Year</i> <i>Ended June 30</i>	<i>Residential</i>	<i>Commercial</i>	<i>Agricultural</i>	<i>Landscape</i>	<i>Total</i>	<i>Percentage</i> <i>Increase/(Decrease)</i>
2015	22,303	654	89	627	23,673	N/A%
2016	22,350	643	85	636	23,714	0.2
2017	22,475	654	76	662	23,867	0.7
2018	22,672	665	76	679	24,092	0.9
2019	22,913	682	72	704	24,371	1.2

Source: District.

Historical Water System Sales Revenues

The following table shows the sales revenues of the Water System for the last five Fiscal Years. Capacity charges are not included in the below numbers.

Table 4
Western Municipal Water District
Historical Water System Sales Revenues (Dollars in Thousands)

<i>Fiscal Year</i> <i>Ended June 30</i>	<i>Wholesale</i> <i>Sales</i>	<i>Retail Sales</i>	<i>Total</i>	<i>Percentage</i> <i>Increase/(Decrease)</i>
2015	\$45,032	\$24,502	\$69,534	N/A%
2016 ⁽¹⁾	42,674	21,314	63,988	(8.0)
2017	48,140	22,558	70,698	10.5
2018	55,958	25,762	81,720	15.6
2019 ⁽²⁾	51,089	23,886	74,975	(8.3)

⁽¹⁾ Decrease reflects the impact of mandatory conservation measures related to Statewide drought. See the caption “—Recent Drought.”

⁽²⁾ Decrease reflects wet hydrological year.

Source: District.

Water System sales revenues reflect water deliveries as well as adopted rates and charges. See the captions “—Historical Water System Deliveries” and “—Water System Rates and Charges.”

Largest Water System Customers

The following table shows the largest retail water customers of the District for the Fiscal Year ended June 30, 2019, as determined by water deliveries. The below table reflects information for both potable and non-potable/recycled water customers of the Water System.

Western Municipal Water District Ten Largest Retail Water Customers

<i>Customer</i>	<i>Customer Type</i>	<i>Water Deliveries in Acre Feet</i>	<i>Percentage of Total Retail Water Deliveries</i>
Riverside National Cemetery	Cemetery	932	4.3%
Altman Plants	Plant Nursery	629	2.9
Village Nurseries	Plant Nursery	463	2.1
Air Force 452 Air Mobility Wing	Federal Government	366	1.7
Pepsi Cola Plant	Industrial	302	1.4
Riverside Unified School District	Public Agency	283	1.3
City of Riverside ⁽¹⁾	Public Agency	268	1.2
Westmont Village	Homeowners Association	258	1.2
The Kroger Company	Commercial	256	1.2
General Old Golf Course	Golf Course	<u>240</u>	<u>1.1</u>
Total		3,997	18.4%

⁽¹⁾ Reflects water sold to the municipal government of the City of Riverside for consumption by such entity, rather than wholesale sales to the City of Riverside's Public Utilities department for sale to retail customers.

Source: District.

These customers accounted for approximately 18.4% of total retail water deliveries of 21,917 acre feet and approximately 8.0% of total Water System water sales Revenues of \$74,974,766 in Fiscal Year 2019.

See the caption "THE SEWER SYSTEM—Brine Line System Customers" for information with respect to the largest Sewer System customers of the District.

Water System Rates and Charges

Wholesale Rates and Charges. The District passes through its water purchase costs to its wholesale customers. A summary of current MWD's water rates is set forth under the caption "—Water Supply—Imported Water."

In addition to recovering the District's cost to purchase water, the District imposes a service fee in the current amount of \$22.68 per acre foot and a maintenance fee for Mills Gravity Line deliveries in the current amount of \$15.33 per acre foot on wholesale water sales. In addition, wholesale customers that hold service rights in the Mills Gravity Line (which is part of the infrastructure that enables the District to supply customers with imported water from MWD) are assessed a proportional amount to fund a Mills Gravity Line Major Maintenance Reserve.

Retail Rates and Charges.

General. The Water System's retail rates and charges are set by the Board and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The District is, however, required to comply with the notice, hearing and majority protest provisions of Article XIIIID of the State Constitution, which is popularly known as Proposition 218, as to its retail rates and

charges. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for further information with respect to Proposition 218.

The Board currently sets water rates and charges at a level that it determines is sufficient to pay all Maintenance and Operation Costs of the Water System, to make debt service payments and to maintain appropriate reserves for the Water System.

On October 4, 2017, after a public hearing as required under Proposition 218, the Board adopted a comprehensive rate plan for the District’s retail water customers (the “**Water Rate Plan**”), including Water System rate increases for calendar years 2018 through 2020. The Water Rate Plan remains in place as of the date hereof. There can be no assurance that the Board will not repeal or modify such rate increases in the future or that the District’s ratepayers will not approve an initiative to repeal or modify any increase in water rates and charges approved by the Board.

The projected operating results which are set forth under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” assume retail Water System rate increases of approximately 3.5% in Fiscal Year 2022 and 5.5% in Fiscal Years 2023 and 2024 for the Riverside retail service area and 3.3% per annum for the Murrieta retail service area beginning in Fiscal Year 2022. Such rate increases have not yet been adopted by the Board. There can be no assurance that Water System rates will be increased as projected herein. In the event that the Board does not adopt such rate increases as currently contemplated, Water System operating results could be materially different from the projections in this Official Statement.

Adopted Rates and Charges. The District’s retail water rates and charges include the following: (1) a commodity rate; (2) a water reliability rate; (3) a readiness-to-serve charge; (4) a pumping rate; and (5) a fixed system charge.

(1) Commodity Rates. The District imposes retail commodity rates based on individualized water budgets for customers in the Riverside area (other than a community known as March East) and Murrieta area; customers in the Rainbow area are not subject to water budgets. See the caption “THE DISTRICT—Land Use and Service Area.”

A “water budget” refers to the allocation of an efficient amount of water for a customer’s monthly water usage based on such customer’s needs. Water budgets are appropriate for most classes of customers because irrigable area can be measured and an appropriate allocation can be determined.

Water budgets for single family residential customers include an indoor and an outdoor water budget. Indoor water budgets are based on: (1) the number of persons in a household (assumed to be 3 persons, with variances available for larger households); (2) a standard usage rate of 60 gallons of water per person per day; and (3) the number of days in the billing cycle (generally between 28 and 36 days). The outdoor water budget is calculated based on: (1) the size of the irrigable landscape area per parcel; (2) daily weather data for microclimate areas within the District’s retail service area; (3) a “landscape factor” that reflects the water needs of specific types of plants and irrigation efficiencies established by State law; and (4) the number of days in the billing cycle.

Customers are billed on a tiered basis per hundred cubic feet of water (“**HCF**”) used in each billing cycle. Tiers 1 and 2 represent efficient indoor and outdoor water use, respectively, while Tiers 3 through 5 reflect inefficient, wasteful and unsustainable use. Current commodity rates are set forth below.

**Western Municipal Water District
Water Commodity Rates per HCF**

	<i>Riverside Area</i>	<i>Murrieta Area</i>	<i>March East</i>	<i>Rainbow Area</i>	<i>El Sobrante</i>	<i>Agricultural</i> ⁽¹⁾
Tier 1	\$1.313	\$2.006	\$3.306	\$2.406	\$1.313	\$ N/A
Tier 2	2.738	4.286	N/A	N/A	2.326	N/A
Tier 3	4.178	5.118	N/A	N/A	N/A	N/A
Tier 4	4.778	5.558	N/A	N/A	N/A	N/A
Tier 5	8.218	6.438	N/A	N/A	N/A	N/A
Potable ⁽²⁾	N/A	N/A	N/A	N/A	N/A	2.326
Non-Potable ⁽²⁾	N/A	N/A	N/A	N/A	N/A	1.977 ⁽²⁾

⁽¹⁾ In the El Sobrante area within the Riverside retail service area, Tier 1 reflects usage of up to 26 HCF per billing cycle, while Tier 2 reflects usage of over 26 HCF per billing cycle.

⁽²⁾ This rate also applies to non-potable landscape customers.

Source: District.

See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218—Article XIID” for a discussion of recently concluded litigation that approved the District’s commodity rates.

(2) Water Reliability Rate. The District imposes a water reliability rate of \$0.42 per HCF on customers in the Riverside and March East service areas for non-agricultural water customers. Agricultural customers pay \$0.28 per HCF as of January 1, 2020. Revenue from the water reliability rate is dedicated to funding local water supplies, guarding against imported water shortages and ensuring uninterrupted local access to water.

(3) Readiness-to-Serve Charge. The readiness-to-serve charge is a pass-through of a charge imposed on the District by MWD to fund MWD-managed storage basins such as Lake Skinner and Diamond Valley Lake, and ensures the District’s access to water in the event of an emergency, natural disaster or long-term drought. The charge is payable on a monthly basis and varies by meter size. Customers in the Murrieta area do not pay the readiness-to-serve charges. See the caption “THE DISTRICT—Land Use and Service Area.” Current readiness-to-serve charges are set forth below.

**Western Municipal Water District
Monthly Readiness-to-Serve Charges**

<i>Meter Size</i>	<i>Monthly Charge</i>
5/8"	\$ 1.47
3/4"	2.21
1"	3.69
1½"	7.37
2"	8.85
3"	22.12
4"	44.24
6"	99.54
8"	132.72
10"	176.96
12"	248.85

Source: District.

(4) Pumping Rate. The pumping rate is intended to recover the District's energy costs to deliver water through the Water System. Higher elevations are subject to a higher pumping rate. The current rates are as follows:

**Western Municipal Water District
Water Pumping Rates per HCF**

<i>Power Zone</i>	<i>Potable Water Pumping Rate</i>	<i>Non-Potable Water Pumping Rate</i>
1 (Riverside Area)	\$0.127	\$0.112
2 (Riverside Area)	0.189	0.112
3 (Riverside Area)	0.172	0.153
4 (Riverside Area)	0.424	0.378
5 (Riverside Area)	0.736	0.657
6 (Riverside Area)	0.815	0.727
7 (Murrieta Area)	0.000	N/A
8 (Murrieta Area)	0.234	N/A
9 (March East)	0.127	N/A
10 (Rainbow Area)	0.350	N/A

Source: District.

(5) Fixed System Charge. Revenue from the fixed system charge is used to pay for the operation and maintenance costs of the Water System. The charge is payable on a monthly basis and varies by meter size. Current fixed system charges are set forth below:

**Western Municipal Water District
Monthly Fixed System Charges**

<i>Meter Size</i>	<i>Riverside Area</i>	<i>Murrieta Area</i>	<i>Rainbow Area</i>
5/8"	\$ 30.43	\$ 32.00	\$ 30.43
3/4"	41.40	44.39	41.40
1"	62.99	68.56	62.99
1½"	117.13	129.28	117.13
2"	139.31	154.50	139.31
3"	333.98	384.49	333.98
4"	647.69	744.16	647.69
6"	847.75	1,641.58	847.75
8"	986.44	2,182.15	986.44
10"	1,157.24	2,907.64	1,157.24
12"	1,429.61	N/A	1,429.61

Source: District.

In addition to the above rates:

- Customers in the March East community of the Riverside area pay an asset replacement surcharge of \$1.499 per HCF of water used to finance significant repairs and replacements that are required to be undertaken for the water infrastructure in the March East community; and
- Customers in the Murrieta area pay a water standby charge of \$21 per acre or parcel of less than one acre. This charge is collected on the County tax roll.

Comparison to Nearby Service Providers. The table below sets forth a comparison of the District's typical monthly water bill for a single family residential user to those of certain nearby water purveyors. Information for agencies other than the District is as of calendar year 2019, while information for the District is as of the date of this Official Statement.

<i>Water Service Provider</i>	<i>Monthly 3/4" Meter Fixed Rate</i>	<i>Rate per HCF</i>
City of Norco	\$47.10	\$2.44
Western Municipal Water District	41.40	1.313⁽¹⁾
Elsinore Valley Municipal Water District	27.65	2.34 ⁽²⁾
City of Corona	25.23	2.10 ⁽²⁾
City of Riverside	18.07	1.19 ⁽³⁾

⁽¹⁾ Tier 1 rate.

⁽²⁾ Block 1 indoor use rate.

⁽³⁾ Summer rate in Tier 1 for first 9 units.

Source: District.

Capacity Charges. The District’s Water System capacity charges for most meters are set forth below. For meters that are larger than 2 inches in diameter, capacity charges are based on the District’s estimate of installation costs.

**Western Municipal Water District
Water System Capacity Charges**

<i>Meter Size</i>	<i>Riverside Area</i>	<i>Murrieta Area</i>
3/4”	\$ 7,681	\$ 7,050
1”	12,674	11,632
1½”	25,578	23,476
2”	40,939	37,575

Source: District.

Water System Collection Procedures

The District is on a monthly billing cycle for retail Water System customers. A consolidated bill which includes Sewer System service charges for customers that receive sewer service from the District is sent out every month to customers for services rendered in the prior month. Payment is due upon receipt and is considered late if not paid within 10 days from the date of the bill. If payment is not received, a late message appears on the next bill as a reminder. A late fee is assessed on all accounts that are not paid in full within 35 days of the billing date and customers receive a delinquent notice of disconnection. If payment is not made within 71 days of the billing date, water service will be discontinued until full payment is made, including late penalties, a \$15 shutoff fee and a \$50 reconnection fee.

The District’s shutoff policy complies with Senate Bill 998, a bill which restricts the discontinuation of water service to delinquent customers effective February 1, 2020.

Historically, less than 0.1% of charges billed to retail water customers are written off for non-payment, which amounts to less than \$25,000 per year. Most customers pay their bills in full, including late charges, prior to shutoff. However, in light of the recent trend in collections as a result of the COVID-19 outbreak, an amount of \$500,000 has been estimated for Water System write-offs for Fiscal Year 2020, with the District’s Board having taken action to suspend water shutoffs and late payment penalties through the end of June 2020. See the captions “THE DISTRICT—COVID-19 Outbreak” and “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage.”

Future Water System and General District Improvements

The District projects total Water System and general District capital improvements of approximately \$115.3 million over the current and next four Fiscal Years, including the Water System components of the 2020 Project, as described under the caption “THE 2020 PROJECT.” Such capital improvements are expected to be financed by a combination of the Bonds, grants, asset replacement reserves, reimbursements from other agencies for multi-agency projects, a future revolving line of credit in a maximum amount to be determined to fund a pipeline replacement program and Revenues remaining after payment of debt service on the Bonds. With the possible exception of the future line of credit, which may be entered into as a Parity Obligation or a subordinate obligation, the District does not anticipate entering into any additional Parity Obligations in the next five years to finance such capital improvements.

Projected Water System Supply

The District does not project material changes in the sources or amounts of its Water System supplies in the current or next four Fiscal Years. See the caption “—Historical Water System Supply” for a summary of Water System supplies in Fiscal Year 2019 and the prior four Fiscal Years.

Projected Water System Deliveries

The District does not project material changes in Water System deliveries to wholesale and retail customers in the current or next four Fiscal Years. See the caption “—Historical Water System Deliveries” for a summary of Water System deliveries in Fiscal Year 2019 and the prior four Fiscal Years. Water System deliveries can be affected by a number of factors, including State mandates, customer conservation, weather conditions and connections to the Water System. See the caption “—Projected Water System Connections.”

Projected Water System Connections

The District projects increases in the number of retail Water System connections of approximately 1.0% per annum in the Riverside service area and the Murrieta service area for the current and next four Fiscal Years. See the caption “—Historical Water System Connections” for a summary of retail Water System connections in Fiscal Year 2019 and the prior four Fiscal Years.

Projected Water System Sales Revenues

The District’s projections of Water System sales revenues for the current and next four Fiscal Years are set forth under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage.”

The projections of Water System sales revenues do not reflect material changes in Water System deliveries or connections from Fiscal Year 2019 levels (as discussed under the captions “—Projected Water System Deliveries” and “—Projected Water System Connections,” respectively). However, the projections do assume retail Water System rate increases of approximately 3.5% in Fiscal Year 2022 and 5.5% in Fiscal Years 2023 and 2024 for the Riverside retail service area and 3.3% per annum for the Murrieta retail service area beginning in Fiscal Year 2022. Such rate increases have not been adopted by the Board and are subject to the notice, hearing and protest provisions of Proposition 218. There can be no assurance that rate increases which are projected in Fiscal Years 2022 through 2024 will be approved. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

The projections of Water System sales revenues also reflect increases in wholesale water rates of approximately 4.2% per annum. Such rate increases are not subject to Proposition 218.

THE SEWER SYSTEM

General

The District provides sewer collection and treatment service to approximately 8,450 residential and 386 commercial, industrial and other customers. The District’s Sewer System includes approximately 198 miles of sanitary sewer lines, 1 treatment plant (the WWRF), which has a treatment capacity of approximately 3 MGD, and 19 lift stations.

Wastewater (i.e., sewage) collected by the District in the eastern and southeastern portion of the District’s Riverside retail service area, including March Air Reserve Base, is treated at the District-owned WWRF. See the subcaption “—Western Water Recycling Facility” below.

Wastewater collected by the District in the La Sierra retail service area is treated at the Western Riverside County Regional Wastewater Authority (WRCRWA) Treatment Plant (the “**WRCRWA Plant**”), which is operated by the District but owned by WRCRWA, a joint powers authority of which the District is a member agency. See the subcaptions “—Western Riverside County Regional Wastewater Authority Treatment Plant” and “—Other Wastewater Service Providers” below.

Wastewater collected by the District in the Murrieta retail service area is treated at the Santa Rosa Water Reclamation Facility (the “**SRWRF**”), which is owned by SRRRA, a joint powers authority of which the District is a member agency, or at facilities owned by EMWD. See the subcaptions “—Other Wastewater Service Providers” and “—Santa Rosa Water Reclamation Facility” below.

Certain large customers of the Sewer System discharge wastewater flow directly into the Inland Empire Brine Line (the “**Brine Line**”), an industrial wastewater disposal system that is owned by SAWPA, a joint powers authority of which the District is a member. See the subcaption “—Brine Line” below.

The District supplies recycled water to 61 retail customers. The District produces such water through the treatment of wastewater at the WWRF. The District’s recycled water system is accounted for as part of the Water System and includes approximately 50 miles of water mains, 2 storage tanks with a total storage capacity of 5.2 million gallons and 3 pump stations. See the caption “THE WATER SYSTEM—The Recycled Water System.”

Western Water Recycling Facility. The District owns and operates the WWRF, which provides wastewater collection and treatment for the March Air Reserve Base and other residential and commercial customers located southeast of the city of Riverside in the District’s Riverside service area. The WWRF is located in the City of Riverside near the southern boundary of March Air Reserve Base.

The WWRF was originally constructed in the 1940s. The District acquired the WWRF from the United States Air Force in October 2002 as a result of the Defense Base Closure and Realignment Act of 1990 and immediately began a significant upgrade and expansion of the WWRF which increased the WWRF’s treatment capacity to 1.0 MGD. A further upgrade which was completed in 2011 increased the WWRF’s treatment capacity to 3.0 MGD. Currently, the WWRF treats an average of approximately 1.2 MGD of wastewater from approximately 1,700 customers.

The WWRF is a tertiary treatment plant that produces recycled water which meets the requirements of Title 22 of the California Code of Regulations and is sold to 61 recycled water customers, including cemeteries, golf courses, schools, nurseries and parks. See the caption “THE WATER SYSTEM—The Recycled Water System.”

The District projects that growth in its Riverside service area will ultimately require the WWRF to accommodate 5.0 MGD of treatment capacity. The projected operating results which are set forth herein do not contemplate any expansion of the WWRF’s treatment capacity in the next five years, nor has the District determined the cost or the means of paying the cost of any such expansion.

Western Riverside County Regional Wastewater Authority Treatment Plant.

General. The District operates the WRCRWA-owned WRCRWA Plant, which provides wastewater collection and treatment in the western portion of the District’s Riverside service area. The WRCRWA Plant is located in the city of Eastvale, in the northwestern portion of the District’s general boundaries.

The WRCRWA Plant was originally constructed in 1998. In 2018, the WRCRWA Plant’s treatment capacity was increased to 14 MGD. Currently, the WRCRWA Plant treats an average of approximately 7.8 MGD of wastewater from WRCRWA member agencies, including the District, the City of Norco, Home

Gardens Sanitary District, JCSD and the City of Corona. The District has capacity rights of 1.93 MGD in the WRCRWA Plant and its wastewater flows to the WRCRWA Plant average approximately 0.85 MGD.

The WRCRWA Plant is a tertiary treatment plant that produces high quality biosolids and disinfected tertiary treated recycled water which meets the requirements of Title 22 of the California Code of Regulations. Treatment consists of bar screens, advanced activated sludge extended aeration, equalization, clarification, dual media sand filtration and sludge thickening and drying processes. Treated effluent is discharged to a point on Reach 3 of the Santa Ana River. The SWRCB approved a change of use petition for the WRCRWA Plant in February 2018, allowing WRCRWA to use some or all of its recycled water for beneficial use (i.e., irrigation and groundwater recharge).

The WRCRWA Plant is periodically the subject of odor complaints from nearby residential communities. WRCRWA's capital plan includes investment in odor mitigation technologies to reduce odors emanating from the WRCRWA Plant's operation.

Joint Powers Agreement. The WRCRWA Plant and portions of the associated regional collection system are owned by WRCRWA, a joint powers authority the members of which are the District, the City of Norco, Home Gardens Sanitary District, JCSD and the City of Corona, and operated by the District. Each member agency, including the District, appoints one director to WRCRWA's 5-member board of directors.

Under the 1992 joint powers agreement pursuant to which WRCRWA operates, the District pays WRCRWA amounts set forth in WRCRWA's budget, which is approved annually by WRCRWA's board of directors and by the governing board of each member agency to the extent that such member agency is participating in applicable budgeted operations. The approved budget covers operation and maintenance of the WRCRWA Plant and associated facilities as well as capital projects. In the event that unanimous approval of the budget by all participating WRCRWA members is not obtained, WRCRWA will operate in accordance with the last approved budget. The WRCRWA joint powers agreement is currently scheduled to expire in 2042.

The District's 1.93 MGD capacity rights in the WRCRWA Plant are treated as a lease of capacity in the WRCRWA Plant. WRCRWA applies capacity lease payments from the District and other WRCRWA members to pay debt service on WRCRWA obligations, which currently consist of a single loan in the outstanding principal amount of \$72,620,000 payable to the SWRCB (the "**WRCRWA SWRCB Loan**"). Pursuant to the WRCRWA Agreement, the District's obligations to pay its share of debt service on the WRCRWA SWRCB Loan are in the principal amount of \$603,458 as of June 30, 2019, with a final payment due in 2039. See the caption "THE DISTRICT—Outstanding Parity Obligations—WRCRWA Agreement."

Payments to WRCRWA for wastewater treatment services constitute Maintenance and Operation Costs of the Sewer System and the District's share of debt service on WRCRWA obligations constitute Parity Obligations and are payable from Net Revenues of the Sewer System on a parity with the Bonds. See the caption "THE DISTRICT—Outstanding Parity Obligations."

WRCRWA faces various challenges in the continued treatment of wastewater. Changes in the operation of the WRCRWA Plant could result in higher Sewer System Maintenance and Operation Costs to the District. See the caption "CERTAIN RISKS TO BONDHOLDERS—System Expenses." WRCRWA maintains an Internet website and prepares audited financial statements each fiscal year. NO INFORMATION PREPARED BY WRCRWA IS INCORPORATED INTO THIS OFFICIAL STATEMENT AND NEITHER THE DISTRICT NOR THE AUTHORITY MAKES ANY REPRESENTATION AS TO THE ACCURACY OF ANY INFORMATION PREPARED BY WRCRWA ON THE INTERNET WEBSITE OF WRCRWA. WRCRWA HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE AUTHORITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE INFORMATION RELATED TO WRCRWA TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE BONDS.

WRCRWA HAS NEITHER REVIEWED THIS OFFICIAL STATEMENT NOR MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO THE WASTEWATER TREATMENT PLANT OR WRCRWA. WRCRWA IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE INFORMATION RELATED TO WRCRWA FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Santa Rosa Water Reclamation Facility.

General. The District delivers wastewater to the SRRRA-owned SRWRF, which provides wastewater collection and treatment in the District's Murrieta service area. The SRWRF is located in the city of Murrieta.

The SRWRF was originally constructed in 1989 and has a treatment capacity of 5 MGD. The SRWRF is a sequencing batch reactor treatment facility which uses a biological treatment process followed by chemical clarification, filtration and disinfection to prepare wastewater for reuse. The SRWRF is a tertiary treatment plant that produces recycled water which meets the requirements of Title 22 of the California Code of Regulations. The SRWRF's collection system consists of approximately 80 miles of pipeline and three lift stations which transport flows from the cities of Temecula, Wildomar and Murrieta to the SRWRF.

Currently, the SRWRF treats an average of approximately 2.7 MGD of wastewater from SRRRA member agencies, including the District, RCWD and EVMWD. The District has capacity rights of 1.0 MGD in the SRWRF and its wastewater flows to the SRWRF in the second half of Fiscal Year 2019 averaged approximately 0.69 MGD from approximately 2,200 customers.

Joint Powers Agreement. The SRWRF and portions of the associated regional collection system are owned by SRRRA, a joint powers authority the members of which are the District, RCWD and EVMWD. Each member agency, including the District, appoints a director to SRRRA's 3-member board of directors. RCWD acts as the administrator of SRRRA and operator of the SRWRF.

Under the 2015 joint powers agreement pursuant to which SRRRA operates, the District pays SRRRA amounts set forth in SRRRA's budget, which is approved annually by SRRRA's board of directors. The approved budget covers operation and maintenance of the SRWRF and associated facilities, non-operating costs such as debt service and capital projects. SRRRA costs are payable by the member agencies in proportion to their equivalent dwelling units or wastewater flows to the SRWRF pursuant to a Wastewater Capacity Funding Agreement. In the event that the budget is not approved in a fiscal year, SRRRA will operate in accordance with the last approved budget. The WRCRWA joint powers agreement is currently scheduled to expire in 2114.

SRRRA applies payments from the District and other SRRRA members to pay debt service on SRRRA obligations, which currently consist of two series of outstanding bonds (collectively, the "**2017 Bonds**") and a loan payable to the SWRCB (the "**2018 SRRRA SWRCB Loan**"). The District's obligations to pay its share of debt service on the 2017 Bonds are in the principal amount of \$8,950,097 as of June 30, 2019, with a final payment due in 2034. The final amount to be payable under the 2018 SRRRA SWRCB Loan will be determined upon the completion of the project being financed thereby, but the District's share thereof is not expected to exceed a maximum principal amount of \$6,085,874, with a final payment due in 2051. See the caption "THE DISTRICT—Outstanding Parity Obligations."

Payments to SRRRA for wastewater treatment services under the District's Wastewater Capacity Funding Agreement constitute Maintenance and Operation Costs of the Sewer System. The Wastewater Capacity Funding Agreement is a "take-or-pay" contract, and, accordingly, the payment obligations of the District thereunder remain in effect whether or not treatment capacity is provided to it from the SRWRF at all

times or at all, whether or not the SRWRF is operable and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the SRWRF in whole or in part for any reason whatsoever. Additionally, such payments are not subject to any reduction and are not conditioned upon performance by the District, SRRRA, RCWD or EVMWD under any agreement. The obligations of the District under its Wastewater Capacity Funding Agreement are several obligations of the District, and the District is not liable under the Wastewater Capacity Funding Agreement for the obligations of RCWD or EVMWD to SRRRA.

Payments to SRRRA for the District's share of debt service on SRRRA obligations constitute Parity Obligations and are payable from Net Revenues on a parity with the Bonds.

SRRRA faces various challenges in the continued treatment of wastewater. A description of these challenges as well as a variety of other operating information with respect to SRRRA is included in certain disclosure documents prepared by SRRRA. SRRRA periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. SRRRA has also entered into certain continuing disclosure agreements pursuant to which SRRRA is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, including audited financial statements and notice of certain events, pursuant to Rule 15c2-12. Such official statements, other disclosure documents, annual reports and notices (collectively, the "**SRRRA Information**") are filed with EMMA. The SRRRA Information is not incorporated herein by reference thereto, and the District makes no representation as to the accuracy or completeness of such information. SRRRA HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE AUTHORITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE SRRRA INFORMATION TO THE DISTRICT OR THE OWNERS OF THE BONDS.

SRRRA HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION THAT IS CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO SRRRA. SRRRA IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Other Wastewater Service Providers. For approximately 76 of the District's Sewer System connections in the Murrieta service area, the District provides wastewater collection services only. Wastewater flow from such customers is treated at a plant that is owned and operated by EMWD.

Brine Line. The Brine Line, which was formerly known as the Santa Ana Regional Interceptor, is an industrial wastewater disposal system that is owned by SAWPA, a joint powers authority of which the District is a member. The Brine Line is designed to convey up to 30 MGD of non-reclaimable wastewater from the upper Santa Ana River basin area to the Pacific Ocean for disposal after treatment by the Orange County Sanitation District. The non-reclaimable wastewater consists of desalter brine concentrate and industrial wastewater. Brine Line dischargers include the District's Arlington Desalter (as discussed under the caption "THE WATER SYSTEM—Water Supply—Arlington Desalter") and desalters that are owned and operated by EMWD, CDA and the City of Corona. In addition, certain large customers of the Sewer System have direct connections to the Brine Line. See the caption "—Brine Line System Customers."

The District has entered into an agreement with SAWPA under which the District is responsible for operation and maintenance of approximately 10% of the 73 mile Brine Line pipeline system. The District operates a trucked wastewater disposal station located at the City of Corona's Wastewater Treatment Plant #1, which has a connection to the Brine Line. The District receives revenues from its share of the operations of the Brine Line which are included in Revenues of the District's Sewer System.

Regulatory Issues

The District-owned WWRF (as described under the caption “—General—Western Water Recycling Facility”) is operated pursuant to the terms of a Wastewater Discharge Requirement (“**WDR**”) permit issued by the SWRCB. The SWRCB administers WDR regulations pursuant to Division 7 of the State Water Code and regulations thereunder. The District’s present WDR permit for the WWRF, Waste Discharge Order No. R8-2003-0113, became effective November 21, 2003 and does not have an expiration date. The District maintains the WDR permit in good standing and is not currently subject to any cease and desist orders or unpaid monetary fines imposed by the SWRCB. The WRCRWA Plant and the SRWRF are operated by WRCRWA and SRRRA, respectively, pursuant to permits which are in good standing.

On May 2, 2006, the SWRCB issued General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (the “**General Order**”) requiring public agencies that own sanitary sewer systems comprised of more than one mile of pipes or sewer lines to develop sanitary sewer management plans and report all sanitary sewer overflows. The District is currently enrolled under the General Order and has a certified sanitary sewer management plan.

Historical Sewer System Retail Customers

The following table shows the number of connections to the Sewer System for the last five Fiscal Years.

Table 5
Western Municipal Water District
Historical Sewer System Retail Customers

<i>Treatment System</i>	<i>Fiscal Year 2015</i>	<i>Fiscal Year 2016</i>	<i>Fiscal Year 2017</i>	<i>Fiscal Year 2018</i>	<i>Fiscal Year 2019</i>
WWRF	1,631	1,635	1,685	1,708	1,714
WRCRWA	4,587	4,602	4,698	4,781	4,924
SRWRF/EMWD	<u>2,085</u>	<u>2,089</u>	<u>2,097</u>	<u>2,103</u>	<u>2,198</u>
Total	8,303	8,326	8,480	8,592	8,836

Source: District.

Historical Sewer System Usage

The following table shows the volume of wastewater collected by the Sewer System for the last five Fiscal Years.

**Western Municipal Water District
Historical Sewer System Usage**

Daily Average Flow (MGD)

<i>Fiscal Year Ended June 30</i>	<i>WWRF</i>	<i>WRCRWA</i>	<i>SRWRF/ EMWD⁽¹⁾</i>	<i>Total</i>	<i>Increase/ (Decrease)</i>
2015	0.7	0.7	N/A	1.4	N/A%
2016	0.9	0.7	N/A	1.6	14.3
2017	0.9	0.7	N/A	1.6	0.0
2018	1.2	0.7	N/A	1.9	18.8
2019	1.2	0.8	0.7 ⁽²⁾	2.8	47.4

⁽¹⁾ Information is not available for Fiscal Years 2015 through 2018. Prior to calendar year 2019, billings were based on equivalent dwelling unit numbers rather than wastewater flow.

⁽²⁾ Reflects information for the second half of Fiscal Year 2019 only.

Source: District.

Sewer System usage is affected by a number of factors, including but not limited to the number of connections to the Sewer System. See the caption “—Historical Sewer System Retail Customers.”

Historical Sewer System Service Charge Revenues

The following table shows service charge revenues of the Sewer System for the last five Fiscal Years. Capacity charge revenues are not included in the numbers below.

**Table 6
Western Municipal Water District
Historical Sewer System Service Charge Revenues (Dollars in Thousands)**

<i>Fiscal Year Ended June 30</i>	<i>Brine Line</i>	<i>WWRF</i>	<i>WRCRWA</i>	<i>SRWRF/ EMWD</i>	<i>Total</i>	<i>Increase/ (Decrease)</i>
2015	\$3,261	\$2,666	\$2,285	\$2,080	\$10,292	N/A%
2016	3,185	2,590	2,332	2,127	10,234	(0.6)
2017	4,396	2,268	2,544	2,304	11,512	12.5
2018	4,325	2,851	2,744	2,250	12,170	5.7
2019	4,195	3,013	2,868	2,333	12,409	2.0

Source: District.

Sewer System service charge revenues are affected by a number of factors, including the number of connections to the Sewer System and Sewer System usage. See the captions “—Historical Sewer System Retail Customers” and “—Historical Sewer System Usage.”

Brine Line System Customers

The following table shows historical information with respect to wholesale Sewer System customers that have direct connections to the Brine Line. See the caption “—General—Brine Line.”

Table 7
Western Municipal Water District
Sewer System Brine Line Customer Usage in Millions of Gallons

<i>Brine Line Customer</i>	<i>Fiscal Year</i> <i>2015</i>	<i>Fiscal Year</i> <i>2016</i>	<i>Fiscal Year</i> <i>2017</i>	<i>Fiscal Year</i> <i>2018</i>	<i>Fiscal Year</i> <i>2019</i>
California Rehabilitation Center ⁽¹⁾	78.39	-	-	-	-
City of Corona	577.19	591.69	572.77	569.45	594.15
Dart Container Corporation	7.68	8.34	8.13	7.85	7.83
Dairy Farmers of America ⁽²⁾	15.42	10.29	10.31	2.89	-
Giuliano & Sons Briners	0.55	0.86	0.88	0.93	0.75
Wellington Foods	4.60	4.31	4.39	4.73	4.33
JCSD	309.63	252.69	297.14	295.54	251.68
Rubidoux Community Services District	1.30	1.03	2.96	2.74	0.89
State of California	34.75	36.49	45.89	38.11	38.01
WCAC Operating Company ⁽³⁾	14.27	14.21	14.76	3.94	-
Flavor Specialties	0.93	1.25	1.60	1.68	1.65
WRCRWA ⁽⁴⁾	<u>5.53</u>	<u>4.72</u>	<u>3.83</u>	<u>2.28</u>	<u>0.51</u>
Total Brine Line Flow	1,050.24	925.88	962.66	930.14	899.80

⁽¹⁾ This customer has been treated as a customer of the City of Norco’s sewer system since Fiscal Year 2016.

⁽²⁾ This customer relocated its operations out of the District’s Sewer System service area in Fiscal Year 2018.

⁽³⁾ This customer is a natural gas producer. Decrease in Fiscal Year 2018 reflects a subsidiary of this customer going out of business.

⁽⁴⁾ Decreases reflect reduction in emergency discharge resulting from expansion of WRCRWA Plant capacity. See the caption “—General—Western Riverside County Regional Wastewater Authority Treatment Plant.”

Source: District.

These customers accounted for approximately 33% of total Sewer System service charge Revenues of \$12,409,135 in Fiscal Year 2019.

See the caption “THE WATER SYSTEM—Largest Water System Customers” for information with respect to the largest retail potable water and recycled water customers of the District.

Sewer System Rates and Charges

General. The Sewer System’s rates and charges are set by the Board and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The District is, however, required to comply with the notice, hearing and majority protest provisions of Article XIII D of the State Constitution, which is popularly known as Proposition 218. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for further information with respect to Proposition 218.

The Board currently sets sewer rates and charges at a level that it determines is sufficient to pay all Maintenance and Operation Costs of the Sewer System, to make debt service payments and to maintain appropriate reserves for the Sewer System.

On July 18, 2018, after a public hearing as required under Proposition 218, the Board adopted a comprehensive rate plan for the District’s retail sewer customers (the “**Sewer Rate Plan**”), including Sewer

System rate increases effective on October 1, 2018 and October 1, 2019. The Sewer Rate Plan remains in place as of the date hereof. There can be no assurance that the Board will not repeal or modify such rate increases in the future or that the District’s ratepayers will not approve an initiative to repeal or modify any increase in sewer rates and charges approved by the Board.

The projected operating results which are set forth under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” assume Sewer System rate increases beginning in Fiscal Year 2022 of approximately 3.5% per annum for each of the La Sierra, WWRF and Murrieta service areas above calendar year 2020 levels. Such rate increases have not yet been adopted by the Board. There can be no assurance that Sewer System rates will be increased as projected herein. In the event that the Board does not adopt such rate increases as currently contemplated, Sewer System operating results could be materially different from the projections in this Official Statement.

Adopted Rates and Charges. Adopted rates and charges for the Sewer System include fixed monthly charges or, for certain customers, commodity charges based on usage. The below table sets forth Sewer System rates for retail customers.

**Western Municipal Water District
Retail Sewer Service Rates and Charges**

<i>Service Area</i>	<i>Monthly Rate per EDU⁽¹⁾</i>	<i>Rate Per 1,000 Gallons of Wastewater Flow</i>
<u>La Sierra</u>		
Residential and Commercial	\$50.40	\$ -
Residential with Maintenance	55.40	-
<u>WWRF</u>		
Residential and Commercial	71.03	-
Dedicated Lift Station (Treatment)	-	6.015
Dedicated Lift Station (Treatment and Conveyance)	-	11.510
<u>Murrieta</u>		
Treatment Provided by EMWD	43.38	-
Treatment Provided by SRRRA	42.58	-

⁽¹⁾ An “EDU,” or equivalent dwelling unit, is an approximation of the amount of wastewater generated by an average single family residence.

Source: District.

Sewer System customers that have direct connections to the Brine Line (as described under the caption “—Brine Line System Customers”) pay a monthly charge of \$24,998 per million gallons of treatment and pipeline capacity in the Brine Line plus \$1,209 per million gallons of discharge.

Customers in the Murrieta area pay a sewer standby charge of \$21 per acre or parcel of less than one acre. This charge is collected on the County tax roll.

Comparison to Nearby Service Providers. The table below sets forth a comparison of the District’s typical monthly sewer bill for a single family residential user to those of certain nearby sewer service providers. Information for agencies other than the District is as of Fiscal Year 2019, while information for the District is as of the date of this Official Statement.

<i>Sewer Service Provider</i>	<i>Average Monthly Charge</i>
Western Municipal Water District	\$71.03 ⁽¹⁾
City of Norco	51.00
Western Municipal Water District	50.40 ⁽²⁾
City of Lake Elsinore	45.87 ⁽³⁾
City of Corona	45.60
Western Municipal Water District	42.58 ⁽⁴⁾
City of Perris	34.50 ⁽⁵⁾

(1) WWRF/March Air Reserve Base area.

(2) La Sierra area.

(3) Estimated based on \$1.15 daily rate. The City of Lake Elsinore’s rate structure changed to include fixed and variable components effective July 1, 2018.

(4) Murrieta area.

(5) Estimated based on \$1.15 daily rate.

Source: City.

Capacity Charges. The District’s Sewer System capacity charges for most meters are set forth below.

**Western Municipal Water District
Sewer System Capacity Charges**

<i>Service Area</i>	<i>Charge Per EDU</i>
La Sierra	\$ 7,621
WWRF	13,539
Murrieta (Treatment Provided by EMWD)	9,152
Murrieta (Treatment Provided by SRRRA)	9,568

Source: District.

Sewer System Collection Procedures

The District is on a monthly billing cycle for retail Sewer System customers that also receive water service from the District. A consolidated bill which includes Water System and Sewer System service charges is sent out every month to customers for services rendered in the prior month. See the caption “THE WATER SYSTEM—Water System Collection Procedures” for a description of the District’s collection procedures with respect to customers that receive both water and sewer service from the District.

Certain Sewer System customers of the District in the La Sierra service area do not receive water service from the District. For such customers, the District collects Sewer System rates and charges on an annual basis through County property tax rolls.

Historically, less than 0.1% of charges billed to Sewer System customers are written off for non-payment, which amounts to less than \$6,000 per year. However, in light of the recent trend in collections as a result of the COVID-19 outbreak, an amount of \$100,000 has been estimated for Sewer System write-offs for Fiscal Year 2020, with the District’s Board having taken action to suspend service disconnections and late payment penalties through the end of June 2020. See the captions “THE DISTRICT—COVID-19 Outbreak” and “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage.”

Future Sewer System Improvements

The District projects total capital improvements to the Sewer System of approximately \$9.6 million over the current and next four Fiscal Years, including the Sewer System components of the 2020 Project, as

described under the caption “THE 2020 PROJECT.” Such capital improvements are expected to be financed by a combination of the Bonds, asset replacement reserves and Revenues remaining after payment of debt service on the Bonds. The District does not anticipate entering into any additional Parity Obligations to finance such capital improvements.

Projected Sewer System Connections

The District projects increases of approximately 1.0% per annum for each of the La Sierra, WWRF and Murrieta service areas in the number of Sewer System connections for the current and next four Fiscal Years. See the caption “—Historical Sewer System Retail Customers” for a summary of retail Sewer System connections in Fiscal Year 2019 and the prior four Fiscal Years.

Projected Sewer System Usage

The District does not project material changes in Sewer System usage in the current or next four Fiscal Years. See the caption “—Historical Sewer System Usage” for a summary of Sewer System usage in Fiscal Year 2019 and the prior four Fiscal Years. Sewer System usage will be affected by a number of factors, including but not limited to the number of connections to the Sewer System. See the caption “—Projected Sewer System Connections.”

Projected Sewer System Service Charge Revenues

The District’s projections of Sewer System service charge revenues for the current and next four Fiscal Years are set forth under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage.”

The projections of Sewer System service revenues do not reflect material changes in Sewer System connections or usage from Fiscal Year 2019 levels (as discussed under the captions “—Projected Sewer System Connections” and “—Projected Sewer System Usage,” respectively). However, the projections do reflect retail Sewer System rate increases beginning in Fiscal Year 2022 of approximately 3.5% per annum for each of the La Sierra, WWRF and Murrieta service areas above calendar year 2020 levels. Such rate increases have not been adopted by the Board and are subject to the notice, hearing and protest provisions of Proposition 218. There can be no assurance that rate increases which are projected in Fiscal Years 2022 through 2024 will be approved. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION

Available Cash

As of February 29, 2020, the District had approximately \$166,261,133 in available unrestricted cash and investments.

Historical Operating Results and Debt Service Coverage

The following table is a summary of operating results of the Water System and Sewer System for the last five Fiscal Years. These results have been derived from the audited financial statements of the District, but exclude certain receipts which are not included as Revenues under the Master Installment Purchase Agreement and certain non-cash items and include certain other adjustments.

Western Municipal Water District
Historical Water System and Sewer System Operating Results
Fiscal Year Ended June 30

	2015	2016	2017	2018	2019
Revenues					
Wholesale Water Sales ⁽¹⁾	\$ 45,032,315	\$ 42,674,011	\$ 48,140,078	\$ 55,958,098	\$ 51,089,244
Retail Water Sales ⁽¹⁾	24,501,476	21,314,467	22,557,990	25,762,115	23,885,522
Water Service ⁽¹⁾	16,841,065	16,669,887	17,355,249	19,845,736	20,717,986
Wastewater Service ⁽¹⁾	10,292,222	10,234,040	11,512,039	12,169,537	12,409,135
Ad Valorem Taxes	18,220,982	18,837,555	20,053,654	21,728,238	23,641,810
Interest Income ⁽²⁾	2,172,604	4,791,047	(213,020)	(20,117)	8,672,749
Capacity Charge – Water ⁽³⁾	474,781	481,489	1,629,145	1,907,987	3,104,809
Capacity Charge – Wastewater ⁽³⁾	95,903	215,298	823,002	4,243,084	4,167,829
Federal, State and Local Capital Grants	2,115,190	4,057,387	3,913,610	12,574,333	2,320,149
Other Revenue ⁽⁴⁾	4,925,238	5,049,329	7,196,054	10,675,474	6,249,944
Total Revenues	<u>\$ 124,671,776</u>	<u>\$ 124,324,510</u>	<u>\$ 132,967,801</u>	<u>\$ 164,844,485</u>	<u>\$ 156,259,177</u>
Maintenance and Operation Costs					
Administration ⁽⁵⁾	\$ 11,671,604	\$ 8,239,639	\$ 11,064,591	\$ 14,041,869	\$ 14,458,740
Purchased Water ⁽⁶⁾	60,519,291	55,342,184	62,906,377	72,045,551	67,250,907
Water Operations	17,084,331	20,122,121	19,660,514	20,456,884	21,014,389
Wastewater Operations	9,032,370	9,610,188	10,746,113	10,254,410	10,275,481
Other Expenses	6,024,204	6,552,875	6,136,241	6,942,500	5,262,051
Contract Resource Obligations ⁽⁷⁾	508,808	1,725,125	89,063	-	89,053
Total Maintenance and Operation Costs	<u>\$ 104,840,608</u>	<u>\$ 101,592,132</u>	<u>\$ 110,602,899</u>	<u>\$ 123,741,214</u>	<u>\$ 118,350,621</u>
Net Revenues	<u>\$ 19,831,168</u>	<u>\$ 22,732,378</u>	<u>\$ 22,364,902</u>	<u>\$ 41,103,271</u>	<u>\$ 37,908,556</u>
Parity Obligations⁽⁸⁾					
Prior WRCRWA State Contracts ⁽⁹⁾	\$ 33,834	\$ 33,833	\$ 33,759	\$ 33,725	\$ -
2009 Installment Purchase Agreement ⁽¹⁰⁾	3,108,317	2,142,382	-	-	-
2010 Installment Purchase Agreement	3,047,965	3,008,567	3,020,184	3,012,302	3,013,122
2012 Installment Purchase Agreement	1,180,371	1,163,524	1,277,173	2,648,824	2,539,310
2015 State Contract (SRF Loan)	-	-	-	-	-
2016 Installment Purchase Agreement	-	335,672	779,608	779,597	779,586
Wastewater Capacity Funding Agreement (SRRRA)	-	-	-	817,161	769,558
2018 SRRRA Agreement (SRRRA SRF Loan)	-	-	-	-	-
WRCRWA Agreement (WRCRWA SRF Loan)	-	-	-	-	38,448
Total Parity Obligations	<u>\$ 7,370,487</u>	<u>\$ 6,683,978</u>	<u>\$ 5,110,724</u>	<u>\$ 7,291,609</u>	<u>\$ 7,140,024</u>
Remaining Net Revenues	<u>\$ 12,460,681</u>	<u>\$ 16,048,400</u>	<u>\$ 17,254,178</u>	<u>\$ 33,811,662</u>	<u>\$ 30,768,532</u>
Parity Obligations Coverage	2.69	3.40	4.38	5.64	5.31

⁽¹⁾ Decreases in Fiscal Year 2016 reflect the impact of mandatory conservation measures described under the caption “THE WATER SYSTEM—Recent Drought.”

⁽²⁾ Includes realized and unrealized gains and losses on investments. Unrealized gains (and losses) for Fiscal Years 2015 through 2019 were \$650,791, \$2,650,659, (\$2,635,149), (\$2,807,012) and \$5,484,615, respectively. Does not include return on investments in system improvement fund, which is used to make improvements to existing water or wastewater facilities.

⁽³⁾ Increases reflect increased levels of development activity within the District’s retail service area. See the captions “THE WATER SYSTEM—Water System Rates and Charges—Capacity Charges” and “THE SEWER SYSTEM—Sewer System Rates and Charges—Capacity Charges.”

⁽⁴⁾ Includes revenues from sale of District assets, returns of reserve funds and other miscellaneous revenues. Fiscal Year 2018 amount includes net gain on disposal of capital assets, including from sale of the District’s former headquarters building, of approximately \$2.5 million.

⁽⁵⁾ Reflects application of GASB 68, as described under the caption “THE DISTRICT—Employees and Employee Benefits—Pension Obligations.” GASB 68 pension expense (income) for Fiscal Years 2015 through 2019 was (\$538,915), (\$864,630), \$343,542, \$2,141,042 and \$1,088,008, respectively.

⁽⁶⁾ Decrease in Fiscal Year 2016 reflect the impact of mandatory conservation measures described under the caption “THE WATER SYSTEM—Recent Drought.” Decrease in Fiscal Year 2019 reflects wet hydrological year.

⁽⁷⁾ Reflects contractual obligations that are payable prior to debt service on Parity Obligations, including capacity purchases in the Brine Line. See the caption “THE SEWER SYSTEM—General—Brine Line.” These obligations were paid off in Fiscal Year 2019.

⁽⁸⁾ See the caption “THE DISTRICT—Parity Obligations.”

⁽⁹⁾ These obligations were paid off in Fiscal Year 2018.

⁽¹⁰⁾ These obligations were refunded from proceeds of the 2016 Installment Purchase Agreement.

Source: District.

Projected Operating Results and Debt Service Coverage

Estimated projected operating results for the Water System and the Sewer System for the current and next four Fiscal Years, reflecting certain significant assumptions concerning future events and circumstances, are set forth below. All of such assumptions are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

The basis for Fiscal Year 2020 projected amounts is the District's estimated Fiscal Year 2020 results. For Fiscal Years ending June 30, 2021 through 2024, the District has made several assumptions as described below.

- Wholesale water sales revenue is based on projected annual rate increases of 2.1%, 2.2%, 4.6% and 5.0% for Fiscal Years 2021, 2022, 2023 and 2024, respectively, for wholesale customers. The annual rate increase is believed to be sufficient to cover anticipated MWD rate increases on water purchased by the District. Rate increases for water sold from the District's Arlington Desalter and water from the District's share of Chino Basin Desalter operations are projected to equal expected cost increases. Wholesale water sales volume is based on estimated actual deliveries for Fiscal Year 2020. Wholesale water rate increases require Board approval but do not require a noticed hearing per Proposition 218.
- Retail water sales revenue is based on projected annual new customer growth of 1.0% in the Riverside and Murrieta service areas. The projection reflects no rate increase in Fiscal Year 2021. In the Riverside service area, rates are projected to increase by 3.5% in Fiscal Year 2022 and 5.5% in each of Fiscal Years 2023 and 2024. The projected rate increase of 5.5% per annum assume that there will be an increase of 5.0% in cost of supply by MWD for Fiscal Years 2023 and 2024. Should MWD not increase by this percentage, the District expects that its rate increases will be correspondingly lower. In the Murrieta service area, an average annual rate increase of 3.3% is projected beginning in Fiscal Year 2022. All rate increases are subject to the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected in Fiscal Years 2022 through 2024 will be approved. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for further information with respect to Proposition 218.
- Water service revenue is based on projected annual rate increases of 3% in the District's administrative fee charged to its wholesale customers. The projection also reflects new retail customer growth and annual rate increases beginning in Fiscal Year 2022 in the Riverside and Murrieta service areas, respectively, as described in the previous bullet. As a result of a Board action taken in March 2020 to suspend water shutoffs and late payment penalties through June 30, 2020 in response to the economic impact of the COVID-19 pandemic, annual delinquency-related revenues of approximately \$0.5 million are projected to decrease by 25% in Fiscal Year 2020. See the caption "THE DISTRICT—COVID-19 Outbreak." For purposes of the projected operating results, the District projects that the suspension will continue through December 2020. All retail customer rate increases are subject to the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected in Fiscal Years 2022 through 2024 will be approved. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for further information with respect to Proposition 218.
- Sewer service revenue is based on: (1) projected annual new customer growth of 1.0% for each of the La Sierra, WWRF and Murrieta service areas; (2) projected average annual rate increases beginning in Fiscal Year 2022 of 3.5% for each of the La Sierra, WWRF and Murrieta service areas; (3) for the WWRF service area only, a \$0.9 million increase in sewer service revenue for Fiscal Year 2020

primarily due to re-assessment of the number of EDUs for certain customers; and (4) projected annual rate increases of 4% for the Brine Line. All rate increases are subject to the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected in Fiscal Years 2022 through 2024 will be approved. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for further information with respect to Proposition 218.

- Property Tax Revenues are projected to decrease by approximately 1.4% in Fiscal Year 2021 and increase by 2.0%, 4.8% and 2.8% for Fiscal Years 2022, 2023 and 2024, respectively. These projections are primarily based on property assessed values adjusted for inflation (with a 2% maximum increase) and historical growth rates for properties that have transferred ownership. In addition, the projections reflect the following assumptions as a result of the impact of the COVID-19 pandemic: (1) an additional delinquency rate of 2.6%, or approximately \$0.7 million, for Fiscal Years 2021 and 2022; and (2) slower growth in assessed values resulting from a decline in property sales transactions reflected in Fiscal Years 2022 and 2023. See the caption “THE DISTRICT—COVID-19 Outbreak.”
- Interest income has been estimated at an earnings rate of 1.8%, 1.5%, 1.0% and 1.0% in Fiscal Years 2021, 2022, 2023, and 2024, respectively, on the projected average cash and investment balance.
- Capacity charge revenue is based on conservative customer growth estimates as described in the second and fourth bullets above and a projected 3% annual increase in capacity charge fees.
- Grant revenue is projected at: (1) \$9.3 million, \$1.8 million, \$4.1 million and \$3.6 million in each of Fiscal Years 2020, 2021, 2022 and 2023, resulting from the District’s participation in SARCCUP (as discussed under the caption “THE WATER SYSTEM—Water Storage and Banking”); (2) \$0.5 million in Fiscal Years 2021 and 2022 for a meter replacement program; (3) \$0.5 million in Fiscal Year 2020 for the Victoria Recharge Basin project (as discussed under the caption “THE WATER SYSTEM—Water Supply—Arlington Desalter”); and (4) \$0.5 million in Fiscal Year 2024.
- Other revenue consists of: (1) a total of approximately \$3.3 million annually for contract services paid to the District for providing administrative and operational support to WRCRWA for the WRCRWA Plant (as discussed under the caption “THE SEWER SYSTEM—General—Western Riverside County Regional Wastewater Authority Treatment Plant”) and to SAWPA for operational support of the Brine Line (as discussed under the caption “THE SEWER SYSTEM—General—Brine Line”); (2) approximately \$1.2 million annually for contract services paid to the District for providing development services support to developers; (3) a Mills Gravity Line major maintenance charge of \$0.8 million in Fiscal Year 2020, increasing to \$1.2 million starting in Fiscal Year 2021 (as discussed under the caption “THE WATER SYSTEM—Wholesale Customers”); (4) approximately \$0.4 million from MWD’s Local Resource Program related to Chino Basin Desalter water; and (5) other non-operating revenue of approximately \$0.5 million annually.
- Administration expense is based on Fiscal Year 2020 estimated actual amounts with a 4.5% annual growth rate thereafter.
- Purchased water expense is based on anticipated MWD Tier 1 rate increases on potable water purchased by the District, which are estimated at 2.4%, 3.5%, 5.0% and 5.0% for Fiscal Years 2021, 2022, 2023 and 2024, respectively. For Fiscal Year 2021, the District anticipates that the new replacement well in Murrieta will be operational, which will reduce purchased water expense in the Murrieta service area by \$1.2 million compared to Fiscal Year 2020. See the caption “THE WATER SYSTEM—Water Supply—Groundwater.”

- Water operations expense is based on the following assumptions: (1) increases of approximately 3.5% per annum; (2) additional expenses beginning in Fiscal Year 2020 of approximately \$2.4 million, increasing by 3.5% per annum in future years, related to the delivery of the District’s share of Chino Basin Desalter water; (3) an increase in water operations expenses in the Murrieta service area of \$0.6 million to reflect the construction of a new well (as discussed under the caption “THE WATER SYSTEM—Water Supply—Groundwater”); (4) an increase in operational expenses for the La Sierra Pipeline and Sterling Pump station of \$0.6 million, which are anticipated to be placed in service in Fiscal Year 2021 (as discussed under the caption “THE WATER SYSTEM—Water Supply—Arlington Desalter”); (4) \$0.4 million in Fiscal Year 2021 only for a tank maintenance program conditional assessment; and (5) an increase in uncollectible and write-off expenses from the recent historical average of approximately \$25,000 per year to \$0.5 million, \$0.6 million, \$0.3 million in Fiscal Years 2020, 2021 and 2022, respectively, as a result of economic impact of the COVID-19 pandemic. See the caption “THE DISTRICT—COVID-19 Outbreak.”
- Wastewater operations expense is based on increases of approximately 3.0% per annum. Uncollectible and write-off expenses are expected to increase to \$0.1 million in Fiscal Years 2020 and 2021, and \$50,000 in Fiscal Year 2022, as a result of an increase in unemployment due to the COVID-19 pandemic. See the caption “THE DISTRICT—COVID-19 Outbreak.”
- Other expenses consist of: (1) the District’s expenses (approximately \$3.3 million per year) associated with the contractual services that the District provides to other agencies as described in the “Other Revenue” bullet above; (2) the expense side of the contractual services the District provides to developers, excluding those that will be capitalized as an asset (\$0.6 million); (3) bond administration expenses of approximately \$250,000 per annum; (4) customer water use efficiency expenses of approximately \$600,000 per annum (funded by a conservation penalty component in the District water rates and a free sprinkler nozzle program); (5) special improvement studies and projects of approximately \$250,000 per annum; and (6) other miscellaneous expenses.

**Western Municipal Water District
Projected Water System and Sewer System Operating Results
Fiscal Year Ending June 30**

	2020	2021	2022	2023	2024
Revenues					
Wholesale Water Sales	\$ 47,380,312	\$ 49,840,027	\$ 51,083,398	\$ 53,368,049	\$ 55,928,275
Retail Water Sales	26,261,903	27,214,627	28,391,484	30,103,998	31,925,510
Water Service	22,455,710	23,080,130	24,167,755	25,375,496	26,659,053
Wastewater Service	13,719,837	14,029,027	14,641,343	15,280,472	15,947,589
Ad Valorem Taxes	24,587,363	24,243,140	24,728,003	25,914,947	26,640,566
Interest Income	3,563,391	3,487,335	3,027,622	2,120,377	2,244,344
Capacity Charge – Water	2,728,889	1,925,556	2,006,622	2,082,392	2,161,072
Capacity Charge – Wastewater	3,939,644	1,463,500	1,507,430	1,552,700	1,631,620
Federal, State and Local Capital Grants	9,750,000	2,325,000	4,600,000	3,600,000	500,000
Other Revenue	<u>5,990,401</u>	<u>6,587,057</u>	<u>6,595,731</u>	<u>6,604,579</u>	<u>6,613,604</u>
Total Revenues	\$ 160,377,450	\$ 154,195,399	\$ 160,749,388	\$ 166,003,010	\$ 170,251,633
Maintenance and Operation Costs					
Administration ⁽¹⁾	\$ 14,687,208	\$ 15,348,133	\$ 16,038,800	\$ 16,760,546	\$ 17,514,770
Purchased Water	62,871,211	63,199,370	65,062,957	68,286,434	71,844,543
Water Operations	23,892,375	26,423,296	26,529,618	27,192,508	28,102,844
Wastewater Operations	11,436,107	11,895,710	12,076,452	12,389,270	12,760,888
Other Expenses	<u>5,422,269</u>	<u>5,464,120</u>	<u>5,507,227</u>	<u>5,551,627</u>	<u>5,597,359</u>
Total Maintenance and Operation Costs	\$ 118,309,170	\$ 122,330,629	\$ 125,215,054	\$ 130,180,385	\$ 135,820,404
Net Revenues	\$ 42,068,280	\$ 31,864,770	\$ 35,534,334	\$ 35,822,625	\$ 34,431,229
Parity Obligations					
2010 Installment Purchase Agreement ⁽²⁾	\$ 3,052,486	\$ 1,729,977	\$ -	\$ -	\$ -
2012 Installment Purchase Agreement ⁽³⁾	2,688,802	2,705,061	2,725,317	2,746,810	2,763,088
2015 State Contract	-	1,492,012	1,492,012	1,492,012	1,492,012
2016 Installment Purchase Agreement ⁽²⁾	779,625	210,065	-	-	-
Wastewater Capacity Funding Agreement	1,015,489	985,491	760,288	734,671	734,343
2018 SRRRA Agreement	-	-	-	264,318	264,318
WRCRWA Agreement	39,482	39,482	39,482	39,482	39,482
2020 Installment Purchase Agreement	<u>-</u>	<u>3,296,997</u>	<u>4,800,625</u>	<u>4,800,500</u>	<u>4,799,625</u>
Total Parity Obligations	\$ 7,575,884	\$ 10,459,085	\$ 9,817,724	\$ 10,077,793	\$ 10,092,868
Remaining Net Revenues	\$ 34,492,396	\$ 21,405,685	\$ 25,716,610	\$ 25,744,832	\$ 24,338,361
Parity Obligations Coverage	5.55	3.05	3.62	3.55	3.41

⁽¹⁾ Does not reflect application of GASB 68, as described under the caption “THE DISTRICT—Employees and Employee Benefits—Pension Obligations.”

⁽²⁾ These obligations are being refunded from proceeds of the 2020 Installment Purchase Agreement. See the caption “REFUNDING PLAN.”

⁽³⁾ Reflects projected payments on the 2012 Installment Purchase Agreement at the Swap Agreement rate of 2.715% per annum. See the caption “THE DISTRICT—Outstanding Parity Obligations.”

Source: District.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority, special district or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriation limit is the 1978-79 State fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if: (a) the financial responsibility for a service is transferred to another public entity or to a private entity; (b) the financial source for the provision of services is transferred from taxes to other revenues; or (c) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

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

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

The District is of the opinion that its charges for water service and sewer service do not exceed the costs that it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. See the caption "SECURITY FOR THE BONDS—Rate Covenant" for a description of the District's covenant to set rates and charges for water service and sewer service.

Proposition 218

General. An initiative measure entitled the "Proposition 218 – the Right to Vote on Taxes Act" (the "**Initiative**") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Articles XIII C and XIII D to the State Constitution. According to the "Title and Summary" of the Initiative prepared by the State Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIII D. Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." Article XIII D further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency which imposes or increases any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, because fees for water service and sewer service are a "fee" or "charge" as defined in Article XIII D, the local government's ability to increase such fees or charges may be limited by a majority protest.

In addition, Article XIII D includes a number of limitations that are applicable to existing fees and charges, including provisions to the effect that: (a) revenues that are derived from the fee or charge may not exceed the funds which are required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge that is imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; and (d) no such 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. Property-related fees or charges based on potential or future use of a service are not permitted.

The District and its General Counsel believe that the District's covenant under the Master Agreement to set water and sewer rates and charges at levels that it expects will be sufficient to pay debt service on the Bonds and other Parity Obligations (as discussed under the caption "SECURITY FOR THE BONDS—Rate Covenant") complies with the requirements of Article XIIIID which are described in the preceding paragraph. Although the rate covenant does not specifically require the District to set rates and charges for the Water System and Sewer System on an individual basis, the District maintains separate enterprise funds for the Water System and Sewer System and internally allocates Water System and Sewer System revenues to ensure that such revenues are applied to costs of the Water System and Sewer System, respectively.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIIIID did not apply to charges for water and sewer services that are "primarily based on the amount consumed" (i.e., metered water or sewer rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The State Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the "**Bighorn Case**"), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The State Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to the Initiative. The District complied with the notice, hearing and protest procedures in Article XIIIID, as further explained by the State Supreme Court in the *Bighorn Case*, with respect to the water and sewer rate increases that were approved on January 8, 2020. See the captions "THE WATER SYSTEM—Water System Rates and Charges" and "THE SEWER SYSTEM—Sewer System Rates and Charges."

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the "**SJC Case**"), upholding tiered water rates under the Initiative provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion included a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The District's water rates, which are described under the caption "THE WATER SYSTEM—Water System Rates and Charges—Retail Rates and Charges—Adopted Rates and Charges," include tiered rates based on usage. The District has reviewed the holding in the *SJC Case* and determined that the District's water and sewer rates comply with the Initiative.

In September 2019, the Superior Court of California, County of Riverside, dismissed a challenge to the District's tiered commodity rates, which are described under the caption "THE WATER SYSTEM—Water System Rates and Charges—Retail Rates and Charges—Adopted Rates and Charges." The petitioners had asserted that the District's commodity rates, which include a water budget for each customer, violated the Initiative by charging customers more for water service than the cost to the District of producing and supplying water. The court dismissed a petition for a writ of mandate to invalidate the District's commodity rates, finding that the water budget structure complied with the Initiative.

Article XIIIIC. Article XIIIIC provides that the initiative power may 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 is applicable to all local governments. Article XIIIIC does not define the terms "local tax," "assessment," "fee" or "charge," so it was unclear whether the definitions set forth in Article XIIIID referred to above are applicable to Article XIIIIC. Moreover, the provisions of Article XIIIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn Case* that the provisions of Article XIIIIC 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.

On November 15, 2018, the California Court of Appeal, Third District (the “**Third District**”), issued an opinion in *Wilde v. City of Dunsmuir* (2018) 29 Cal.App.5th 158 (the “**Wilde Case**”) holding that taxpayers have the right under the Initiative to place a referendum on the ballot and vote on whether to repeal a city’s water rates. The *Wilde Case* concerned increases in water rates to fund specific water storage and delivery projects of the City of Dunsmuir (rather than to fund general operations of a water system) which the court concluded were legislative in nature and therefore subject to referendum. The District has reviewed the *Wilde Case* decision and determined that the decision does not directly impact the District and its water and sewer rate structure. The District notes that the Third District also in 2019 issued an opinion in *Howard Jarvis Taxpayers Association v. Amador Water Agency* (2019) 36 Cal.App.5th 279 holding that ratepayers cannot place a referendum on the ballot to vote on repeal of the agency’s water rates. This split in opinion has been appealed to the State Supreme Court, where it is awaiting review.

In any event, the District does not believe that Article XIII C grants to the voters within the District the power (whether by initiative under Article XIII C or otherwise, or by referendum, which is not authorized under Article XIII C) to repeal or reduce rates and charges for water service or sewer service in a manner that would interfere with the contractual obligations of the District or the obligation of the District to maintain and operate the System. However, there can be no assurance as to the availability of particular remedies adequate to protect the Beneficial Owners of the Bonds. Remedies that are available to Beneficial Owners of the Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies which are contained in the applicable documents themselves, the rights and obligations with respect to the Bonds, the Indenture, the Master Agreement and the Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiatives could be proposed and adopted affecting the District’s revenues or ability to increase revenues.

CERTAIN RISKS TO BONDHOLDERS

The following information, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the Bonds.

Limited Obligations

The obligation of the District to pay the Installment Payments is a limited obligation of the District and is not secured by a legal or equitable pledge or charge or lien upon any property of the District or any of its income or receipts, except the Net Revenues. The obligation of the District to pay the Installment Payments

does not constitute an obligation of the District to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

Accuracy of Assumptions

To estimate the Net Revenues available to pay the Installment Payments, the District has made certain assumptions with regard to various matters, including but not limited to future development within the District and increases in revenues resulting therefrom, the rates and charges to be imposed in future years, the expenses associated with operating the System and the interest rate at which funds will be invested. The District believes these assumptions to be reasonable, but to the extent that any of such assumptions fail to materialize, the Net Revenues available to pay the Installment Payments will, in all likelihood, be less than those projected herein. See the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage.” The District may choose, however, to maintain compliance with the rate covenant set forth in the Master Agreement in part by means of contributions from available reserves or resources, including the Rate Stabilization Fund. In such event, Net Revenues may generate amounts which are less than 110% of Adjusted Annual Debt Service in any given Fiscal Year. See the captions “SECURITY FOR THE BONDS—Rate Covenant” and “SECURITY FOR THE BONDS—Rate Stabilization Fund.”

System Demand

There can be no assurance that the demand for water service or sewer service will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the rate covenant. See the caption “SECURITY FOR THE BONDS—Rate Covenant.” Demand for water service or sewer service could be reduced or may not occur as projected by the District as a result of reduced levels of development in the District’s service area, hydrological conditions, conservation efforts, an economic downturn (including as a result of the COVID-19 outbreak that is discussed under the caption “THE DISTRICT—COVID-19 Outbreak”), mandatory State conservation orders and other factors.

System Expenses

There can be no assurance that the District’s expenses will be consistent with the descriptions in this Official Statement. Maintenance and Operation Costs may vary with the cost of imported water and the quality and amount of local supplies as well as treatment costs, regulatory compliance costs, labor costs (including costs related to pension and other post-employment benefits) and other factors.

Much of the District’s water supply is purchased from other public agencies, and increases in such agencies’ costs or changes in such agencies’ operations over which the District has no control could impact the District’s cost of water to supply its customers. See the caption “THE WATER SYSTEM—Water Supply.” Similarly, much of the wastewater collected in the District’s Sewer System is delivered to treatment plants that are operated by other public agencies, and increases in such agencies’ costs or changes in their operations over which the District has no control could impact the District’s Sewer System costs. See the caption “THE SEWER SYSTEM—General.” Increases in Maintenance and Operation Costs could require an increase in rates or charges in order to comply with the rate covenant. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Limited Recourse on Default

If the District defaults on its obligation to pay the Installment Payments, the Trustee, as assignee of the Authority, has the right to declare the total unpaid principal amount of the Installment Payments, together with the accrued interest thereon, to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the District will have sufficient funds to pay such accelerated amounts from Net Revenues.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIII C and XIII D to the State Constitution, affects the District's ability to maintain existing Water System and Sewer System rates and impose rate increases, and no assurance can be given that future proposals to increase Water System or Sewer System rates will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed Water System or Sewer System rate increases cannot be imposed as a result of majority protest or initiative, the District might thereafter be unable to generate Net Revenues in the amounts required by the Master Agreement to pay the Installment Payments. The District believes that its current Water System and Sewer System rates approved by the Board of Directors were effected in accordance with the public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

Statutory and Regulatory Compliance

Laws and regulations governing treatment and delivery of water and collection, treatment and disposal of wastewater are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Claims against the System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the System and constitute Maintenance and Operation Costs or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for municipal water or wastewater systems such as those operated by the District may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the District. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the District to generate Net Revenues in amounts that are sufficient to pay the Installment Payments.

Natural Disasters

The occurrence of any natural disaster in the District, including, without limitation, earthquake, wildfire, drought, high winds, landslide or flood, could have an adverse material impact on the economy within the District and the revenues available for the payment of the Bonds and result in substantial damage to and interference with the operations of the System.

Portions of the District's service area may be subject to unpredictable seismic activity. See the caption "THE DISTRICT—Seismic Considerations." The Master Agreement and the Installment Purchase Agreement do not require the District to maintain earthquake insurance and the District does not currently maintain such insurance. The District maintains liability insurance for the System and property casualty insurance (for losses other than from seismic events) for certain portions of the System. See the caption "THE DISTRICT—District Insurance." However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers. Furthermore, significant portions of the System, including certain pipelines, are not covered by property casualty insurance. Damage to such portions of the System as a result of natural disasters would result in uninsured losses to the District.

Limitations on Remedies

The ability of the District to comply with its covenants under the Master Agreement and the Installment Purchase Agreement and to generate Net Revenues in amounts that are sufficient to pay the Installment Payments may be adversely affected by actions and events outside of the control of the District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption "CONSTITUTIONAL LIMITATIONS ON

APPROPRIATIONS AND CHARGES—Proposition 218.” Furthermore, the remedies that are available to the owners of the 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, usual equity principles may limit the specific enforcement under State law of certain remedies, as may the exercise by the United States of America of the powers delegated to it by the federal Constitution and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium proceedings and other laws relating to or affecting creditors’ rights, or the exercise of powers by the federal or State government, if initiated, could subject the Beneficial Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited because the System serves an essential public purpose.

The opinion to be delivered by Bond Counsel concurrently with the issuance of the Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See Appendix C. In the event that the District fails to comply with its covenants under the Master Agreement or the Installment Purchase Agreement or fails to pay the Installment Payments, which secure the payments of principal of and interest on the Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority and the District have covenanted in the Indenture and the Master Agreement and Installment Purchase Agreement, respectively, to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds thereunder. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such Bonds as a result of acts or omissions of the Authority or the District in violation of such covenants or other covenants in the Indenture, the Master Agreement or the Installment Purchase Agreement. The Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See the caption “TAX EXEMPTION.”

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Parity Obligations

The Master Agreement permits the District to enter into Parity Obligations payable from Net Revenues on a parity with the Installment Payments, which secure the Bonds, subject to the terms and conditions set forth therein. The entry into of additional Parity Obligations could result in reduced Net Revenues available to pay the Installment Payments. The District has covenanted to maintain coverage of at

least 110% of Adjusted Annual Debt Service, as further described under the caption “SECURITY FOR THE BONDS—Additional Parity Obligations.”

Climate Change

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the System is difficult to predict, but it could be significant and it could have a material adverse effect on the District’s finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of System customers.

Cyber Security

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore’s 911 system, an attack on the Colorado Department of Transportation’s computers and an attack that resulted in the temporary closure of the Port of Los Angeles’ largest terminal.

The District employs a multi-level cyber protection scheme that includes firewalls, anti-virus software, anti-spam/malware software, intrusion protection and domain name system filtering software. The District also contracts with third party vendors to audit, monitor and augment internal monitoring of the District’s computer systems. To date, the District has not experienced an attack on its computer operating systems. However, there can be no assurance that a future attack or attempted attack would not result in disruption of District operations. The District expects that any such disruptions would be temporary in nature. As discussed under the caption “THE DISTRICT—District Insurance,” the District maintains insurance of cybersecurity breaches.

THE AUTHORITY

The Authority is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement, dated October 2, 2002, by and between the District and JCSD. The Authority is an autonomous entity that is separate from the District and JCSD and was formed for the public purpose of assisting the District, JCSD and other local agencies in financing capital projects. The members of the Board of Directors of the District constitute the Directors of the Authority.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the Bonds is subject to the approval of Best Best & Krieger LLP, Riverside, California, acting as Bond Counsel. The form of such legal opinion is set forth in Appendix C, and such legal opinion will be attached to each Bond. Certain matters will be passed upon for the Authority by Best Best & Krieger LLP, Riverside, California, as General Counsel, for the District by Best Best & Krieger LLP, Riverside, California, as General Counsel, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. The Underwriters are being represented by their counsel, Katten Muchin Rosenman LLP, New York, New York.

LITIGATION

District

General. At the time of delivery of and payment for the Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Master Agreement, the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the District's ability to pay the Installment Payments, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Master Agreement, the Installment Purchase Agreement or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its authority with respect to the Bonds or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

SDCWA Litigation. In 2010, 2012, 2014, 2016 and 2018, the San Diego County Water Authority ("SDCWA"), an MWD member agency like the District, filed lawsuits against MWD challenging MWD's adoption of water rates and charges effective January 1, 2011 through January 1, 2020. As an MWD rate payer, the District was named as a real party in interest and participated in all of the lawsuits. The 2010 and 2012 lawsuits were coordinated and proceeded to trial, while the 2014, 2016, and 2018 cases have been stayed by the court, pending final resolution of the 2010 and 2012 cases.

SDCWA alleged in the lawsuits that MWD's water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleged that such costs should be reclassified and reallocated so that MWD's remaining members, including the District, bear a larger share of the financial burden. On April 24, 2014, the trial court (San Francisco Superior Court) issued a final statement of decision in favor of SDCWA, finding no substantial evidence in the administrative record to support the inclusion of certain cost elements in MWD's water rates (in particular, MWD's System Access Rate and Water Stewardship Rate). The court could not lawfully order MWD to adopt a particular rate structure.

The District was not a defendant with respect to certain other claims, including: (a) a claim for declaratory relief based on MWD's alleged miscalculation of SDCWA's preferential rights to water; and (b) a claim for breach of an agreement known as the Exchange Agreement against MWD. The parties disputed the correct measure of damages for a breach of the Exchange Agreement, and whether the court could properly award damages. Final judgment was entered by the court on November 18, 2015 in favor of SDCWA and against MWD on most of such other causes of action.

MWD and the member agencies appealed the trial court decision. On June 21, 2017, the California Court of Appeal issued an opinion (San Diego County Water Authority v. Metropolitan Water District of Southern California (2017) 12 Cal. App. 5th 1124, as modified on denial of rehearing (July 18, 2017), review denied (Sept. 27, 2017)), reversing the judgment and vacating a peremptory writ of mandate. The Court of Appeal remanded the case back to the trial court for recalculation of damages and entered declaratory relief on the rate structure integrity clause. The Court of Appeal also ordered a redetermination of the prevailing party and that the parties bear their respective costs and attorney fees incurred on the appeal and cross-appeal.

On appeal, the central issue in dispute was cost allocation of charges imposed by MWD for transporting ("wheeling") water purchased from a third party. The court held that the inclusion of MWD's system-wide transportation costs in the calculation of its wheeling rate, including charges paid to the State Water Project, did not violate the wheeling statutes or the terms of the Exchange Agreement. The court affirmed the trial court's finding that the wheeling rate cannot include MWD's Water Stewardship Rate (which

was designed to fund a water conservation program) because the Water Stewardship Rate is supply-related, not transportation-related, and its inclusion as a component of the wheeling rate and Exchange Agreement transportation rates was unlawful. The Court of Appeal also found that SDCWA is entitled to recover the overcharges that resulted from inclusion of such charges in MWD's water rates.

On February 27, 2020, the SDCWA Board of Directors authorized its attorneys to dismiss, without prejudice, claims related to payments of the Water Stewardship Rate on supply purchases only and certain unquantified claims in the stayed cases. SDCWA continues to pursue contractual damages for rate years 2011 through 2017 associated with imposition of the Water Stewardship Rate and credits for benefits provided by SDCWA to MWD through SDCWA's acquisition of Exchange Agreement water. On June 16-18, 2020, the trial court held an evidentiary hearing pertaining to such issues and the other issues on remand from the Court of Appeal.

As a result of the Court of Appeal's decision, and depending upon the actions of the trial court on the issues that were remanded, the District's MWD water charges could increase. Because the District's policy is to pass MWD water rate increases through to imported water customers to the extent feasible, the District does not believe that such an increase by MWD would have a material adverse effect on the ability of the District to pay the Bonds.

Authority

At the time of delivery of and payment for the Bonds, the Authority will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Master Agreement, the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the Authority's ability to pay the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Master Agreement, the Installment Purchase Agreement or any action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the Bonds or any action of the Authority contemplated by any of said documents, nor to the knowledge of the Authority, is there any basis therefor.

TAX EXEMPTION

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of federal alternative minimum taxes.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District and the Authority have covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. For example, legislative proposals are announced from time to time which generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Certain requirements and procedures contained or referred to in the Indenture, the tax certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Best Best & Krieger LLP.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of other similar bonds).

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect an Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bond Owner or the Owner's other items of income or deduction, and Bond Counsel expresses no opinion regarding any such other tax consequences.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is attached hereto as Appendix C.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Agreement, dated as of July 1, 2020 (the "**Continuing Disclosure Agreement**"), by and among the District, the Authority, the Trustee and U.S. Bank National Association, as dissemination agent (the "**Dissemination Agent**") for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District by not later than each April 1 following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30) (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the District or the Dissemination Agent with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix E. These covenants have been made in order to assist the Underwriters in complying with Section (b)(5) of Rule 15c2-12.

Within the last five years, the District timely filed its Annual Reports. The District did not file in a timely manner a certain event notice regarding a rating change that occurred in May 2016. This rating change lowered the District's S&P jointly secured rating to AA+/A-1 from AAA/A-1 for the District's 2012A Bonds as a result of an update to S&P's Methodology and Assumptions for Rating Jointly Supported Financial

Obligations. The District is currently in compliance with all of its disclosure obligations under previous undertakings made pursuant to Rule 15c2-12.

As noted above, the District has engaged U.S. Bank National Association as its Dissemination Agent in connection with future continuing disclosure reporting. In addition, the District has adopted a debt management policy that includes procedures with respect to initial and continuing disclosure compliance.

RATINGS

The Authority expects that S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch Ratings, Inc. ("Fitch") will assign the Bonds the ratings of "AA+" and "AA+", respectively.

Future events, including the impacts of the COVID-19 pandemic that is described under the caption "THE DISTRICT—COVID-19 Outbreak," could have an adverse impact on the rating of the Bonds, and there is no assurance that any credit rating that is given to the Bonds will be maintained for any period of time or that a rating may not be qualified, downgraded, lowered or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant, nor can there be any assurance that the criteria required to achieve the rating on the Bonds will not change during the period that the Bonds remain outstanding. Any such qualification, downgrade, lowering or withdrawal of a rating may have an adverse effect on the market price of the Bonds. Each rating reflects only the current views and current rating criteria of the applicable rating agency (which views and criteria could change at any time), and an explanation of the significance of such rating may be obtained from the applicable rating agency. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The District has covenanted in the Continuing Disclosure Agreement to file notices of any rating changes on the Bonds with EMMA. See the caption "CONTINUING DISCLOSURE" and Appendix E. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date by which the District is obligated to file a notice of rating change. Purchasers of the Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current ratings with respect to the Bonds after the initial issuance of the Bonds.

In providing a rating on the Bonds, S&P and Fitch may have performed independent calculations of coverage ratios using their own internal formulas and methodology, which may not reflect the provisions of the Indenture, the Master Agreement or the Installment Purchase Agreement. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

MUNICIPAL ADVISOR

The District has retained PFM Financial Advisors LLC, Los Angeles, California (the "**Municipal Advisor**") as its municipal advisor in connection with the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained herein. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The Bonds are being purchased by BofA Securities, Inc., as representative (the “**Representative**”) of the underwriters named on the front cover page hereof (collectively, the “**Underwriters**”), pursuant to a purchase agreement, dated the date hereof, by and among the Authority, the District and the Underwriters. The Underwriters will purchase the Bonds from the Authority at an aggregate purchase price of \$121,415,564.49, representing the principal amount of the Bonds, plus \$31,341,034.75 of original issue premium and less \$185,470.26 of Underwriters’ discount.

The initial public offering prices stated on the inside front cover of this Official Statement may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

The Representative has entered into a distribution agreement with its affiliate, Merrill Lynch, Pierce, Fenner & Smith Incorporated (“**MLPF&S**”). As part of this arrangement, the Representative may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, the Representative may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

TD Securities (USA) LLC (“**TD Securities**”), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the “**TD Dealer Agreement**”) with TD Ameritrade for the retail distribution of certain securities offerings, including the Bonds at the original issue price. Pursuant to the TD Dealer Agreement, TD Ameritrade may purchase Bonds from the Underwriters at the original issue prices less a negotiated portion of the selling concession applicable to any of the Bonds TD Ameritrade sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District and the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District and the Authority.

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MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents and reference is made to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for and the source for repayment for the Bonds and the rights and obligations of the owners thereof.

The information that is contained in this Official Statement has been compiled from official and other sources that are deemed to be reliable, and is believed to be correct as of its date, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter.

Any statements made in this Official Statement that involve matters of opinion, estimates or projections, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or projections will be realized. 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 will, under any circumstances, create any implication that there has been no change in the affairs of the District.

**WESTERN MUNICIPAL WATER DISTRICT
FACILITIES AUTHORITY**

By:  _____
Executive Director

**WESTERN MUNICIPAL WATER DISTRICT OF
RIVERSIDE COUNTY**

By:  _____
General Manager

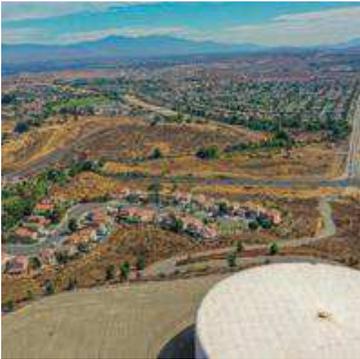
APPENDIX A
DISTRICT FINANCIAL STATEMENTS

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WESTERN MUNICIPAL WATER DISTRICT
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



For the Fiscal
Year Ended
June 30, 2019



Securing Your Water Supply

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2019

Prepared by:

Western Municipal Water District Finance Department



Securing Your Water Supply

14205 Meridian Parkway, Riverside, CA 92518 • 951.571.7100 • wmwd.com



Our Mission

It is the mission of Western Municipal Water District to provide water supply, wastewater disposal, and water resource management to the public in a safe, reliable, environmentally sensitive, and financially responsible manner.

WESTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019

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Craig D. Miller
General Manager

Robert Stockton
Division 1

Gracie Torres
Division 2

Brenda Dennstedt
Division 3

Donald D. Galleano
Division 4

S.R. "Al" Lopez
Division 5



Securing Your Water Supply

December 19, 2019

To the Board of Directors and customers served by the Western Municipal Water District of Riverside County:

We are pleased to present the Western Municipal Water District's (the District or Western) Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019. The report was prepared by Western's Finance Department following guidelines recommended by the Governmental Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including disclosures, rests with Western. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operations of Western. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of Western.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Western's MD&A can be found immediately following the report of the independent audit firm.

Western's financial statements have been audited by White Nelson Diehl Evans, LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of Western for the fiscal year ended June 30, 2019, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that Western's financial statements for the fiscal year ended June 30, 2019, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A handwritten signature in blue ink that reads "Craig D. Miller".

REPORTING ENTITY AND ITS SERVICES

Western's Service Area

Western's service area consists of a 527-square-mile area of western Riverside County that lies west of the I-215 Freeway. Within Western's boundaries are the cities of Jurupa Valley, Eastvale, Rubidoux, Riverside, Norco, Corona, Lake Elsinore, Canyon Lake, Murrieta, and Temecula. Western provides imported water to its service area as a supplement to the region's local water supply.

The assessed valuation of Western's service area has grown from less than \$150 million when formed in 1954 to approximately \$106 billion in this past fiscal year. Riverside County's population is approximately 2.4 million, of which Western serves approximately 973,400 (40 percent).



Western's Authority

Western was formed by voters on January 19, 1954, under the Municipal Water District Act of 1911, for the purpose of distributing supplemental water purchased from the Metropolitan Water District of Southern California (MWD) to a growing western Riverside County. Prior to the Western's creation, the local water supply was primarily groundwater wells.

Western is authorized to acquire, control, distribute, store, treat, recycle, recapture, and salvage any water (including sewage) for the beneficial use of Western, its inhabitants, or the owners of rights to water in Western.



The Municipal Water District Act of 1911 also authorizes Western to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water; to use facilities or property or provision for service; and to fix in each fiscal year a water service standby or availability charge, and a wastewater service standby or availability charge on land within the boundaries of Western to which water and wastewater services, respectively, are made available by Western. Western may also issue bonds, borrow money and incur indebtedness.

Governance

Western is a quasi-governmental agency (Special District) of the State of California. It is not regulated by the Public Utilities Commission, but instead is governed by a Board of five directors who are publicly elected for a four-year term from comparably sized districts (Divisions) based on population.



Since the year of its inception, Western has been a member of MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid Southern California. Assessed value of property in the service area of the member agency determines how many directors each agency is allowed. Western is currently entitled to have one District representative on the MWD Board.

Western currently employs 148 full-time staff under the direction of the Board-appointed General Manager. Western's General Manager is a court-appointed Watermaster with responsibilities for reporting compliance with water quality and quantity provisions of court orders regarding water rights issues in the Santa Ana River watershed, and the San Bernardino groundwater basin area.

Water Services

Western serves approximately 24,400 residential and business accounts and eight water agencies and cities with water from both the Colorado River and the State Water Project (purchased from MWD), and from local sources. In fiscal year 2019, Western delivered approximately 78,415 acre-feet of water in its retail and wholesale service area (please refer to Tables VIII and IX in the Statistical section for additional information). This is equal to about 26 billion gallons. Approximately 68 percent of the purchased water Western delivered was potable; the balance was non-potable or raw water. 72 percent of deliveries were to wholesale customers and the rest to retail users.

Wholesale customers that buy water from Western and in turn sell the water to their own customers are: Box Springs Mutual Water Company, the cities of Corona, Norco, and Riverside, Eagle Valley Mutual Water Company, Elsinore Valley Municipal Water District, Temescal Valley Water District, and Rancho California Water District.



Arlington Desalter

The only potable water treatment facility owned and operated by Western is the Arlington Desalter. The Arlington Desalter is a 7.2 million-gallon-per-day (MGD) reverse osmosis water treatment plant that provided 4,627 acre-feet of high-quality potable water to the city of Norco for the fiscal year by removing millions of pounds of salts from brackish groundwater in the Arlington Basin. The salt-laden waste is sent to the Orange County Sanitation District for treatment and discharge to the ocean. The annual revenue budget for the Arlington Desalter for the fiscal year was \$5.0 million.

Retail Water Services

Western supplies water directly to about 24,400 residential, commercial, and agricultural users in the areas of El Sobrante, Eagle Valley, Orangecrest, Mission Grove, Temescal Creek, Woodcrest, Lake Mathews, March Air Reserve Base, Rainbow Canyon, and portions of the city of Riverside (the City) and the city of Murrieta. The Murrieta service area, unlike most of Western's retail service areas, has its own local groundwater wells that supplement imported water supplies.

SEWER AND RECYCLED WATER SERVICES

Western Water Recycling Facility

Western owns and operates the Western Water Recycling Facility (WWRF), providing wastewater collection and treatment for the March Air Reserve Base and other residential and commercial customers located southeast of the city of Riverside. WWRF has a 3.0 MGD capacity and is currently operating at about 1.2 MGD. The slowdown in growth in the Inland Empire over the last decade has resulted in an underutilization of the facility, with actual flows lagging behind the increase in flows projected during design of this upgraded facility. WWRF currently provides wastewater treatment services for about 1,700 customers. All of the treated wastewater from the WWRF facility is utilized in Western's recycled water system. Supplemented with non-potable local groundwater from the Riverside Canal and surface water from the Colorado River Aqueduct, the tertiary treated recycled water from the WWRF plant is used by 61 customers to irrigate landscaping and agriculture.



Western Riverside County Regional Wastewater Authority (WRCRWA) Wastewater Treatment Plant

Western is one of the five member agencies comprising WRCRWA. Since 1998, Western has been the contract operator of the WRCRWA wastewater treatment plant located near the Santa Ana River, west of the city of Norco. Agencies and communities served by the plant include: Jurupa Community Services District (JCSD); the cities of Norco and Corona; Home Gardens Sanitary District; and Western.



The treatment plant has a total capacity of 14.0 MGD, and currently processes an average of 7.76 MGD from residential and commercial wastewater customers, some of which are in Western's retail service area. Of the total plant capacity of 14.0 MGD, Western owns capacity rights of 1.93 MGD. Wastewater flows from Western customers average about 0.85 MGD, or 44 percent of Western's capacity right.

In order to better serve the needs of the steady growth in the region, in 2018 the plant completed a \$76 million upgrade and expansion to 14.0 MGD. Since Western's existing owned capacity is sufficient for its current and future customers, Western did not participate in the cost of the plant expansion, but participates in related costs that deal with odor control. WRCRWA received a change of use petition from the State Water Resources Control Board (SWRCB) in February of 2018, allowing WRCRWA to use some or all of its recycled water for beneficial use (i.e., irrigation, recharge).

La Sierra Service Area

Western provides wastewater collection and conveyance services to approximately 4,900 customers in the La Sierra area of Riverside. The collected wastewater, averaging about 0.85 MGD, flows to the WRCRWA plant for treatment with ultimate disposal of the tertiary treated wastewater into the Prado Basin. The collection system serving La Sierra is maintained by Western personnel who ensure lines are clear and functioning properly.

Santa Rosa Regional Resources Authority (SRRRA)

Western is one of the three member agencies comprising SRRRA, located in Murrieta. SRRRA is responsible for collecting, treating, and disposing of or recycling wastewater for residents and businesses in the Temecula, Murrieta, and Wildomar communities. The joint powers authority comprises Western, Rancho California Water District, and Elsinore Valley Municipal Water District.

Wastewater flows originating in the SRRRA service area are treated at the Santa Rosa Water Reclamation Facility in Murrieta. The treatment plant has a capacity of 5 MGD. On average, the plant treats 2.7 MGD.



Murrieta Service Area

The Murrieta service area provides wastewater collection and conveyance services to approximately 2,200 customers surrounding the historic downtown area of the city of Murrieta. Treatment of approximately 524,000 gallons per day of wastewater from the Murrieta area is provided by SRRRA. Eastern Municipal Water District (EMWD) provides treatment services to 76 of Western's Murrieta commercial customers.

Inland Empire Brine Line

The Inland Empire Brine Line (Brine Line), formerly known as the Santa Ana Regional Interceptor (SARI), is an industrial wastewater disposal system owned by the Santa Ana Watershed Project Authority (SAWPA). The Brine Line is designed to convey 30 MGD of non-reclaimable wastewater from the upper Santa Ana River basin area to the ocean for disposal after treatment by the Orange County Sanitation District. The non-reclaimable wastewater consists of desalter brine concentrate and industrial wastewater. The Brine Line dischargers include Desalters operated by Western and Eastern municipal water districts, Chino Desalter Authority, the city of Corona, and other industrial commercial entities. Western is a member agency of SAWPA and is contracted by SAWPA for periodic maintenance. Western operates a wastewater disposal station located at the city of Corona's Wastewater Treatment Plant #1, which has a connection to the Brine Line.

ECONOMIC CONDITIONS AND OUTLOOK

As with all industries, the water industry is affected by a wide variety of economic factors, including legislative action, regulatory requirements, labor force skill and availability, etc. Three major factors that particularly affect Western are: (1) the availability and cost of water; (2) energy costs; and (3) property development.

For Western, the goal of water use efficiency remains paramount. As stewards of this natural resource, it is incumbent upon Western to help communicate the value of this resource and assist customers in using it wisely.

In response to current legislation by the State (AB 1668 and SB 606), Western continues to work with the Department of Water Resources (DWR) and the SWRCB to develop a long-term framework to make water conservation a California way of life. This framework will help to improve the resiliency of California supplies in times of drought. Western is also participating in eight working groups hosted by DWR and SWRCB, ranging in topics from water loss reporting and data streaming to standard outdoor water use objectives.

Although Western seeks to increase local water supplies as evidenced by Western's recent purchase of permanent groundwater rights, it is heavily dependent upon MWD for potable water for its retail customers. MWD continues to experience increases in the cost of acquiring water and delivering that water to member agencies, such as Western. As a result, MWD's Tier 1 rate for full-service potable water will increase from \$1,050 per acre-foot to \$1,078 per acre-foot on January 1, 2020, a 2.7 percent increase. Western is limited to 28,777.7 acre-feet of water that can be purchased at the Tier 1 rate for its retail customers, and each additional acre-foot of water is charged at the Tier 2 rate, which is \$87 higher than the Tier 1 rate.





Regarding Natural gas availability in Southern California, in September 2019, the California Public Utilities Commission (CPUC) directed the Southern California Gas Company (SoCalGas) to “take immediate action to increase injections at all available storage facilities.” This will tend to stabilize natural gas prices going forward. SoCalGas reports that as of September 2019, the procurement rate at 26.162 ¢/therm is about 28.3% lower than it was effective September 2018, when it was at 36.5 ¢/therm. The price decrease has been attributed to the warm season extending into fall as supply continues to grow. Natural gas-fired power plants generate about half of California’s total

in-state net electricity generation. Renewable electricity generation such as solar, wind, and hydro generation continues to climb, though it represents about 34% of the overall generation in California as of the end of 2018. California passed a law that will require 100% renewable energy generation by the year 2045. Electrical prices are projected to grow moderately as the system incorporates more renewable energy sources.

Meter connections per year remain low (approximately 279 connections in fiscal year 2018-2019); however, the trend has been increased connections. Western has noted an increase in warehouse and commercial development activity. Water demand from these customers are about 5 to 10 Equivalent Dwelling Units (EDUs) for each connection. For sewer connections, the warehouse and commercial customers range from 5 to 50 Equivalent Dwelling Units (EDUs) due to peaks in site occupation with employees or customers.



The assessed valuation of Western’s services area in the past several years has increased from \$99.4 billion to \$106.2 billion. Western received \$23.6 million in property tax revenue for fiscal year 2019, up from \$21.7 million in fiscal year 2018. This increase is due to higher property values in Western’s service area compared to values in fiscal year 2018.

The population of Riverside County remained at 2.4 million in fiscal year 2019 and fiscal year 2018. Nevertheless, Western continues to plan for and construct the necessary infrastructure to accommodate the significant long-term growth expected in the region. In addition, Western is aggressively pursuing alternative sources of water and expanding efficiency efforts, as well as developing increased use of non-potable and recycled water where appropriate.



MAJOR INITIATIVES

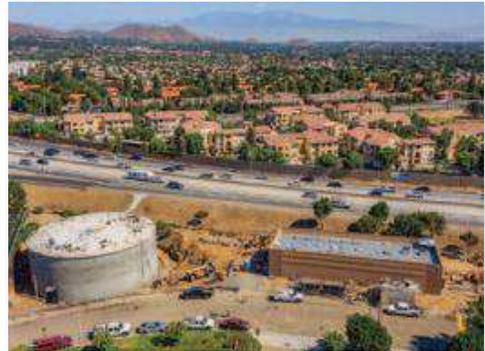
Western Projects to Boost Local Water Supply

Because Western does not have sufficient rights to local water supply, it must buy water that is imported from hundreds of miles away. This is costly and could even be unreliable during an emergency, such as an earthquake. Western, however, is committed to an ambitious solution.

Through a series of projects and partnerships, Western is building a network that will significantly boost local water levels. These projects are putting Western on a path to better serving customers with locally sourced water, which is more cost-effective and secure.

Western Acquires First-Ever Local Groundwater Right

In a move that expands Western's local water supply while saving customers money, Western has acquired its first-ever groundwater right in the San Bernardino Basin. In June 2019, Western completed the purchase from MD Water LLC, a private individual shareholder. By acquiring nearly 23,000 shares of common stock in the Meeks and Daley Water Company (M&D), Western customers will have access to more than 226 acre-feet of affordable local water annually, which is enough water to meet the yearly indoor needs of more than 800 families of four.



La Sierra Pipeline Project/Sterling Pump Station Project

Completed in June 2019, the La Sierra Pipeline is a nearly \$36 million project that provides locally sourced, drought-proof drinking water to our region. A 30-inch diameter pipeline has been installed along La Sierra Avenue to connect the Arlington and Chino Desalters to the Sterling Reservoir, which can deliver water to Western's Riverside service area. By early 2020, work on the Sterling Pump Station on Sterling Avenue in Riverside is expected to be completed. The pump station will connect to the La Sierra Pipeline to move water from the nearby desalters to the Sterling Reservoir.

Victoria Recharge Basin Project

The Victoria Recharge Basin, located at Victoria Avenue and Jackson Street in Riverside, will capture local stormwater and runoff, and will ultimately boost production at the nearby Arlington Desalter, which provides billions of gallons of drinking water to customers. This project is scheduled to be completed by late 2019.

Meter Replacement Program

With residential water meters slowing down and falling below the American Water Works Association's accuracy standard after 15 years of use, Western has replaced approximately half of its water meters (or about 12,000) in its Riverside Service Area that exceed this age. An accurate water meter helps a customer know how much water they are using and if they are using water efficiently based on Western's water budget rate structure. The \$6.1 million grant funded meter replacement project began in May 2018 and was completed in summer 2019.

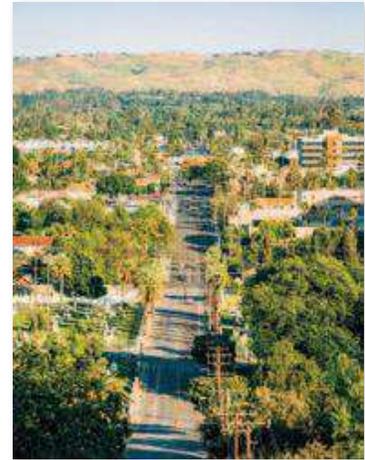
Integrated Water Delivery System

To help foster reliability and add the ability to convey water more effectively across Western's entire service area, Western is participating in the Santa Ana River Water Conservation and Conjunctive Use Program (SARCCUP). This program will help secure and deliver supplemental water supply for use when imported water is reduced or not available. The supplemental water will be stored in local groundwater basins and pumped during planned maintenance shutdowns, or unplanned emergency or catastrophic events.

City of Riverside/Western Partnership

Since executing a historic agreement in 2017, the City of Riverside continues to deliver local groundwater to Western to offset the use of more expensive imported water. Since its inception, this partnership with the City has resulted in \$5.3 million in savings for Western and \$10.9 million in revenue to the City, which will help keep water rates as low as possible in the years to come. It has also brought an additional 5.8 billion gallons of local groundwater to Western's customers, which is enough annual water supply for about 35,000 single-family homes.

Because of lower demands resulting from increased efficiencies in the areas served by Riverside Public Utilities (RPU), surplus supplies are available that can be sold to Western. The agreement also allows Western to transport groundwater through Riverside's system, which Western has secured from other water agencies. In the next 20 years, this partnership is estimated to bring approximately \$100 million in new revenues to the City and a cost savings of approximately \$45 million to Western when compared to the cost of imported water.



Water Efficiency Projects Help Save Water, Money

As part of its dedication to ensure customers are using water wisely and addressing the region's long-term water needs, Western offers many water and cost-saving programs.

Water Use Efficiency Master Plan

Western's 2019 Water Use Efficiency Master Plan (Plan), developed in collaboration with the University of California, Riverside, will guide Western's water-use-efficiency programs for the next five years. With a focus on three components—a customer survey, a program plan, and a marketing plan—the Plan focuses on empowering customers to take advantage of new programs, rebates, and partnerships that will help reduce water use throughout Western's service area. The Plan will support Western's efforts to meet statewide water-use targets, and will help encourage customers to take control of their water use.

FreeSprinklerNozzles.com Program

FreeSprinklerNozzles.com is a web-based, high-efficiency irrigation nozzle distribution program, and will be returning in the spring of 2020 with streamlined enhancements for both participating water agencies and customers. The revamped program will take advantage of advanced online technologies that will include geocoding for eligibility verification, online mapping tools, and direct shipment of the nozzles to the customer.

Master Gardeners

Western's commitment to providing water conservation and landscape education to its customers is highlighted by a 30-year partnership with the University of California Cooperative Extension Master Gardener Program of Riverside County. The partnership offers eight research-based workshops per year. The Committee's centerpiece event, "Ask the Experts," gives customers an opportunity to discuss their water-efficient gardening challenges. From bugs to trees, composting to irrigation, design to permaculture—the event connects customers with experts in all things water-efficient gardening.

FINANCIAL POLICIES

Western has formally adopted the following financial policies:

Cash Reserve Policy

This policy states the purpose, source, and minimum/maximum funding levels for each of its designated reserves. These reserves have been established to meet internal requirements and/or external legal requirements. These policy guidelines enable restricting funds for future infrastructure needs, replacement of aging facilities, bond reserves, and various operating reserves to mitigate unexpected occurrences. These reserves are critical to Western's financial strength and high bond rating.

Interest and Financial Risk Management Policy

The purpose of this policy is to establish guidelines for the use and management of all interest rate and risk management agreements incurred in connection with the expected issuance of new bonds, notes, and other obligations, or to accompany bonds already issued, or to manage other risks of Western. This policy sets forth the manner of execution of swaps, and provides for security and payment provisions, risk considerations, and certain other relevant provisions.

Debt and Financial Management Policy

Western's debt and financial management policy is designed to establish parameters for issuing debt and provide guidance to decision makers with respect to all options available to finance infrastructure and other capital projects so that the most prudent, equitable and cost-effective method of financing can be chosen. The policy also documents the objectives to be achieved by staff both prior and subsequent to debt issuance. It promotes objectivity in the decision-making process and facilitates the financing process by establishing important policy decisions in advance.

Investment Policy

The investment policy is intended to outline the guidelines and practices to be used in effectively managing Western's available cash and investment portfolio. It applies to all cash and investment assets of Western except those funds maintained in deferred compensation accounts for employees. All Western monies, including those not required for immediate expenditure, are to be invested in compliance with governing provisions of law (California Government Code Sections 53600 et seq.). The policy lists in detail authorized investments as well as the percentage of portfolio limitations and required ratings for each investment type.

ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services for Western, including financial accounting and reporting, accounts payable and receivable, purchasing, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. Western accounts for its activities as an enterprise fund and prepares its financial statements on the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. It is the intent of the Board of Directors to manage Western's operations as a business, thus matching revenues against the costs of providing the services.



INTERNAL CONTROLS

Western operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded in accordance with Western policies and procedures. When establishing and reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls for which its value adequately exceeds its costs. Recent audits have not noted any weaknesses in internal controls.



BUDGETARY CONTROLS

Though Western is not legally required to adopt and adhere to a budget or present budgetary comparison information, the Board of Directors has chosen to approve a two-year operating budget as a management tool. Quarterly comparison reports of budget to actual are prepared and presented at a summary level to the Board of Directors, along with explanations of significant variances.



AWARDS AND ACKNOWLEDGEMENTS



The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Western Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the 14th year that Western has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR). This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to express our appreciation to the Finance Department staff and the independent accounting firm of White Nelson Diehl Evans, LLP for the efforts made to prepare this report. We would also like to thank the Board of Directors for their continued interest and support in all aspects of Western's financial management.

Respectfully submitted,

Handwritten signature of Craig Miller in blue ink.

Craig Miller
General Manager

Handwritten signature of Rod LeMond in blue ink.

Rod LeMond
Assistant General Manager /
Chief Financial Officer

"It is the mission of Western Municipal Water District to provide water supply, wastewater disposal, and water resource management to the public in a safe, reliable, environmentally sensitive, and financially responsible manner."



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Western Municipal Water District
of Riverside County, California**

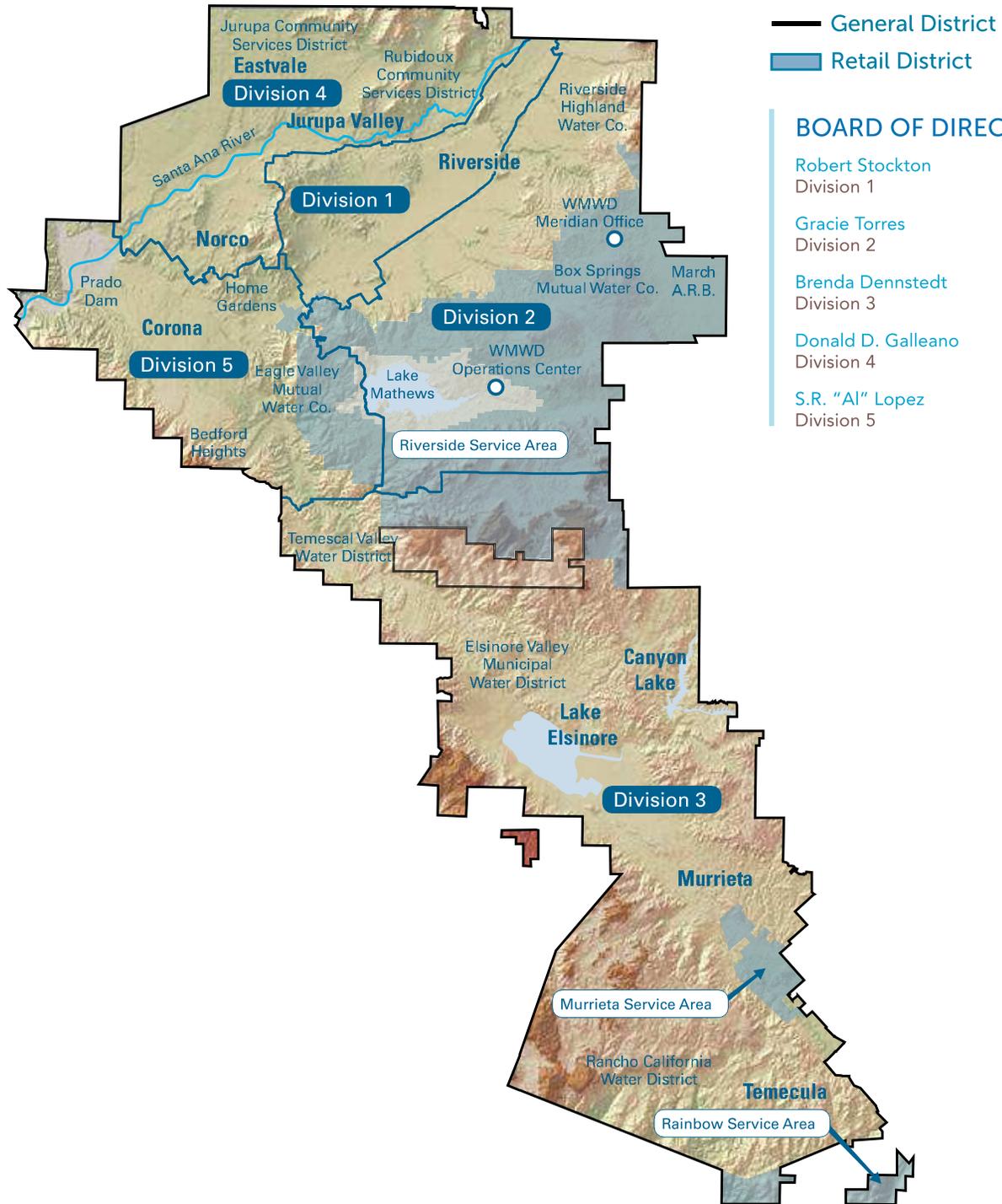
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

WESTERN MUNICIPAL WATER DISTRICT WESTERN'S SERVICE AREA MAP



BOARD OF DIRECTORS

- Robert Stockton
Division 1
- Gracie Torres
Division 2
- Brenda Dennstedt
Division 3
- Donald D. Galleano
Division 4
- S.R. "Al" Lopez
Division 5

WESTERN MUNICIPAL WATER DISTRICT

DISTRICT OFFICIALS

AT JUNE 30, 2019

Elected Board of Directors

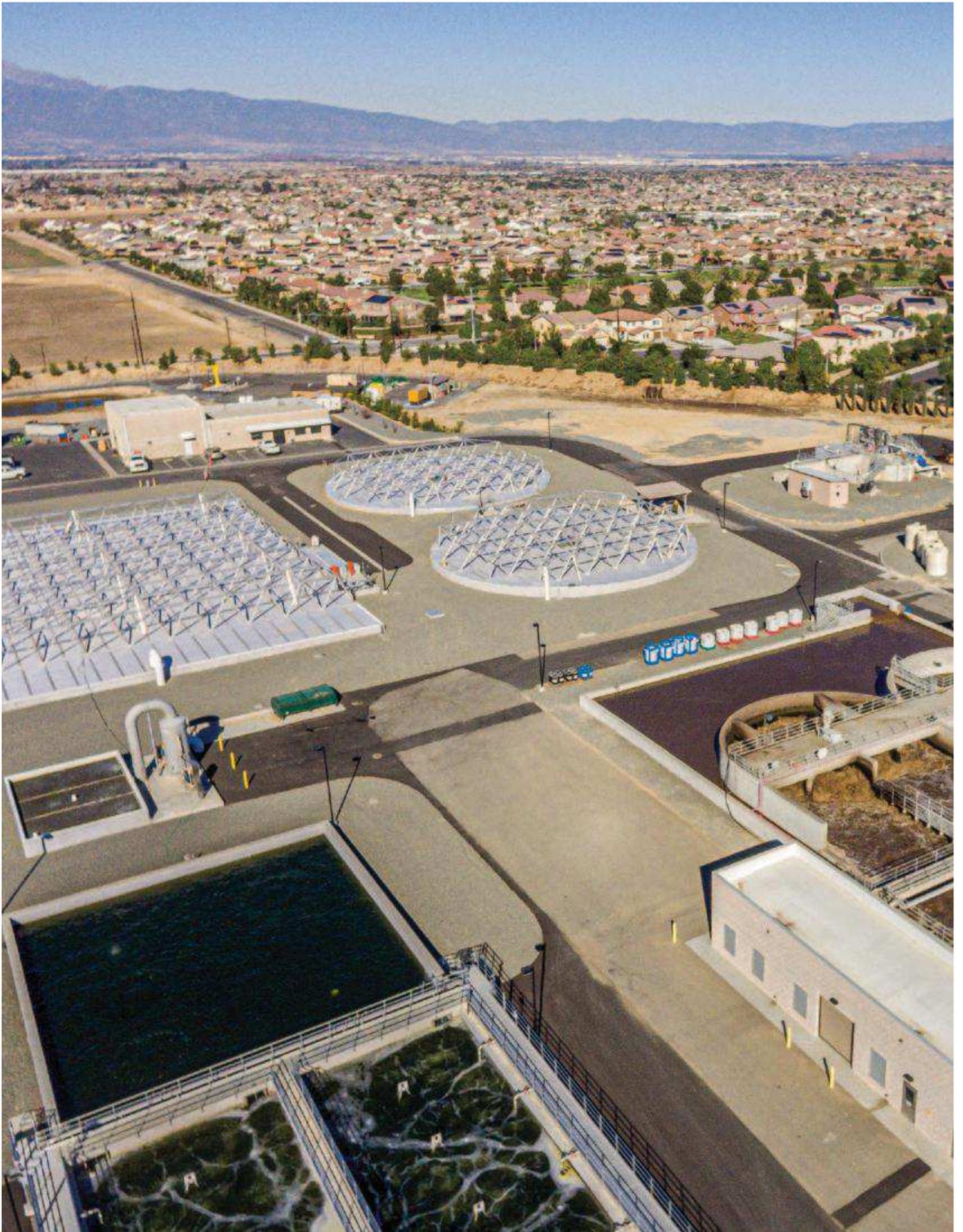
	Length of Service
Robert Stockton, Division 1, President	4 years
Gracie Torres, Division 2	< 1 year
Brenda Dennstedt, Division 3	12 years
Donald D. Galleano, Division 4, Vice President	14 years
S. R. "Al" Lopez, Division 5, Secretary-Treasurer	18 years

Western's Executive Management Team

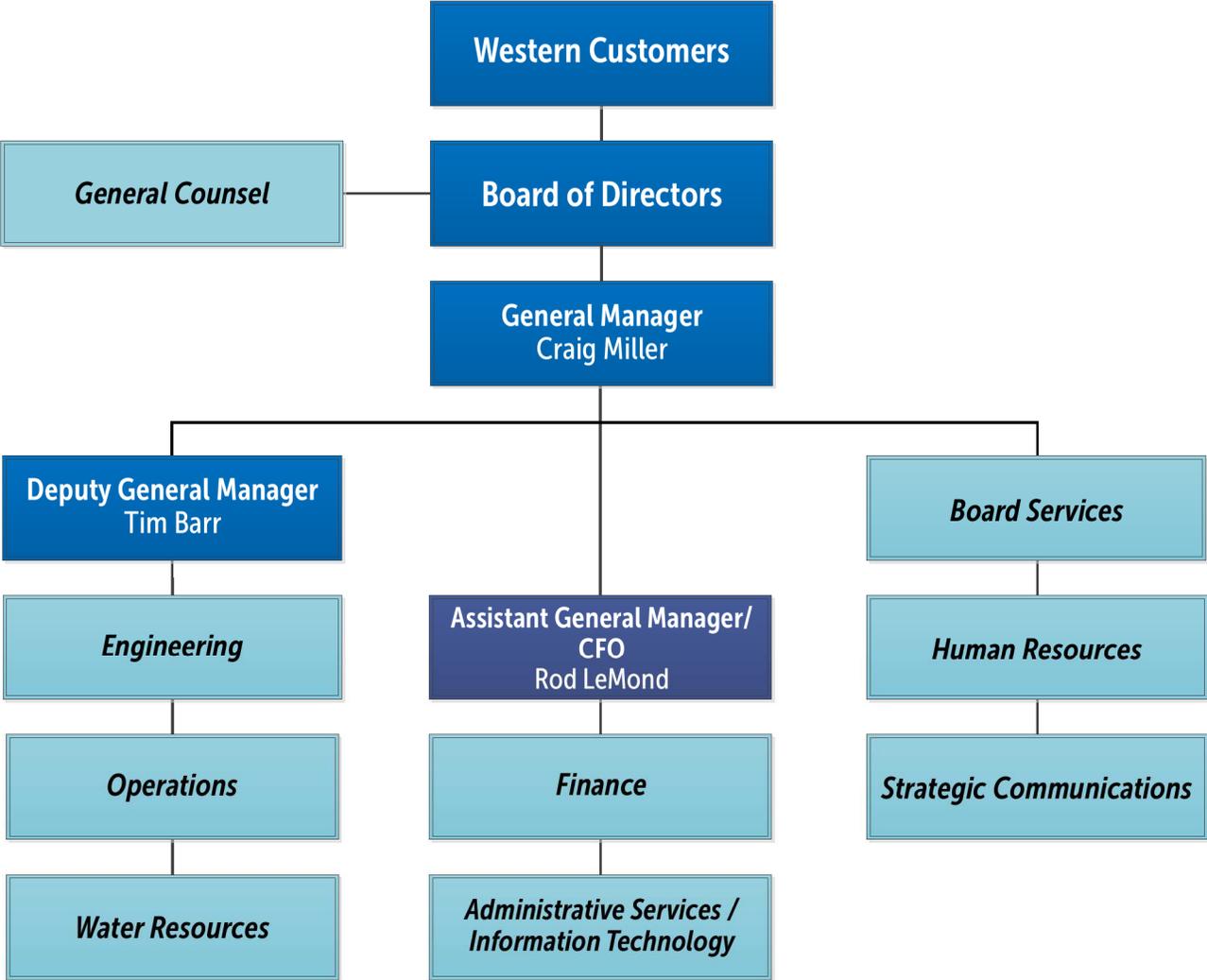
Craig D. Miller, General Manager	5 years
Timothy T. Barr, Deputy General Manager	24 years
Rod LeMond, Assistant General Manager/CFO	10 years
Ryan Shaw, Director of Water Resources	2 years
Greg Duecker, Director of Administration	13 years
Derek Kawaii, Director of Engineering	13 years
Kevin C. Mascaro, Director of Finance	15 years
Paul Ruge, Director of Operations	14 years
Sarah Macdonald, Director of Strategic Communications	< 1 year
Candi Judd, Director of Human Resources	3 years
Karl Francis, Deputy Director of Engineering	1 year
Jason Pivovarov, Deputy Director of Water Resources	< 1 year
Christopher Fike, Deputy Director of Operations - Maintenance	4 years
Gary Miller, Deputy Director of Operations - Operations	3 years

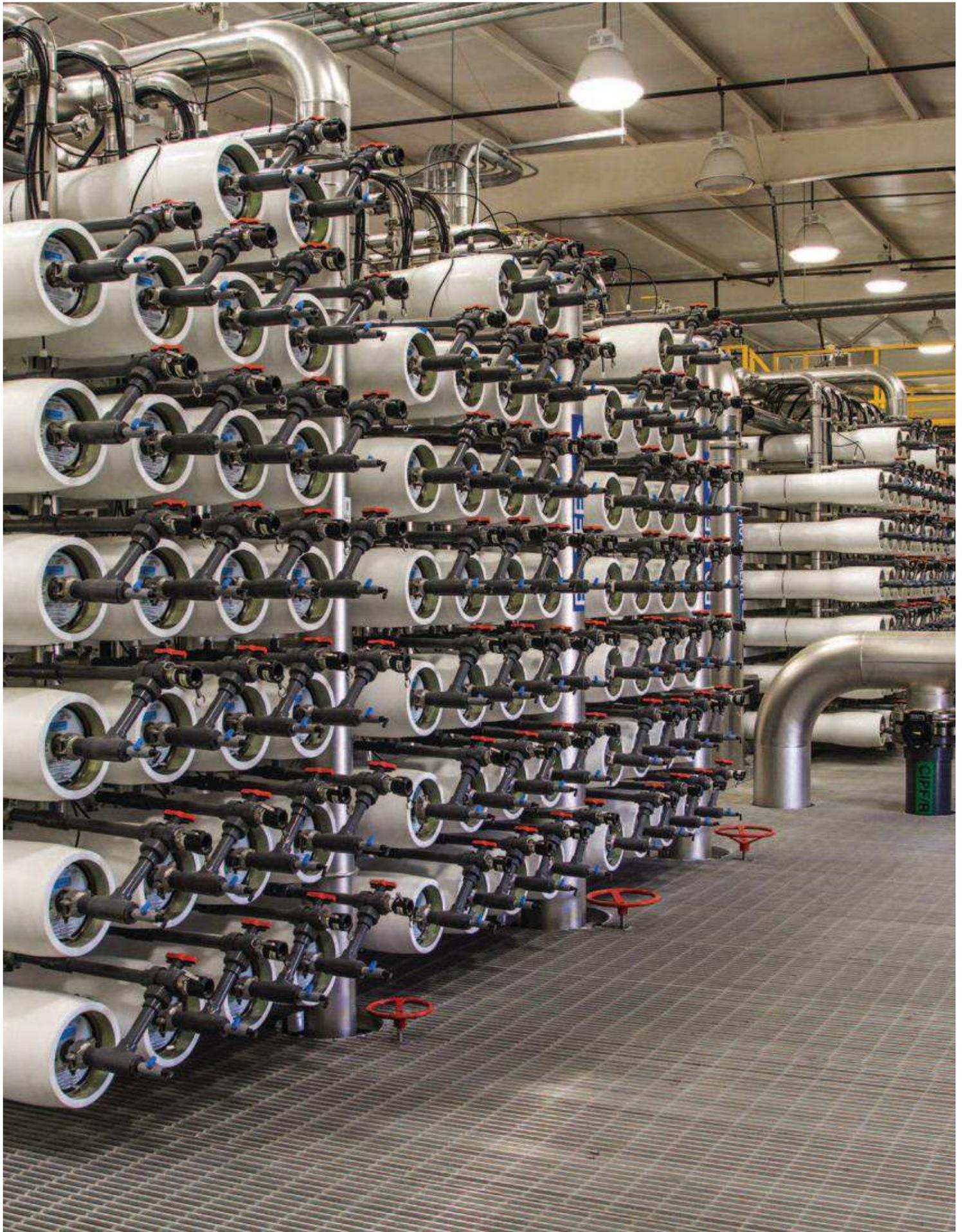
General Counsel

Best Best & Krieger, LLP	63 years
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WESTERN MUNICIPAL WATER DISTRICT ORGANIZATIONAL CHART







INDEPENDENT AUDITORS' REPORT

Board of Directors
Western Municipal Water District
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Western Municipal Water District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the plan's net pension liability and related ratios as of the measurement date, the schedule of contributions - pension, the schedule of changes in the net other post-employment benefits (OPEB) liability and related ratios, and the schedule of contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 19, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Western Municipal Water District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditor's Report, and the accompanying basic financial statements and notes to the financial statements.

Overview

The District

Western Municipal Water District of Riverside County was formed in 1954 under the Municipal Water District Act of 1911 for the purpose of bringing supplemental water from the Metropolitan Water District of Southern California (MWD) to growing western Riverside County. The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary." The primary activities of the District include the sale and delivery of potable and non-potable water to wholesale, domestic, agricultural, and commercial accounts, as well as the collection, treatment and disposal of wastewater. The District also provides both operating and administrative contract services to other agencies within its 527-square-mile service area.

Required Financial Statements

The financial statements of the District report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data on the District's financial condition and operating results. They are the Statement of Net Position, the Statement of Revenues, Expenses and Change in Net Position, and the Statement of Cash Flows.

The *Statement of Net Position* presents information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provides information about the nature and amounts of investments in resources and obligations to District creditors with the remaining balance being reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one must consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

The *Statement of Revenues, Expenses and Change in Net Position* identifies the District's revenues and expenses for the fiscal year. It provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its projected costs through user fees, tax revenues, and other service-related charges.

The *Statement of Cash Flows* presents information regarding the District's cash receipts and cash payments for the period categorized according to whether they stem from operating activities, non-capital financing activities, capital and related financing activities, or investing activities. From this statement, the reader can obtain comparative information on the sources and uses of the District's cash.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements.

Summary Financial Information and Analysis

The District's Statement of Net Position remains strong, providing a foundation for continued growth within the District's service area. Historically, the District experiences a loss at the operating level, meaning operating revenues are less than operating expenses. This operating loss is normally offset by net non-operating revenues. In fiscal year 2019, this loss has been offset by net non-operating revenues primarily from property tax revenues and investment earnings. Explanations for significant changes from the prior year are provided in the discussion that follows.

Statements of Net Position

The following table compares the various categories of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position between the current and prior fiscal year.

Condensed Statements of Net Position as of June 30, 2019 and 2018

	<u>As of June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Assets				
Current	\$ 172,561,176	\$ 166,877,525	\$ 5,683,651	3.4%
Non-current:				
Capital	429,044,803	406,791,422	22,253,381	5.5%
Other	27,316,204	29,409,396	(2,093,192)	-7.1%
Total Assets	\$ 628,922,183	\$ 603,078,343	\$ 25,843,840	4.3%
Deferred Outflows of Resources				
Deferred outflow of resources - swap	\$ 405,048	\$ -	\$ 405,048	100.0%
Deferred outflow of resources - debt refunding	11,298,079	12,474,111	(1,176,032)	-9.4%
Deferred outflow of resources - pension	5,663,154	6,879,829	(1,216,675)	-17.7%
Deferred outflow of resources - OPEB	2,200,799	2,150,123	50,676	2.4%
Total Deferred Outflows of Resources	\$ 19,567,080	\$ 21,504,063	\$ (1,936,983)	-9.0%
Liabilities				
Current	\$ 35,271,639	\$ 38,105,742	\$ (2,834,103)	-7.4%
Non-current	189,831,787	184,777,646	5,054,141	2.7%
Total Liabilities	\$ 225,103,426	\$ 222,883,388	\$ 2,220,038	1.0%
Deferred Inflows of Resources				
Deferred inflow of resources - swap (note 8)	\$ -	\$ 1,962,486	\$ (1,962,486)	-100.0%
Deferred inflow of resources - pension	1,008,625	782,930	225,695	28.8%
Deferred inflow of resources - OPEB	1,897,293	520,033	1,377,260	264.8%
Total Deferred Inflows of Resources	\$ 2,905,918	\$ 3,265,449	\$ (359,531)	-11.0%
Net Position				
Net investment in capital assets	\$ 275,026,568	\$ 264,247,599	\$ 10,778,969	4.1%
Restricted for capacity charges	15,914,014	12,425,740	3,488,274	28.1%
Unrestricted	129,539,337	121,760,230	7,779,107	6.4%
Total Net Position	\$ 420,479,919	\$ 398,433,569	\$ 22,046,350	5.5%

Assets

During the fiscal year ended June 30, 2019, total assets increased by \$25.8 million, or 4.3%. This increase is due to increases in 1) capital assets of \$22.3 million, and 2) receivables of \$4.7 million, offset by a decrease in the District's interest rate swap of \$2.0 million. Information on the District's swap can be found in Note 8 of the Notes to the Basic Financial Statements.

Deferred Outflows of Resources

Deferred outflows of resources are consumption of net position that apply to future periods. During the fiscal year ended June 30, 2019, total deferred outflows of resources decreased by \$1.9 million, or 9.0%. This net decrease is due to a decrease in the deferred outflow of resources related to debt refunding, in the amount of \$1.2 million, and a decrease in deferred outflow of resources related to the District's employee pension obligation, in the amount of \$1.2 million, offset by an increase in deferred outflow of resources related to the deferred swap outflow, in the amount of \$0.4 million. Information on the District's employee pension can be found in Note 10 of the Notes to the Basic Financial Statements.

Liabilities

During the fiscal year ended June 30, 2019, total liabilities increased by \$2.2 million, or 1.0%. This increase results from an increase in the amount due to other governments for the construction of the La Sierra Project in the amount of \$10.1 million, offset primarily by decreases in 1) accounts payable in the amount of \$2.2 million, 2) long-term note payable in the amount of \$1.2 million, 3) long-term bonds payable in the amount of \$3.3 million, and 4) net Other Post-Employment Benefits (OPEB) liability in the amount of \$1.3 million.

Deferred Inflows of Resources

Deferred inflows of resources are acquisition of net position applicable to a future reporting period. During the fiscal year ended June 30, 2019, total deferred inflows of resources decreased by \$0.4 million, or 11.0%. This net decrease is due to increases in deferred inflows of resources related to employee pension of \$0.2 million, and deferred inflows of resources related to OPEB of \$1.4 million, offset by a decrease in the fair value of the interest rate swap of \$2.0 million. Information on the District's swap can be found in Note 8 of the Notes to the Basic Financial Statements. Information on the District's employee pension and OPEB can be found in Notes 10 and 11 of the Notes to the Basic Financial Statements.

Net Position

Net position is the net from the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position increased during fiscal year 2019 by \$22.0 million, or 5.5%. Net position is classified into three categories: 1) net investment in capital assets; 2) restricted for capacity charges; and 3) unrestricted net position.

Net Investment in Capital Assets – The amount invested in capital assets, net of related debt, is the carrying value of capital assets less accumulated depreciation and less any liability outstanding related to the capital assets. The amount as of June 30, 2019, was \$275.0 million. The \$10.8 million, or 4.1%, increase in fiscal year 2019 is detailed in the next table. Note that the amounts reported as “related debt” in the following table can either increase if debt proceeds are applied to fund capital assets, or decrease due to required annual debt service payments.

Net Investment in Capital Assets as of June 30, 2019 and 2018

	As of June 30,		Increase (Decrease)	
	2019	2018	\$ Change	% Change
Plant, building, and improvements	\$ 402,390,236	\$ 393,487,588	\$ 8,902,648	2.3%
Capacity rights	46,937,478	45,900,092	1,037,386	2.3%
Construction in progress	127,592,357	103,324,449	24,267,908	23.5%
Land and land improvements	11,317,379	11,317,379	-	0.0%
Equipment and vehicles	19,695,547	18,941,294	754,253	4.0%
Total capital assets	607,932,997	572,970,802	34,962,195	6.1%
Less accumulated depreciation	(178,888,194)	(166,179,380)	(12,708,814)	7.6%
Capital assets, net	429,044,803	406,791,422	22,253,381	5.5%
Less related debt:				
State Water Resources Control Board				
La Sierra Project	11,711,134	1,576,347	10,134,787	642.9%
Western Riverside County Regional				
Wastewater				
Authority	603,458	608,353	(4,895)	-0.8%
Santa Rosa Regional Resources Authority	10,201,592	9,802,441	399,151	4.1%
2010 Series A bonds	2,455,486	3,642,683	(1,187,197)	-32.6%
2010 Series B bonds	42,595,563	42,584,394	11,169	0.0%
2012 Series A bonds	29,214,190	30,449,643	(1,235,453)	-4.1%
2016 Series A bonds	46,639,511	46,278,468	361,043	0.8%
Note on vehicle leases	1,740,343	1,281,334	459,009	35.8%
Note on headquarters building	8,856,958	6,320,160	2,536,798	40.1%
Net investment in capital assets	<u>\$ 275,026,568</u>	<u>\$ 264,247,599</u>	<u>\$ 10,778,969</u>	4.1%

Restricted for Capacity Charges – The \$15.9 million restricted for capacity charges at June 30, 2019, reflects added facilities charges and distribution system fees received from land owners and developers for the future expansion of water distribution and wastewater treatment and conveyance systems. An equivalent amount is reported in the Assets section of the Statement of Net Position as part of the restricted investments line item (classified as capacity charges in Note 3 of the Notes to the Basic Financial Statements). Net assets become restricted when constraints placed on use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Additional information related to restricted cash and investments can be found in Note 3 of the Notes to the Basic Financial Statements.

Unrestricted – The unrestricted amount is the portion of net position that is not already classified in the above categories. The total amount of unrestricted funds at June 30, 2019, was \$129.5 million. Although these funds are not restricted, the Board of Directors of the District has designated these funds for various construction projects, system improvements, and operations.

Changes in Net Position

The following table compares the various categories of revenues, expenses and changes in net position between the current and prior fiscal year:

Condensed Statements of Revenues, Expenses and Changes in Net Position for the Fiscal Years Ended June 30, 2019 and 2018

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2019	2018	\$ Change	% Change
Operating revenue	\$ 112,902,500	\$ 118,267,870	\$ (5,365,370)	-4.5%
Operating expenses	(130,503,015)	(135,533,916)	5,030,901	-3.7%
Net non-operating revenue	28,084,728	22,692,961	5,391,767	23.8%
Net income before capital contributions	10,484,213	5,426,915	5,057,298	93.2%
Capital contributions	11,562,137	18,890,172	(7,328,035)	-38.8%
Change in net position	22,046,350	24,317,087	(2,270,737)	-9.3%
Net position, July 1, as restated	398,433,569	374,116,482	24,317,087	6.5%
Net position, June 30	\$ 420,479,919	\$ 398,433,569	\$ 22,046,350	5.5%

Combined Revenue

The following table presents a comparison of revenues by category for the fiscal years ended June 30, 2019 and 2018:

Revenues by Category for the Fiscal Years Ended June 30, 2019 and 2018

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2019	2018	\$ Change	% Change
Water sales	\$ 74,974,766	\$ 81,720,213	\$ (6,745,447)	-8.3%
Water service	20,717,986	19,845,736	872,250	4.4%
Wastewater disposal	12,409,135	12,169,537	239,598	2.0%
Contractual services	4,633,486	3,966,995	666,491	16.8%
Property taxes	23,641,810	21,728,238	1,913,572	8.8%
Investment earnings	8,673,064	(19,896)	8,692,960	43692.0%
Capacity rights sales	47,212	41,426	5,786	14.0%
Intergovernmental revenue	861,821	859,898	1,923	0.2%
Other	1,569,246	6,667,053	(5,097,807)	-76.5%
Total revenues	147,528,526	146,979,200	549,326	0.4%
Capital contributions	11,562,137	18,890,172	(7,328,035)	-38.8%
Total revenues and capital contributions	\$ 159,090,663	\$ 165,869,372	\$ (6,778,709)	-4.1%

Combined revenue (excluding capital contributions) for fiscal year 2019 totaled \$147.5 million, an increase of \$0.5 million, or 0.4%. The most significant variances from fiscal year 2018 to 2019 were in four revenue categories: investment earnings (\$8.7 million increase); water sales (\$6.7 million decrease); other (\$5.1 million decrease); and property taxes (\$1.9 million increase).

Investment Earnings – The \$8.7 million increase in investment earnings was primarily due to a change in unrealized gains on investments. In 2019, the District experienced unrealized gains of \$5.5 million, whereas in 2018, the District experienced unrealized losses of \$2.8 million.

Water Sales – The \$6.7 million decrease in water sales is a result of decrease in demand due to the District’s ongoing conservation efforts within the District’s retail and wholesale service area, and the development of local water supplies by wholesale customers.

Other – The \$5.1 million decrease in other was primarily due to a \$3.0 million net gain on the disposal of capital assets, mainly from the sale of the District’s former headquarters building in 2018. In addition, in 2018, the District received a return of \$2.3 million in reserves from the Santa Rosa Regional Resources Authority, a Joint Powers of Authority, which the District is a member of.

Property Taxes – The \$1.9 million increase in property taxes is due to increased assessed valuation in the District’s service area from \$99.4 billion in 2018, compared to \$106.2 billion in 2019.

Capital Contributions

During fiscal year 2019, the District experienced a decrease of \$7.3 million, or 38.8%, in capital contributions. Capital contributions include water and sewer added facilities charges (capacity charges), contributed assets from developers, and grant proceeds. The variance is mainly due to a decrease in capital grants.

Combined Expenses

The following table presents a comparison of expenses by category for the fiscal years ended June 30, 2019 and 2018:

Expenses by Category for the Fiscal Years Ended June 30, 2019 and 2018

Expense Category	Fiscal Years Ended June 30,		Increase (Decrease)	
	2019	2018	\$ Change	% Change
Source of supply	\$ 1,438,291	\$ 1,529,726	\$ (91,435)	-6.0%
Purchased water	67,250,907	72,045,551	(4,794,644)	-6.7%
Pumping - booster pumps	5,549,088	5,396,486	152,602	2.8%
Water treatment	2,013,823	1,756,714	257,109	14.6%
Transmission and distribution	10,282,887	10,367,900	(85,013)	-0.8%
Administrative and general	14,458,740	14,041,869	416,871	3.0%
Contractual services	3,793,232	3,559,405	233,827	6.6%
Wastewater disposal	10,275,481	10,254,410	21,071	0.2%
Depreciation and amortization	13,092,797	12,735,181	357,616	2.8%
Interest expense	5,740,890	4,558,124	1,182,766	25.9%
Other	3,148,177	5,306,919	(2,158,742)	-40.7%
Total expenses	\$ 137,044,313	\$ 141,552,285	\$ (4,507,972)	-3.2%

Combined expenses for fiscal year 2019 totaled \$137.0 million, a decrease of \$4.5 million, or 3.2%. The most significant variances from fiscal year 2018 to 2019 were in three expense categories: purchased water (\$4.8 million decrease); other (\$2.2 million decrease); and interest expense (\$1.2 million increase).

Purchased Water – The decrease in purchased water expense of \$4.8 million resulted primarily from the decrease in volume of imported water during fiscal year 2019 from MWD due to decreased demand from both retail and wholesale water agency customers.

Other – The \$2.2 million decrease in other expense is mainly due to a decrease in labor and benefits of \$0.4 million, a decrease in the write-off of construction-in-progress projects of \$0.5 million, and a decrease in grants passed through distribution to wholesale customers of \$0.3 million.

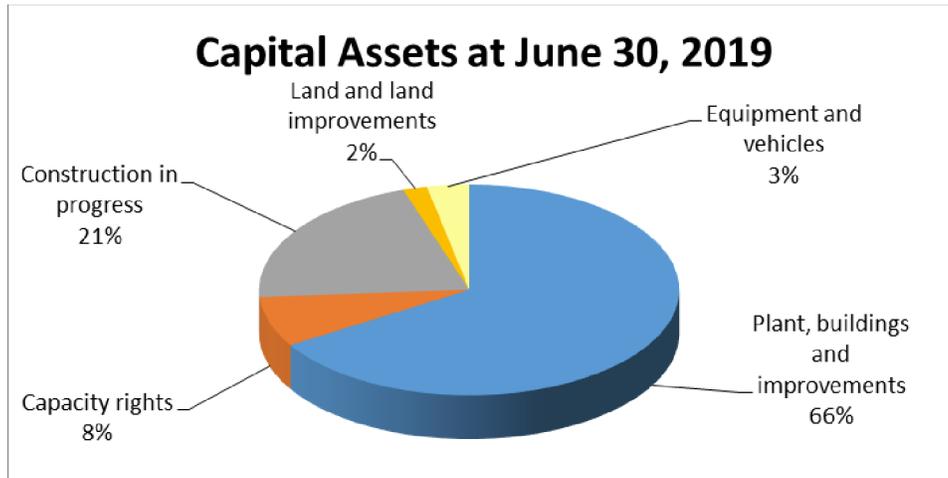
Interest Expense – The \$1.2 million increase in interest expense is primarily due to the early implementation of Government Accounting Standards Board (GASB) No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in 2018. As a result, interest costs incurred during the construction period are now reflected as interest expense, rather than capitalized as part of the cost of constructing a capital asset.

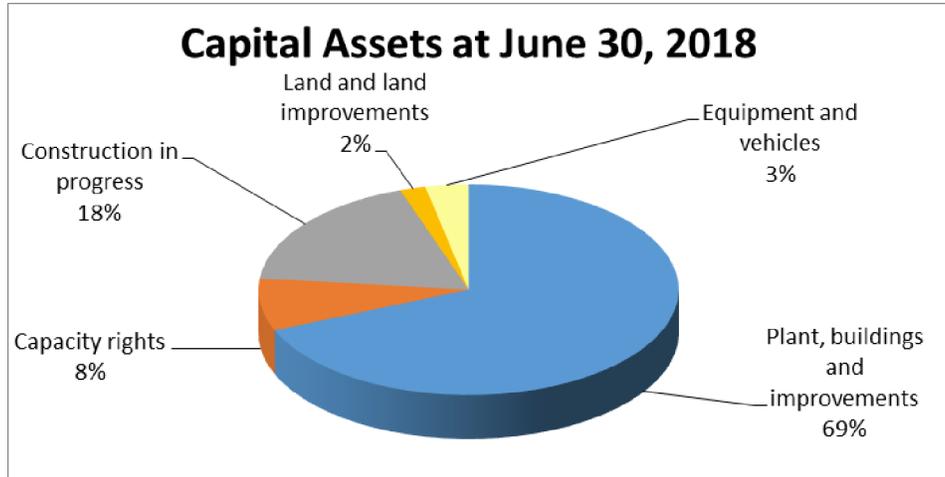
Capital Assets

The District’s investment in capital assets as of June 30, 2019, was \$429.0 million (net of accumulated depreciation). This includes investment in buildings, building improvements, capacity rights, land, land improvements, equipment, vehicles, and plant assets such as supply sources, pumping stations, water treatment plant, transmission and distribution pipelines, wastewater plant, etc. Additional information can be found in Note 6 of the Notes to the Basic Financial Statements.

The following table summarizes the District’s capital assets, net of accumulated depreciation, at June 30:

	2019	2018
Plant, buildings and improvements	\$ 402,390,236	\$ 393,487,588
Capacity rights	46,937,478	45,900,092
Construction in progress	127,592,357	103,324,449
Land and land improvements	11,317,379	11,317,379
Equipment and vehicles	19,695,547	18,941,294
Total capital assets	<u>607,932,997</u>	<u>572,970,802</u>
Less accumulated depreciation	<u>(178,888,194)</u>	<u>(166,179,380)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 429,044,803</u>	<u>\$ 406,791,422</u>





Long-Term Liabilities

As of June 30, 2019, the District has outstanding long-term liabilities of \$197.4 million. Long-term liabilities include a swap liability, compensated absences, amounts due to other governments, bonds, lease, note payable, net pension, and OPEB liabilities. Additional information regarding long-term debt can be found in Note 7, information regarding the swap liability can be found in Note 8, information regarding the net pension liability can be found in Note 10, and information regarding the net OPEB liability can be found in Note 11 of the Notes to the Basic Financial Statements.

The District’s outstanding long-term liabilities as of June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Compensated absences	\$ 3,037,262	\$ 2,654,339
Due to other governments	22,516,184	12,076,194
Bonds payable:		
Revenue bonds	137,875,000	140,550,000
Unamortized discount	(227,101)	(242,848)
Unamortized premium	45,486	107,683
Swap liability	3,872,999	4,378,020
Note payable	9,020,960	10,197,212
Lease payable	1,740,343	1,281,334
Net pension liability	18,070,806	18,425,168
Net OPEB liability	1,004,747	2,281,068
Derivative instrument - interest rate swap	405,048	-
Total long-term liabilities	<u>197,361,734</u>	<u>191,708,170</u>
Less current portion	<u>(7,529,947)</u>	<u>(6,930,524)</u>
Total long-term liabilities, net of current portion	<u>\$ 189,831,787</u>	<u>\$ 184,777,646</u>

Economic Factors and Next Year's Budgets and Rates

Anticipated growth will further create demand for water supply, wastewater treatment and disposal, and additional capital facilities. These demands have been anticipated in the District's facility master plans, with new supply demands being met through imported water, interties with neighboring agencies, desalted water, maximizing reclaimed water, and conservation. The District's 2020 fiscal year budget includes \$17.1 million in capital projects.

Rates effective January 1, 2019, as recommended by a cost-of-service study, were adopted by the Board of Directors on October 4, 2017, and result in annual increases of 5.5% to an average bill for a residential customer in the Riverside service area, and 6.8% to customers in the Murrieta and Rainbow service areas. A rate increase of 2.0% for most of the District's wastewater customers went into effect on October 1, 2019, to accommodate rising costs to operate and maintain the wastewater system.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Western Municipal Water District of Riverside County's finances for the Board of Directors, customers, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 14205 Meridian Parkway, Riverside, CA 92518.

Western Municipal Water District
Statement of Net Position
June 30, 2019

<i>Assets and Deferred Outflows of Resources</i>	2019
Current assets:	
Cash (note 2)	\$ 14,053,198
Investments (note 2)	126,756,957
Receivables, net (note 4)	27,165,426
Stored groundwater inventory	1,525,095
Materials and supplies inventory	1,553,204
Other current assets	1,507,296
Total current assets	172,561,176
Non-current assets:	
Restricted investments (notes 2, 3)	18,986,678
Notes receivable (note 4)	5,429,526
Assessments receivable	2,000,000
Other non-current assets	900,000
Capital assets not being depreciated (note 6)	158,584,095
Capital assets being depreciated, net (note 6)	270,460,708
Total non-current assets	456,361,007
Total assets	628,922,183
Deferred outflows of resources:	
Deferred outflow of resources - deferred swap outflow (note 8)	405,048
Deferred outflow of resources - debt refunding	11,298,079
Deferred outflow of resources - pension (note 10)	5,663,154
Deferred outflow of resources - OPEB (note 11)	2,200,799
Total deferred outflows of resources	19,567,080
<i>Liabilities, Deferred Inflows of Resources, and Net Position</i>	
Current liabilities:	
Accounts payable and accrued expenses	22,396,290
Customer deposits and unearned revenue	3,150,636
Construction advances	1,369,366
Accrued interest payable	825,400
Long-term liabilities - due in less than one year:	
Compensated absences (note 5)	2,397,000
Lease payable (note 7)	395,748
Due to other governments (note 7)	744,094
Note payable (note 7)	1,203,105
Bonds payable (note 7)	2,790,000
Total current liabilities	35,271,639
Non-current liabilities:	
Long-term liabilities - due in more than one year:	
Compensated absences (note 5)	640,262
Lease payable (note 7)	1,344,595
Due to other governments (note 7)	21,772,090
Note payable (note 7)	7,817,855
Bonds payable (note 7)	138,776,384
Net pension liability (note 10)	18,070,806
Net OPEB liability (note 11)	1,004,747
Derivative instrument - interest rate swap (note 8)	405,048
Total non-current liabilities	189,831,787
Total liabilities	225,103,426
Deferred inflows of resources:	
Deferred inflow of resources - pension (note 10)	1,008,625
Deferred inflow of resources - OPEB (note 11)	1,897,293
Total deferred inflows of resources	2,905,918
Net position:	
Net investment in capital assets (note 9)	275,026,568
Restricted for capacity charges (note 3)	15,914,014
Unrestricted	129,539,337
Total net position	\$ 420,479,919

See accompanying notes to the basic financial statements

Western Municipal Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

	2019
Operating revenues:	
Water sales	\$ 74,974,766
Water service	20,717,986
Wastewater disposal	12,409,135
Other charges and services	167,127
Contractual services	4,633,486
Total operating revenues	112,902,500
Operating expenses:	
Source of supply	1,438,291
Purchased water	67,250,907
Pumping - booster pumps	5,549,088
Water treatment	2,013,823
Transmission and distribution	10,282,887
Customer accounts	1,730,300
Administrative and general	14,458,740
Contractual services	3,793,232
Wastewater disposal	10,275,481
Other operating expense	617,469
Total operating expenses before depreciation and amortization	117,410,218
Operating loss before depreciation and amortization	(4,507,718)
Depreciation and amortization	(13,092,797)
Operating loss	(17,600,515)
Non-operating revenues (expenses):	
Property taxes and assessments	23,641,810
Investment earnings	8,673,064
Interest expense	(5,740,890)
Capacity rights sales	47,212
Intergovernmental revenue	861,821
Other revenues	1,402,119
Other expenses	(769,621)
Gain (loss) on disposal of assets, net	(30,787)
Total net non-operating revenues	28,084,728
Net income before capital contributions	10,484,213
Capital contributions:	
Capacity charges	7,272,638
Developer capital contributions	1,969,350
Federal, state, and local capital grants	2,320,149
Total capital contributions	11,562,137
Change in net position	22,046,350
Net position, beginning of year	398,433,569
Net position, end of year	\$ 420,479,919

See accompanying notes to the basic financial statements

**Western Municipal Water District
Statement of Cash Flows
For the Year Ended June 30, 2019**

	2019
Cash flows from operating activities:	
Cash receipts from customers for water sales and services	\$ 118,410,958
Cash paid to employees for salaries and wages	(19,150,307)
Cash paid to vendors and suppliers for materials and services	<u>(102,645,878)</u>
Net cash used in operating activities	<u>(3,385,227)</u>
Cash flows from non-capital financing activities:	
Proceeds from property taxes and assessments	23,343,178
Proceeds from intergovernmental revenue	861,821
Deposit paid for swap collateral requirement	<u>(900,000)</u>
Net cash provided by non-capital financing activities	<u>23,304,999</u>
Cash flows from capital and related financing activities:	
Proceeds from capacity rights sales	48,658
Proceeds from notes receivable	318,214
Acquisition and construction of capital assets	<u>(29,500,069)</u>
Proceeds from disposal of capital assets	15,093
Proceeds from capital contributions	9,433,825
Principal paid on long-term debt	<u>(4,697,255)</u>
Interest paid on long-term debt	<u>(5,114,171)</u>
Net cash used in capital and related financing activities	<u>(29,495,705)</u>
Cash flows from investing activities:	
Investment earnings	3,202,567
Purchase of investments	<u>(104,306,778)</u>
Proceeds from sale of investments	<u>112,442,967</u>
Net cash provided by investing activities	<u>11,338,756</u>
Net increase in cash	1,762,823
Cash, beginning of year	<u>12,290,375</u>
Cash, end of year	<u><u>\$ 14,053,198</u></u>

Continued on next page

See accompanying notes to the basic financial statements

**Western Municipal Water District
Statement of Cash Flows, continued
For the Year Ended June 30, 2019**

	2019
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (17,600,515)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	13,092,797
Other revenues	1,402,119
Other expenses	(1,310,090)
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) decrease in assets:	
Accounts receivable	6,426,141
Materials and supplies inventory	(357,461)
Other current assets	(783,379)
(Increase) decrease in deferred outflow of resources:	
Deferred outflow of resources - pension	1,216,675
Deferred outflow of resources - OPEB	(50,676)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(5,485,447)
Customer deposits and unearned revenue	(290,586)
Compensated absences	382,923
Net pension liability	(354,362)
Net OPEB liability	(1,276,321)
Increase in deferred inflow of resources:	
Deferred inflow of resources - pension	225,695
Deferred inflow of resources - OPEB	1,377,260
Total adjustments	14,215,288
Net cash used in operating activities	\$ (3,385,227)
Non-cash investing, capital and financing transactions:	
Change in fair value of investments	\$ 5,458,224
Capital asset contributions	1,022,057
Acquisition and construction of capital assets in accounts payable	5,790,176
Acquisition of capital assets in long-term debt	1,670,840

See accompanying notes to the basic financial statements

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Western Municipal Water District of Riverside County (the District) was formed in 1954 and created for the purpose of importing and delivering water to wholesale and retail customers within its service area. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District purchases approximately 88% of its water from the Metropolitan Water District of Southern California. Approximately 35% of the purchased water comes from the Colorado River aqueduct, and approximately 65% comes from the State Water Project.

The criteria used in determining the scope of the financial reporting entity is based on Codification of Governmental Accounting and Financial Reporting Standards, Part II. Financial Reporting, Section 2100: *Defining the Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: (1) It is able to impose its will on that organization; or (2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Western Municipal Water District Facilities Authority (the Authority) was created in October 2002 by a joint exercise of powers agreement for the purpose of financing public capital improvements. It is governed by a Board of Directors comprising the District's Board of Directors. The Authority has issued debt that is secured solely from installment payments payable under an installment purchase agreement entered into between the District and the Authority. All accounts or funds created and established pursuant to any instrument or agreement to which the Authority is a party, and any interest earned or accrued thereon, shall inure to the benefit of the District. Separate financial statements are not prepared for the Authority. It is reported as a blended component unit.

B. Basis of Accounting and Measurement Focus

The District reports its activities as a special-purpose government engaged in only business-type activities using the economic resources measurement focus, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where, in most instances, the intent of the District is that the costs of providing water or wastewater disposal to its service area on a continuing basis be financed or recovered primarily through user charges (water sales, water service charges, and wastewater disposal), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales, water purchases, and wastewater disposal, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflow of Resources, and Net Position

1. Investments

Investments are generally reported in the accompanying statement of net position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. In addition to the change in fair value, other investment income includes interest earnings and any gains or losses realized upon liquidation or sale of investments.

2. Receivables, Net Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. Account write-offs are based on management's evaluation of customer accounts and the creditor's ability to pay. The allowance for doubtful accounts is deducted against receivables on the statement of net position.

3. Property Taxes and Assessments

The County of Riverside Assessor's Office assesses all real and personal property within Riverside County (the County) each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax revenue is recognized in the period levied for, less an allowance estimated for uncollectibles. Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent (1%) of countywide-assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien Date	January 1
Levy Date	July 1 to June 30
Due Date	November 1 - First Installment February 1 - Second Installment
Delinquent Date	December 10 - First Installment April 10 - Second Installment

4. Hedge Accounting

The District applies the provisions of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Financial Instruments, as amended by GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position, continued

4. Hedge Accounting, continued

The District has determined that its interest rate swap agreement for reducing interest rate risk exposure on its variable-rate debt is a hedging derivative instrument. Under hedge accounting, the fair values of a hedging derivative instrument are reported as either an asset and deferred swap inflow or deferred swap outflow and a liability in a government's statement of net position.

5. Inventory

Inventory consists primarily of materials and supplies used in the construction and maintenance of the District's ongoing operations and are valued at weighted-average cost.

6. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$10,000 and an estimated useful life of more than two years. Donated assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances, and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, as follows:

Vehicles and Equipment	5 - 10 years
Plant	20 - 75 years
Buildings	30 years

The District participates with various agencies entitling it to certain capacity rights. Such capacity rights are recorded as intangible assets and treated in accordance with GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The District's participation in these agencies is through cash payments. Monies used for the construction or expansion of capital assets, such as pipelines, wastewater facilities, etc., are recorded as capacity rights and included in capital assets. The capacity rights have either an indefinite useful life or a definite useful life depending on any legal, contractual, regulatory, technological or other factors that limit the useful life of the asset. Capacity rights with definite useful lives are amortized over the life of the agreements.

A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The District periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management has determined that there were no such impairments at June 30, 2019.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position, continued

7. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation leave up to a maximum of 320 hours and at a rate of 10 to 20 days per year based on the number of years of employment. Sick leave accrues at a rate of eight hours per month up to a maximum of 1,600 hours. Compensated absences are accrued when earned and most are expected to be paid at 100% of the employee's current hourly pay.

8. Deferred Outflow of Resources and Deferred Inflow of Resources

The District applies the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement requires that the difference between assets, deferred outflow of resources, liabilities, and deferred inflow of resources be reported as net position. The impact of deferred outflow of resources and deferred inflow of resources on net position are explained in the following paragraphs.

At June 30, 2019, the District has four items reported as deferred outflow of resources. The first item relates to the deferred swap outflow of \$405,048. This amount would be recognized as an investment loss upon the early termination of the swap as it represents the fair market value or marked-to-market value of the swap at June 30, 2019. The District currently has no intention of terminating its interest rate swap agreement in advance. The second item relates to the deferred outflow of resources on debt refunding of \$11,298,079 at June 30, 2019. This amount relates to previous debt refundings in 2012 and 2016. It represents the difference in the carrying value of refunded debts and their reacquisition prices, net of amortization. The deferred outflow of resources on refunding are amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter. The third and fourth items are the deferred outflow of resources related to pension and OPEB in the amount of \$5,663,154 and \$2,200,799, respectively. These amounts include the pension contributions made after the measurement date of the net pension liability, differences between expected and actual experience for both pension and OPEB, changes in assumption for both pension and OPEB, net difference between projected and actual earnings on both pension and OPEB plan investments, an adjustment due to differences in proportions for pension, and differences between the employer's contributions and the employer's proportionate share of contributions for pension. Refer to Notes 10 D and 11 D for additional information.

At June 30, 2019, the District has two items reported as deferred inflow of resources. These items relate to pension and OPEB, in the amount of \$1,008,625 and \$1,897,293, respectively. The amounts include the deferred inflow resulting from differences between expected and actual experience for both pension and OPEB, changes of assumption for both pension and OPEB, net difference between projected and actual earnings on OPEB plan investments, an adjustment due to differences in proportions for pension and differences between the employer's contributions, and the employer's proportionate share of contributions for pension. Refer to Notes 10 D and 11 D for additional information.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position, continued

9. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any outstanding debt associated with the acquisition, construction or improvement of those assets.
- **Restricted for capacity charges** – Restricted net position has constraints placed on it imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net position consists of net position that do not meet the definition of *restricted* or *invested in capital assets*.

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

D. Revenues

1. Water and Wastewater Services

Water and wastewater revenue is based on usage and recognized at the time of use. Customers are billed on a monthly cyclical basis. Estimated unbilled water and wastewater revenue based on estimated usage through June 30 has been recognized at year-end.

2. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment. Capital contributions are recognized on the statement of revenues, expenses and change in net position when the cash or capital assets are received.

3. Grants

When a grant agreement is approved and eligibility requirements are met, the amount is recorded as a receivable on the statement of net position and as capital grant contribution or non-operating grant revenue, as appropriate, on the statement of revenues, expenses and change in net position.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Pensions

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

F. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability (asset) and deferred outflows/inflows of resources related to OPEB, and OPEB expense (income), information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, deferred inflow of resources, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

H. Budgetary Policies

The District adopts a biennial non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period.

(2) Cash and Investments

Cash and investments as of June 30 are classified in the financial statements as follows:

	2019
Cash	\$ 14,053,198
Investments	126,756,957
Restricted investments	18,986,678
Total investments	145,743,635
Total cash and investments	\$ 159,796,833

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(2) Cash and Investments, continued

Cash and investments as of June 30 consist of the following:

	2019
Petty cash	\$ 16,200
Deposits with financial institutions	14,036,998
Total cash	14,053,198
Money Market Funds	76,707
California Local Agency Investment Fund	5,165,443
U.S. Treasury Notes	26,777,516
Government-Sponsored Agency Securities	53,037,909
Corporate Medium-Term Notes	38,299,330
Asset-Backed Securities	6,703,991
Collateralized Mortgage Obligations	8,655,475
Supranationals	6,821,743
Held by fiscal agent:	
Money Market Funds	205,521
Total investments	145,743,635
Total cash and investments	\$ 159,796,833

Investments Authorized by the California Government Code and the District's Investment Policy

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Municipal Securities	5 years	30%	5%
California State and Local Agency Obligations			
Notes or Bonds of any of the other 49 states			
U.S. Treasury Obligations	10 years	No limit	No limit
U.S. Government Agency Securities Obligations	10 years	No limit	25%
Banker's Acceptances	180 days	40%	5%
Prime Commercial Paper	270 days	25%	5%
Federally Insured Time Deposits (non-negotiable CDs)	5 years	20% (combined with collateralized Time Deposits)	FDIC Limit
Collateralized Time Deposits (non-negotiable CDs)	5 years	20% (combined with Federally-insured Time Deposits)	No limit
Certificate of Deposit Placement Services (CDARS)	5 years	30% (combined with CDs)	No limit
Negotiable Certificates of Deposit (NCDs)	5 years	30% (combined with CDARS)	5%
Repurchase Agreements	90 days	No limit	5%
Corporate Medium-Term Notes	5 years	30%	5%
Supranational	5 years	20%	10%
California State Local Agency Investment Fund (LAIF)	N/A	\$65 million	No limit
Money Market Mutual Funds	N/A	20% (combined with Mutual Funds)	No limit
Mutual Funds	N/A	20% (combined with Money Market Mutual Funds)	10%
Mortgage Pass-Through Securities	5 years	20%	5%
Asset-Backed Securities	5 years	20%	5%
Collateralized Mortgage Obligations	5 years	20%	5%
County Pooled Investment Funds	N/A	No limit	No limit
CalTrust Pooled Investment Funds	N/A	No limit	No limit

The Board has approved all investments with a maturity in excess of five years.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(2) Cash and Investments, continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreement rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by a bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Government Obligations	No limit	No limit	No limit
Local Agency Bonds	No limit	No limit	No limit
U.S. Agency Securities	No limit	No limit	No limit
Certificates of Deposit	365 days	10%	No limit
Money Market Funds	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit up to maximum allowable per LAIF	No limit

Custodial Credit Risk

Custodial credit risk for *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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Local Agency Investment Fund (LAIF)). All investments, other than LAIF, are in the name of the District and held by a third-party custodian.

At June 30, 2019, the carrying amount of the District's deposits was \$14,036,998, and the corresponding bank balance was \$15,380,790. The difference of \$1,343,792 was principally due to outstanding checks, wires and/or deposits in transit. Of the bank balance, up to \$250,000 is federally insured under the Federal Deposit Insurance Corporation (FDIC), with balances in excess of \$250,000 collateralized in accordance with the California Government Code; however, the collateralized securities are not held in the name of the District.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(2) Cash and Investments, continued

Investment in State Investment Pool

The District is a voluntary participant in LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy provides limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Maturities of investments at June 30, 2019, are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
U.S. Treasury Notes	\$ 26,777,516	\$ -	\$ 17,590,231	\$ 9,187,285
Government-Sponsored Agency Securities	53,037,909	-	29,399,382	23,638,527
Corporate Medium-Term Notes	38,299,330	3,675,792	34,623,538	-
Asset-Backed Securities	6,703,991	9,814	6,694,177	-
Collateralized Mortgage Obligations	8,655,475	-	8,655,475	-
Supranationals	6,821,743	-	6,821,743	-
Money Market Funds	282,228	282,228	-	-
Total	<u>\$ 140,578,192</u>	<u>\$ 3,967,834</u>	<u>\$ 103,784,546</u>	<u>\$ 32,825,812</u>

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 rating organization.

Credit ratings of investments as of June 30, 2019, were as follows:

Investment Type	Fair Value	Minimum Policy Rating	Exempt From Disclosure	Ratings as of Year-End			Not Rated
				AAA	AA	A	
U.S. Treasury Notes	\$ 26,777,516	N/A	\$ 26,777,516	\$ -	\$ -	\$ -	\$ -
Government-Sponsored Agency Securities	53,037,909	None	-	-	53,037,909	-	-
Corporate Medium-Term Notes	38,299,330	A	-	1,011,320	12,706,695	24,581,315	-
Asset-Backed Securities	6,703,991	AA	-	6,703,991	-	-	-
Collateralized Mortgage Obligations	8,655,475	AA	-	8,655,475	-	-	-
Supranationals	6,821,743	AA	-	6,821,743	-	-	-
California Local Agency Investment Fund	5,165,443	None	-	-	-	-	5,165,443
Money Market Funds	282,228	*	-	76,707	-	-	205,521
	<u>\$ 145,743,635</u>		<u>\$ 26,777,516</u>	<u>\$ 23,269,236</u>	<u>\$ 65,744,604</u>	<u>\$ 24,581,315</u>	<u>\$ 5,370,964</u>

* Highest rating by at least 2 nationally recognized statistical rating agencies.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(2) Cash and Investments, continued

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer, other than the \$65 million limitation on LAIF, as stipulated by the California Government Code. The District's investment with LAIF is 3.23% of the District's total depository and investment portfolio as of June 30, 2019. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>2019 Reported Amount</u>	<u>2019 % of Total Investments</u>
Federal Home Loan Bank	Government-Sponsored Agency Securities	\$ 22,005,304	15%
Federal National Mortgage Association	Government-Sponsored Agency Securities	18,488,251	13%

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of investments. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant observable inputs. When quoted prices in active markets are not readily available, fair values are based on pricing models or matrices maximizing the use of observable inputs for similar securities as received by the District's investment advisor from a third-party service provider. For the District's derivative instrument - interest rate swap, it is valued based on applying a standard interest rate swap valuation methodology and by taking into account certain observable interest curves. Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Fair Value or Amortized Cost</u>	<u>Quoted Prices in Active Markets for Identical Assets Level (1)</u>	<u>Significant Other Observable Inputs Level (2)</u>	<u>Significant Unobservable Inputs Level (3)</u>
U.S. Treasury Notes	\$ 26,777,51	\$ -	\$ 26,777,516	\$ -
Government-Sponsored Agency Securities	53,037,909	-	53,037,909	-
Corporate Medium-Term Notes	38,299,330	-	38,299,330	-
Asset-Backed Securities	6,703,991	-	6,703,991	-
Collateralized Mortgage Obligations	8,655,475	-	8,655,475	-
Supranational	6,821,743	-	6,821,743	-
Money Market Funds	282,228	282,228	-	-
Investments at fair value	<u>140,578,192</u>	<u>282,228</u>	<u>140,295,964</u>	<u>-</u>
California Local Agency Investment Fund *	5,165,443	-	-	-
Investment at amortized cost	5,165,443	-	-	-
Total	<u>\$ 145,743,63</u>	<u>\$ 282,228</u>	<u>\$ 140,295,964</u>	<u>\$ -</u>
Derivative instrument - interest rate swap	\$ (405,04)	\$ -	\$ (405,048)	\$ -

* Not subject to fair value measurement hierarchy

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(3) Restricted Investments

Restricted investments at June 30 are restricted as follows:

	2019
Capacity charges	\$ 15,914,014
Customer deposits	1,497,777
Construction advances	1,369,366
2010 Series A and Series B Water Revenue Bonds Service Fund	75
2012 Series A Water Revenue Bonds Service Fund	41,425
2016 Series A Water Revenue Bonds Service Fund	19
HQ Building Refinancing Project Fund	164,002
	\$ 18,986,678

(4) Receivables

Current Receivables, net

Current receivables at June 30 consisted of the following:

	2019
Utility services - wholesale	\$ 20,073,464
Utility services - retail	5,248,332
Allowance for doubtful accounts	(90,368)
Accrued interest	845,089
Property taxes and assessments	1,054,967
Other	33,942
	\$ 27,165,426

Notes Receivable, Non-current

Non-current receivables at June 30 consisted of the following:

	2019
Note receivable from Jurupa Community Services District	\$ 5,429,526

In May 2004, the District sold 3.0 million gallons per day (MGD) of its capacity rights in Western Riverside County Regional Wastewater Authority (WRCRWA) to Jurupa Community Services District (Jurupa) for \$9,486,754, for which a note was received. The note requires Jurupa to pay the District 29 annual principal payments ranging from \$198,884 to \$517,098 beginning January 1, 2005. The interest rate is variable and currently at 3.305%.

(5) Compensated Absences

Compensated absences comprise unpaid vacation and sick leave, which are accrued as earned. The District's liability for compensated absences is determined annually.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(5) Compensated Absences, continued

The changes to compensated absences balances at June 30 were as follows:

<u>Balance 2018</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2019</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 2,654,339	\$ 2,791,029	\$ (2,408,106)	\$ 3,037,262	\$ 2,397,000	\$ 640,262

(6) Capital Assets

The balance in capital assets for the year ended June 30, 2019, was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions / Transfers</u>	<u>Balance 2019</u>
Capital assets not being depreciated:				
Land	\$ 7,948,314	\$ -	\$ -	\$ 7,948,314
Capacity rights	22,316,630	726,794	-	23,043,424
Construction in progress	103,324,449	32,400,434	(8,132,526)	127,592,357
Total capital assets not being depreciated	<u>133,589,393</u>	<u>33,127,228</u>	<u>(8,132,526)</u>	<u>158,584,095</u>
Capital assets being depreciated:				
Land improvements	3,369,065	-	-	3,369,065
Plant	486,428	-	-	486,428
Source of supply - plant	1,056,579	-	-	1,056,579
Pumping plant	33,094,437	463,723	(37,187)	33,520,973
Water treatment plant	8,181,260	305,209	(56,604)	8,429,865
Transmission and distribution plant	209,879,524	7,781,351	(14,808)	217,646,067
Wastewater treatment plant	114,134,085	509,632	(51,731)	114,591,986
Buildings	26,655,275	3,063	-	26,658,338
Furniture, fixtures, and office equipment	1,658,964	-	-	1,658,964
Vehicles	6,456,318	775,813	(261,866)	6,970,265
Construction and maintenance equipment	1,716,320	56,824	-	1,773,144
Computer equipment	7,786,930	212,893	(68,292)	7,931,531
Miscellaneous equipment	1,322,762	38,881	-	1,361,643
Capacity rights	23,583,462	310,592	-	23,894,054
Total capital assets being depreciated	<u>439,381,409</u>	<u>10,457,981</u>	<u>(490,488)</u>	<u>449,348,902</u>
Less accumulated depreciation:				
Land improvements	(2,192,701)	(111,262)	-	(2,303,963)
Plant	(431,233)	(6,936)	-	(438,169)
Source of supply - plant	(1,047,189)	(9,307)	-	(1,056,496)
Pumping plant	(18,383,726)	(929,061)	18,593	(19,294,194)
Water treatment plant	(6,132,860)	(214,001)	11,716	(6,335,145)
Transmission and distribution plant	(85,221,925)	(4,797,061)	14,808	(90,004,178)
Wastewater treatment plant	(30,481,731)	(4,025,955)	12,382	(34,495,304)
Buildings	(6,641,014)	(877,483)	-	(7,518,497)
Furniture, fixtures, and office equipment	(1,643,463)	(1,705)	-	(1,645,168)
Vehicles	(4,106,123)	(612,726)	260,336	(4,458,513)
Construction and maintenance equipment	(521,517)	(143,287)	-	(664,804)
Computer equipment	(4,063,530)	(773,355)	66,148	(4,770,737)
Miscellaneous equipment	(815,972)	(109,276)	-	(925,248)
Capacity rights	(4,496,396)	(481,382)	-	(4,977,778)
Total accumulated depreciation	<u>(166,179,380)</u>	<u>(13,092,797)</u>	<u>383,983</u>	<u>(178,888,194)</u>
Total capital assets being depreciated, net	<u>273,202,029</u>	<u>(2,634,816)</u>	<u>(106,505)</u>	<u>270,460,708</u>
Total capital assets, net	<u>\$ 406,791,422</u>	<u>\$ 30,492,412</u>	<u>\$ (8,239,031)</u>	<u>\$ 429,044,803</u>

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(6) Capital Assets, continued

Construction In Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that compose the construction in progress balance at June 30 are as follows:

	<u>2019</u>
Chino Basin Desalter Expansion	\$ 74,000,135
La Sierra Project	32,693,147
Arlington Basin Recharge	7,801,191
Various projects	<u>13,097,884</u>
Construction in progress	<u><u>\$ 127,592,357</u></u>

Capital Leases

The District leases certain vehicles classified as capital leases. Total assets under capital leases and total accumulated amortization are \$2,388,644 and \$631,716, respectively, at June 30, 2019.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(7) Long-Term Debt

Long-term debt activities for the year ended June 30, 2019, were as follows:

	Balance 2018	Additions	Deletions	Balance 2019	Current Portion	Long-Term Portion
<u>Due to other governments:</u>						
Public Offering:						
Santa Rosa Regional Resources Authority: SRRRA 2017 Bond Issuance	\$ 9,424,074	-	(473,977)	8,950,097	717,424	8,232,673
Direct Borrowing:						
Santa Ana Watershed Project Authority: SARI capacity use rights	89,053	-	(89,053)	-	-	-
Western Riverside County Regional Wastewater Authority:						
State Water Resources Control Board - Plant Expansion	608,353	21,899	(26,794)	603,458	26,670	576,788
Santa Rosa Regional Resources Authority: SRRRA SRF Loan	378,367	873,128	-	1,251,495	-	1,251,495
State Water Resources Control Board: La Sierra Pipeline	1,576,347	10,134,787	-	11,711,134	-	11,711,134
Total due to other governments	<u>12,076,194</u>	<u>11,029,814</u>	<u>(589,824)</u>	<u>22,516,184</u>	<u>744,094</u>	<u>21,772,090</u>
<u>Bonds payable:</u>						
Public Offering:						
2010 Series A bonds	3,535,000	-	(1,125,000)	2,410,000	1,180,000	1,230,000
2010 Series B bonds	42,755,000	-	-	42,755,000	-	42,755,000
Unamortized premium	107,683	-	(62,197)	45,486	-	45,486
Unamortized discount	(170,606)	-	11,169	(159,437)	-	(159,437)
2012 Series A bonds	42,285,000	-	(1,550,000)	40,735,000	1,610,000	39,125,000
2016 Series A bonds	51,975,000	-	-	51,975,000	-	51,975,000
Unamortized discount	(72,242)	-	4,578	(67,664)	-	(67,664)
Swap liability ⁽¹⁾	4,378,020	-	(505,021)	3,872,999	-	3,872,999
Total bonds payable	<u>144,792,855</u>	<u>-</u>	<u>(3,226,471)</u>	<u>141,566,384</u>	<u>2,790,000</u>	<u>138,776,384</u>
<u>Note payable:</u>						
Direct Borrowing:						
Note payable - headquarters building	10,197,212	-	(1,176,252)	9,020,960	1,203,105	7,817,855
Total note payable	<u>10,197,212</u>	<u>-</u>	<u>(1,176,252)</u>	<u>9,020,960</u>	<u>1,203,105</u>	<u>7,817,855</u>
<u>Lease payable:</u>						
Direct Borrowing:						
Lease payable - vehicle lease	1,281,334	775,813	(316,804)	1,740,343	395,748	1,344,595
Total lease payable	<u>1,281,334</u>	<u>775,813</u>	<u>(316,804)</u>	<u>1,740,343</u>	<u>395,748</u>	<u>1,344,595</u>
Total long-term debt	<u>\$ 168,347,595</u>	<u>\$ 11,805,627</u>	<u>\$ (5,309,351)</u>	<u>\$ 174,843,871</u>	<u>\$ 5,132,947</u>	<u>\$ 169,710,924</u>

⁽¹⁾ Refer to Note 8 for further information on the swap liability agreement.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(7) Long-Term Debt, continued

Scheduled future debt service requirements of long-term debt, other than lease payable, for years subsequent to June 30, 2019, are as follows, assuming that the 2012 Series A is remarketed and the liquidity agreement is renewed, and the 2016 Series A is remarketed over their scheduled maturities of the debt as disclosed below. If the 2016 Series A is not reissued prior to the bonds' mandatory tender in October 2020, amounts due in fiscal year 2021 will increase by \$51,975,000 more than the amount reported below, and if the liquidity agreement for 2012 Series A is not renewed in October 2022, amounts due in fiscal year 2023 will increase by \$33,900,000 more than the amount reported below.

Fiscal Years	Principal	Interest ⁽¹⁾	Total
2020	\$ 4,737,199	\$ 5,132,009	\$ 9,869,208
2021	5,178,313	5,160,827	10,339,140
2022	6,131,886	6,311,750	12,443,636
2023	6,305,753	6,116,720	12,422,473
2024	6,511,176	5,908,559	12,419,735
2025-2029	31,537,531	26,179,151	57,716,682
2030-2034	35,187,228	20,049,530	55,236,758
2035-2039	39,135,461	12,250,175	51,385,636
2040-2044	30,657,913	2,828,617	33,486,530
2045-2049	2,297,753	140,458	2,438,211
2050-2054	480,436	7,207	487,643
Total	<u>\$ 168,160,649</u>	<u>\$ 90,085,003</u>	<u>\$ 258,245,652</u>
Unamortized discount	(227,101)		
Unamortized premium	45,486		
SWAP liability	3,872,999		
SRRRA SRF Loan	1,251,495		
Total	<u>173,103,528</u>		
Less current portion	(4,737,199)		
Total non-current	<u>\$ 168,366,329</u>		

⁽¹⁾ The 2012 Series A bonds have an assumed interest rate of 2.715% based on the swap.

Due to Other Governments

Western Riverside County Regional Wastewater Authority - State Water Resources Control Board - Plant Expansion

This loan with WRCRWA is in connection with odor control improvements at the WRCRWA Plant and bears interest at 1.9% with a 20-year repayment term that began December 2018. The District's loan amount is \$603,458 as of June 30, 2019.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(7) Long-Term Debt, continued

Due to Other Governments, continued

Western Riverside County Regional Wastewater Authority - State Water Resources Control Board - Plant Expansion, continued

As of June 30, 2019, the future annual maturities of the District's obligation are as follows:

Fiscal Years	Principal	Interest	Total
2020	\$ 26,670	\$ 11,466	\$ 38,136
2021	27,177	10,959	38,136
2022	27,693	10,443	38,136
2023	28,219	9,916	38,135
2024	28,755	9,380	38,135
2025-2029	152,182	38,496	190,678
2030-2034	167,199	23,478	190,677
2035-2039	145,563	6,979	152,542
Total	603,458	\$ 121,117	\$ 724,575
Less current portion	(26,670)		
Total non-current	\$ 576,788		

Santa Rosa Regional Resources Authority (SRRRA)

SRRRA 2017 Bonds

On August 1, 2017, the District entered into a Capacity Funding Agreement with SRRRA in connection with the issuance of the 2017A and 2017B revenue bonds by SRRRA (collectively referred herein as SRRRA Bonds) to finance the acquisition of the Santa Rosa Water Reclamation Facility (SRWRF) and plant upgrades. Series 2017A tax-exempt, fixed-rate revenue bonds were issued in the amount of \$24,040,000, with interest ranging from 3.00% to 5.00% maturing on August 1, 2034. Series 2017B taxable fixed-rate revenue bonds were issued in the amount of \$31,190,000, with interest ranging from 1.5% to 3.65% maturing on August 1, 2031. Under the Capacity Funding Agreement, the District's shares of the 2017A and 2017B revenue bonds are \$4,195,469 and \$5,752,289, respectively, which are approximately 18% of the total SRRRA Bonds based on the District's ownership of the treatment capacity in the SRWRF. The District's annual debt service ranges between \$730,000 and \$1,015,000 over the term of the bonds.

As of June 30, 2019, the future annual maturities of the District's obligation are as follows:

Fiscal Years	Principal	Interest	Total
2020	\$ 717,424	\$ 298,065	\$ 1,015,489
2021	703,591	281,900	985,491
2022	498,876	261,412	760,288
2023	488,732	245,939	734,671
2024	504,409	229,934	734,343
2025-2029	2,604,896	883,993	3,488,889
2030-2034	3,432,169	376,456	3,808,625
Total	8,950,097	\$ 2,577,699	\$ 11,527,796
Less current portion	(717,424)		
Total non-current	\$ 8,232,673		

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(7) Long-Term Debt, continued

Due to Other Governments, continued

Santa Rosa Regional Resources Authority (SRRRA), continued

SRRRA SRF Loan

On January 2, 2018, the District entered into a Funding Agreement with SRRRA for the SRRRA State Revolving Fund (SRF) Loan with the State Water Resources Control Board in order to finance the costs of rehabilitation projects with respect to the SRWRF. The District expects that its total share of debt service will be approximately 18.5%, or \$6,900,000, with interest at 1.8%, and a 30-year repayment term. Principal and interest will not be due until one year from the completion of the rehabilitation projects expected September 30, 2021. As of June 30, 2019, the District's share is \$1,251,495. An amortization schedule is not yet available for the amounts drawn to date.

State Water Resources Control Board – La Sierra Project

On April 17, 2015, the District entered into an agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund Loan to finance the construction of the La Sierra Project. The maximum loan amount was \$24,000,000, with interest at 1.5%. On March 12, 2019, the SWRCB increased the original loan approval to \$35,794,100, with interest at 1.5%, which added funding for the construction of the Sterling Reservoir and Pump Station. The District's annual repayment, including principal and interest, is projected to be \$1,492,012, should the loan amount be fully utilized. The repayment term is 30 years beginning one year after construction is completed. Total proceeds from the loan were \$11,711,134 as of June 30, 2019.

The loan with the State Water Resources Control Board contains covenants and restrictions that include, but are not limited to, assurances relating to adherence to the Clean Water Act, Equal Opportunity and Civil rights laws, and certain other assurances. As of June 30, 2019, the future annual maturities of the District's obligation are as follows:

Fiscal Years	Principal	Interest ⁽¹⁾	Total
2020	\$ -	\$ -	-
2021	311,975	175,667	487,642
2022	316,655	170,987	487,642
2023	321,405	166,238	487,643
2024	326,226	161,417	487,643
2025-2029	1,706,013	732,197	2,438,210
2030-2034	1,837,860	600,350	2,438,210
2035-2039	1,979,898	458,312	2,438,210
2040-2044	2,132,913	305,298	2,438,211
2045-2049	2,297,753	140,458	2,438,211
2050-2054	480,436	7,207	487,643
Total	11,711,134	2,918,131	14,629,265
Less current portion	-	-	-
Total non-current	<u>\$ 11,711,134</u>	<u>\$ 2,918,131</u>	<u>\$ 14,629,265</u>

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(7) Long-Term Debt, continued

Bonds Payable

As provided in the Bond Master Installment Purchase Agreement, the District has created a Rate Stabilization Fund into which the District deposited \$20,000,000 in May 2009. The balance in the Rate Stabilization Fund is currently \$20,000,000, with no usage of such fund during fiscal year 2019.

2010 Series A Bonds

In October 2010, the Authority issued \$8,485,000 of 2010 Series A Water Revenue Bonds with original issue premium of \$1,266,470, which are outstanding as of June 30, 2019, in the amount of \$2,410,000. The bonds were issued to finance the acquisition and construction of certain water and wastewater facilities. Interest on the bonds is paid semiannually at stated rates ranging from 2.0% to 5.0%. The original issuance premium is being amortized using the effective interest rate method over the life of the bonds. The bonds mature in serial fashion through October 2020. The bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service.

As of June 30, 2019, the future annual maturities of the District's obligation are as follows:

Years Ending June 30,	Fixed-Rate Bonds		
	Principal	Interest	Total
2020	\$ 1,180,000	\$ 108,200	\$ 1,288,200
2021	1,230,000	49,200	1,279,200
Total	2,410,000	\$ 157,400	\$ 2,567,400
Less current portion	(1,180,000)		
Total non-current	\$ 1,230,000		

2010 Series B Bonds

In October 2010, the Authority issued \$42,755,000 of 2010 Series B Water Revenue Bonds, Taxable Build America Bonds, with original issue discount of \$255,745, outstanding as of June 30, 2019, in the amount of \$42,755,000 to finance the acquisition and construction of certain water and wastewater facilities, such as the expansion of the Western Water Recycling Facility. Interest on the bonds is paid semiannually at stated rates ranging from 4.528% to 6.510%. The original issue discount is being amortized using the effective interest rate method over the life of the bonds. The bonds mature in serial and term fashion through October 2040 and certain bonds are subject to optional or mandatory redemption. Build America Bonds, created as part of the American Recovery and Reinvestment Act of 2009 (ARRA), are taxable securities that are subject to a subsidy payment from the United States Treasury equal up to 35% of interest payable on the Build America Bonds. The subsidy payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid under the ARRA. The subsidy is pledged to the repayment of the bonds. The bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(7) Long-Term Debt, continued

Bonds Payable, continued

2010 Series B Bonds, continued

As of June 30, 2019, the future annual maturities of the District's obligation are as follows:

Years Ending June 30	Fixed-Rate Bonds		
	Principal	Interest	Total
2020	\$ -	\$ 2,630,711	\$ 2,630,711
2021	-	2,630,711	2,630,711
2022	1,270,000	2,630,711	3,900,711
2023	1,310,000	2,573,205	3,883,205
2024	1,350,000	2,507,338	3,857,338
2025-2029	7,505,000	11,375,281	18,880,281
2030-2034	9,085,000	8,904,077	17,989,077
2035-2039	11,105,000	5,832,340	16,937,340
2040-2045	11,130,000	1,285,400	12,415,400
Total	42,755,000	\$ 40,369,774	\$ 83,124,774
Less current portion	-	-	-
Total non-current	\$ 42,755,000	-	-

2012 Series A Bonds

In June 2012, the Authority issued \$43,775,000 of 2012 Series A Adjustable Rate Water Revenue Refunding Bonds (2012 Series A) to refund the District's 2009 Series A Adjustable Rate Water Revenue Refunding Bonds (2009 Series A). The refunded bonds were fully redeemed.

The 2012 Series A Bonds are adjustable interest rate bonds with varying optional redemption provisions whose rates adjust from the remarketing of bonds tendered for redemption. An underlying credit facility that expires in October 2022 provides liquidity and security for redemption should remarketing efforts not provide sufficient funds. In addition to optional redemption, mandatory redemption occurs through scheduled sinking fund payments. The bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service. Refer to Note 8 for information on an interest-rate swap agreement associated with these bonds.

Scheduled principal maturities of \$33,900,000 occurring between fiscal years 2024-2043, along with any accrued interest, would be due in fiscal year 2023 should the underlying credit facility, which matures in October 2022, not be renewed and the remarketing agent is unable to resell bonds that are tendered for redemption.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(7) Long-Term Debt, continued

Bonds Payable, continued

2012 Series A Bonds, continued

As of June 30, 2019, the future annual maturities of the District's obligation are as follows if the bonds are successfully remarketed and the underlying credit facility is renewed over the original terms of the bonds:

Years Ending June 30	Variable Rate Bonds		
	Principal	Interest ⁽¹⁾	Total
2020	\$ 1,610,000	\$ 1,105,955	\$ 2,715,955
2021	1,675,000	1,062,244	2,737,244
2022	1,740,000	1,016,768	2,756,768
2023	1,810,000	969,527	2,779,527
2024	1,875,000	920,385	2,795,385
2025-2029	10,565,000	3,795,842	14,360,842
2030-2034	10,035,000	2,245,169	12,280,169
2035-2039	-	1,550,944	1,550,944
2040-2044	11,425,000	999,119	12,424,119
Total	40,735,000	\$ 13,665,953	\$ 54,400,953
Less current portion	(1,610,000)		
Total non-current	\$ 39,125,000		

⁽¹⁾ Assuming an interest rate of 2.715% based on the swap.

2016 Series A Bonds

In January 2016, the Authority issued \$51,975,000 of 2016 Series A Adjustable Rate Water Revenue Refunding Bonds (2016 Series A) to refund the District's 2009 Series B Water Revenue Bonds (2009 Series B).

The bonds were issued to provide funds to advance refund in full the Authority's Water Revenue Bonds, 2009 Series B, delivered in the initial payment amount of \$54,340,000, of which \$49,695,000 is to cover the principal as they mature and to pay certain costs of issuance of the Bonds. Consequently, the 2009 Series B bonds were considered deceased and were removed from the financial statements. The bonds were initially issued in the long-term rate and bear interest at 1.50% per annum through mandatory tender on October 1, 2020. Upon mandatory tender, the District will reissue the bonds at either variable or fixed rates.

The outstanding balance of the refunded bonds that still needs to be redeemed from the escrow account as of June 30, 2019, is \$47,430,000.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(7) Long-Term Debt, continued

Bonds Payable, continued

2016 Series A Bonds, continued

As of June 30, 2019, the future annual maturities of the District's obligation are estimated as follows:

Years Ending June 30	Variable-Rate Bonds		
	Principal	Interest ⁽¹⁾	Total
2020	\$ -	\$ 779,625	\$ 779,625
2021	-	779,625	779,625
2022	1,020,000	2,079,000	3,099,000
2023	1,060,000	2,038,200	3,098,200
2024	1,110,000	1,995,800	3,105,800
2025-2029	6,280,000	9,275,600	15,555,600
2030-2034	10,630,000	7,900,000	18,530,000
2035-2039	25,905,000	4,401,600	30,306,600
2040-2044	5,970,000	238,800	6,208,800
Total	51,975,000	\$ 29,488,250	\$ 81,463,250
Less current portion	-	-	-
Total non-current	\$ 51,975,000		

⁽¹⁾ Assuming a 4% fixed interest rate upon reissue.

Note Payable – Headquarters Building

In July 2016, the District refinanced the original unsecured financing done in September 2009 for the acquisition and development of its headquarters building. Along with this refinance, the District borrowed another \$8 million to accommodate the cash needs for certain capital projects. Terms of the note provide that the District is to make semiannual payments of \$700,546, including interest, through April 2026. The note has a stated interest rate of 2.27%.

As of June 30, 2019, the future annual maturities of the District's obligation are as follows:

Fiscal Years	Principal	Interest	Total
2020	\$ 1,203,105	\$ 197,987	\$ 1,401,092
2021	1,230,570	170,521	1,401,091
2022	1,258,662	142,429	1,401,091
2023	1,287,397	113,695	1,401,092
2024	1,316,786	84,305	1,401,091
2025-2029	2,724,440	77,742	2,802,182
Total	9,020,960	\$ 786,679	\$ 9,807,639
Less current portion	(1,203,105)		
Total non-current	\$ 7,817,855		

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(7) Long-Term Debt, continued

Lease Payable - Vehicle Leases

In August 2016, the District began leasing certain vehicles used in District operations under leases classified as capital leases. The vehicles are leased for five-year terms. The following is a schedule showing future minimum lease payments:

Fiscal Years	Minimum Lease Payments
2020	\$ 497,033
2021	497,032
2022	508,066
2023	333,810
2024	130,247
Total	\$ 1,966,188
Less amount representing interest	(225,845)
Present value of minimum lease payments	\$ 1,740,343

At June 30, 2019, the present value of minimum lease payments due within one year is \$395,748.

(8) Interest Rate Swap

The District entered into an interest rate swap agreement for the Authority's 2009 Series A Water Revenue Refunding Bonds. In connection with the refunding of the 2009 Series A Bonds, the District has amended and restated the swap agreement, with the same counterparty, essentially replacing the 2009 Series A Bonds with the 2012 Series A Bonds with no change in notional amounts. The amended agreement carries over the swap liability of \$7,765,573 from the prior agreement. The swap liability is amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter. Because of the carryover, the new agreement is considered a hybrid instrument for financial reporting, whose pay fixed rate of 2.715% (off-market rate) enables the pay-down of the carryover swap liability.

The District's objective with the swap agreement is to alter its exposure to interest rate fluctuations, specifically rising interest rates that would negatively impact cash flows, by swapping an obligation to pay fixed rates for one that pays a floating rate. The table that follows summarizes the significant swap payment terms:

Description	Summary of Swap Payment Terms District	Counterparty
Original Confirmation Date	November 4, 2008	November 4, 2008
Original Notional Amount	\$48,000,000	\$48,000,000
Amended and Restated Date	June 26, 2012	June 26, 2012
Amended Notional Amount	\$43,775,000	\$ 43,775,000
Notional Reductions	Annually on October 1	Annually on October 1
Termination Date	October 1, 2042	October 1, 2042
Payment Dates	First calendar day of each month	First calendar day of each month
Payment Rate	2.715%	67% of one-month USD LIBOR

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(8) Interest Rate Swap, continued

Evaluation of Swap Effectiveness

The District applies the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 prescribes the accounting and financial reporting required for derivative instruments that hedge identified financial risks. If the derivative instrument is determined to be effective in reducing the identified exposure, hedge accounting provides that changes in the fair value of the hedging instrument—in this instance, the interest rate swap—be reported as either deferred inflows or deferred outflows in a government’s statement of net position. To evaluate the effectiveness of the swap, the Synthetic Instrument Method (SIM) prescribed by GASB Statement No. 53 was employed for the fiscal year ended June 30, 2019. The resulting analyses reveal the swap is effective as a hedging instrument for the fiscal year.

The fair value or marked-to-market value of the swap (imputed at market rate of 1.424%) as of June 30, 2019, is \$405,048, which is the amount the District would owe as of this date should the swap be terminated. The decrease in fair value by (\$2,367,534) results in a deferred swap outflow for the year ended June 30, 2019.

Credit Risk

The amended and restated interest rate swap agreement adds a third-party guarantor for any termination payment obligation that may be incurred by the counterparty.

The following tables compare the counterparty and guarantor credit ratings at June 30, 2019, against their threshold rating for termination:

Counterparty	Moody’s	S&P
Senior Debt	A2	NR
Threshold Amount	A3	A-
Counterparty Guarantor	Moody’s	S&P
Senior Debt	Aa3	AA
Threshold Amount	A3	A-

Interest Rate Risk

The District is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As LIBOR decreases, the District’s net payment on the swap increases.

Basis Risk

The District is exposed to basis risk on the swap because the variable-rate payments received by the District are based on an index other than interest rates the District pays on hedged variable rate debt. For the fiscal year ended June 30, 2019, the District’s 2012 Series A Bonds, which are hedged by the amended swap, had a weighted-average variable rate of 1.28%. Over the same period, the weighted average of 67% of one-month LIBOR was 1.58%.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(8) Interest Rate Swap, continued

Basis Risk, continued

For the life-to-date period from July 4, 2012, through June 30, 2019, the District's 2012 Series A Bonds, which are hedged by the amended contractual swap, had a weighted-average variable rate of 0.46%. Over that same period, the weighted average of 67% of one-month LIBOR was 0.53%. Therefore, the District's basis gain over this period was approximately 0.06%.

Termination Risk

The swap may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. If, at the time of termination, the swap is in a liability position, the District would be obligated to pay the counterparty the liability position. The District has established policies to limit its termination liability payment risk to a predetermined percentage of its available reserves. The swap termination value at June 30, 2019, was within these limits.

(9) Net Investment in Capital Assets

The balance at June 30 consists of the following:

	2019
Capital assets not being depreciated	\$ 158,584,095
Capital assets being depreciated, net	270,460,708
Due to other governmental agencies	(22,516,184)
Bonds payable	(120,904,749)
Notes payable	(8,856,959)
Lease payable	(1,740,343)
Net investment in capital assets	\$ 275,026,568

(10) Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Descriptions

The Public Agency Cost-Sharing, Multiple-Employer Defined Benefit Pension Plan (Plan) is administered by CalPERS. The Plan was established to provide retirement, death and disability benefits to public agency rate plans with generally less than 100 active members. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2017, Annual Actuarial Valuation Reports. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation reports. The actuarial valuation reports and CalPERS' audited financial statements are publicly available reports that can be obtained from CalPERS' website under Forms and Publications, at www.calpers.ca.gov.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(10) Defined Benefit Pension Plan, continued

A. General Information about the Pension Plan, continued

Plan Descriptions, continued

All qualified permanent and probationary employees are eligible to participate in the Plan administered by CalPERS. The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors three rate plans under the miscellaneous risk pool: Miscellaneous rate plan, Miscellaneous Second Tier rate plan, and PEPRA Miscellaneous rate plan. Benefit provisions under the Plan are established by State statute and District resolution.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to Plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 (52 for the PEPRA Miscellaneous rate plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

District-sponsored rate plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous Rate Plan	Miscellaneous Second Tier Rate Plan	PEPRA Miscellaneous Rate Plan
	Prior to	On or after	On or after
Hire date	January 1, 2013	January 1, 2013	January 1, 2013
Benefit formula	2.5 % @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	10.609%	8.892%	6.842%
Unfunded liability lump-sum payments	\$ 963,975	\$ 1,947	\$ 11,045

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(10) Defined Benefit Pension Plan, continued

A. General Information about the Pension Plan, continued

Contributions

Section 20814(c) of PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For the public agency cost-sharing plan covered by either the miscellaneous or safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2018 (the measurement date), and reporting period ended June 30, 2019, the average active employee contribution rates for the respective District-sponsored Miscellaneous Rate Plan, Miscellaneous Second Tier Rate Plan and PEPRM Miscellaneous Rate Plan are 8%, 7%, and 6.25% of annual pay, and the respective employer's contribution rates are 10.110%, 8.418%, and 6.533% of annual payroll plus a lump-sum payment of \$768,843, \$50, and \$375. Employer contribution rates may change if plan contracts are amended. Employer Contributions made by the District to the Plan for the measurement period ended June 30, 2018, is \$2,029,535.

B. Net Pension Liability/(Asset)

The net pension liability/(asset) for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability/(asset) of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability/(asset) is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2018 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017, total pension liability. The June 30, 2018, total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous Plan</u>
Valuation date	June 30, 2017
measurement date	June 30, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15%
Mortality	The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.
Post-retirement benefit increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance (PPPA) floor on purchasing power applies.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(10) Defined Benefit Pension Plan, continued

B. Net Pension Liability/(Asset), continued

Actuarial Methods and Assumptions Used to Determine Total Pension Liability, continued

There were no changes to benefit terms.

In 2018, demographic assumptions and inflation rates were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Discount Rate

The discount rate used by CalPERS to measure the total pension liability was 7.15%, and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. For the Plan, also known as PERF C, CalPERS believes that demonstrating that a crossover event did not occur for other contracting public agencies (e.g. a combination of State and Public Agency agent multiple-employer plans and cost-sharing multiple-employer plan of school employers), which had lower funded status and active to retiree ratios than the PERF C risk pools, is sufficient proof that no crossover event will occur in PERF C risk pools. The crossover test results can be found on CalPERS' website at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rate of return by asset class are as followed:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10 ⁽¹⁾</u>	<u>Real Return Years 11 ⁽²⁾</u>
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation assets	0.0%	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92)%
Total	<u>100.0%</u>		

(1) An expected inflation of 2.0% used for this period

(2) An expected inflation of 2.92% used for this period

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(10) Defined Benefit Pension Plan, continued

B. Net Pension Liability/(Asset), continued

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained from CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The Plan's fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the Plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

C. Proportionate Share of Net Pension Liability

The following table shows the District's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	District's Total Pension Liability	District's Fiduciary Net Position	District's Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at: 6/30/2017 (MD)	\$ 71,505,876	\$ 53,080,708	\$ 18,425,168
Balance at: 6/30/2018 (MD)	76,445,981	58,375,175	18,070,806
Net Changes during 2017-18	4,940,105	5,294,467	(354,362)

MD = Measurement Date

The District's net pension liability for the Plan is measured as the proportionate share of the Plan's net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of measurement dates June 30, 2017 and 2018, was as follows:

	District Pension Plan
Proportionate Share - June 30, 2017 (MD)	0.46740%
Proportionate Share - June 30, 2018 (MD)	0.47950%
Change - Increase	0.01210%

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(10) Defined Benefit Pension Plan, continued

C. Proportionate Share of Net Pension Liability, continued

The following presents the District's proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.15%) or one percentage-point higher (8.15%) than the current rate:

	Discount Rate - 1% (6.15)%	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15)%
District's net pension liability	\$ 28,411,744	\$ 18,070,806	\$ 9,534,532

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions, and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	Five-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the PERF C for the June 30, 2018, measurement period is 3.8 years, which was obtained by dividing the total service years of 516,147 (the sum of remaining service lifetimes of the active employees) by 135,474 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to zero. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

D. Pension Expense/(Income) and Deferred Outflows, and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2017), the District's proportionate share of the Plan's net pension liability is \$18,425,168 (the net pension liability of the Miscellaneous Risk Pool as of June 30, 2017, is \$3,942,047,621).

For the measurement period ended June 30, 2018 (the measurement date), the District incurred pension expense of \$3,478,228 (the pension expense for the risk pool for the measurement period is \$584,881,668).

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(10) Defined Benefit Pension Plan, continued

D. Pension Expense/(Income) and Deferred Outflows, and Deferred Inflows of Resources Related to Pensions, continued

As of June 30, 2019, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 693,345	\$ (235,941)
Changes of assumptions	2,060,126	(504,897)
Net difference between projected and actual Earnings on pension plan Investments	89,337	-
Adjustment due to differences in proportions	430,126	(8,058)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(259,729)
Pension contributions subsequent to Measurement date	2,390,220	-
Total	\$ 5,663,154	\$ (1,008,625)

These amounts above are net of outflows and inflows recognized in the 2017-18 measurement period expense. \$2,390,220 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2019. Amounts reported as deferred outflows and deferred inflows of resources related to pension will be recognized in future pension expense as follows:

Measurement Periods Ending June 30:	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,862,001
2020	1,145,985
2021	(581,141)
2022	(162,536)
2023	-
Thereafter	-

E. Payable to the Pension Plan

At June 30, 2019, the District reported a payable of \$55,951 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(11) Other Post-Employment Benefits

A. General Information about the OPEB Plan

Plan Description

The District is the Plan Administrator for the Western Municipal Water District Retirement Medical Benefits Plan (the Medical Plan). The Medical Plan was established effective June 15, 2006, and is a single-employer defined benefit plan to provide advance funding for post-employment healthcare benefits to eligible employees and eligible dependents in accordance with plan provisions. Medical Plan assets are accumulated and benefits are paid from a voluntary employees' beneficiary association (VEBA) trust established by the District. Separate financial statements of the VEBA trust may be obtained at Western Municipal Water District, 14205 Meridian Parkway, Riverside, CA 92518.

Benefits Provided

Eligible participants for the Medical Plan are based on two groups:

- a. Group 1 are classified and non-classified employees hired on or before December 18, 2002, who are at least 55 years old at retirement and have completed at least 10 years of service. The District provides medical benefits for the employee and spouse/registered domestic partner.
- b. Group 2 are classified and non-classified employees hired after December 18, 2002, who are at least 55 years old at retirement and have completed at least 10 years of service. The District provides medical benefits for the employee only.

Employees Covered

As of June 30, 2019, the following employees and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefit payments	72
Active employees	142
Total	<u>214</u>

Funding Policy and Annual Cost

Contributions

The Medical Plan and its contribution requirement of the District are established and may be amended by the District's Board of Directors. The District contributes to the VEBA trust an amount equal to the actuarially determined contribution. For the fiscal year ended June 30, 2019, the District's total benefit payments of \$887,831, net of estimated implied subsidy of \$158,399, resulted in cash contributions of \$729,432 in payments to the trust.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(11) Other Post-Employment Benefits, continued

B. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated November 1, 2017, that was rolled forward using standard update procedures to determine the June 30, 2019, total OPEB liability. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Valuation date	November 1, 2017
Measurement date	June 30, 2019
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Discount rate	7.00%
Inflation	2.50%
Projected salary increase	5.70%
Expected long-term investment rate of return	7.00%
Healthcare cost trend rates	7.50% per annum, decreasing 0.3% per year to an ultimate rate of 4.50% for fiscal year 2030 and later years
Pre-retirement turnover	Derived from CalPERS pension plan
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

The actuarial assumptions used in the November 1, 2017, valuation were based on a standard set of assumptions the actuary has used for similar valuations.

The long-term expected rate of return was determined using a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	61.0%	8.50%
Fixed income	30.0%	3.70%
Real estate	7.0%	6.70%
Other	2.0%	5.00%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the District's contributions would be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Medical Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees, and beneficiaries. Therefore, the long-term expected rate of return on the Medical Plan's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(11) Other Post-Employment Benefits, continued

C. Changes in net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2018	\$ 18,934,583	\$ 16,653,515	\$ 2,281,068
Changes in the Year:			
Service cost	785,273	-	785,273
Interest on the total OPEB liability	1,357,315	-	1,357,315
Differences between actual and expected experience	-	-	-
Changes in assumptions	(1,742,305)	-	(1,742,305)
Change in benefit terms	-	-	-
Contribution - employer	-	729,432	(729,432)
Contribution - retiree	-	33,327	(33,327)
Net investment income	-	820,649	(820,649)
Administrative expenses	-	(30,076)	30,076
Benefit payments	(659,277)	(536,005)	(123,272)
Net Changes	<u>\$ (258,994)</u>	<u>\$ 1,017,327</u>	<u>\$ (1,276,321)</u>
Balance as of June 30, 2019 (Measurement Date)	<u>\$ 18,675,589</u>	<u>\$ 17,670,842</u>	<u>\$ 1,004,747</u>

Changes in Assumptions

Actuarial assumptions that changed from the prior year include 1) the salary increase rate was changed from 3.0% to 5.7%, 2) spousal coverage assumption was changed from 85% to 60%, and 3) the medical trend rate table was reset in fiscal year 2020.

Changes in Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a different rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current discount rate:

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(11) Other Post-Employment Benefits, continued

C. Changes in net OPEB Liability, continued

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB Liability	\$ 3,477,908	\$ 1,004,747	\$ (1,056,291)

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

The following represents the net OPEB liability of the District, as well as the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current healthcare cost trend rates:

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rates (7.50%)	1% Increase (8.50%)
Net OPEB Liability (Asset)	\$ (1,658,172)	\$ 1,004,747	\$ 4,327,862

For the year ended June 30, 2019, the District recognized OPEB expense of \$936,294. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between actual and expected experience	\$ 1,232,146	\$ (62,176)
Change of assumptions	676,390	(1,524,517)
Net differences between projected and actual earnings on OPEB Plan Investments	-	(18,337)
Total	\$ 1,908,536	\$ (1,605,030)

The net difference between projected and actual earnings on plan investments is amortized over a five-year period. The differences between actual and expected experience and change in assumptions are amortized over the expected average remaining service life. The expected average remaining service life for the 2018-19 measurement period is 8.0 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Years Ending June 30	Amount
2020	\$ (50,392)
2021	(50,392)
2022	54,394
2023	88,069
2024	15,004
Thereafter	246,823

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(11) Other Post-Employment Benefits, continued

E. Payable to the OPEB Plan

At June 30, 2019, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2019.

(12) Risk Management

The District is exposed to various risks of loss including, but not limited to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk-sharing joint powers authority created to provide insurance programs for California water agencies. The role of the ACWA/JPIA is to arrange and administers pooled coverage programs where loss is retained and shared among its member agencies, and to purchase excess or specialty-insurance coverage above retained limits. At June 30, 2019, the District participated in the liability, property, and workers' compensation programs of the ACWA/JPIA as follows:

- General, auto, and errors and omissions liability coverage up to the ACWA/JPIA pooled self-insured limits of \$5,000,000 per occurrence. ACWA/JPIA purchased additional excess coverage layers, which increases the coverage limits to \$60,000,000 per occurrence limited to one occurrence. Claims under \$30,000,000 have no aggregate limit.
- Employee dishonesty coverage up to \$1,100,000, which includes employee dishonesty, forgery, or alteration and computer fraud, with a \$1,000 deductible.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, and otherwise paid on an actual cash value basis, to a combined total of \$500 million, subject to a deductible that generally ranges from \$25,000 to \$50,000, depending on the type of property.
- Workers' compensation insurance up to the ACWA/JPIA pooled self-insured limit of \$2,000,000 for all work-related injuries/illnesses covered by California law.

In addition, the District has purchased Pollution and Remediation Legal Liability insurance through an insurance company that provides coverage of \$2,000,000 per occurrence and a \$10,000,000 aggregate. Coverage includes pollution products for water supply and biosolids, sewer backup, mold, remediation, emergency response cost, on-site clean-up cost, third-party claims for off-site clean-up, and transportation pollution liability, with a \$100,000 deductible.

Settled claims have not exceeded any coverage amounts in any of the last three fiscal years, and there were no reductions in the District's insurance coverage during the year ended June 30, 2019.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(13) Commitments and Contingencies

Joint Ventures

The District participates in the following joint ventures with other districts and agencies for various water and wastewater projects and operating facilities in Southern California:

Chino Basin Desalter Authority

The District joined the Chino Basin Desalter Authority (CDA) in November 2008 and became a voting member of the CDA on September 22, 2011, through a facility buy-in contribution of \$3,163,712. Working in partnership with two CDA partners, the City of Ontario and Jurupa Community Services District (JCSD), the District is augmenting water supplies from the Chino Basin by expanding the capacity of the Chino II Desalter from 12 MGD to 22 MGD. As expansion partners, the District, the City of Ontario, and Jurupa will be responsible for funding the remaining cost of the \$154 million project, net of grants. The District's total share of the project is expected to be \$68 million, excluding the District's internal costs and capitalized interest, reduced by \$33 million in grant funding, for a net cost of \$35 million. The District's share of cost incurred to date, including the District's internal costs and capitalized interest, is \$74 million as of June 30, 2019. The District's participation in the CDA is accounted for as a joint venture without an equity interest. The District's share of the expansion cost was capitalized throughout construction, resulting in capacity rights of 3,534 acre-feet of water annually.

Separate financial statements may be obtained at the Chino Basin Desalter Authority, 2151 S. Haven Avenue, Suite 202, Ontario, CA 91761.

Financial information for the operation of the CDA for the fiscal year ended June 30 is as follows:

	2019
Total assets	\$ 282,779,581
Total deferred outflows of resources	\$ 4,067,114
Total liabilities	\$ 85,436,571
Total net position	\$ 201,410,124
Total revenues	\$ 56,736,276
Total expenses	(55,224,683)
Change in net position	\$ 1,511,593

Western Riverside County Regional Wastewater Authority

WRCRWA was formed in 1992 pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise of powers common to public agencies, for the purpose of constructing, maintaining, operating, and managing facilities for the collection, transmission, treatment, and disposal of wastewater, the reclamation of wastewater, and the use of reclaimed wastewater for any beneficial purpose.

The five-member agencies are the Home Gardens Sanitary District, the District, the City of Norco, the City of Corona, and JCSD. WRCRWA is governed by a 10-member Board of Directors. The District's participation in WRCRWA is accounted for as a joint venture without an equity interest.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Western Riverside County Regional Wastewater Authority, continued

WRCRWA owns and operates a tertiary wastewater treatment plant in Riverside County. In 2018, WRCRWA completed an expansion of the plant from an 8.0 MGD to a 14.0 MGD treatment capacity. The member agencies support the operating costs and capital costs through fixed and variable rates established by WRCRWA's Board of Directors. At June 30, 2019, the carrying value of the District's capacity rights in WRCRWA is \$8.5 million, net of accumulated amortization. The capacity rights in WRCRWA are being amortized over the term of the WRCRWA joint powers of agreement.

The plant's treatment capacity is owned by member agencies as follows:

Member Agencies	MGD
Western Municipal Water District	1.93
Jurupa Community Services District	6.00
City of Norco	2.70
Home Gardens Sanitary District	0.75
City of Corona	2.62
	14.00

The recent plant expansion is financed by all member agencies, including a portion from the District for certain expenses that primarily deal with odor control. The District's participation in the plant expansion did not result in additional allocated capacity to the District. The table above reflects plant treatment capacity among the member agencies as a result of the plant expansion.

Financial information for the operation of WRCRWA for the fiscal year ended June 30 is as follows:

	2019
Total assets	\$ 118,920,145
Total liabilities	\$ 73,293,517
Total deferred inflow of resources	\$ 350,000
Total net position	\$ 45,276,628
Total revenues	\$ 12,440,019
Total expenses	13,003,611
Change in net position	\$ 563,592

Since July 1, 1998, the District has been responsible for the administration and operations of WRCRWA. Separate financial statements of WRCRWA may be obtained at Western Municipal Water District, 14205 Meridian Parkway, Riverside, CA 92518.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Santa Ana Watershed Project Authority (SAWPA)

SAWPA was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of five water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District, and the Inland Empire Utilities Agencies. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of 10. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by contributions based on the general or specific nature of the project or study. The District's participation in SAWPA is accounted for as a joint venture without an equity interest. At June 30, 2019, the carrying value of the District's capacity rights in SAWPA is \$18.0 million. The capacity rights in SAWPA were determined to have an indefinite useful life and are not being amortized. Financial data may be obtained at Santa Ana Watershed Project Authority, 11615 Sterling Avenue, Riverside, CA 92503.

Financial information for the operation of SAWPA for the fiscal year ended June 30 is as follows:

	2019
Total assets	\$ 176,927,279
Total deferred outflow of resources	\$ 1,482,258
Total liabilities	\$ 106,512,749
Total deferred inflow of resources	\$ 337,312
Total net position	\$ 71,559,476
Total revenues	\$ 22,110,403
Total expenses	(19,227,886)
Change in net position	\$ 2,882,517

Santa Rosa Regional Resources Authority (SRRRA)

SRRRA was formed under a joint exercise of power agreement for the purpose of constructing, maintaining, operating, and managing facilities for the collection, transmission, treatment, and disposal of wastewater, the reclamation of wastewater, and the use of reclaimed wastewater for any beneficial purpose.

SRRRA comprises three-member agencies: Elsinore Valley Municipal Water District, Rancho California Water District, and Western Municipal Water District. SRRRA is governed by a three-member Board of Directors. The District's participation is accounted for as a joint venture without an equity interest.

**Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019**

(13) Commitments and Contingencies, continued

Joint Ventures, continued

Santa Rosa Regional Resources Authority (SRRRA), continued

In 2018, SRRRA completed the acquisition of the SRWRF, a 5.0 MGD secondary and tertiary plant, from Rancho California Water District. Wastewater flows in SRRRA's service area are treated at the SRWRF. At June 30, 2019, the carrying value of the District's capacity rights in SRRRA are \$10.6 million. Financial data may be obtained at Rancho California Water District, 42135 Winchester Road, Temecula, CA 92590.

Financial information for the operation of SRRRA for the fiscal year ended June 30 is as follows:

	2019
Total assets	\$ 70,118,446
Total liabilities	\$ 66,873,033
Total net position	\$ 3,245,413
Total revenues	\$ 9,833,695
Total expenses	(8,756,174)
Change in net position	\$ 1,077,521

Construction Contracts

The District has committed to \$6,128,071 in open construction contracts as of June 30, 2019. These include:

Project	Approved Contract	Payments To Date	Remaining Commitment
La Sierra Pipeline and Sterling Pump Station Project	\$ 32,366,821	\$ 27,613,554	\$ 4,753,267
North Well Replacement Project	1,374,804	-	1,374,804
Total	\$ 33,741,625	\$ 27,613,554	\$ 6,128,071

General Litigation

The District is subject to various claims covering a wide range of matters that arise in the ordinary course of business. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(14) Implementation of New Accounting Principles

GASB Statement No. 83

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The implementation of this Statement did not have an impact on the District.

GASB Statement No. 88

The GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District is in compliance with the implementation of this Statement.

GASB Statement No. 89

The GASB has issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to (1) enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period, and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has early-implemented this Statement beginning in the fiscal year ended June 30, 2019, and is no longer treating construction-period interest cost as part of the historical cost of constructing a capital asset.

(15) GASB Statements Issued, Not Yet Effective

GASB Statement No. 84

The GASB has issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity, and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

Western Municipal Water District
Notes to the Basic Financial Statements
June 30, 2019

(15) GASB Statements Issued, Not Yet Effective, continued

GASB Statement No. 87

The GASB has issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease liability and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 90

The GASB has issued Statement No. 90, *Majority Equity Interests*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

GASB Statement No. 91

The GASB has issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The impact of the implementation of this Statement on the District's financial statements has not been assessed at this time.

(16) Subsequent Events

Events occurring after June 30, 2019, have been evaluated for potential recognition or disclosure through December 19, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

**Western Municipal Water District
Required Supplementary Information
June 30, 2019**

*Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and
Related Ratios as of the Measurement Date
Last 10 Years**

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's Proportion of the Net Pension Liability	0.18753%	0.18579%	0.18184%	0.18016%	0.14943%
District's Proportionate Share of the Net Pension Liability	\$ 18,070,806	\$ 18,425,168	\$ 15,734,556	\$ 12,365,976	\$ 9,298,222
District's Covered Payroll ⁽¹⁾	\$ 13,685,044	\$ 12,875,107	\$ 12,276,411	\$ 11,614,001	\$ 10,944,715
District's Proportionate Share of the Net Pension Liability as a percentage of its Covered Payroll	132.05%	143.11%	128.17%	106.47%	85.38%
District's Share of Risk Pool Fiduciary Net Position	\$ 58,375,175	\$ 53,080,708	\$ 47,253,866	\$ 46,203,551	\$ 45,687,606
District's Additional Payments to Side Fund During Measurement Period	\$ -	\$ -	\$ -	\$ -	\$ -
District's Proportionate Share of the Fiduciary Net Position (sum of the two preceding lines)	\$ 58,375,175	\$ 53,080,708	\$ 47,253,866	\$ 46,203,551	\$ 45,687,606
District's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	76.36%	74.23%	75.02%	78.89%	83.09%
District's Proportionate Share of Aggregate Employer Contributions ⁽²⁾	\$ 2,223,572	\$ 2,008,382	\$ 1,759,697	\$ 1,598,220	\$ 1,235,468

⁽¹⁾ Covered Payroll represented above is based on the total pensionable payroll of employees in accordance with GASB 82.

⁽²⁾ The District's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The District's proportionate share of aggregate contributions is based on the District's proportion of Fiduciary Net Position shown on the table above, as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Measurement period 2017-18 (fiscal year 2018-19) was the fifth year of implementation; therefore, only five years are shown.

Changes of Assumptions

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions in December 2017. In 2017, the accounting discount rate was reduced from 7.65% to 7.15%. In 2015, the discount rate changed from 7.5% (net of administrative expense in 2014) to 7.65% to correct the adjustment, which previously reduced the discount rate for administrative expense.

**Western Municipal Water District
Required Supplementary Information
June 30, 2019**

*Schedule of Plan Contributions
Last 10 Years**

	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 2,390,220	\$ 2,029,535	\$ 1,785,348	\$ 1,700,996	\$ 1,686,011
Contributions in Relation to the					
Actuarially Determined Contribution	<u>(2,390,220)</u>	<u>(2,029,535)</u>	<u>(1,785,348)</u>	<u>(1,700,996)</u>	<u>(1,686,011)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered Payroll ⁽¹⁾	\$ 14,957,485	\$ 13,685,044	\$ 12,875,107	\$ 12,276,411	\$ 11,614,001
Contributions as a Percentage of Covered Payroll	15.98%	14.83%	13.87%	13.86%	14.52%

⁽¹⁾ Covered Payroll represented above is based on the total pensionable payroll of employees in accordance with GASB 82.

* Measurement period 2017-18 (fiscal year 2018-19) was the fifth year of implementation; therefore, only five years are shown.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None

Changes of Assumptions

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions in December 2017. In 2017, the accounting discount rate was reduced from 7.65% to 7.15%. In 2015, the discount rate changed from 7.5% (net of administrative expense in 2014) to 7.65% to correct the adjustment, which previously reduced the discount rate for administrative expense.

**Western Municipal Water District
Required Supplementary Information
June 30, 2019**

***Schedule of Changes in Net Other Post-Employment Benefits Liability and Related Ratios
Last 10 Years****

Total OPEB Liability	2019	2018
Service cost	\$ 785,273	\$ 713,625
Interest	1,357,315	1,049,476
Differences between expected and actual experience	-	1,544,082
Changes in assumptions	(1,742,305)	847,628
Contributions - retiree	33,327	36,511
Benefit payments	(692,604)	(498,497)
Net change in total OPEB liability	(258,994)	3,692,825
Total OPEB liability - beginning	18,934,583	15,241,758
Total OPEB liability- ending (a)	18,675,589	18,934,583
 Plan Fiduciary Net Position		
Contributions - employer	729,432	708,338
Contributions - retiree	33,327	36,511
Net investment income	820,649	1,265,227
Benefit payments	(536,005)	(498,497)
Administrative expense	(30,076)	(27,625)
Net change in plan fiduciary net position	1,017,327	1,483,954
Plan fiduciary net position--beginning	16,653,515	15,169,561
Plan fiduciary net position--ending (b)	17,670,842	16,653,515
 Net OPEB Liability (a) - (b)	 \$ 1,004,747	 \$ 2,281,068
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		
	94.62%	87.95%
Covered-employee payroll	\$ 15,921,966	\$ 14,663,027
 Net OPEB Liability as a Percentage of Covered-employee payroll	 6.31%	 15.56%

* Fiscal year 2018-19 was the second year of implementation; therefore, only two years are shown.

Benefit Changes

There were no benefit changes during fiscal year 2018-19.

Changes of Assumptions

Actuarial assumptions that changed from the prior year include 1) the salary increase rate was changed from 3.0% to 5.7%, 2) spousal coverage assumption was changed from 85% to 60%, and 3) the medical trend rate table was reset in fiscal year 2020.

**Western Municipal Water District
Required Supplementary Information
June 30, 2019**

**Schedule of Contributions
Last 10 Years***

	2019	2018
Actuarially Determined Contribution	\$ 729,432	\$ 708,338
Actual Employer Contribution	729,432	708,338
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-employee payroll	\$ 15,921,966	\$ 14,663,027
Contributions as a percentage of covered-employee payroll	4.58%	4.83%

* Fiscal year 2018-19 was the second year of implementation; therefore, only two years are shown.

Methods and assumptions used to determine contributions

Actuarial cost method	Entry age normal
Asset valuation method	Fair value of assets
Discount rate	7.00%
Inflation	2.50%
Projected salary increase	5.70%
Investment rate of return	7.00%
Healthcare cost trend rates	7.50% per annum, decreasing 0.3% per year to an ultimate rate of 4.50% for fiscal year 2030 and later years
Retirement age	55 years
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

Statistical Section

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the basic financial statements says about the District's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

Debt Capacity

The schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt, and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place, and to help make compensations over time and with other agencies.

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides, and the activities it performs.

TABLE I – NET POSITION BY COMPONENT

Last 10 Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net investment in capital assets	\$ 240,688,039	\$ 235,918,546	\$ 232,667,339	\$ 226,413,476	\$ 246,394,006	\$ 245,674,302	\$ 245,988,252	\$ 252,235,082	\$ 264,247,599	\$ 275,026,568
Restricted for debt service	144,619	144,619	144,619	144,619	144,619	144,619	-	-	-	-
Restricted for capacity charges	29,118,573	26,151,035	23,298,893	23,697,955	24,523,261	25,480,723	26,101,407	8,748,405	12,425,740	15,914,014
Unrestricted	78,109,273	84,375,034	92,123,685	94,180,845	87,218,131	80,291,581	86,965,126	113,132,995	121,760,230	129,539,337
Total Net Position	\$ 348,060,504	\$ 346,589,234 ⁽¹⁾	\$ 348,234,536 ⁽¹⁾	\$ 344,436,895 ⁽¹⁾	\$ 358,282,017 ⁽¹⁾	\$ 351,591,225	\$ 359,054,785 ⁽²⁾	\$ 374,116,482 ⁽³⁾	\$ 398,433,569	\$ 420,479,919
Percentage Increase (Decrease)	7%	0%	0%	-1%	4%	-2%	2%	4%	6%	6%

⁽¹⁾ Fiscal years 2011, 2012, and 2013 balances have been retrospectively restated for the implementation of GASB Statement No. 65.

⁽²⁾ Fiscal year 2015 balance reflects the cumulative effect of the implementation of GASB Statement No. 68.

⁽³⁾ Fiscal year 2017 balance reflects the cumulative effect of the implementation of GASB Statement No. 75.

Source: *Western Municipal Water District*

TABLE II – CHANGES IN NET POSITION
Last 10 Fiscal Years

Fiscal Years	Operating Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Operating Loss	Total Non-Operating Revenues	Income/(Loss) Before Capital Contributions	Capital Contributions ⁽³⁾	Change in Net Position
2019	\$ 112,902,500	\$ 130,503,015	\$ (17,600,515)	\$ 28,084,728	\$ 10,484,213	\$ 11,562,137	\$ 22,046,350
2018	118,267,870	135,533,916	(17,266,046)	22,692,961	5,426,915	18,890,172	24,317,087
2017	104,189,580	121,746,937	(17,557,357)	16,973,881	(583,476)	16,216,272	15,632,796
2016	95,250,268	111,085,922	(15,835,654)	18,293,873	2,458,219	5,005,341	7,463,560
2015	100,092,156	116,186,587	(16,094,431)	15,511,338	(583,093)	5,139,531	4,556,438
2014	105,675,122	120,416,071	(14,740,949)	16,810,158	2,069,209	11,775,913	13,845,122
2013	98,793,243	118,408,651 ⁽⁴⁾	(19,615,408)	12,952,893	(6,662,515)	2,864,874	(3,797,641)
2012	91,100,463	109,473,041 ⁽⁴⁾	(18,372,578)	14,956,215	(3,416,363)	5,061,665	1,645,302
2011	79,471,048	100,249,983	(20,778,935)	14,874,129	(5,904,806)	5,819,656	(85,150)
2010	79,126,995	100,280,997	(21,154,002)	17,625,069	(3,528,933)	26,834,066	23,305,133

⁽¹⁾ See Table III for details of revenues.

⁽²⁾ See Table IV for details of expenses.

⁽³⁾ Capital contributions include water and sewer added facilities charges (capacity charges), and contributed assets from developers, as well as grant proceeds. Being dependent on the development interest within the retail service area, these amounts naturally fluctuate from year to year.

⁽⁴⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 65.

Source: *Western Municipal Water District*

TABLE III - REVENUES BY SOURCES
(Excluding Capital Contributions and Special Items)
 Last 10 Fiscal Years

Fiscal Year	Operating Revenues							Non-Operating Revenues					Total Non-Operating Revenues	Combined Revenues
	Water Sales	Water Service	Wastewater Disposal	Contractual Services	Other Operating	Total Operating Revenues	Property Taxes	Investment Earnings	Capacity Rights Sales	Other Non-Operating	Total Non-Operating Revenues			
2019	\$ 74,974,766	\$ 20,717,986	\$ 12,409,135	\$ 4,633,486	\$ 167,127	\$ 112,902,500	\$ 23,641,810	\$ 8,673,064	\$ 47,212	\$ 2,263,940	\$ 34,626,026	\$ 147,528,526		
2018	81,720,213	19,845,736	12,169,537	3,966,995	565,389	118,267,870	21,728,238	(19,896)	41,426	6,961,562 ⁽¹⁾	28,711,330	146,979,200		
2017	70,698,068	17,355,249	11,512,039	4,007,195	617,029	104,189,580	20,053,770	(212,898)	1,548,535	1,880,972	23,270,379	127,459,959		
2016	63,988,478	16,669,887	10,234,040	3,575,488	782,375	95,250,268	18,837,852	4,759,409	338,202	1,209,100	25,144,563	120,394,831		
2015	69,533,191	16,841,065	10,292,222	2,501,677	923,401	100,091,556	18,266,670	2,221,947	414,280	1,939,874	22,842,771	122,934,327		
2014	76,319,361	15,969,208	10,002,414	2,517,042	867,097	105,675,122	16,327,069	2,436,903	6,260,725	1,833,296	26,857,993	132,533,115		
2013	71,596,096	14,290,510	9,875,780	2,152,509	878,348	98,793,243	16,695,696	(3,831)	1,915,041	1,573,844	20,180,750	118,973,993		
2012	66,310,917	12,479,514	10,364,865	1,945,167	-	91,100,463	15,221,864	5,578,084	828,459	1,544,818	23,173,225	114,273,688		
2011	56,473,710	10,477,058	10,862,351	1,569,409	88,520	79,471,048	15,106,222	3,802,289	997,710	1,008,052	20,914,273	100,385,321		
2010	56,223,768	9,127,539	10,723,639	748,437	2,303,612	79,126,995	16,262,545	6,826,692	163,118	2,152,033	25,404,388	104,531,383		

(1) This line item includes the net gain on disposal of assets in the amount of \$2.5 million, while in prior years the District has had a net loss on the disposal of assets and included this line item in Table IV – Expenses by Function.

Source: Western Municipal Water District

TABLE IV - EXPENSES BY FUNCTION
Last 10 Fiscal Years

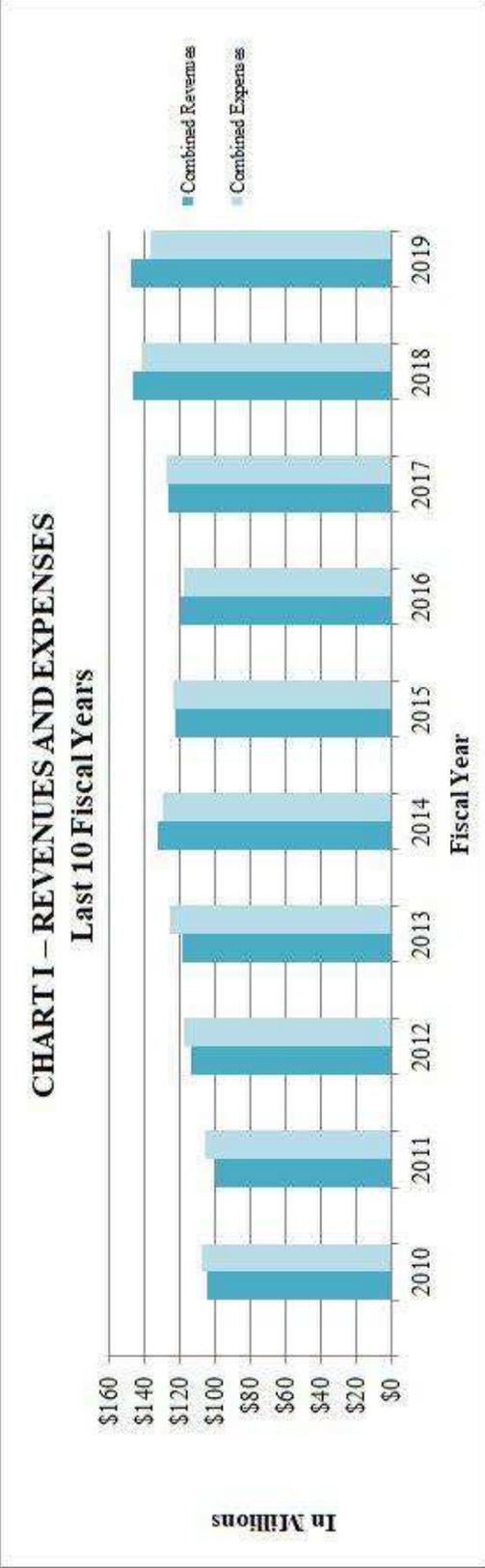
Fiscal Year	Operating Expenses										Total Non-Operating Expenses ⁽³⁾	Combined Expenses
	Purchased Water	Pumping	Transmission and Distribution	Admin and General	Contractual Services	Depreciation and Amortization	Other	Wastewater Disposal	Total Operating	Total Non-Operating Expenses ⁽³⁾		
2019	\$ 67,250,907	\$ 5,549,088	\$ 10,282,887	\$ 14,458,740	\$ 3,793,232	\$ 13,092,797	\$ 5,799,883	\$ 10,275,481	\$ 130,503,015	\$ 6,541,298	\$ 137,044,313	
2018	72,045,551	5,396,486	10,367,900	14,041,869	3,559,405	12,735,181	7,133,114	10,254,410	135,533,916	6,018,369	141,552,285	
2017	62,906,377	4,943,515	9,361,842	11,064,591	3,508,952	12,722,189	6,493,358	10,746,113	121,746,937	6,296,498	128,043,435	
2016	55,342,184	4,703,808	10,040,804	8,239,639	3,261,688	12,787,432	7,100,179	9,610,188	111,085,922	6,850,690	117,936,612	
2015	60,519,291	4,327,789	8,019,861	11,671,604	2,413,961	12,904,209	7,297,502	9,032,370	116,186,587	7,331,433	123,518,020	
2014	66,430,723	3,849,016	8,692,067	10,824,019	2,460,561	13,124,158	5,988,141	9,047,386	120,416,071	10,047,835	130,463,906	
2013	61,600,436	4,074,438	8,260,048	10,955,531	2,113,211	13,166,694 ⁽²⁾	9,537,963	8,700,330	118,408,651	7,227,857	125,636,508	
2012	57,873,634	3,820,373	7,679,552	10,888,801	1,867,917	10,740,215 ⁽²⁾	7,623,646	8,978,903	109,473,041	8,217,010	117,690,051	
2011	51,890,617	3,853,402	6,234,543	11,456,106	1,528,335	10,262,842	5,937,670	9,086,468	100,249,983	6,040,143	106,290,126	
2010	51,859,715	3,495,685	6,533,961	10,714,044	2,745,281	8,410,181	7,503,236	9,018,894	100,280,997	7,779,319 ⁽¹⁾	108,060,316	

⁽¹⁾ The significant increase in fiscal year 2010 is primarily due to a \$2.6 million greater interest expense resulting from the issuance of the District's 2010 Series A and Series B Revenue Bonds in May 2009.

⁽²⁾ Balance has been retrospectively restated for the implementation of GASB Statement No. 65.

⁽³⁾ Total Non-Operating Expenses include net gain or loss on disposal of assets, except for in fiscal year 2018, where the net gain of \$2.5 million was included as part of Other Non-Operating Revenues in Table III - Revenues By Sources.

Source: *Western Municipal Water District*



Note: Combined Revenues Exclude Capital Contributions and Special Items.

TABLE V - WATER ACCOUNTS BY METER SIZE
Last 10 Fiscal Years

Fiscal Years	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch and Greater	Total
2019	18,546	4,617	414	571	54	59	44	66	24,371
2018	18,339	4,566	412	536	54	63	54	68	24,092
2017	18,237	4,452	401	542	52	63	52	68	23,867
2016	18,167	4,399	398	508	50	63	62	67	23,714
2015	18,161	4,377	397	501	54	61	49	73	23,673
2014	18,110	4,358	391	492	50	60	48	73	23,582
2013	18,016	4,348	383	480	50	59	47	72	23,455
2012	17,946	4,326	380	470	48	59	47	70	23,346
2011	17,891	4,312	378	459	46	59	47	67	23,259
2010	17,801	4,308	375	457	46	59	46	67	23,159

Source: Western Municipal Water District

**TABLE VI - RETAIL WATER ACCOUNTS BY TYPE
AND RETAIL WASTEWATER ACCOUNTS**

Last 10 Fiscal Years

Fiscal Years	Water Accounts			Wastewater Accounts
	Domestic	Agriculture	Total	
2019	24,299	72	24,371	8,836
2018	24,016	76	24,092	8,592
2017	23,791	76	23,867	8,480
2016	23,629	85	23,714	8,326
2015	23,584	89	23,673	8,303
2014	23,493	89	23,582	8,278
2013	23,367	88	23,455	8,232
2012	23,258	88	23,346	8,188
2011	23,171	88	23,259	8,149
2010	23,072	87	23,159	7,968

Source: Western Municipal Water District

TABLE VII - WATER AND SEWER RATES
Last 10 Fiscal Years

At June 30	Fixed Monthly Base Rate Based on Meter Size										Monthly Usage Rate ⁽¹⁾	Monthly Sewer Rate ⁽²⁾
	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch				
2019 ⁽³⁾	\$ 37.94	\$ 57.49	\$ 106.51	\$ 126.62	\$ 265.42	\$ 466.81	\$ 598.78	\$ 694.23	\$	\$ 78.06	\$ 49.41	
2018	34.67	52.29	96.48	114.64	205.40	310.74	384.41	442.70		76.59	48.44	
2017	26.38	42.66	85.34	105.67	128.02	148.31	168.65	190.99		79.10	46.37	
2016	26.38	42.66	85.34	105.67	128.02	148.31	168.65	190.99		79.10	43.21	
2015	26.38	42.66	85.34	105.67	128.02	148.31	168.65	190.99		79.10	41.15	
2014	24.18	39.11	78.23	96.86	117.35	135.94	154.59	175.06		74.93	38.11	
2013	23.14	37.43	74.87	92.69	112.30	130.09	147.94	167.53		70.31	35.29	
2012	22.38	36.20	72.41	89.65	108.61	125.82	143.08	162.03		66.85	32.91	
2011	20.44	33.06	66.13	81.88	99.19	114.91	130.67	147.98		57.36	30.19	
2010	18.69	30.19	60.38	74.75	90.57	104.94	119.32	135.13		48.46	27.70	

Note: The water meter and water rate information shown is for domestic customers (i.e., non-agricultural) residing in the District's retail service area that has the vast majority of customers (Riverside service area, Power Zone 1).

⁽¹⁾ The rate shown is for an average monthly treated water consumption of 29 units. A unit is 100 cubic feet of water or 748 gallons. In 2019, an average customer with a ¾-inch water meter will pay \$116.00 per month (\$37.94 fixed + \$78.06 usage).

⁽²⁾ The sewer rate information shown is for one EDU (equivalent dwelling unit) in the District's Lake Hills area.

⁽³⁾ Water and sewer rates were increased effective January 1, 2019, and October 1, 2018, respectively.

Source: *Western Municipal Water District*

TABLE VIII - PRINCIPAL RETAIL WATER CUSTOMERS

Fiscal Year Ended June 30, 2019, and Nine Years Prior

Fiscal Year 2018-2019

Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Riverside National Cemetery	932	4.3%
Altman Plants	629	2.9%
Village Nurseries	463	2.1%
Air Force 452 Air Mobility Wing	366	1.7%
Pepsi Cola Plant	302	1.4%
Riverside Unified School District	283	1.3%
City of Riverside	268	1.2%
Westmont Village (formerly Air Force Village West)	258	1.2%
The Kroger Company	256	1.2%
General Old Golf Course	240	1.1%
Total Principal Customers	3,997	18.2%
Other Customers	17,920	81.8%
Total Retail Water Deliveries	21,917	100.0%

Fiscal Year 2009-2010

Customer Name	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Riverside National Cemetery	1,210	5.1%
Village Nurseries	511	2.1%
Air Force 452 Air Mobility Wing	495	2.1%
General Old Golf Course	491	2.1%
The Kroger Company	384	1.6%
City of Riverside	368	1.5%
Riverside Unified School District	289	1.2%
Pepsi Cola Plant	260	1.1%
Air Force Village West	225	0.9%
Lake Hills Maintenance Corp.	224	0.9%
Total Principal Customers	4,457	18.6%
Other Customers	19,493	81.4%
Total Retail Water Deliveries	23,950	100.0%

Source: Western Municipal Water District

TABLE IX - WHOLESALE WATER CUSTOMER DELIVERIES
 Fiscal Year Ended June 30, 2019

Water Agency	Water Deliveries in Acre-Feet	Percentage of Water Deliveries
Elsinore Valley Municipal Water District	18,932	33.5%
City of Corona	16,023	28.4%
Rancho California Water District	13,811	24.4%
City of Norco	4,634	8.2%
Temescal Valley Water District	2,888	5.1%
Box Springs Mutual Water Company	117	0.2%
Eagle Valley Mutual Water District	91	0.2%
Metropolitan Water District	2	0.0%
Total Wholesale Deliveries	56,498	100.0%

Source: Western Municipal Water District

TABLE X - SUMMARY OF IMPORTED WATER RATES
(Dollars per Acre-Foot)

<u>Rates Effective</u>	<u>Full Service</u>		<u>Interim Agricultural Program</u>		<u>Long-Term Seasonal Storage</u>	
	<u>Treated</u>	<u>Untreated</u>	<u>Treated</u>	<u>Untreated</u>	<u>Treated</u>	<u>Untreated</u>
Jan. 1, 2011 Tier 1	\$ 744	\$ 527	\$ 687	\$ 482	\$ 687	\$ 409
Jan. 1, 2011 Tier 2	869	652	n/a	n/a	n/a	n/a
Jan. 1, 2012 Tier 1	794	560	765	537	651	442
Jan. 1, 2012 Tier 2	920	686	n/a	n/a	n/a	n/a
Jan. 1, 2013 Tier 1	847	593	n/a	n/a	n/a	n/a
Jan. 1, 2013 Tier 2	997	743	n/a	n/a	n/a	n/a
Jan. 1, 2014 Tier 1	890	593	n/a	n/a	n/a	n/a
Jan. 1, 2014 Tier 2	1,032	735	n/a	n/a	n/a	n/a
Jan. 1, 2015 Tier 1	923	582	n/a	n/a	n/a	n/a
Jan. 1, 2015 Tier 2	1,055	714	n/a	n/a	n/a	n/a
Jan. 1, 2016 Tier 1	942	594	n/a	n/a	n/a	n/a
Jan. 1, 2016 Tier 2	1,076	728	n/a	n/a	n/a	n/a
Jan. 1, 2017 Tier 1	979	666	n/a	n/a	n/a	n/a
Jan. 1, 2017 Tier 2	1,073	760	n/a	n/a	n/a	n/a
Jan. 1, 2018 Tier 1	1,015	695	n/a	n/a	n/a	n/a
Jan. 1, 2018 Tier 2	1,101	781	n/a	n/a	n/a	n/a
Jan. 1, 2019 Tier 1	1,050	731	n/a	n/a	n/a	n/a
Jan. 1, 2019 Tier 2	1,136	817	n/a	n/a	n/a	n/a
Jan. 1, 2020 Tier 1	1,078	755	n/a	n/a	n/a	n/a
Jan. 1, 2020 Tier 2	1,165	842	n/a	n/a	n/a	n/a

Source: Metropolitan Water District

TABLE XI- WATER SOURCES (IN ACRE-FEET)
Last 10 Fiscal Years

Year	Domestic		Purchased				Wells	Desalter	Recycled Water	Grand Total	
	Treated	Untreated	Total	Treated	Untreated	Total					Purchased Total
2019	50,778	24,178	74,956	-	-	-	74,956	393	4,627	1,166	81,142
2018	57,621	26,885	84,506	-	-	-	84,506	427	5,006	917	90,856
2017	52,080	22,804	74,884	-	-	-	74,884	379	5,523	899	81,685
2016	45,896	18,992	64,888	-	-	-	64,888	866	4,969	887	71,610
2015	57,714	17,636	75,350	-	-	-	75,350	1,081	5,498	1,109	83,038
2014	61,843	21,537	83,380	-	-	-	83,380	829	6,063	794	91,066
2013	56,128	19,615	75,743	3,854	2,086	5,940	81,683	1,074	5,736	769	89,262
2012	54,268	20,782	75,050	5,016	4,232	9,248	84,298	678	4,928	649	90,553
2011	47,312	18,168	65,480	5,064	4,278	9,342	74,822	518	4,441	-	79,781
2010	51,961	17,882	69,843	6,849	4,451	11,300	81,143	785	5,100	-	87,028

Source: Western Municipal Water District

TABLE XII - RATIO OF OUTSTANDING DEBT BY TYPE
Last 10 Fiscal Years

Fiscal Years	Revenue Bonds	Improvement Bonds	Loans Payable	Notes Payable	Capital Leases	Total	Total Debt Per Capita ⁽¹⁾
2019	\$ 141,566,384	\$ -	\$ 22,516,184	\$ 9,020,960	\$ 1,740,343	\$ 174,843,871	\$ 179.62
2018	144,792,855	-	12,076,194	10,197,212	1,281,334	168,347,595	174.94
2017	147,955,307	-	1,649,679	11,347,212	807,025	161,759,223	170.04
2016	149,626,360	-	1,757,012	4,367,963	-	155,751,335	166.31
2015	149,347,224	135,000	1,975,276	5,506,160	-	156,963,660	170.46
2014	151,690,934	258,729	2,423,071	6,599,086	-	160,971,820	176.99
2013 ⁽²⁾	154,026,083	372,097	2,851,450	7,657,709	-	164,907,339	183.33
2012 ⁽²⁾	155,427,849	475,465	3,261,488	8,789,717	-	167,954,519	188.46
2011	144,605,378	568,833	3,828,009	9,927,683	-	158,929,903	180.62
2010	93,940,413	662,201	4,369,885	10,620,234	-	109,592,733	124.71

Note: Details regarding the District's outstanding debt can be found in the notes to the basic financial statements.

⁽¹⁾ Calculated by dividing the total outstanding debt by the District's estimated service area population.

⁽²⁾ GASB 65 implementation reclassified deferred loss on bond refunding to deferred outflows of resources.

Source: *Western Municipal Water District*

TABLE XIII - REVENUE BOND COVERAGE
Last 10 Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GROSS REVENUE											
Water Sales	\$ 55,667,804	\$ 56,223,768	\$ 56,473,710	\$ 66,310,917	\$ 71,596,096	\$ 76,319,361	\$ 69,533,791	\$ 63,988,478	\$ 70,698,068	\$ 81,720,213	\$ 74,974,766
Water Service	7,776,582	9,127,539	10,477,058	12,479,514	14,290,510	15,969,208	16,841,065	16,669,887	17,355,249	19,845,736	20,717,986
Wastewater Service	8,161,485	10,723,639	10,862,351	10,364,865	9,875,780	10,002,414	10,292,222	10,234,040	11,512,039	12,169,537	12,409,135
Ad Valorem Taxes	17,789,635	16,254,320	15,048,059	15,161,942	16,651,925	16,532,506	18,220,982	18,837,555	20,053,654	21,728,238	23,641,810
Interest Income	6,337,190	6,685,940	3,671,725	5,437,782	(98,679)	2,348,100	2,172,604	4,791,047	(213,020)	(20,117)	8,672,749
Connection Fees - Water	896,624	290,477	236,080	188,491	924,589	553,954	474,781	481,489	1,629,145	1,907,987	3,104,809
Connection Fees - Wastewater	1,316,970	6,153,635	276,856	98,670	774,762	362,876	95,903	215,298	823,002	4,243,084	4,167,829
Federal, State, and Local Capital Grants	1,551,562	3,149,581	3,284,896	1,268,694	872,471	10,413,907	2,115,190	4,057,387	3,913,610	12,574,333	2,320,149
Other Revenue	5,004,122	5,367,200	5,042,186	3,474,424	5,598,993	10,630,611	4,925,238	5,049,329	7,196,054	10,675,474	6,249,944
Total	104,501,974	113,976,099	105,372,921	114,785,299	120,486,447	143,132,937	124,671,776	124,324,510	132,967,801	164,844,485	156,259,177
MAINTENANCE AND OPERATION COSTS											
Administration	11,328,694	10,714,044	11,456,106	10,888,801	10,955,531	10,824,019	11,671,604	8,239,639	11,064,591	14,041,869	14,458,740
Purchased Water	51,655,168	51,859,715	51,890,617	57,873,634	61,600,436	66,430,723	60,519,291	55,342,184	62,906,377	72,045,551	67,250,907
Water Operations	12,941,548	14,452,967	14,832,096	16,039,860	16,729,927	16,809,781	17,084,331	20,122,121	19,660,514	20,456,884	21,014,389
Wastewater Operations	8,074,817	9,018,894	9,086,468	8,978,903	8,700,330	9,047,386	9,032,370	9,610,188	10,746,113	10,254,410	10,275,481
Other Expenses	7,951,851	8,718,326	5,013,535	6,109,216	4,398,861	7,612,211	6,024,205	6,552,875	6,136,241	6,942,500	5,262,051
Contract Resource Obligations	795,698	1,189,624	698,060	1,076,942	501,693	499,168	508,808	1,725,125	89,063	-	89,053
Total	92,747,776	95,953,570	92,976,882	100,967,356	102,886,778	111,223,288	104,840,609	101,592,132	110,602,899	123,741,214	118,350,621
Net Revenues	11,754,198	18,022,529	12,396,039	13,817,943	17,599,669	31,909,649	19,831,167	22,732,378	22,364,902	41,103,271	37,908,556
Series of 2002 A Bonds	2,640,029	-	-	-	-	-	-	-	-	-	-
Series of 2009 A&B Bonds	-	5,967,575	5,753,746	5,618,520	3,213,871	3,084,773	3,108,317	2,142,382	-	-	-
Series of 2010 A&B Bonds	-	-	1,337,200	2,086,248	1,954,846	3,044,580	3,047,965	3,008,537	3,020,184	3,012,302	3,013,122
Series of 2012 A Bonds	-	-	-	10,085	1,208,538	1,188,832	1,180,371	1,163,524	1,277,173	2,648,868	2,539,310
Series of 2016 A Bonds	-	-	-	-	-	-	-	335,672	779,608	779,597	779,586
WRCRWA SRF Loans	33,834	33,834	33,834	33,834	33,834	33,834	33,834	33,833	33,759	33,725	38,448
SRRRA Series 2017A&B Bonds	-	-	-	-	-	-	-	-	-	817,161	769,558
Total	2,673,863	6,001,409	7,124,780	7,748,687	6,411,089	7,352,019	7,370,487	6,683,948	5,110,724	7,291,653	7,140,024
DEBT SERVICE COVERAGE	4.40	3.00	1.74	1.78	2.75	4.34	2.69	4.38	4.38	5.64	5.31

Source: Western Municipal Water District

TABLE XIV - DIRECT AND OVERLAPPING DEBT

As of June 30, 2019

2018-19 Assessed Valuation: \$91,056,510,361 ⁽¹⁾

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	<u>% Applicable ⁽²⁾</u>	<u>Debt 6/30/19</u>
Metropolitan Water District	3.118%	\$ 1,498,199
Riverside City Community College District	77.751	195,521,272
Alvord Unified School District	99.988	203,027,330
Corona-Norco Unified School District	96.802	409,412,151
Jurupa Unified School District	99.814	165,409,737
Murrieta Valley Unified School District	11.545	18,210,034
Riverside Unified School District	99.996	206,461,741
Other School Districts	Various	50,495,182
City of Riverside	98.386	8,938,368
Western Municipal Water District	100	0
Western Municipal Water District Community Facilities Districts	100	3,880,000
Riverside County Flood Control District, Zone No. 4 Benefit Assessment District	1.430	210,067
Community Facilities Districts	Various	1,064,419,696
City and Special District 1915 Act Bonds	Various	26,281,421
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 2,353,765,198
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	32.482%	\$ 246,906,600
Riverside County Pension Obligations	32.482	79,207,357
Corona-Norco Unified School District Certificates of Participation	96.802	28,527,341
Jurupa Unified School District Certificates of Participation	99.814	58,575,597
Lake Elsinore Unified School District Certificates of Participation	54.314	16,986,704
Murrieta Unified School District General Fund Obligations	11.545	2,692,871
Riverside Unified School District Certificates of Participation	99.996	15,387,036
Other School District General Fund Obligations	Various	2,707,889
City of Corona General Fund Obligations	100	36,990,266
City of Lake Elsinore General Fund Obligations	69.397	14,392,938
City of Moreno Valley General Fund Obligations	0.827	664,619
City of Murrieta General Fund Obligations	12.921	664,785
City of Riverside General Fund Obligations	98.304	213,777,554
City of Riverside Pension Obligations	98.304	65,052,823
Western Municipal Water District Administrative Office and Capital Facilities Financing	100	9,020,960
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$ 791,555,340
Less: Riverside County supported obligations		564,245
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$ 790,991,095
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		\$ 718,274,160
TOTAL DIRECT DEBT		\$ 9,020,960
TOTAL GROSS OVERLAPPING DEBT		\$ 3,854,573,738
TOTAL NET OVERLAPPING DEBT		\$ 3,854,009,493
GROSS COMBINED TOTAL DEBT	\$	3,863,594,698 ⁽³⁾
NET COMBINED TOTAL DEBT	\$	3,863,030,453

⁽¹⁾ Excludes assessed valuation of additional fringe areas of the district.

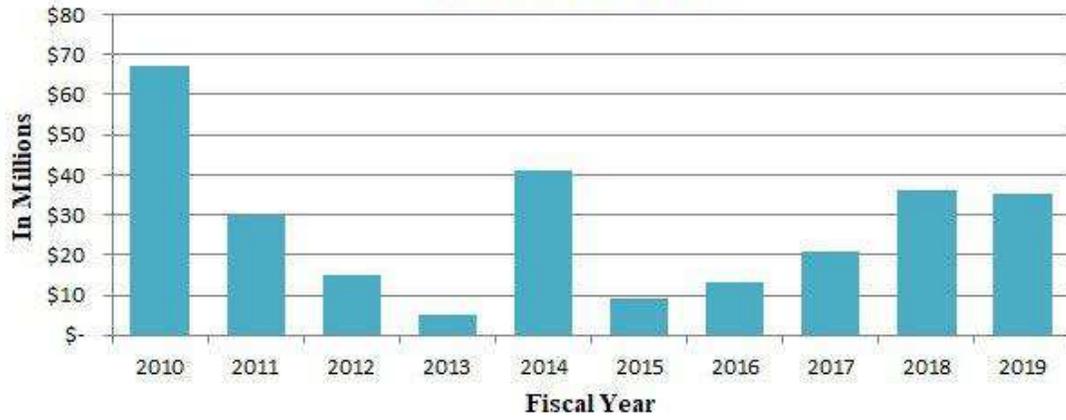
⁽²⁾ The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the district divided by the district's total taxable assessed value.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue, and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2018-19 Assessed Valuation:	
Direct Debt (\$9,020,960)	0.01%
Total Direct and Overlapping Tax and Assessment Debt	2.58%
Gross Combined Total Debt	4.24%
Net Combined Total Debt	4.24%
Ratio to Redevelopment Incremental Valuation (\$23,971,590,722):	
Total Overlapping Tax Increment Debt	3.00%

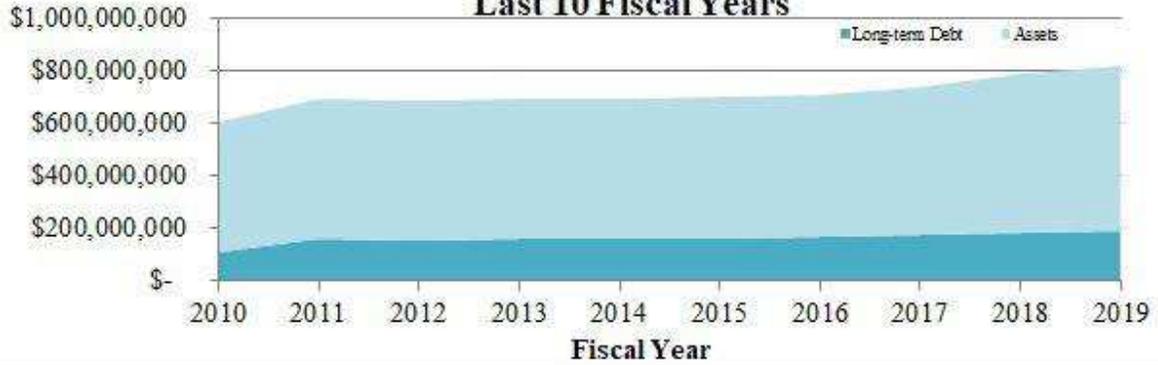
Source: California Municipal Statistics, Inc.

**CHART II – DISTRICT AND CONTRIBUTED CAPITAL ASSET ADDITIONS
Last 10 Fiscal Years**



Source: Western Municipal Water District

**CHART III – TOTAL DEBT TO ASSETS
Last 10 Fiscal Years**



Source: Western Municipal Water District

TABLE XV - DEMOGRAPHIC AND ECONOMIC STATISTICS
Last 10 Fiscal Years

Fiscal Year	Assessed Valuation ⁽¹⁾		Estimated Svc. Area Population	County Population	Personal Income ⁽²⁾ (in Billions)	County Per Capita Personal Income	County Unemployment Rate (June)
	Western Service Area						
2019	\$	106,160,081,429	973,400	2,440,124	\$ 35.3	\$ 36,292 ⁽³⁾	4.4%
2018		99,403,206,463	962,300	2,412,536	34.2	35,569 ⁽³⁾	4.8%
2017		93,927,533,434	951,300	2,384,783	33.4	35,058 ⁽³⁾	5.7%
2016		89,274,829,782	936,500	2,347,828	33.1	35,331 ⁽³⁾	6.7%
2015		84,861,529,145	920,800	2,308,441	32.1	34,910 ⁽³⁾	6.6%
2014		78,774,941,220	909,500	2,279,967	30.9	33,949	8.4%
2013		76,058,192,604	899,500	2,255,059	30.0	33,320	10.2%
2012		76,093,889,073	891,200	2,234,193	28.3	31,742	12.6%
2011		76,380,473,323	879,900	2,205,731	26.3	29,927	14.4%
2010		78,547,029,366	878,800	2,202,978	25.7	29,222	14.5%

⁽¹⁾ Assessed value includes both secured and unsecured property.

⁽²⁾ Personal income for the service area is calculated by multiplying the estimated population in the District's service area by the County's per capita personal income projection.

⁽³⁾ Projected based on a 10-year average.

Sources: Riverside County Assessor for the assessed valuation; California Department of Finance for the county population estimates; County of Riverside Comprehensive Annual Financial Report for the county per capita personal income; and California Employment Development Department for the county unemployment rate

**TABLE XVI - PRINCIPAL EMPLOYERS IN THE
COUNTY OF RIVERSIDE**

Fiscal Year Ended June 30, 2019, and Nine Years Prior

Employer Name	Fiscal Year 2019	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	21,215	2.0%
March Air Reserve Base	9,000	0.9%
University of California, Riverside	8,735	0.8%
Kaiser Permanente Medical Center	5,592	0.5%
Corona-Norco Unified School District	4,989	0.5%
Pechanga Resort & Casino	4,683	0.5%
Riverside Unified School District	4,335	0.4%
Hemet Unified School District	4,302	0.4%
Eisenhower Medical Center	3,743	0.4%
Moreno Valley Unified School District	3,684	0.4%
Total	70,278	6.8%
Total Labor Force		1,037,500

Employer Name	Fiscal Year 2010	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	18,456	2.02%
March Air Reserve Base	8,600	0.94%
University of California, Riverside	7,321	0.80%
Stater Bros. Markets	6,900	0.75%
Walmart Stores, Inc.	6,550	0.72%
Riverside Unified School District	5,099	0.56%
Abbott Vascular	4,500	0.49%
Pechanga Resort and Casino	4,000	0.44%
Kaiser Permanente Medical Center	3,600	0.39%
Temecula Valley Unified School District	2,752	0.30%
Total	67,778	7.41%
Total Labor Force		914,100

Note: Data is for the County of Riverside. The District is located within the County.

Source: Riverside County Economic Development Agency

TABLE XVII - DISTRICT EMPLOYEES BY FUNCTION
 Filled Positions Only at June 30

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Management	5	7	7	7	8	8	13	12	14	14
Human Resources & Administration	13	8	8	10	9	10	9	10	8	13
Engineering	15	12	10	9	12	13	14	15	14	14
Finance	6	8	11	12	12	12	12	10	13	13
Billing/Customer Service	8	5	6	7	8	7	9	9	9	9
Strategic Communications	4	4	6	5	5	5	4	4	3	2
Water Resources	5	5	6	6	6	7	6	8	7	6
Operations	59	56	59	63	65	65	65	65	67	69
Legislative Affairs	2	1	1	-	1	1	-	1	1	1
Information Systems	5	6	6	6	7	7	6	6	7	7
Total	122	112	120	125	133	135	138	140	143	148

Note: All managers are included with their divisions. Temporary and part-time employees are not included.

Source: *Western Municipal Water District*

TABLE XVIII - OPERATING AND CAPITAL INDICATORS
Last 10 Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of Employees	122	120	120	125	133	135	138	140	143	148
Service Area (in acres)	337,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000	337,000
Service Area (in square miles)	527	527	527	527	527	527	527	527	527	527
Assessed Valuation (in billions)	\$ 76	\$ 76	\$ 76	\$ 76	\$ 79	\$ 85	\$ 89	\$ 94	\$ 99	\$ 106
Population Served (approx.)	880,000	891,000	889,000	900,000	910,000	920,800	936,500	951,300	963,710	973,400
Miles of Water Pipeline	623	621	622	638	638	638	639	639	639	640
Number of Storage Tanks	36	36	35	35	35	34	34	34	34	34
Max Storage Capacity (million gal.)	93.7	93.7	92.7	92.7	93.0	92.2	92.2	92.2	92.2	92.2
Sewer Treatment Plants Owned	1	1	1	1	1	1	1	1	1	1
Sewer Treatment Capacity (MGD)	1.0	1.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Avg. Flows into Sewer Plant (MGD)	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.9	1.0	1.2
Number of Lift Stations	22	20	20	20	20	20	20	20	19	19

Source: *Western Municipal Water District*

INDEPENDENT AUDITORS' 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
Western Municipal Water District
Riverside, California

We have audited, 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, the financial statements of the Western Municipal Water District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2019.

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 opinion 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 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.

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*.

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.

White Nelson Dick Evans LLP

Irvine, California
December 19, 2019

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APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE MASTER AGREEMENT, THE INSTALLMENT PURCHASE AGREEMENT AND THE INDENTURE

The following is a summary of certain provisions of the Master Agreement, the Installment Purchase Agreement and the Indenture that are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the applicable document for a full and complete statement of the provisions thereof.

INDENTURE OF TRUST

DEFINITIONS, RULES OF CONSTRUCTION

Definitions

The terms set forth below shall have the following meanings in the Indenture and in the Master Installment Purchase Agreement, unless the context clearly otherwise requires.

“Act” shall mean the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Governmental Code of California, as amended and supplemented.

“Authority” or “Issuer” shall mean the Western Municipal Water District Facilities Authority, a joint exercise of powers agency established pursuant to the laws of the State, whose members as of the date of the Indenture are the District and Jurupa Community Services District, until a successor organization shall have become such, and thereafter “Issuer” shall mean such successor organization.

“Authorized Denominations” means \$5,000 and any integral multiple of \$5,000 in excess thereof.

“Authorized Newspaper” shall mean the Bond Buyer or any other financial newspaper customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation in the Borough of Manhattan and City and State of New York.

“Bond” or “Bonds” or “2020A Bonds” shall mean the 2020A Bonds authorized and issued by the Issuer, authenticated by the Trustee and delivered under the Indenture.

“Bond Documents” means the Indenture, the Master Installment Purchase Agreement, the Installment Purchase Agreement relating to the Bonds, and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

“Bond Register” means the registration books of the Issuer kept by the Trustee to evidence the registration and transfer of Bonds.

“Bond Registrar” means the Trustee when acting as such, and any other bank or trust company designated and at the time serving as bond registrar under the Indenture.

“Business Day” means a day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the cities in which the Designated Office of the Trustee, and (iii) a day on which the New York Stock Exchange is closed.

“Cede & Co.” means Cede & Co., as nominee of The Depository Trust Company, New York, New York.

“Certificate of Issuer Representative” means a written certificate signed by an Issuer Representative, which certificate shall be deemed to constitute a representation of, and shall be binding upon, the Issuer with respect to matters set forth therein.

“Closing Date” means the date of initial delivery of and payment for all of the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, including, when appropriate, the statutory predecessor of the Code and all applicable Treasury regulations.

“Costs of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Issuer and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Trustee, including the fees and expenses of its counsel, fees and charges of the Escrow Agent, including the fees and expenses of its counsel, expenses incurred by the Issuer in connection with the issuance of the Bonds, legal fees and charges, including bond counsel and financial consultants’ fees, costs of credit ratings, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund created pursuant to the Indenture.

“Counsel” shall mean, with respect to the Issuer, counsel, duly authorized to engage in the practice of law, who may be, but need not be, retained regularly by the Issuer, and duly appointed by the Issuer.

“Defaulted Interest” means interest on any Bond which is payable but not paid on the date due.

“Designated Office” means with respect to any entity performing functions under any Bond Document, the designated office of that entity or its affiliate at which those functions are performed.

“District” shall mean the Western Municipal Water District of Riverside County, a municipal water district duly established and existing under the Law.

“Electronic Means” means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Escrow Agent” means U.S. Bank National Association as Escrow Agent under the Escrow Agreement and its successors and assigns.

“Escrow Agreement” means the Escrow Agreement, dated as of July 1, 2020, by and among the Issuer, the District and the Escrow Agent.

“Escrow Fund” means the fund or funds by that name established under the Escrow Agreement for the 2010B Bonds.

“Event of Default” means with respect to the Indenture, any “Event of Default” as defined in the Indenture.

“Favorable Opinion of Bond Counsel” means an opinion of nationally recognized bond counsel acceptable to the Issuer, addressed to the Issuer and the Trustee, to the effect that the proposed action to be taken regarding the Bonds is authorized or permitted by the Indenture and, as of the date of such action, will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation under Section 103 of the Code.

“Fiscal Year” means the fiscal year of the Issuer, currently the 12-month period beginning on the first day of July of each calendar year and ending on the last day of June.

“Fitch” means Fitch Ratings, and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Fitch means any other nationally recognized securities rating service designated by the Issuer, with notice to the Trustee.

“Funds” shall mean, collectively, the 2020 Project Fund, the Principal Fund, the Interest Fund, the Mandatory Sinking Fund, the Optional Redemption Fund, and the Rebate Fund created pursuant to the Indenture and all accounts and sub-accounts therein.

“Government Obligations” means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America, or (c) any fund or other pooling arrangement whose assets consist exclusively of the obligations listed in the Indenture and which is rated at least “P-1” by Moody’s; provided that such obligations shall not include unit investment trusts or mutual fund obligations;

(ii) advance refunded tax-exempt obligations secured by the obligations specified in clause (i) which tax-exempt obligations are rated “Aaa” by Moody’s and “AAA” by S&P as a result of such obligations being secured by said obligations;

(iii) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank or the Federal National Mortgage Association; provided that such bonds, debentures or notes shall be the senior obligations of such agencies (including participation certificates); and

(iv) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided that such obligations shall not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

For the purposes of the Indenture, Government Obligations shall mean and include only such securities as are described in the preceding sentence which: (x) shall not be subject to redemption prior to their maturity other than at the option of the owner thereof unless the moneys to be available from the redemption of such securities on the earliest date on which such securities are subject to redemption, other than at the option of the owner thereof, shall be at least equal to the amount of money expected to be derived in connection with such securities in determining that the provisions of the Indenture have been satisfied, and (y) which are then permitted to be applied as provided in the Indenture under applicable law.

“Indenture” shall mean the Indenture of Trust dated as of July 1, 2020, between the Issuer and the Trustee, pursuant to which the Bonds are to be issued, as amended or supplemented from time to time in accordance with its terms.

“Installment Payments” means the Installment Payments designated under the heading “Schedule of Installment Payments 2020A Bonds” on Exhibit A to the Installment Purchase Agreement.

“Installment Purchase Agreement” shall mean the Installment Purchase Agreement (Series of 2020), dated as of July 1, 2020, by and between the Issuer and the District, relating to the refinancing of the Projects.

“Interest Payment Date” means each April 1 and October 1.

“Interest Receipts” shall mean all amounts received by the Trustee as the payment of interest, or the equivalent thereof, with respect to the Installment Purchase Agreement.

“Investment Securities” shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Issuer’s funds:

- (i) Government Obligations;
- (ii) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Government National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States;
- (iii) fixed rate obligations of any state or territory of the United States of America or any political subdivision thereof; *provided* that at the time of purchase such obligations are rated in the highest rating category by at least two nationally recognized bond rating agencies (whether by reason of credit enhancement or otherwise); or variable rate demand obligations of any state or territory of the United States of America or any political subdivision thereof; *provided* that at the time of purchase such obligations are rated in the highest rating category by at least two nationally recognized bond rating agencies (whether by reason of credit enhancement or otherwise);
- (iv) Unsecured certificates of deposit, time deposits and bankers’ acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated at least “A-1” by S&P and “Prime-1” by Moody’s and or certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1, P-1 or F-1 or better by S&P, Moody’s and Fitch, respectively;
- (v) Money market funds rated “AAm” or “AAm-G” by S&P, or better and if rated by Moody’s rated Aa2 or better, including such funds for which the Trustee or an affiliate provides investment advice or other services;
- (vi) Corporate commercial paper rated A-1/P-1 or F-1, as applicable, or better by the Rating Agencies at the time of investment;
- (vii) Taxable government money market portfolios restricted to obligations issued by, or the payment of principal and interest with respect to which is guaranteed by, the United States of America, and which are rated in the highest rating category by at least one of the Rating Agencies, including money market funds for which the Trustee, any affiliate or subsidiary provides investment advisory or other management services;
- (viii) The State of California’s Local Agency Investment Fund (“LAIF”) established by Government Code Section 16429.1. The Trustee may restrict investments in LAIF if required to keep moneys available for the purposes of the Indenture; and

(ix) Direct obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) or Federal Home Bank System or Farm Credit System or other government agency which obligations that are not fully guaranteed by the full faith and credit of the United States of America.

“Issuer Representative” means the Chairperson, Executive Director or Treasurer of the Issuer or that officer’s designee.

“Law” shall mean the Municipal Water District Law of 1911, being Division 20 of the California Water Code.

“Mandatory Sinking Fund” means the fund by that name established under the Indenture.

“Mandatory Sinking Fund Installments” means the amounts payable under the Indenture from amounts in the Mandatory Sinking Fund.

“Master Installment Purchase Agreement” shall mean the Master Installment Purchase Agreement dated as of May 1, 2009 between the District and the Issuer, as amended from time to time.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody’s shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer Representative, by written notice to the Trustee.

“Nominee” shall mean the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant to the Indenture.

“Original Purchaser” means Bank of America BofA Securities, Inc. and TD Securities Inc.

“Outstanding” means, when used with reference to the Bonds, as of a particular date, all Bonds theretofore authenticated and delivered, except:

- (1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation pursuant to the Indenture;
- (2) Bonds which are deemed to have been paid in accordance with the Indenture; and
- (3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture.

“Owner” means the Person in whose name a Bond is registered on the Bond Register.

“Participants” means those financial institutions for whom the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository, as such listing of Participants exists at the time of such reference.

“Principal Payment Date” means October 1 of the year in which principal of the Bonds is due whether by stated maturity or by mandatory sinking fund redemption.

“Principal Receipts” shall mean all amounts received by the Trustee as the payment or return of principal, or the equivalent thereof, with respect to the Installment Purchase Agreement, whether as a result of scheduled payments, advance payments, payments made upon the exercise by the owner thereof of an option

to have such payments made or the acceleration of payments due thereunder or other remedial proceedings taken in the event of a default thereon.

“Prior Bonds” means the 2010B Bonds and the 2016A Bonds.

“Prior Projects” shall mean the improvements to the District's system described in Installment Purchase Agreements for the Prior Bonds.

“Purchase Contract” means the Bond Purchase Agreement among the Issuer, the District and the Original Purchaser.

“Rating Agency” means each nationally recognized securities rating agency then maintaining a rating on the Bonds at the request of the Issuer, and initially means Fitch and S&P.

“Rebate Fund” means the fund by that name created by the Indenture.

“Receipts” shall mean, collectively, Principal Receipts and Interest Receipts.

“Record Date” means the 15th day of the month immediately preceding such Interest Payment Date.

“Redemption Price” shall mean the principal amount, and applicable premium, if any, payable upon redemption of any Bond pursuant to the Indenture.

“Redemption Subaccount” means the subaccount of that name established pursuant to the Indenture.

“Replacement Bonds” means Bonds issued to the beneficial owners of the Bonds in accordance with the Indenture.

“S&P” means S&P Global Ratings, a Standard & Poor's Financial Services LLC business, and its successors and assigns, or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer Representative, by written notice to the Trustee.

“Securities Depository” means, initially, The Depository Trust Company, New York, New York, and its successors and assigns and any successor Securities Depository appointed pursuant to the Indenture.

“State” shall mean the State of California.

“Supplemental Indenture” means any indenture supplemental or amendatory to the Indenture entered into by the Issuer and the Trustee pursuant to the Indenture.

“Trust Estate” has the meaning given to such term in the granting clauses of the Indenture.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America and duly authorized to exercise corporate trust powers under the laws of the United States of America, its successor and any entity resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee under the Indenture.

“Value,” as of any particular time of determination, means,

(a) for securities:

- (1) the closing bid price quoted by Interactive Data Systems, Inc.; or
 - (2) a valuation performed by a nationally recognized and accepted pricing service acceptable to the Trustee whose valuation method consists of the composite average of various bid price quotes on the valuation date; or
 - (3) the lower of two dealer bids on the valuation date; the dealers or their parent holding companies must be rated at least investment grade by Moody's and S&P and must be market makers in the securities being valued; or
 - (4) for any security maturing within 30 days of the valuation date, the maturity value of the security including interest to be paid on the maturity date.
- (b) as to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest;
- (c) with respect to any investment agreement, the total amount that may be withdrawn therefrom for the purposes of the fund in which it is held; and
- (d) as to any investment not specified above, the value thereof established by prior agreement between the Issuer and the Trustee.

"Written Request" or "Written Order" means a request in writing signed by the Issuer Representative or any other officers designated by the Director of Finance to sign such Written Request.

"2010B Bonds" means \$42,755,000 original principal amount of Western Municipal Water District Facilities Authority Water Revenue Bonds, Series 2010B (Federally Taxable – Build America Bonds Direct Payment).

"2010 Indenture" means the Indenture of Trust dated October 1, 2010, between the Issuer and Trustee relating to the 2010B Bonds.

"2010 Installment Purchase Agreement" means the Installment Purchase Agreement dated October 1, 2010, between the Issuer and the District relating to the 2010B Bonds.

"2016A Bonds" means the \$51,975,000 original principal amount Western Municipal Water District Facilities Authority Water Revenue Bonds, Series of 2016A issued under the 2016A Indenture.

"2016A Indenture" means the Indenture of Trust dated as of January 1, 2016 by and between the Issuer and the Trustee relating to the 2016A Bonds.

"2016 Installment Purchase Agreement" shall mean the Installment Purchase Agreement (Series 2016), dated as of January 1, 2016, by and between the Issuer and the District.

"2020A Bonds" means the \$90,260,000 aggregate principal amount Western Municipal Water District Facilities Authority Water Revenue Bonds, Series of 2020 (Tax-Exempt) authenticated by the Trustee and delivered under the Indenture.

"2020 Project" shall mean the improvements to the District's system described in the Installment Purchase Agreement.

“2020 Project Contracts” shall mean any construction contract between the District and any contractor and between any such contractor and his immediate subcontractor regarding construction of the 2020 Project or improvement of a site therefor.

“2020 Project Costs” means the purchase prices for the acquisition of the property and easements, if any, which are necessary for the construction and installation of the 2020 Project and the contract prices paid or to be paid for the design, acquisition, construction, installation or delivery of any portion of the 2020 Project and related facilities, in accordance with a purchase or construction contract therefor. 2020 Project Costs include any other administrative, engineering, legal, financial and other costs incurred by the District in connection with the construction, installation and financing of the 2020 Project, including costs incurred prior to the date of the Indenture.

“2020 Project Fund” shall mean the Fund by that name created pursuant to the Indenture.

Special Obligations

The Bonds shall be special, limited obligations of the Issuer, payable from and secured as to the payment of the principal of, premium if any, and interest thereon, in accordance with their terms and the terms of the Indenture, solely from the Trust Estate. The Bonds shall not constitute a charge against the general credit of the Issuer or its members. Under no circumstances shall the Issuer be obligated to pay principal of, premium, if any, or interest on the Bonds except from the Trust Estate. Neither the State nor any public agency (other than the Issuer) nor any member of the Issuer is obligated to pay the principal of, premium, if any, or interest on the Bonds. Neither the faith and credit nor the taxing power of the State or any public agency thereof or any member of the Issuer is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. Neither the payment of the principal of or any part thereof, premium, if any, or interest on the Bonds constitutes a debt, liability or obligation of the State or any public agency (other than the Issuer) or any member of the Issuer.

No covenant or agreement contained in any Bond or the Indenture shall be deemed to be a covenant or agreement of any officer, member, agent or employee of the Issuer in his individual capacity and neither the members of the Issuer nor any officer or employee thereof executing the Bonds shall be liable personally on any Bond or be subject to any personal liability or accountability by reason of the issuance of such Bonds.

ESTABLISHMENT OF FUNDS; APPLICATION OF MONEYS

Costs of Issuance Fund

(a) The Trustee shall establish and maintain in trust a separate fund designated as the “Costs of Issuance Fund.” Money deposited in said fund shall be used to pay Costs of Issuance with respect to the 2020A Bonds as provided in the Indenture.

(b) The Trustee shall make payments from the Costs of Issuance Fund, except payments and withdrawals pursuant to the Indenture, in the amounts, at the times, in the manner and on the other terms and conditions set forth in the Indenture. Before any such payment from the Costs of Issuance Fund shall be made, there shall be filed with the Trustee a requisition therefor, signed by an Issuer Representative. Each such requisition shall state, in respect of the payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount of such payment, and (c) the particular item of the cost to be paid and that such payment in the stated amount is a proper charge against the Costs of Issuance Fund and that no part of such payment shall be applied to any item which has previously been paid as a Cost of Issuance of the 2020A Bonds. The Trustee shall promptly issue its check to the Issuer or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such requisition, shall by wire transfer, interbank transfer or other method arrange to promptly make each payment required by such requisition.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof. All such payments shall be made by check or wire transfer in accordance with payment instructions contained in such requisition and the Trustee shall have no duty or obligation to authenticate such payment instructions or authorization thereof.

(c) Upon receipt by the Trustee of a Certificate of Issuer Representative requesting the Trustee to close the Costs of Issuance Fund or January 8, 2021; and after payment from the Costs of Issuance Fund of all amounts included in requisitions submitted by the Issuer pursuant to the Indenture, the Trustee shall transfer any moneys remaining in the Costs of Issuance Fund to such account or accounts in the 2020 Project Fund as directed by an Issuer Representative. Upon such transfer the Trustee shall close the Costs of Issuance Fund.

(d) Moneys held in the Costs of Issuance Fund may be invested and reinvested to the fullest extent practicable at the written instructions of the Issuer, in Investment Securities. Any investment earnings on moneys on deposit in the Costs of Issuance Fund shall be deposited in the Costs of Issuance Fund and be used in the same manner as other amounts on deposit in the Costs of Issuance Fund.

2020 Project Fund

(a) Creation. The Trustee shall establish a special fund designated as the “2020 Project Fund.” The Trustee shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund and accounts as provided in the Indenture and in the Installment Purchase Agreement. The 2020 Project Fund shall be held and applied by the Trustee in accordance with the Indenture.

(b) Purpose. Moneys in the 2020 Project Fund shall be expended for payment or reimbursement of 2020 Project Costs.

(c) Deposit of Funds; Payment of 2020 Project Costs. In addition to the moneys deposited into the 2020 Project Fund from the proceeds from the sale of the 2020A Bonds, there shall also be deposited into the 2020 Project Fund any other funds from time to time deposited with the Trustee for credit to the 2020 Project Fund.

The Trustee shall disburse moneys in the 2020 Project Fund from time to time for the payment of 2020 Project Costs upon receipt by the Trustee of a Certificate of Issuer Representative which: (a) states with respect to each disbursement to be made: (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is to be made, (iii) the amount to be disbursed, and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against such account, and has not been the basis of any previous disbursement; (b) specifies in reasonable detail the nature of the obligation; (c) is accompanied by an invoice or statement of account for each obligation; (d) states that there has not been filed with or served upon the Issuer or District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of any of the moneys payable to any of the persons named in the requisition which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen’s or mechanics’ liens accruing by operation of law; (e) is accompanied by a certificate of the Issuer Representative certifying that amounts remaining in the 2020 Project Fund, will be sufficient to pay the remaining 2020 Project Costs as estimated, and that no Event of Default has occurred and is continuing; and (f) in the event of final payment of costs, is accompanied by a notice of completion, and is in a form similar to an exhibit to the Indenture.

(d) Transfers of Unexpended Proceeds of the 2020A Bonds. Upon the earlier of (a) the filing with the Trustee of a Certificate of the Issuer Representative that all 2020 Project Costs to be paid from proceeds of the 2020A Bonds have been paid or are provided for, or (b) July 8, 2023, the Trustee shall retain in the 2020 Project Fund amount, if any, specified in a Written Request signed by the Issuer Representative and

filed with the Trustee to be required to pay future 2020 Project Costs, and the Trustee shall withdraw and transfer to the Interest or Principal Fund as directed by the Issuer, the balance of moneys in the 2020 Project Fund. Thereafter, all amounts so retained in the 2020 Project Fund but not subsequently used, and timely notice of such failure of use of which shall be given by the Issuer Representative to the Trustee, shall also be transferred by the Trustee to the Interest or Principal Fund as directed by the Issuer. The amounts so transferred from the 2020 Project Fund to the Interest or Principal Fund shall be credited to the payment of the Installment Payments as the same shall become due and payable and shall be invested so that the aggregate yield on such moneys as invested shall not exceed the yield on the 2020A Bonds.

Deposit of Principal and Interest Receipts

The Trustee shall receive all Principal Receipts and Interest Receipts and shall apply such Principal Receipts and Interest Receipts as provided in the Indenture.

Principal Fund

(a) The Trustee shall deposit in the Principal Fund the Principal Receipts due on the next Principal Payment Date.

(b) On each Principal Payment Date, the Trustee shall withdraw from the Principal Fund and pay the Principal Receipts required to be paid on said date.

Interest Fund

(a) The Trustee shall deposit in the Interest Fund from time to time the scheduled Interest Receipts due on the next Interest Payment Date.

(b) The Trustee shall apply amounts on deposit in the Interest Fund as follows:

(i) on each Interest Payment Date the Trustee shall withdraw and pay the interest due and payable on the 2020A Bonds on said date; and

(ii) if, immediately after having made the withdrawal required to be made pursuant to the Indenture amounts remain in the 2020A Bonds Interest Fund which are not required to be retained therein, the Trustee shall (x) transfer to the Rebate Fund, in accordance with a Written Order, amounts required by the Tax Certificate to be transferred thereto, and (y) retain any remaining amounts in the Interest Fund.

Mandatory Sinking Fund

Amounts on deposit in the Mandatory Sinking Fund shall be applied to the payment of the Mandatory Sinking Fund Installments of the 2020A Bonds pursuant to the Indenture.

Optional Redemption Fund

(a) The Trustee shall deposit in the Optional Redemption Fund amounts directed by the Authority to be deposited therein for the purpose of optionally redeeming 2020A Bonds pursuant to the Indenture.

(b) The Trustee shall use amounts in the Optional Redemption Fund for the payment of the Redemption Price and accrued interest to the date of redemption of 2020A Bonds called for redemption pursuant to the Indenture.

No Reserve Fund

No Reserve Fund shall be established in connection with the issuance of the Bonds.

Rebate Fund

The Trustee shall create a fund known as the Rebate Fund as set forth in the Indenture. Money and investments in the Rebate Fund shall not be used for the payment of principal and interest, and any provision in the Indenture to the contrary notwithstanding, amounts credited to the Rebate Fund shall be free and clear of any lien of the Indenture. Money and investments in the Rebate Fund shall be invested pursuant to the procedures and in the manner provided in the Indenture.

At least five days prior to the end of the fifth Bond Year and each fifth Bond Year thereafter (each such date a “Computation Date”), the Issuer shall engage and the Issuer shall furnish, or cause to be furnished, information to an independent certified public accounting firm or other rebate analyst designated by the Issuer Representative, to calculate, within fifteen days after each Computation Date, the Rebate Amount with respect to the 2020A Bonds as of that Computation Date (the “Calculation”).

The Issuer shall notify the Trustee in writing of the amounts so calculated. If the amount then on deposit in the Rebate Fund is in excess of the Rebate Amount as of that Computation Date, the Trustee shall forthwith pay the excess amount to the Issuer. If the amount then on deposit in the Rebate Fund is less than the Rebate Amount with respect to the 2020A Bonds as of that Computation Date, the Issuer shall deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Rebate Amount as of that Computation Date.

Within sixty days after the end of the fifth Bond Year and every fifth Bond Year thereafter, the Issuer (or the Trustee acting on behalf of the Issuer upon Written Request of the Issuer), shall pay to the United States of America in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as the Issuer may determine) of the Rebate Amount earned from the date of the original delivery of the 2020A Bonds to the end of such fifth Bond Year (taking into account the future value of the Rebate Amount, if any, previously paid to the United States pursuant to the Indenture in accordance with the applicable Treasury Regulations). Within sixty days after the payment in full of all outstanding 2020A Bonds, the Trustee, acting on behalf of the Issuer, upon Written Request of the Issuer, shall pay to the United States of America in accordance with Section 148(f) of the Code from the money then on deposit in the Rebate Fund an amount equal to 100% of the Rebate Amount earned from the date of the original delivery of the 2020A Bonds to the date of payment in full of all outstanding 2020A Bonds (taking into account the future value of the Rebate Amount, if any, previously paid to the United States of America pursuant to the Indenture in accordance with the applicable Treasury Regulations) and any moneys remaining in the applicable account of the Rebate Fund following such payment shall be paid to the Issuer.

The Issuer shall obtain and keep such records of the computations made pursuant to the Indenture as are required under Section 148(f) of the Code. The Trustee shall be entitled to rely on the calculations and Written Request of the Issuer made pursuant to the Indenture and shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken in reliance upon those calculations.

If the Issuer, at its expense, provides an opinion of nationally recognized bond counsel to the Trustee that such action will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the 2020A Bonds, the Issuer may, without the consent of or notice to any Owners, enter into agreements supplemental to the Indenture to the extent necessary or desirable to (i) combine the Rebate Fund with other funds or funds or accounts, or change the custodian of the Rebate Fund, or (ii) otherwise modify, supplement or replace a Section consistent with the covenants of the Issuer in the Indenture.

If at any time the Issuer at its expense, provides an opinion of nationally recognized bond counsel to the Trustee that failure to comply with the Indenture would not adversely affect the exclusion of interest on the 2020A Bonds from gross income for federal income tax purposes, the Issuer and the Trustee may discontinue compliance with the Indenture to the extent set forth in that opinion.

SECURITY FOR AND INVESTMENT OF MONEYS

Security

All moneys required to be deposited with or paid to the Trustee in any of the Funds (other than the 2020 Project Fund, Costs of Issuance Fund and Rebate Fund) referred to in any provision of the Indenture shall be held by the Trustee in trust for the benefit of the Owners of all Outstanding Bonds, and except for moneys held for the payment or redemption of Bonds, or the payment of interest on Bonds, pursuant to the Indenture, shall, while held by the Trustee, constitute part of the Trust Estate and shall be subject to the lien and pledge created by the Indenture.

Notwithstanding the foregoing, any moneys so deposited with and held by the Trustee but which are not so applied to the payment of the Bonds or the interest thereon within two years after the date on which the same shall have become due shall thereafter be repaid by the Trustee to the Issuer; provided, however, that before being required to make any such payments, the Trustee shall cause to be published at least twice at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than thirty (30) days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the Issuer. Thereafter Owners shall be entitled to look only to the Issuer for payment, and then only to the extent of the amount so repaid to the Issuer, and all liability of the Trustee with respect to such money shall thereupon cease, and neither the Trustee nor the Issuer shall be liable for any interest thereon and shall not be regarded as a trustee of such money.

Investment of Funds

So long as the Bonds are Outstanding and there is no default under the Indenture, moneys on deposit to the credit of the Principal Fund, Interest Fund, Optional Redemption Fund, Mandatory Sinking Fund, or 2020 Project Fund shall, at the facsimile request of an Issuer Representative, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested by the Trustee in Investment Securities, and moneys held in the Rebate Fund shall, at the facsimile request of an Issuer Representative, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested by the Trustee in Government Obligations. The Trustee is entitled to rely on said instructions for purposes of the Indenture. If no such instructions are provided, the Trustee shall invest such funds exclusively in Investment Securities of the type described in subparagraph (vii) of the definition thereof. Such investments shall have maturity dates, or shall be subject to redemption by the owner, at the option of the owner on or prior to the dates the moneys invested therein will be needed for the purposes of such Funds. The Trustee may act as principal or agent in the acquisition or disposition of Investment Securities.

The securities purchased with the moneys in each such Fund shall be deemed a part of such Fund and shall be valued at the lower of their cost or market value at least monthly. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. The interest, including realized increments on securities purchased at a discount, received on all such securities (after deduction for accrued interest, commissions, if any, and premium paid from such Fund at the time of purchase) shall be deposited by the Trustee in the Fund from which such investment was made. The Trustee shall not be liable or responsible for any consequences resulting from any such investment or resulting from the redemption, sale or maturity of any such investment

as authorized pursuant to the Indenture. If at any time it shall become necessary that some or all of the securities purchased with the moneys in any such Fund be redeemed or sold in order to raise moneys necessary to comply with the provisions of the Indenture, the Trustee shall effect such redemption or sale, employing, in the case of a sale, any commercially reasonable method of effecting the same and shall not be responsible for any loss resulting therefrom.

Investments in the Principal Fund, Interest Fund, Optional Redemption Fund, Mandatory Sinking Fund, or 2020 Project Fund may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions in the Indenture for transfer to or holding in particular Funds amounts received or held by the Trustee, provided that the Trustee shall at all times account for such investments strictly in accordance with the Funds to which they are credited and otherwise as provided in the Indenture. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of Investment Securities and shall be entitled to the customary fee therefor.

To the extent that any of the requirements concerning Investment Securities embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, in form and content satisfactory to Trustee, that such requirement has been met.

The Issuer acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Issuer the right to receive brokerage confirmations of security transactions as they occur, the Issuer specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Issuer periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Indenture.

PARTICULAR COVENANTS OF THE ISSUER

Payment of the Bonds

The Issuer will promptly pay from the Principal Receipts and Interest Receipts and other funds and collateral pledged under the Indenture, and the principal or Redemption Price of, and the interest on, every Bond issued under and secured by the Indenture at the places, on the dates and in the manner specified in the Indenture and in said Bonds according to the true intent and meaning thereof. The Issuer shall not issue any bonds, notes or other evidence of indebtedness or incur any obligations payable from or secured by the Trust Estate.

Enforcement of Installment Purchase Agreement

The Issuer shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of the Installment Purchase Agreement, including the requirement of prompt payment of all principal and interest payments and all other amounts due the Issuer thereunder. The Issuer shall not release the obligations of any obligor under the Installment Purchase Agreement and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Issuer and of the Owners of the Bonds under or with respect to the Installment Purchase Agreement; provided that this provision shall not be construed to prevent the Issuer from settling a default on the Installment Purchase Agreement and on such terms as the Issuer, after consultation with the Trustee, shall determine to be in the best interests of the Issuer and the Owners of the Bonds.

Amendment of Installment Purchase Agreement

The Issuer shall not consent or agree to or permit any amendment or modification of the Installment Purchase Agreement which will in any manner impair or materially adversely affect the rights or security of the Owners of the Bonds under the Indenture. In determining whether any amendment or modification will in

any manner impair or materially adversely affect the rights or security of the Owners of the Bonds under the Indenture the Issuer may rely on an opinion of counsel.

Further Documents

The Issuer covenants that it will from time to time execute and deliver such further instruments and take such further action as may be reasonable and as may be required to carry out the purpose of the Indenture; provided, however, that no such instruments or actions shall pledge the faith and credit or the taxing power of the State or any political subdivision of the State.

Tax Covenants

The Issuer will not directly or indirectly use or permit the use of any proceeds of the 2020A Bonds or any other funds of the Issuer or take or omit to take any action that would cause the 2020A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code, or obligations which are “federally guaranteed” within the meaning of Section 149(b) of the Code.

The Issuer covenants that it 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 2020A Bonds under Section 103 of the Code. The Issuer will not directly or indirectly use or permit the use of any proceeds of the 2020A Bonds or any other funds of the Issuer, or take or omit to take any action, that would cause the 2020A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the Issuer will comply with all requirements of Section 148 of the Code to the extent applicable to the 2020A Bonds. In the event that at any time the Issuer is of the opinion that for purposes of the Indenture it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the Issuer shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Issuer agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the 2020A Bonds from time to time. This covenant shall survive payment in full or defeasance of the 2020A Bonds. The Issuer specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the Indenture the Rebate Requirement, as described in the Tax Certificate.

Notwithstanding any provision under the Indenture, if the Issuer shall provide to the Trustee a Favorable Opinion of Bond Counsel to the effect that any action required under the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2020A Bonds pursuant to Section 103 of the Code, the Issuer and Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants under the Indenture shall be deemed to be modified to that extent.

DEFAULTS AND REMEDIES

Events of Default

In case one or more of the following events, in the Indenture referred to as the “Events of Default”, shall happen and be continuing, that is to say, if

- (a) payment of interest on the Bonds shall not be made when the same shall become due and payable; or

(b) payment of the principal or Redemption Price of the Bonds shall not be made when the same shall become due and payable; or

(c) the Issuer shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in the Bonds or in the Indenture on the part of the Issuer to be performed other than those set forth in the Indenture, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Issuer by the Trustee, which notice shall be given by the Trustee at the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of all Bonds then Outstanding; provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected provided, further, that such period for cure shall not exceed sixty (60) days; or

(d) the District shall fail to make any payment due under the Installment Purchase Agreement; or

(e) the District shall fail to observe or make any default in any material way any covenant, condition, agreement or provision on its part to be performed contained in any instrument authorizing the issuance of any other parity or subordinate securities having a lien on the District's Net Revenues, as defined in the Installment Purchase Agreement; then, the Trustee shall be subject to the provisions of the Indenture and at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding, shall, by notice in writing delivered to the Issuer, declare that an Event of Default exists and is continuing and pursue all remedies set forth in the Indenture.

Proceedings by Trustee

Upon the happening and continuance of any Event of Default, the Trustee at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding shall do the following:

(a) declare the entire principal amount of the Bonds then Outstanding and the interest accrued thereon, immediately due and payable, whereupon they shall, without further action, become and be immediately due and payable, anything in the Indenture or the Bonds notwithstanding.

(b) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Issuer to enforce all rights of the Owners of Bonds, including the right to require the Issuer to receive and collect Interest Receipts and Principal Receipts and to require the Issuer to carry out any other covenant or agreement with the Owners of Bonds and to perform its duties under the Indenture;

(c) bring suit upon the Bonds;

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners;

(e) as a matter of right, have a receiver or receivers appointed for the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(f) take such action with respect to the Installment Purchase Agreement or Investment Securities as the Trustee shall deem necessary and appropriate, subject to the terms of the Indenture and to the terms of the Installment Purchase Agreement or Investment Securities.

Effect of Discontinuance or Abandonment

In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Issuer, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Rights of Owners

Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners in the Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, shall have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability without adequate indemnification therefor.

Restriction on Owner's Action

In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as provided in the Indenture and unless the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared by the Indenture in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; subject, however, to the provisions of the Indenture. Notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture, the obligation of the Issuer shall be absolute and unconditional to pay, but solely from the Trust Estate, the principal and Redemption Price of, and interest on, the Bonds to the respective Owners thereof at the respective due dates thereof, and nothing in the Indenture shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Power of Trustee to Enforce

All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceedings instituted by the Trustee shall be brought in its own name, as trustee, for the equal and ratable benefit of the Owners of the Bonds subject to the provisions of the Indenture.

Remedies Not Exclusive

No remedy in the Indenture 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 shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver

The Trustee shall waive any Event of Default under the Indenture and its consequences and rescind any declaration of an Event of Default, upon the written request of the Owners of at least a majority in aggregate principal amount of all Outstanding Bonds. If any Event of Default shall have been waived as provided in the Indenture, the Trustee shall promptly give written notice of such waiver to the Issuer and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or Owner or shall be construed to be a waiver of any such default or Event of Default, or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee, and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys

Any moneys received by the Trustee pursuant to the Indenture shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

- (a) unless the principal of all of the Outstanding Bonds shall be due and payable,

FIRST- To the payment of the persons entitled thereto of all installments of interest then due on the Bonds that have not been reimbursed, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND - To the payment of the persons entitled thereto of the unpaid principal and Redemption Price of any of the Bonds that have not been reimbursed, which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal and Redemption Price of such Bonds due on any particular date, then to the payment ratably, according to the amounts of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD - To be held for the payment to the persons entitled thereto as the same shall become due of the principal and Redemption Price of, and interest on, the Bonds that have not been reimbursed, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and Redemption Price due on any particular date, together with interest then due and owing thereon, payment shall be made in accordance with the FIRST and SECOND paragraphs.

(b) if the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal, Redemption Price and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, Redemption Price or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal, Redemption Price and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give, by mailing by first class mail as it may deem appropriate, such notice to the Owners, of the deposit with it of any such moneys.

CONCERNING THE TRUSTEE

Appointment and Acceptance of Duties

The Trustee accepts and agrees by the Indenture to the trusts thereby created to all of which the Issuer agrees and the respective owners of the Bonds, by their purchase and acceptance thereof, agree.

Duties, Immunities and Liabilities of Trustee

(a) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a prudent individual would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Issuer shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving 30 days prior written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may resign by giving written notice of such resignation to the Issuer and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Bond Register. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Issuer and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Issuer or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Issuer shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts under the Indenture by first class mail, postage prepaid, to the Owners at their addresses listed in the Bond Register.

(e) Any Trustee appointed under the provisions of the Indenture shall be a trust company or bank having the powers of a trust company or authorized to exercise trust powers, having a corporate trust office in California, having a combined capital and surplus of at least seventy-five million dollars (\$75,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

(f) No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture.

(g) In accepting the trust created by the Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

(h) The Trustee makes no representation or warranty, express or implied, as to the compliance with legal requirements of the use contemplated by the Issuer of the funds under the Indenture. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Indenture or the existence, furnishing or use of the Installment Purchase Agreement or Investment Securities.

(i) The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the revenues and payments of principal and interest pursuant to the Installment Purchase Agreement and the Investment Securities and of its rights to receive Interest Receipts and Principal Receipts.

(j) The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture or under the Installment Purchase Agreement or the Master Installment Purchase Agreement unless and until it shall have actual knowledge thereof.

(k) The Trustee shall not be accountable for the use or application by the Issuer or any other party of any funds which the Trustee has released under the Indenture.

(l) The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Indenture and shall not be answerable for the misconduct of such attorney, agent or receiver selected by it with reasonable care.

(m) The Trustee shall have no responsibility for, and makes no representations with respect to, any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Merger or Consolidation

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture, shall succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything to the contrary in the Indenture notwithstanding.

Compensation and Indemnification

The Issuer shall pay the Trustee reasonable compensation for its services rendered under the Indenture and shall reimburse the Trustee for reasonable expenses (including professional fees and expenses) incurred by the Trustee in the performance of its obligations under the Indenture.

The Issuer agrees, to the extent permitted by law, to indemnify the Trustee and the Bond Registrar, and their respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless against, any loss, liability or expense incurred without negligence or willful default on their part arising out of or in connection with the acceptance or administration of the trusts imposed by the Indenture, including performance of their duties under the Indenture and under the Installment Purchase Agreement, including the costs and expenses of defending themselves against any claims or liability in connection with the exercise or performance of any of their powers or duties under the Indenture. Notwithstanding any contrary provision of the Indenture, this covenant shall remain in full force and effect though the Bonds are no longer Outstanding.

Liability of Fiduciaries

The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Issuer, and the Trustee assumes no responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Indenture or of the Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful default. The Trustee may become the Owner of Bonds with the same rights they would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of their officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

Right to Rely on Documents

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, facsimile transmission, electronic mail, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Issuer, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate of Issuer Representative, and such Certificate of Issuer Representative shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate of Issuer Representative, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Preservation and Inspection of Documents

All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Issuer and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Indemnity for Trustee

Before taking any action under the Indenture (other than making payment on the Bonds when due, or accelerating payment on the Bonds), the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses which it may incur and to protect it against all liability, except liability which may result from its negligence or willful default, by reason of any action so taken.

EXECUTION OF INSTRUMENTS BY OWNERS AND PROOF OF OWNERSHIP OF BONDS

Execution of Instruments; Proof of Ownership

Any request, direction, consent or other instrument in writing required or permitted by the Indenture to be signed or executed by Owners may be in any number of concurrent instruments of similar tenor by different parties and may be signed or executed by such Owners in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Bond Registrar with regard to any action taken, suffered or omitted by any of them under such instrument if made in the following manner:

- (a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.
- (b) The fact of the ownership of Bonds under the Indenture by any Owner and the serial numbers of such Bonds and the date of his ownership of the same shall be proved by the Bond Register.

Nothing contained in the Indenture shall be construed as limiting the Trustee or the Bond Registrar to such proof, it being intended that the Trustee or the Bond Registrar may accept any other evidence of the matters in the Indenture stated which to it may seem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond and any Bond or Bonds issued in exchange or substitution therefor or upon the registration of transfer thereof in respect of anything done by the Trustee in pursuance of such request or consent.

MODIFICATION OF INDENTURE AND SUPPLEMENTAL INDENTURES

Supplemental Indentures Without Consent of Owners

Subject to the conditions and restrictions contained in the Indenture and subject to approval by resolution of the Issuer, the Issuer may, without the consent of the Owners, enter into a Supplemental Indenture or Supplemental Indentures, which thereafter shall form a part of the Indenture, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Issuer in the Indenture, but only if the Issuer and the Trustee have received a Favorable Opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment or modification will not materially and adversely affect the interests of the Owners of the Bonds;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture but only if the Issuer and the Trustee have received a Favorable Opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment or modification will not materially and adversely affect the interests of the Owners of the Bonds;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, if required by such act or statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, but only if the Issuer and the Trustee have received a Favorable Opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment or modification will not materially and adversely affect the interests of the Owners of the Bonds;

(d) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the 2020A Bonds, including the amendment of any tax agreement;

(e) to facilitate (i) the transfer of Bonds from one Securities Depository to another and the succession of Securities Depositories, or (ii) the withdrawal from a Securities Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Securities Depository; or

(f) to modify, alter, amend or supplement the Indenture in any other respect but only if the Issuer and the Trustee have received a Favorable Opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that such amendment or modification will not materially and adversely affect the interests of the Owners of the Bonds.

Trustee Authorized to Enter Supplemental Indenture

The Trustee is authorized by the Indenture to enter into with the Issuer any Supplemental Indenture authorized or permitted by the terms of the Indenture, and to make the further agreements and stipulations which may be therein contained, and the Trustee, in entering into any Supplemental Indenture, shall be fully protected in relying on an opinion of counsel, in form and substance satisfactory to the Trustee, to the effect that such Supplemental Indenture is authorized or permitted by the provisions of the Indenture.

Supplemental Indentures With Consent of Owners

Any modification or alteration of the Indenture or of the rights and obligations of the Issuer or of the Owners of the Bonds in any particular may be made with the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding. No such modification or alteration shall be made which will reduce the percentage of aggregate principal amount of Bonds the consent of the Owners of which is required for any such modification or alteration, or permit the creation by the Issuer of any lien prior to or on a parity with the lien of the Indenture upon the Trust Estate or which will affect the times, amounts and currency of payment of the principal or Redemption Price of, or interest on, the Bonds or affect the rights, duties or obligations of the Trustee or the Bond Registrar without the consent of the parties affected thereby.

For all purposes of the Indenture, the Trustee shall be entitled to rely upon an opinion of counsel with respect to the extent, if any, to which any action affects the rights under the Indenture of any Owners of Bonds then Outstanding.

Notice to Rating Agencies

The Trustee shall notify each Rating Agency of every amendment or supplement of the Indenture.

DEFEASANCE

If and when the Bonds secured by the Indenture shall become due and payable in accordance with their terms or through redemption proceedings as provided in the Indenture, or otherwise, and the whole amount of the principal, or Redemption Price and the interest so due and payable upon all of the Bonds shall be paid, or provision shall have been made for the payment of the same, together with all other sums payable under the Indenture by the Issuer, including all fees and expenses of the Trustee, then and in that case, the Indenture and the lien created by the Indenture shall be discharged and satisfied and the Issuer shall be released from the covenants, agreements and obligations of the Issuer contained in the Indenture, and the Trustee shall assign and transfer to or upon the order of the Issuer all property (in excess of the amounts required for the foregoing) then held by the Trustee free and clear of any encumbrances and shall execute such documents as may be reasonably required by the Issuer in this regard.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer under the Indenture shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, redemption or optional or mandatory tender of Bonds, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in

effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, Redemption Price and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture contained in the Indenture relating to the compensation and indemnification of the Trustee shall remain in effect and shall be binding upon the Trustee and the Issuer.

In the event less than all of the Bonds are defeased under the terms of the Indenture, any moneys set aside for the purpose of accomplishing such partial defeasance shall be held separate and apart from any other funds or accounts held under the Indenture.

Bonds Deemed to Have Been Paid

If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bonds and the interest installments therefor at the maturity or redemption date thereof such Bonds shall be deemed to be paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bond or Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Indenture in case said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, such notice to be given in accordance with the provisions of the Indenture, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of a nationally recognized independent certified public accountant), to pay when due the principal or Redemption Price (if applicable) of, and interest due and to become due on, said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event any of said Bonds are not to be redeemed within the next succeeding sixty (60) days, the Issuer shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of redemption is mailed pursuant to the Indenture, a notice to the Owners of such Bonds and to the Securities Depositories that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption dates upon which moneys are to be available for the payment of the principal or Redemption Price (if applicable) of said Bonds. Neither the securities nor moneys deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price (if applicable) of, and interest on said Bonds; provided that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the Issuer, be reinvested in Government Obligations maturing at times and in amounts, together with the other moneys and payments with respect to Government Obligations then held by the Trustee pursuant to the Indenture, sufficient to pay when due the principal or Redemption Price (if applicable) of, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Order so directing, be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien or pledge.

Any release under the Indenture shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Indenture created and the performance of its powers and duties under the Indenture; provided, however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Indenture.

Moneys Held for Particular Bonds

Except as otherwise provided in the Indenture, the amounts held by the Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held uninvested in trust by it for the Owners of the Bonds entitled thereto without liability for interest therefor.

MASTER INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Unless the context otherwise requires, the terms defined in the Master Agreement shall for all purposes of the Master Agreement and of any amendment thereof or supplement thereto and of any certificate, opinion, report, request or other document mentioned therein have the meanings defined therein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined in the Master Agreement:

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

“Adjusted Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Annual Debt Service for such Fiscal Year or twelve (12) calendar month period minus the amount of such Annual Debt Service required to be paid from the proceeds of Parity Obligations or from any interest earnings on and releases of amounts on deposit in all Reserve Funds established in connection with Parity Obligations, as set forth in a Certificate of the District.

“Adjusted Annual Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Revenues during such Fiscal Year or twelve (12) calendar month period minus the Maintenance and Operation Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Revenues during such Fiscal Year or twelve (12) calendar month period minus any interest earnings from amounts on deposit in all Reserve Funds established in connection with Parity Obligations, as set forth in a Certificate of the District.

“Ad Valorem Taxes” means, for any period, the ad valorem property taxes received by the District during such period pursuant to Article XIII A of the California Constitution and Section 95 et seq. of the California Revenue and Taxation Code, including any such taxes levied to pay any voter approved general obligation indebtedness of the District.

“Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Parity Payments required to be made under all Parity Obligations in such Fiscal Year or twelve (12) calendar month period.

“Assumed Interest Rate” means the amount of interest calculated in accordance with the following provisions:

(A) Generally. Except as otherwise provided in subparagraph (B) below with respect to Variable Interest Rate Contracts, in subparagraph (C) below with respect to Obligations with respect to which a Payment Agreement is in force, in subparagraph (D) below with respect to Balloon Contracts, and in subparagraph (E) below with respect to BABs, interest on any Obligation shall be calculated based on the actual amount of interest that is payable under such Obligation;

(B) Interest on Variable Interest Rate Contracts. Interest deemed to be payable on any Variable Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to (i) the average rate that accrued on such Variable Interest Rate Contract over the preceding 12 months, or (ii) if the Variable Interest Rate Contract has not been accruing interest at a variable rate for 12 months, 100% of the average rate of interest for the SIFMA Index for a tax-exempt Variable Rate Interest Rate Contract and one month LIBOR for a Taxable Variable Interest Rate Contract;

(C) Interest on Obligations with respect to which a Payment Agreement is in force. Interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Obligation when taken together with the District's obligations under the Payment Agreement, including but not limited to the effects that (i) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Obligation with respect to which a Payment 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 Obligation plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Obligation, the following assumptions shall be made:

(1) District Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the District with respect to an Obligation resulting in the payment of a net variable interest rate payable by the District with respect to such Obligation when taken together with the District's obligations under the Payment Agreement, the interest rate on such Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Payment Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Obligation, minus (ii) the fixed rate paid by the Qualified Counterparty to the District, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with paragraph (B) above; and

(2) District Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the District with respect to an Obligation resulting in the payment of a net fixed interest rate payable by the District with respect to such Obligation when taken together with the District's obligations under the Payment Agreement by the District, the interest on such Obligation shall be included in the calculation of Payments (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(D) Interest on Balloon Contracts. If any outstanding Obligations constitute Balloon Contracts (and such Obligations do not constitute Short-Term Obligations) or if Obligations proposed to be incurred would constitute Balloon Contracts (and such Obligations would not constitute Short-Term Obligations), then such Balloon Contracts shall be treated as if the principal amount of such Obligations were amortized pursuant to any of the following mechanisms: (i) if an irrevocable commitment from a credit facility the provider of which is rated at least "P1" by Moody's or "A1" by

S&P is in effect to pay the balloon debt when it comes due, then the terms of the contractual obligation to repay the credit facility may be used, (ii) if balloon debt is subject to prior amortization payments and the verification of timely installment payments are contained in the last audited financial statement of the District, then such amortization payments may be used, or (iii) amortization may be assumed on a level debt service basis over a twenty-year period at an interest rate based on the last published SIFMA Index. Notwithstanding the foregoing, the full amount of balloon debt shall be included in any debt service calculation if the calculation is made within 12 months of the actual maturity of such balloon debt and no credit facility exists;

(E) Interest on a BAB. Interest deemed payable on any BAB shall be based on the net economic effect on the District expected to be produced by the receipt by the District of cash subsidy payments from the U.S. Treasury equal to 35% (or such other percentage as may be then applicable) of the interest payable on the BAB so long as such subsidy payments are pledged to the repayment of the BAB under the applicable Issuing Document.

(F) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with the Trustee, then the interest payable from such amounts with respect to the Obligations shall be disregarded and not included in calculating Payments.

“Authority” means the Western Municipal Water District Facilities Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State.

“Average Annual Debt Service” means the sum of the Annual Debt Service for the remaining Fiscal Years to the last Fiscal Year in which any Parity Payments are due under any Outstanding Supplemental Contracts divided by the number of such Fiscal Years.

“BAB” means any Obligation issued as a Build America Bond under the American Recovery and Reinvestment Act of 2009 and as such act may be amended from time to time and any Obligation issued under any other similar act pursuant to which the issuer of taxable bonds receives a cash subsidy or related payment from the U.S. Treasury.

“Balloon Contract” means an Obligation 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Obligation was incurred to be amortized by payment or redemption prior to such date.

“Balloon Installment Payments” means any Payments designated as such in any Balloon Contract.

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

“Business Day” means a day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the cities in which the designated office of a particular trustee, paying agent, remarketing agent or credit facility provider are located with respect to an Issuing Document, are required or authorized by law or executive order to close, and (iii) a day on which the New York Stock Exchange is closed.

“Certificate of the District” means an instrument in writing signed by the President, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

“Chief Financial Officer” means the Chief Financial Officer of the District.

“Code” means the Internal Revenue Code of 1986, and all then applicable regulations issued thereunder.

“Common Reserve” means all Reserve Funds established with respect to Parity Obligations which have been designated by the District pursuant to the Master Agreement to be a part of the Common Reserve.

“Common Reserve Requirement” means, as of any date of computation by the District, an amount equal to the lowest of (i) Maximum Annual Debt Service on all Outstanding Parity Obligations entitled to the benefit of the Common Reserve; (ii) 1.25 times the average Annual Debt Service on all Outstanding Parity Obligations entitled to the benefit of the Common Reserve; and (iii) ten percent (10%) of the initial principal amount (provided that sale price shall be used in lieu of principal amount if there is more than a diminimis amount of net original issue discount or premium) of all Parity Obligations entitled to the benefit of the Common Reserve; provided, however, that, if, upon issuance of a Parity Obligation entitled to the benefit of the Common Reserve, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Parity Obligations in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Requirement shall mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Parity Obligation and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Parity Obligation, as certified in a Certificate of the District.

“Contract Resource Obligation” means an obligation of the District, designated as a Contract Resource Obligation to make payments for Service or any other commodity or service to another person or entity.

“Contracts” means the Master Agreement and all Supplemental Contracts.

“Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period, an amount of Adjusted Annual Net Revenues:

- (i) which equals at least one hundred ten percent (110%) of the Adjusted Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and
- (ii) which is sufficient to cover payments due on all Parity Obligations and Subordinate Obligations for such Fiscal Year or (12) calendar month period (but excluding payments that are one-time or extraordinary payments, such as termination payments on Payment Agreements)

Provided, that, for purposes of determining compliance with the Coverage Requirement, it shall be assumed that all Obligations accrue interest at the applicable Assumed Interest Rate.

"Credit Facility" means a letter of credit, standby purchase agreement, liquidity agreement or other similar agreement issued by a Credit Facility Provider to secure payments due with respect to a Supplemental Contract or with respect to any obligation which is payable from the payments due under a Supplemental Contract.

"Credit Facility Agreement" means, any agreement entered into between the District and a Credit Facility Provider with respect to any Supplemental Contract.

"Credit Facility Provider" means a bank trust company, national banking association, insurance company or other financial services company or entity issuing a Credit Facility.

“Date of Operation” means, with respect to any uncompleted Project, the estimated date by which such Project will have been completed and, in the opinion of an Independent Engineer, will be ready for continuous and reliable operation by the District.

“District” means Western Municipal Water District of Riverside County, a California water district duly organized and existing under and by virtue of the Law.

“Engineer’s Report” means a report signed by an Independent Engineer.

“Event of Default” means an event described in the Master Agreement.

“First Supplemental Contracts” means that certain Installment Purchase Agreement (Series 2009A) executed and entered into as of May 1, 2009, by and between the District and the Authority, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith, and also includes that certain Installment Purchase Agreement (Series 2009B) executed and entered into by and between the District and the Authority as originally entered into and as it may from time to time be amended or supplemented in accordance therewith, provided, however, that for purposes of exclusion from the Master Agreement, such Installment Purchase Agreement (Series 2009B) and such Installment Purchase Agreement (Series 2009A) each must be executed within 90 days of the other, and provided further that the aggregate principal amount represented by such First Supplemental Contracts shall not exceed \$125,000,000.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Board of Directors as the Fiscal Year of the District.

“Fitch” means Fitch Ratings, and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Fitch means any other nationally recognized securities rating service designated by the Authority or the District, with notice to the Trustee, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

“General Obligation Bonds” means any outstanding general obligation bonds of the District for which the voters of the District have authorized the District to levy annual assessments or Ad Valorem Taxes unlimited as to rate or amount as a source of repayment for such bonds.

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

“Government Obligations” means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America, or (c) any fund or other pooling arrangement whose assets consist exclusively of the obligations listed in clause (a) or (b) of this clause (i) and which is rated at least “P-1” by Moody’s; provided that, such obligations shall not include unit investment trusts or mutual fund obligations;

(ii) advance refunded tax-exempt obligations secured by the obligations specified in clause (i) which tax-exempt obligations are rated “Aaa” by Moody’s and “AAA” by S&P as a result of such obligations being secured by said obligations;

(iii) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank or the Federal National Mortgage Association; provided that such bonds, debentures or notes shall be the senior obligations of such agencies (including participation certificates); and

(iv) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations shall not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

“Improvement Fund” means the Western Municipal Water District of Riverside County Improvement Fund established under the Master Agreement.

“Independent Certified Public Accountant” means any firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the District, and each of whom –

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

“Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water delivery and wastewater collection systems, appointed and paid by the District, and who or each of whom –

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

“Initial Payment Agreement” means the ISDA Master Agreement, Schedule and Credit Support Annex, each dated as of November 4, 2008 and the Confirmation dated November 4, 2008 each between the District and Merrill Lynch Capital Services, Inc., or its successors or assigns, each as amended from time to time.

“Initial Payment Agreement Counterparty” means Merrill Lynch Capital Services, Inc., or its successor or assigns under the Initial Payment Agreement.

“Interest Payment Date” means a date on which any interest installment of the Payments is due and payable.

“Issuing Document” means any indenture, trust agreement or other document the obligations issued or delivered pursuant to which are secured in whole or in part by Payments.

“Law” means the California Water Code, and all laws amendatory thereof or supplemental thereto.

“LIBOR” means the interest rate per annum equal to the consensus rate then being offered by major international banks on Eurodollar deposits with an original maturity of thirty (30) days as quoted on the

Reuter's London Interbank Offered Rate page on Telerate or, if no longer quoted thereon, determined by reference to such other comparable source determined by the applicable Issuing Document.

"Maintenance and Operation Costs" means all reasonable and necessary costs paid or incurred by the District for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including the cost of purchased water, scheduled payments on Contract Resource Obligations, all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the System in good repair and working order, all administrative costs of the District that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Master Agreement or of any resolution authorizing the execution of any Supplemental Contract or of such Supplemental Contract, such as compensation, reimbursement and indemnification of the Trustee and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

"Master Agreement" means the Master Installment Purchase Agreement executed and entered into as of May 1, 2009, by and between the District and the Authority, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance with the Master Agreement.

"Maximum Annual Debt Service" means the highest Annual Debt Service for any Fiscal Year or twelve (12) calendar month period through the final maturity date of all Outstanding Parity Obligations; provided, however, for purposes of such calculation, the interest on all Parity Obligations shall be computed at the applicable Assumed Interest Rate.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority or the District, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

"Net Proceeds" means, when used with respect to any condemnation award or any insurance proceeds received with respect to the System, the amount of such condemnation award or insurance proceeds remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such award or proceeds.

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

"Obligations" means all Parity Obligations and all Subordinate Obligations.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and satisfactory to the Trustee (who shall be under no liability by reason of such approval).

"Outstanding" means, with respect to the Payments, all Payments which have not been paid or otherwise satisfied as provided in the Master Agreement, and with respect to the Supplemental Contracts, all Supplemental Contracts the Payments under which have not been paid or otherwise satisfied as provided in the Master Agreement.

"Parity Obligation Payment Fund" means the Western Municipal Water District Parity Obligation Payment Fund established under the Master Agreement.

“Parity Obligations” means all Supplemental Contracts, Credit Facility Agreements and Payment Agreements, the payments under which (other than Termination Payments) are secured by a senior lien on Net Revenues and are payable on a parity therefrom.

“Parity Payment Agreement” means a Payment Agreement which is a Parity Obligation.

“Parity Payments” means: (i) all installment payments to be paid by the District under any Parity Obligation, (ii) other debt service payments scheduled to be paid by the District under all Parity Obligations and (iii) all regularly scheduled payments under a Parity Payment Agreement (including, but not limited to, the Initial Payment Agreement). Parity Payments shall not include any payments to be made with respect to a loan under a Credit Facility Agreement unless and until such a loan is originated and payments are due from the District and shall not include payments made by the District on such a loan from funds of the District other than Net Revenues.

“Parity Payments Date” means the date on which any Parity Payments are due on a Parity Obligation.

“Payment Agreement” means a written agreement for the purpose of managing or reducing the District’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the entering into of any Obligation, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device, including, without limitation, the Initial Payment Agreement.

“Payment Agreement Payments” means the regularly scheduled payments periodically required to be paid by the District to all Qualified Counterparties under all Payment Agreements.

“Payment Agreement Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the District under all Payment Agreements.

“Payment Date” means any date on which Payments are scheduled to be paid by the District.

“Payments” means the Parity Payments and the Subordinate Payments.

“Permitted Encumbrances” means, with respect to the System or any part thereof (a) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith by the District, (b) covenants, easements, encumbrances, defects of title, reservations, restrictions and conditions existing at the time of execution of the Master Agreement, (c) defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations and clouds on title that do not materially impair the use of the property affected thereby for its intended purposes, (d) mechanics’, workers’, repairmen’s, architects’, engineers’, surveyors’, or carriers’ liens or other similar liens provided that the same shall be discharged in the ordinary course of business and without undue delay or the validity of the same shall be contested in good faith with any pending execution thereof appropriately stayed, (e) other liens, charges and encumbrances that, as set forth in a certificate of an Independent Engineer and in a written opinion of counsel to the District, copies of which are filed with the Trustee, do not materially impair the use of the System (for purposes of the Master Agreement, counsel to the District may rely upon the certificate of the Independent Engineer as to whether such liens, charges and encumbrances prevent or materially impair the use of the System), (f) encumbrances on property, plant and equipment comprising a part of the System to the extent permitted by the Master Agreement, and liens on cash or securities of the District delivered to a Qualified Counterparty to secure the District’s obligations under a Payment Agreement.

“Permitted Investments” means any investment which is a legal investment for funds of the District under the laws of the State of California and as shall be permitted under any Issuing Document.

“President” means the President of the Board of Directors.

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

“Project” means any additions, betterments and improvements to the System designated by the Board of Directors in a Supplemental Contract as a designated Project, the acquisition and construction of which (together with the incidental costs and expenses related thereto) will be financed or refinanced by the proceeds of any Supplemental Contract as provided therein.

“Project Accounts” means collectively all the accounts established in the Improvement Fund by all the Supplemental Contracts to finance the acquisition and construction of all the Projects.

“Qualified Counterparty” means the Initial Payment Agreement Counterparty and any party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) whose senior debt obligations are rated at the time of execution of the Payment Agreement at least equal to the long-term ratings assigned by each of the Rating Agencies to the obligations issued by or on behalf of the District and secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of “A” from Fitch, “A2” from Moody’s and “A” from S&P, or guaranteed by an entity whose senior debt obligations are so rated (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at the time of execution of the Payment Agreement at least equal to the long-term ratings assigned by each of the Rating Agencies to the obligations issued by or on behalf of the District and secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of “A” from Fitch, “A2” from Moody’s and “A” from S&P, or (c) whose obligations under the Payment Agreement are collateralized in such a manner as to obtain long-term rating at least equal to the ratings assigned by each of the Rating Agencies to the obligations issued by or on behalf of the District and secured by Parity Payments, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under all applicable laws of the State.

“Rate Stabilization Fund” means the Western Municipal Water District of Riverside County Rate Stabilization Fund established under the Master Agreement.

“Rating Agency” means Moody's, Fitch, S&P, or any other nationally recognized municipal securities rating agency selected by the Authority that is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

“Request of the District” means an instrument in writing signed by the Director of Finance, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

“Reserve Facility” means an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit, insurance policy, surety bond or other similar credit arrangement, issued by a bank or a financial institution or municipal bond insurer whose long-term obligations are rated in one of the two highest rating categories by each Rating Agency.

“Reserve Fund” shall have the meaning given to such term in any Issuing Document or Supplemental Contract.

“Reserve Fund Credit Facility Costs” means the repayment of draws, expenses and accrued interest or other similar costs payable in connection with a line of credit, letter of credit, insurance policy, surety bond or other credit source deposited with the Trustee for the credit of a Reserve Fund.

“Revenue Fund” means the Western Municipal Water District Revenue Fund established under the Master Agreement.

“Revenues” means all income and revenue received or receivable by the District during such period from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, together with all Ad Valorem Taxes, ad valorem assessments, standby charges, rates, fees and charges received by the District for the Service and the other services of the System and all proceeds of insurance covering business interruption loss relating to the System and all added facilities charges, service installation charges, distribution system fees and charges payable to the District for the Service made available or provided by the System and all payments for the lease of property comprising a part of the System and all other income and revenue howsoever derived by the District from the ownership or operation of the System or arising from the System, and including all Payment Agreement Receipts, and including all income from the investment of amounts on deposit in the Revenue Fund, the Parity Obligation Payment Fund, and the Rate Stabilization Fund, but excluding in all cases (i) any proceeds of taxes (including Ad Valorem Taxes) and assessments levied and collected by or on behalf of the District for obligations that are payable solely from such taxes (including Ad Valorem Taxes) or assessments and not from any other Revenues, (ii) any refundable deposits made to establish credit and any advances or contributions of or in aid of construction, and (iii) any income from the investment of amounts on deposit in the Improvement Fund. Notwithstanding the foregoing, solely for purposes of the Coverage Requirement, there shall be deducted from Revenues any amounts transferred into the Rate Stabilization Fund as contemplated by the Master Agreement, and there shall be added to Revenues any amounts transferred out of the Rate Stabilization Fund as contemplated by the Master Agreement.

Amounts on deposit in the Rate Stabilization Fund shall not be included in calculating Revenues for purposes of satisfying the conditions for executing Parity Obligations.

“Separate Reserve Fund” means a Reserve Fund, created pursuant to an Issuing Document for a Parity Obligation, that is not a part of the Common Reserve.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., and its successors and assigns, or, if such Division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority or the District, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

“Service” means the water delivery, wastewater collection and treatment services furnished and all other contractual services provided by the District, made available or provided by the System.

“Short-Term Obligations” means Obligations having an original maturity of less than or equal to one year and which are not renewable at the option of the District for a term greater than one year beyond the date of original incurrence and includes, without limitation, obligations issued in connection with a commercial paper program and tax revenue anticipation notes.

“SIFMA” means the Securities Industry and Financial Markets Association Municipal Swap Index as disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor, for the most recently preceding Business Day or any other such index as may be determined by the Authority should SIFMA no longer publish rates.

“State” means the State of California.

“Subordinate Obligations” means all Supplemental Contracts or Payment Agreements the payments under which are secured by the subordinate lien on Net Revenues created hereby and are payable on a parity therefrom, including, but not limited to, Termination Payments related to a Parity Payment Agreement.

“Subordinate Payment Agreements” means a Payment Agreement which is a Subordinate Obligation.

“Subordinate Payments” means (i) all installment payments to be paid under any Subordinate Obligation, (ii) other debt service payments scheduled to be paid by the District under all Subordinate Obligations, (iii) Termination Payments payable pursuant to the Initial Parity Payment Agreement, and (iv) all regularly scheduled payments under a Subordinate Payment Agreement.

“Supplemental Contracts” means all installment purchase contracts supplemental to the Master Agreement executed and entered into by the District and the Authority under and pursuant to the Master Agreement and applicable law, as originally executed and entered into and as they may from time to time be amended or supplemented in accordance with the Master Agreement.

“System” means all facilities for providing the water delivery, wastewater collection and treatment services and all other contractual services provided by the District now owned by the District and all other facilities acquired and constructed by the District and determined to be a part of the System, together with all additions, betterments and improvements to such facilities or any part thereof hereafter acquired and constructed by the District.

“Tax Certificate” means any certificate or agreement delivered with respect to the maintenance of the tax-exempt status of Payments the interest component of which is intended to be excluded from gross income pursuant to Section 103 of the Code.

“Termination Payments” means any payments payable to a Qualified Counterparty in connection with the termination of a Payment Agreement and all other payments payable to a Qualified Counterparty in connection with a Payment Agreement other than regularly scheduled payments.

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States, as Trustee under each Issuing Document, or any other banking corporation or association that which may at any time be substituted in its place as provided in each Issuing Document; provided, however, that at any given time only one entity shall be the Trustee under all Issuing Documents for the Parity Obligations.

“Variable Interest Rate” means any interest rate or rates to be paid under any Obligations, which rate is not fixed through the final maturity of such Obligation, the method of computing which variable interest rate shall be as specified in the applicable Obligation, which Obligation shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

“Variable Interest Rate Contracts” means, for any period of time, any Obligations that bear a Variable Interest Rate during such period, except that no Obligation shall be treated as a Variable Interest Rate Contract if the net economic effect of interest rates on any particular Payments or such Obligation and interest rates on any other Payments of the same Obligation, as set forth in such Obligation, or the net economic effect of a Payment Agreement with respect to any particular Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Obligation with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

ACQUISITION, CONSTRUCTION AND SALE OF PROJECTS; FUNDS AND PLEDGE; RATE STABILIZATION FUND

Acquisition, Construction and Sale of Projects

The Authority hereby agrees to finance and refinance the costs of the acquisition and construction of the Projects for and to sell the Projects to the District, and the District hereby agrees to buy the Projects from the Authority; and in order to implement this provision, the Authority hereby appoints the District as its agent for the purpose of such acquisition and construction, and the District hereby agrees to enter into such construction contracts and purchase orders as may be necessary, as agent for the Authority, to provide for the complete acquisition and construction of the Projects, and the District hereby agrees that as such agent it will cause the acquisition and construction of the Projects to be diligently completed after the deposit of funds in the Improvement Fund for such purpose under the Master Agreement, and that it will use its best efforts to cause the acquisition and construction of the Projects to be completed in a timely fashion, unforeseeable delays beyond the reasonable control of the District only excepted. Notwithstanding the foregoing, it is hereby expressly understood and agreed that the Authority shall be under no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the District for the acquisition and construction of the Projects and that all such costs and expenses shall be paid by the District, regardless of whether the funds deposited in the Improvement Fund are sufficient to cover all such costs and expenses.

Improvement Fund

There is hereby established the “Western Municipal Water District of Riverside California Improvement Fund,” which fund the District hereby agrees to hold and maintain until the completion of the acquisition and construction of all Projects to be financed from the Project Accounts established in such fund as provided in all Supplemental Contracts; and all money in the Improvement Fund (and interest earnings thereon) shall be used and withdrawn by the District to pay the costs of the acquisition and construction of the Projects (or to reimburse the District for such costs paid by it), including the payment of interest on the Obligations, upon receipt of a Request of the District filed with the Director of Finance in substantially the form attached to the Master Agreement, each of which shall be sequentially numbered and shall state the person or entity to whom payment is to be made, the amount of money to be paid, the purpose for which the obligation to be paid was incurred and that such payment is a proper charge against the related Project Account in the Improvement Fund and has not been the subject of a previous Request of the District. After the completion of the acquisition and construction of each Project to be financed from the related Project Account in the Improvement Fund, any remaining balance of money in such Project Account shall be transferred to the District for any lawful purpose of the District subject to the provisions of any Tax Certificate.

Reserve Funds

No Reserve Fund has been established with respect to the Series 2020 Bonds, however, in each Supplemental Contract, the District may direct the Authority to establish a Reserve Fund. With respect to each Reserve Fund established with respect to a Parity Obligation, the District may elect to treat such Reserve Fund as a part of the Common Reserve securing all Parity Obligations designated by the District to participate in the Common Reserve; provided that amounts due under the Initial Payment Agreement shall be secured by amounts held under the Common Reserve. Each time that the District elects to secure Parity Obligations with the Common Reserve, it shall deposit funds in the Common Reserve in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Parity Obligations. The Issuing Documents for obligations that are secured by the Common Reserve must use the same trustee or paying agent. If the District establishes a Reserve Fund for any Parity Obligation but does not elect to make such Reserve Fund a part of the Common Reserve, then any Reserve Fund so established will be a Separate Reserve Fund and will secure only the Parity Obligations for which such Reserve Fund was created. The District may establish separate Reserve Funds for any Subordinate

Obligations which will secure only the Subordinate Obligations for which such Reserve Fund was created or may create a common Reserve Fund to secure more than one issue of Subordinate Obligations.

With respect to any reserve fund established under a Supplemental Contract which is to be part of a Common Reserve the District or the Authority, as applicable, may satisfy the Common Reserve Requirement by delivering a Reserve Credit Facility to the trustee under the applicable issuing document. Any such Reserve Credit Facility shall provide that it may be drawn on to satisfy debt service shortfalls for any obligation that is secured by the Common Reserve.

The Trustee may withdraw amounts from the Common Reserve in accordance with each Issuing Document to make payments to the owners of the obligations issued under the Issuing Document when due.

Revenue Fund; Pledge of Net Revenues

There is hereby established the “Western Municipal Water District of Riverside County Revenue Fund,” which fund the District hereby agrees to hold and maintain so long as any Payments due under the Master Agreement shall be Outstanding. The District hereby irrevocably grants and pledges the Net Revenues first, to secure Parity Obligations and second, to secure Subordinate Obligations as set forth in the Master Agreement. The lien and pledge to secure Parity Obligations shall constitute a first lien on Net Revenues and the lien and pledge to secure Subordinate Obligations shall constitute a second lien on Net Revenues. The District hereby represents and states that, it has not previously granted any lien or charge on any of the Net Revenues; provided, that out of Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Master Agreement. All Parity Obligations shall be of equal rank without preference, priority or distinction of any Parity Obligations over any other Parity Obligations. Unless expressly stated to the contrary in a particular Subordinate Obligation, all Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations; provided, however, that Termination Payments with respect to the Initial Parity Payment Agreement shall be paid prior to any payments being made on other Subordinate Obligations. In order to carry out and effectuate the obligation of the District contained in the Master Agreement and in all Supplemental Contracts and Payment Agreements to pay the Payments, the District agrees and covenants that all Revenues received by it shall be deposited when and as received in the Revenue Fund, and all money on deposit in the Revenue Fund shall be applied and used only in the following order as provided in the Master Agreement:

(A) The District shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due; and

(B) On or before the last Business Day in each month, the District shall, from the remaining money then on deposit in the Revenue Fund, deposit in the “Western Municipal Water District Parity Obligation Payment Fund,” which fund the District hereby agrees to hold and maintain so long as any Parity Payments due under the Master Agreement shall be Outstanding the following amounts in the following order of priority:

(1) a sum equal to (a) the interest and principal payments becoming due and payable under all Supplemental Contracts that are Parity Obligations, plus (b) regularly scheduled payments or the net payments becoming due and payable on all Parity Payment Agreements (except any Termination Payments), plus (c) any other amounts due with respect to Parity Obligations (including any letter of credit and remarketing fees), in each case, during the next succeeding month; plus

(2) an amount equal to any Termination Payments with respect to the Initial Parity Payment Agreement becoming due and payable; plus

(3) all amounts due to make up any deficiency in the Reserve Funds for Parity Obligations in accordance with the provisions of the applicable Issuing Document, including all Reserve Fund Credit Facility Costs.

From time to time, moneys on deposit in the Parity Obligation Payment Fund shall be transferred by the District to the Trustee or other third party payee thereof in accordance with the terms of the Parity Obligations to make and satisfy the Parity Payments due on the next applicable Payment Dates on such Parity Obligations.

Moneys on deposit in the Parity Obligation Payment Fund for payment of Termination Payments under Parity Payment Agreements under clause (2) above shall be transferred by the District to the applicable counterparty under such Parity Payment Agreement in accordance with the terms of the related Parity Payment Agreement to make and satisfy the Termination Payment payable under such Parity Payment Agreement.

(C) After the payments contemplated by subparagraphs (A) and (B) above have been made, any amounts thereafter remaining in the Revenue Fund shall be used for the payment of the interest and principal payments and other regularly scheduled payments becoming due and payable under all Supplemental Contracts that are Subordinate Obligations and the net payments becoming due and payable on all Subordinate Payment Agreements (except any Termination Payments) and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees and any other amounts becoming due and payable to make up any deficiency in the Reserve Funds for Subordinate Obligations, including all Reserve Fund Credit Facility Costs) so long as the following conditions are met:

(1) all Maintenance and Operations Costs are being and have been paid and are then current; and

(2) no deficiency in any Reserve Fund for Parity Obligations shall exist and no Reserve Fund Credit Facility Costs shall be due and payable, and there shall have been paid, or segregated within the Revenue Fund, the amounts currently payable pursuant to subparagraphs (A) and (B) above.

(D) After deposits contemplated by subparagraphs (A), (B) and (C) have been made, any amounts thereafter remaining in the Revenue Fund shall be used for the payment of any Termination Payments on all Subordinate Payment Agreements.

(E) After deposits contemplated by subparagraphs (A), (B), (C) and (D) have been made, any amounts thereafter remaining in the Revenue Fund may be used for any lawful purpose.

Rate Stabilization Fund

There is hereby established the “Western Municipal Water District Rate Stabilization Fund,” which fund the District hereby agrees to hold and maintain as directed by the District so long as any Payments due under the Master Agreement shall be Outstanding. On the closing date of the First Supplemental Contracts, the District shall deposit \$20,000,000 to the Rate Stabilization Fund. The District may at any time deposit in the Rate Stabilization Fund any Net Revenues and any other money available to be used therefor. The District may at any time withdraw from the Rate Stabilization Fund any money therein for the deposit in the Revenue Fund and the District shall withdraw from the Rate Stabilization Fund any money therein for deposit in the Revenue Fund in the event there are insufficient amounts in the Revenue Fund to make the deposits and transfers required by the Master Agreement; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred eighty (180) days after the end of the Fiscal Year or twelve (12) calendar month period for which such deposit or withdrawal will be taken into account in determining

Revenues; and provided further, that no deposit of Net Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period. Interest earnings on amounts in the Rate Stabilization Fund will be transferred to the Revenue Fund immediately upon receipt.

EXECUTION OF SUPPLEMENTAL CONTRACTS

Conditions for the Execution of Parity Obligations

The District may at any time execute any Parity Obligations (other than the Parity Obligations represented by the First Supplemental Contracts, payable as provided in the Master Agreement); provided:

(A) There shall be on file with the District either:

(1) A Certificate of the District demonstrating that, during the last audited Fiscal Year or any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Net Revenues were at least equal to 110% of Maximum Annual Debt Service on all Outstanding Parity Obligations or Supplemental Contracts plus the Parity Obligations proposed to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Net Revenues to reflect:

(a) An allowance for Net Revenues that would have been derived from each new connection to the System that, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in existence, in an amount equal to the estimated additional Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) calendar month period, and

(b) An allowance for Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Service that has been adopted and is then in effect but which, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) calendar month period; or

(2) A Certificate of the District based: (a) on audited figures or (b) to the extent audited figures are not available, on figures taken by an Independent Certified Public Accountant from the District's books and records, showing that the estimated Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Parity Obligations proposed to be executed are executed, or (ii) the date on which substantially all Projects financed with the Parity Obligations proposed to be executed are expected to commence operations, will be at least equal to 110% of the Maximum Annual Debt Service on all Outstanding Parity Obligations plus the Parity Obligations proposed to be issued and payments on additional Supplemental Contracts (if any Supplemental Contracts are included in the calculations under (b) below) for such period; provided, that for the purpose of providing this Certificate of the District, the District may adjust the foregoing estimated Net Revenues to reflect:

(a) An allowance for Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Service that has been adopted and is then in effect but which, during all or any part of such Fiscal

Year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) calendar month period; or

(b) An allowance for Net Revenues that are estimated to be derived from customers of the System anticipated to be served by the additions, betterments or improvements to the System to be financed by the Parity Obligations proposed to be executed together with any additional Supplemental Contracts expected to be executed and entered into during such five (5)-year period.

(B) Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute any Parity Obligations at any time to refund any outstanding Parity Obligations so long as the Annual Debt Service payable by the District for each Fiscal Year with respect to such refunding Parity Obligations is less than or equal to 105% of the Annual Debt Service for each corresponding Fiscal Year for such Parity Obligations being refunded.

Conditions for the Execution of Subordinate Obligations

The District may at any time execute any Subordinate Obligations payable as provided in the Master Agreement; provided that no Event of Default has occurred and is continuing; and provided, further, that, upon the issuance of such Subordinate Obligations, the District shall demonstrate that, during the last audited Fiscal Year or any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period Net Revenues were at least equal to 100% of Maximum Annual Debt Service on all Payments.

Procedure for the Execution of Supplemental Contracts

Before the execution of any Supplemental Contract (other than the First Supplemental Contracts), there shall first be delivered to the Director of Finance the following documents or money or securities:

(A) An executed counterpart of the Supplemental Contract;

(B) A Request of the District as to the delivery of such Supplemental Contract;

(C) An Opinion of Counsel to the effect that the Supplemental Contract has been duly and lawfully executed and delivered by the District in accordance with the Law and with the Master Agreement, is in full force and effect and is valid and binding upon the District and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, the application of equitable principles, the exercise of judicial discretion in appropriate cases and the limitations on legal remedies against California water districts in the State);

(D) A Certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Master Agreement; and

(E) Such further documents, money and securities as are required by the provisions of the Master Agreement and the resolution, indenture, contract or other obligation providing for the issuance of the Obligation.

COVENANTS OF THE DISTRICT

Compliance with Contracts

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

Use of Proceeds

The Authority and the District agree that the proceeds of the Supplemental Contracts will be used by the District, as agent for the Authority, to pay the costs of financing or refinancing the acquisition and construction of the Projects and to pay the incidental costs and expenses related thereto as provided in the Master Agreement.

Against Encumbrances

(A) Except as otherwise provided in the Master Agreement, the District will not mortgage or otherwise encumber, pledge or place any charge upon the System or any part thereof, except for Permitted Encumbrances. The District shall discharge or cause to be discharged, or shall make adequate provision to satisfy and discharge, within 60 days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the properties constituting the System or the operation of the System and lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the System or Net Revenues if unpaid. Nothing contained in the Master Agreement shall require the District to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings.

(B) The District may incur obligations secured by a lien on rolling stock comprising a part of the System without limitation.

Sale or Other Disposition of Property

The District will only sell, transfer or otherwise dispose of any of the facilities of the System or any real or personal property comprising a part of the System consistent with one or more of the following limitations:

(A) The District in its discretion may carry out such a sale, transfer or other disposition (each, as used in the Master Agreement, a "transfer") if the facilities or property of the System transferred are not material to the operation of the System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or are no longer necessary, material or useful to the operation of the System; or

(B) The District in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property of the System transferred in any one Fiscal Year comprises no more than ten per cent (10%) of the total assets of the System; or

(C) The District in its discretion may carry out such a transfer if the District receives from the transferee an amount equal to the fair market value of the facilities or property of the System transferred (as used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, with a willing buyer and a willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus) and if the proceeds of such transfer are used (i) to promptly prepay, or irrevocably set aside for the prepayment of, first the Parity Payments and, thereafter, the Subordinate Payments, and/or (ii) to provide for the cost of additions, betterments or improvements to the System; provided, that before any such transfer is made under this subparagraph, the District shall obtain an Engineer's Report that upon such transfer and the use of the proceeds thereof as proposed by the District, the remaining facilities or property of the System will retain their operational integrity and the estimated Adjusted Annual Net Revenues during each of the five (5) Fiscal Years next following the Fiscal Year in which the transfer is to occur will be at least equal to the estimated Coverage Requirement in each of such Fiscal Years, taking into account (w) the estimated reduction in Revenues resulting from such transfer, (x) the use of the proceeds of such transfer for the prepayment of first, the Parity Payments and thereafter, the Subordinate Payments, (y) the estimated additional Revenues from customers anticipated to be served by any additions, betterments or improvements to the System financed by the portion of the proceeds received from such transfer, and (z) any other adjustment permitted in the Certificate of the District under the Master Agreement.

Prompt Acquisition and Construction of the Projects

The District will take all necessary and appropriate steps to acquire and construct the Projects, as agent of the Authority, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the System; Budgets

The District will maintain and preserve the System in good repair and working order at all times and in accordance with sound engineering practices and will operate the System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable. The District will adopt and file with the Authority, not later than 90 days after the start of each Fiscal Year, a budget approved by the Board of Directors setting forth the estimated Revenues and Maintenance and Operation Costs for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the District with the Authority.

Compliance with Contracts for Use of the System

The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the System and all other contracts affecting or involving the System to the extent that the District is a party thereto.

Investment of Amounts in Funds

The District covenants to invest amounts in the Revenue Fund, the Parity Obligation Payment Fund and the Improvement Fund only in Permitted Investments.

Insurance

The District will procure and maintain such insurance relating to the System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in the State in connection with water and wastewater systems comparable to the System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water and wastewater systems in the State comparable to the System and is, in the opinion of an independent accredited actuary, actuarially sound. All policies of insurance required to be maintained in the Master Agreement shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports

(A) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the System and the Revenues and the Maintenance and Operation Costs, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

(B) The District will prepare and file with the Authority and the Trustee annually within two hundred ten (210) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2009) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon and a special report prepared by the Independent Certified Public Accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that caused him to believe that the District was not in compliance with any of the financial agreements or covenants contained in the Master Agreement.

Protection of Security and Rights of the Authority

The District will preserve and protect the security of the Master Agreement and the rights of the Authority to the Payments under the Master Agreement and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations

The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Amount of Rates, Fees and Charges

The District will at all times fix, prescribe and collect rates, fees and charges for the Service during each Fiscal Year which are reasonably fair and nondiscriminatory and which are estimated to yield Adjusted Annual Net Revenues for such Fiscal Year in an amount not less than the Coverage Requirement for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of the Master Agreement.

Collection of Rates, Fees and Charges

The District will have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the System to pay the rates, fees and charges applicable to the Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The District will not permit any part of the System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the System and, so long as no Event of Default exists under the Master Agreement, may waive or reduce rates, fees and charges for one or more customers and consumers so long as the total amount waived or reduced does not exceed 1% of Revenues collected in the most recent Fiscal Year and such waiver or reduction, upon implementation, will not cause the District to be in default of its covenant under the Master Agreement.

Eminent Domain and Insurance Proceeds

If all or any part of the System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the System, the Net Proceeds thereof, at the option of the District, shall be applied either to the prepayment of the Payments or to acquire and construct additions, betterments or improvements to the System to replace the condemned or destroyed portion of the System.

Additional Covenants

The District may provide additional covenants pursuant to any Obligations, including covenants relating to any credit support and/or liquidity support obtained for Obligations; provided, however, that such additional covenants do not materially and adversely affect the right of holders of outstanding Obligations.

Further Assurances

The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Master Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Master Agreement.

EVENTS OF DEFAULT AND REMEDIES

Events of Default

If one or more of the following Events of Default shall happen, that is to say –

(A) if default shall be made in the due and punctual payment of any Payment under any Parity Obligation when and as the same shall become due and payable;

(B) if default shall be made by the District in the performance of any of the agreements or covenants contained in the Master Agreement, other than as described in clause (A) above, or in any Parity Obligation required to be performed by it, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Authority or the Trustee; or

(C) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the

consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

then and in each and every such case during the continuance of such Event of Default specified in clauses (A), (B) or (C) above, the Authority shall, by notice in writing to the District given not later than three (3) Business Days after it receives notice of an Event of Default or direction to proceed under an Event of Default, declare an Event of Default under the Master Agreement; provided, that if at any time after an Event of Default has been declared and before any judgment or decree for the payment of the money due shall have been obtained or entered the District shall deposit with the Authority and the Qualified Counterparties, as applicable, a sum sufficient to pay the unpaid principal amount or other amounts of the Payments due and payable prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable to such unpaid principal amounts or other amounts of the Payments if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind and annul such declaration of an Event of Default 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.

Application of Net Revenues Upon Event of Default

All Net Revenues upon the date of the declaration of an Event of Default by the Authority as provided in the Master Agreement and all Net Revenues thereafter received shall be applied in the following order –

First, to the payment of the fees, costs and expenses of the Authority and the Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to its agents, accountants and counsel and including any indemnification expenses;

Second, to the payment of the interest then due and payable on the principal amount of the unpaid Parity Payments (except any Termination Payments), and to the payment of regularly scheduled payments under a Parity Payment Agreement, and, if the amount available shall not be sufficient to pay in full all such interest and regularly scheduled payments then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference;

Third, to the payment of the unpaid principal amount of the Parity Payments (except any Termination Payments) then due and payable with interest on the overdue principal and interest amounts of the unpaid Parity Payments at the rate or rates of interest then applicable to such Parity Payments if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Parity Payments on any date, together with such interest, then to the payment thereof ratably, according to the principal amount due on such date, without any discrimination or preference;

Fourth, to the payment of all Termination Payments with respect to Parity Payment Agreements and, if the amount available shall not be sufficient to pay in full all such Termination Payments then due and payable, then to the payment thereof ratably to each Qualified Counterparty, according to the amounts due thereon without any discrimination or preference;

Fifth, to the payment of any other amounts becoming due and payable with respect to Parity Obligations (including any letter of credit and remarketing fees);

Sixth, to the payment of the Subordinate Payments (except any Termination Payments with respect to a Subordinate Payment Agreement) then due and payable and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees) and, if the amount available shall not be sufficient to pay in full all such Subordinate Payments then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference;

Seventh, to the payment of any Termination Payments on all Subordinate Payment Agreements and, if the amount available shall not be sufficient to pay in full all such Termination Payments then due and payable, then to the payment thereof ratably to each Qualified Counterparty, according to the amounts due thereon without any discrimination or preference; and

Eighth, to the payment of all other amounts due and payable by the District.

Other Remedies

The Authority shall have the right –

(A) to declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, whereupon the same shall become immediately due and payable, anything contained in the Master Agreement to the contrary notwithstanding;

(B) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Master Agreement;

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

(D) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Non-Waiver

Nothing in any provision of the Master Agreement shall affect or impair the obligation of the District, which is absolute and unconditional, to pay from Net Revenues, first, the Parity Payments, and second, the Subordinate Payments at the respective due dates or upon prepayment all as provided for in the Master Agreement, or shall affect or impair the right of the Authority and the Trustee, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Master Agreement.

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

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

Remedies Not Exclusive

No remedy conferred upon or reserved to the Authority in the Master Agreement is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

DISCHARGE OF OBLIGATIONS

(A) If the District shall pay or cause to be paid all the Payments at the times and in the manner provided in the Master Agreement, the right, title and interest of the Authority in the Master Agreement and the obligations of the District under the Master Agreement and under the Obligations to which such Payments relate shall cease, terminate, become void and be completely discharged and satisfied.

(B) All or any portion of the Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in the Master Agreement if the District makes payment of such Payment and the prepayment premium, if applicable, in the manner provided in the applicable Issuing Document, or if not so provided therein, in the manner provided in the Master Agreement.

(C) All or any portion of the Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in the Master Agreement notice is provided by the District to the Authority, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Government Obligations which are not subject to redemption except by the holder thereof prior to maturity, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant or other party satisfactory to the Trustee regarding such sufficiency) to pay when due the Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto and (iii) all fees and expenses with respect to the Obligations to which such Payments relate shall have been paid.

(D) After the payment of all Payments and prepayment premiums, if any, as provided in the Master Agreement, and the payment in full of all fees and expenses of the Authority, the Authority, upon receipt of a Request of the District, shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and the Authority and shall execute and deliver to the District and the Authority all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Master Agreement, and the Authority shall pay over and deliver to the District, as an overpayment of Payments, all such money or investments held by it pursuant to the Master Agreement other than such money and such investments as are required for the payment or prepayment of the Payments, which money and investments shall continue to be held in trust for the payment of the Payments.

(E) Notwithstanding anything in the Master Agreement to the contrary, the obligations of the District under the Master Agreement and under the Obligations shall not be discharged unless all Payment Agreements have been terminated and all payments thereunder and in connection therewith, including without limitation, all Termination Payments, shall have been paid in full.

MISCELLANEOUS

Liability of District Limited to Net Revenues

Notwithstanding anything contained in the Master Agreement, the District shall not be required to advance any money derived from any source of income other than the Net Revenues for the payment of first,

the Parity Payments and second, the Subordinate Payments or for the performance of any agreements or covenants required to be performed by it contained in the Master Agreement; provided, that the District may advance money for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make first, the Parity Payments and second, the Subordinate Payments is a special obligation of the District payable solely from the Net Revenues as provided in the Master Agreement, and such obligations do not constitute a debt of the District or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of the Master Agreement Limited to Parties

Nothing contained in the Master Agreement, expressed or implied, is intended to give to any person other than the Authority, the Credit Facility Provider, Qualified Counterparties under Payment Agreements, the District or the Trustee, any right, remedy or claim under or pursuant to the Master Agreement, and any agreement or covenant required in the Master Agreement to be performed by or on behalf of the Authority or the District shall be for the sole and exclusive benefit of the other party, the Credit Facility Provider and Qualified Counterparties under Payment Agreements; provided, that with respect to enforcing the Authority's or the Trustee's rights under the Master Agreement, the Trustee, the Credit Facility Provider and Qualified Counterparties under Payment Agreements shall be third party beneficiaries of the Master Agreement and shall have the right to enforce the obligations of the District under the Master Agreement and pursue the remedies granted to the Authority under the Master Agreement.

Amendments to Master Agreement

The District and the Authority shall not supplement, amend, modify or terminate any of the terms of the Master Agreement, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee, which consent shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the holders of Obligations or result in any material impairment of the security hereby given for the payment of the Obligations and the prior written consent of all Qualified Counterparties under any Payment Agreements shall have been obtained, or (b) the Trustee first obtains the written consent of the owners of a majority in aggregate principal amount of the Parity Obligations then Outstanding and the written consent of all Qualified Counterparties under any Parity Payment Agreements, or (c) the Trustee first obtains the written consent of all Qualified Counterparties under any Parity Payment Agreement and the written consent of all credit enhancers for all Parity Obligations, but only if all Supplemental Contracts are credit-enhanced; provided however, if the supplement, amendment, modification or termination affects the Master Agreement, the Trustee shall also first obtain the written consent of a majority in aggregate principal amount of Subordinate Obligations then Outstanding and the written consent of all Qualified Counterparties under any Subordinate Payment Agreements; provided that any supplement that complies with the Master Agreement shall not require the consent of the credit enhancers of any Obligations and shall not be deemed to materially adversely affect the interests of the holders of Obligations or result in any material impairment of the security hereby given for the payment of the Obligations provided that such supplement does not contain any other changes to the Master Agreement; and provided, further, that no such supplement, amendment, modification or termination shall reduce the amount of Payments to be made with respect to an Obligation, or extend the time for making such Payments with respect to an Obligation, or permit the creation of any lien prior to or on a parity with the lien created by the Master Agreement on the Payments with respect to an Obligation without the written consent of the credit enhancer for such Obligation or, if there is no credit enhancer, the written consent of the all of the holders of the Obligation so affected and, in any case, the written consent of all Qualified Counterparties under any Payment Agreements.

INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Except as provided in the Installment Purchase Agreement or unless the context otherwise requires, the terms defined below shall for all purposes of the Installment Purchase Agreement and of any amendment of the Installment Purchase Agreement or supplement thereto and of any report or other document mentioned in the Installment Purchase Agreement or therein have the meanings defined in the Installment Purchase Agreement, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined in the Installment Purchase Agreement:

“Installment Payments” means Installment Payments required to be made by the District pursuant to the Installment Purchase Agreement.

“Installment Payment Date” means the date which is four Business Days prior to each Interest Payment Date under the Indenture.

“Prior Installment Payments” means the Installment Payments relating to each of the 2010B Bonds and the 2016A Bonds.

“State” means the State of California.

“2020 Project” means the improvements to the System described in the Installment Purchase Agreement.

“2020A Bonds” means the Authority’s Water Revenue Bonds, Series of 2020A (Tax-Exempt) issued pursuant to the terms of the Indenture.

Definitions in Master Agreement and Indenture

Except as otherwise defined in the Installment Purchase Agreement and unless the context otherwise requires, the terms defined in the Master Agreement or the Indenture shall for all purposes of the Installment Purchase Agreement and of any amendment of the Installment Purchase Agreement or supplement thereto and of any report or other document mentioned in the Installment Purchase Agreement have the meanings defined therein, such definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein. With respect to any defined term which is given a different meaning under the Installment Purchase Agreement than under the Master Agreement or the Indenture, as used in the Installment Purchase Agreement it shall have the meaning given in the Installment Purchase Agreement.

PURCHASE AND SALE OF 2020 PROJECT; PAYMENTS

Purchase and Sale of the 2020 Project and Prior Projects

The District agrees to purchase from the Authority and the Authority agrees to sell to the District the 2020 Project. The District has previously agreed to purchase the Prior Projects from the Authority and is obligated under the Installment Purchase Agreement for such purchase.

Installment Payments

In consideration of the Authority’s agreement to finance the 2020 Project and to refinance the Prior Projects pursuant to the provisions of the Installment Purchase Agreement, the District shall, subject to any rights of prepayment provided in of the Installment Purchase Agreement, the Installment Purchase Agreement, pay to the Authority, solely from Net Revenues and from no other sources, the

Installment Payments as provided in the Installment Purchase Agreement. The Installment Payments shall be payable on the Installment Payment Dates and in the amounts set forth in the Installment Purchase Agreement.

Each Installment Payment shall be deposited with the Trustee, as assignee of the Authority, and shall be paid in lawful money of the United States of America, in immediately available funds on the dates specified in the Indenture. If and to the extent that, on any such date, there are amounts on deposit in the Principal Fund or the Interest Fund established under the Indenture, or in any of the accounts therein relating to the 2020A Bonds, which amounts are not being held for the payment of specific 2020A Bonds, said amounts shall be credited against the Installment Payment due on such date.

Obligation Absolute

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

Nature of Agreement

The Installment Purchase Agreement constitutes a Parity Obligation and a Supplemental Contract under the Master Agreement and, as such, shall be subject to the provisions of the Master Agreement and shall have all of the advantages, benefits, interests and security afforded Parity Obligations and Supplemental Contracts pursuant to the Master Agreement.

PREPAYMENT OF INSTALLMENT PAYMENTS; DISCHARGE

Prepayment of Installment Payments

- (a) The District may optionally prepay Installment Payments as follows:
 - (i) The District may prepay all or a portion of the Installment Payments in accordance with the Master Agreement.
 - (ii) The District may prepay all or a portion of the Installment Payments from any source of available funds by paying (A) all or a portion (in an amount equal to an Authorized Denomination under the Indenture), as elected by the District and on the dates set forth in the Indenture, of such Installment Payments, (B) an amount equal to the accrued but unpaid interest on the 2020A Bonds to be paid or redeemed from the proceeds of such prepaid Installment Payments to the date of such payment or redemption, as applicable, and (C) an amount equal to any premium to be paid upon the optional redemption of the 2020A Bonds to be redeemed from the proceeds of such prepaid Installment Payments.
- (b) The District shall prepay Installment Payments on any date that the 2020A Bonds are required to be redeemed pursuant to the Indenture.
- (c) The District may prepay, from any source of available funds, all or any portion of the Installment Payments by depositing with the Trustee moneys or securities as provided, and subject to the terms

and conditions set forth, in the Indenture sufficient to pay the principal of, premium, if any, and interest on the 2020A Bonds to be defeased with such Installment Payments.

(d) If less than all of the Installment Payments are prepaid then, as of the date of such prepayment, the schedule of Installment Payments attached to the Installment Purchase Agreement in the Installment Purchase Agreement shall be recalculated by the District in order to take such prepayment into account. The District shall deliver a copy of such revised schedule or schedules to the Trustee and such revised schedule shall automatically supersede and replace the previous.

(e) Prepayments of Installment Payments made shall be applied to the payment or redemption of 2020A Bonds as provided in the Indenture.

Notice

Before making any prepayment pursuant to the Installment Purchase Agreement, the District shall give written notice to the Trustee specifying the date on which the prepayment will be made, which date shall be not less than 45 (or such lesser number of days as is agreed to by the Trustee) nor more than 60 days from the date such notice is given to the Trustee.

Discharge of Obligations

If all Installment Payments shall be paid as and when due in accordance with the terms of the Installment Purchase Agreement, or prepaid in accordance with the Installment Purchase Agreement, and all other amounts due under the Installment Purchase Agreement and under the Indenture, shall be paid or provisions shall have been made for the payment of the Installment Purchase Agreement, then all agreements, covenants and other obligations of the District under the Installment Purchase Agreement shall thereupon cease, terminate and become void and be discharged and satisfied.

COVENANTS

Compliance with Master Agreement

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Agreement required to be observed and performed by it and will not suffer or permit any default to occur thereunder.

Compliance with Installment Purchase Agreement

The District will punctually pay the Installment Payments, and other payments required to be made by it under the Installment Purchase Agreement in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms of the Installment Purchase Agreement required to be observed and performed by it, will not suffer or permit any default to occur thereunder and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2020 Project or the Prior Projects, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any *force majeure*, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

Protection of Security and Rights

The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Trustee, as assignee of the Authority, to the Installment Payments, and other payments required to be made by the District under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all persons.

Amendment of Master Agreement

The Master Agreement shall not be amended except in accordance with its terms.

Indemnification of Authority

To the extent permitted by law, the District hereby agrees to indemnify and hold the Trustee, the Authority and each of their officers harmless against any and all liabilities which might arise out of or are related to the 2020 Project or the Prior Project, the Installment Purchase Agreement, the Indenture, or the 2020A Bonds, and the District further agrees to defend the Trustee, the Authority and each of their officers in any action arising out of or related to the 2020 Project, the Prior Projects, the Installment Purchase Agreement, or the 2020A Bonds.

Payments to Trustee

The District hereby agrees to pay all costs and expenses incurred by the Trustee in performing its duties under the Indenture and in enforcing its rights under the Installment Purchase Agreement as assignee of the Authority.

Continuing Disclosure

The District hereby covenants and agrees that it will comply with Securities and Exchange Commission Rule 15c(2)-12 (the "Rule") by entering into and complying with all of the provisions of a Continuing Disclosure Agreement. Notwithstanding any other provision of the Installment Purchase Agreement, failure of the District to comply with any Continuing Disclosure Agreement shall not be considered an Event of Default under the Installment Purchase Agreement; however, the Trustee at the request of any Participating Underwriter (as such term is defined in the Continuing Disclosure Agreement) or the Owners of at least 25% aggregate principal amount of Outstanding 2020A Bonds upon satisfactory indemnity provided to the Trustee by such Owners, shall or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations. "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2020A Bonds (including persons holding 2020A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2020A Bonds for federal income tax purposes.

Further Assurances

The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority, or unto the Trustee, as assignee of the Authority, the rights and benefits provided in the Installment Purchase Agreement to the Authority, or to the Trustee, as assignee of the Authority.

Compliance with Tax Covenants

The District hereby covenants to comply with the tax covenants contained in the Indenture as they relate to the expenditure of Bond proceeds, the acquisition and construction of the 2020 Project, the Prior Projects and the tax-exempt status of the 2020A Bonds.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default

The following shall be Events of Default under the Installment Purchase Agreement, and Event of Default shall mean any one or more of the following events:

(a) if default shall be made by the District in the due and punctual payment of or on account of any Parity Obligation as the same shall become due and payable;

(b) if default shall be made by the District in the performance of any of the agreements or covenants required in the Installment Purchase Agreement, in the Indenture or in the Master Agreement to be performed by it (other than as specified in (a) above), and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Authority or the Trustee; provided, however, that the party or parties giving such notice, may agree, in writing, to a reasonable extension of such period prior to the expiration of such 30 day period and, provided, further, that if the District shall proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within such a period of 30 days, then, such period shall be increased without such written extension to such extent as shall be necessary to enable the District to diligently complete such curative action and such default shall not become an Event of Default for so long as shall be necessary to diligently complete such curative action; or

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

Remedies on Default

Upon the occurrence of an Event of Default, the Trustee, as assignee of the Authority, may take any or all of the following actions:

(a) declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, whereupon the same shall become immediately due and payable, anything contained in the Installment Purchase Agreement to the contrary notwithstanding;

(b) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any board member, officer or employee of the Installment Purchase Agreement, and to compel the District or any such board member, officer or employee to perform and carry out its, his or her duties under applicable law and the agreements and covenants required to be performed by it, him or her contained in the Installment Purchase Agreement;

(c) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee, as assignee of the Authority; and

(d) by suit in equity require the District and its board members, officers and employees to account as the trustee of an express trust.

Non-Waiver

Nothing in any provision of the Installment Purchase Agreement shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Trustee, as assignee of the Authority, at the respective due dates from the Net Revenues and the other funds in the Installment Purchase Agreement committed for such payment, or shall affect or impair the right of the Trustee, as assignee of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

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

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

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee in the Installment Purchase Agreement, as assignee of the Authority, is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Purchase Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

AMENDMENTS

(a) The Installment Purchase Agreement and the rights and obligations of the District, the Authority and the Trustee, as assignee of the Authority, may be amended or modified from time to time and at any time in any manner that is not inconsistent with the provisions of the Master Agreement by a written amendment to the Installment Purchase Agreement executed by the District, the Authority and the Trustee, as assignee of the Authority, with the written consent of the Owners of a majority of the aggregate principal amount of the 2020A Bonds then Outstanding. No such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment, or the interest rate applicable thereto, without the prior written consent of the Owner of each affected 2020A Bond, or (ii) reduce the percentage of Owners of the Bonds whose consent is required to effect any such amendment or modification, without the prior written consent of the Owners of all 2020A Bonds then Outstanding.

(b) The Installment Purchase Agreement and the rights and obligations of the District, the Authority and the Trustee, as assignee of the Authority, may be amended or modified from time to time and at any time in a manner that is not inconsistent with the provisions of the Master Agreement by a written

amendment to the Installment Purchase Agreement executed by the District, the Authority and the Trustee, as assignee of the Authority, without the written consents of any Owners of the 2020A Bonds, but only to the extent permitted by law and only for any one or more of the following purposes –

(i) to add to the agreements, conditions, covenants and terms required by the District, the Authority or the Trustee, as assignee of the Authority, to be observed or performed in the Installment Purchase Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the District, the Authority or the Trustee, as assignee of the Authority, or to surrender any right or power reserved to or conferred in the Installment Purchase Agreement on the District, the Authority or the Trustee, as assignee of the Authority, and which in either case shall not materially adversely affect the interests of the Owners of the 2020A Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Installment Purchase Agreement or in regard to questions arising under the Installment Purchase Agreement which the District, the Authority or the Trustee, as assignee of the Authority, may deem desirable or necessary and not inconsistent with the Installment Purchase Agreement, and which shall not materially adversely affect the interests of the Owners of the 2020A Bonds;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest on the 2020A Bonds; and

(iv) to make such other changes in the Installment Purchase Agreement or modifications to the Installment Purchase Agreement as the District, the Authority or the Trustee, as assignee of the Authority, may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners of the 2020A Bonds.

MISCELLANEOUS

Liability of District Limited

Notwithstanding anything contained in the Installment Purchase Agreement, the District shall not be required to advance any moneys derived from any source of income other than Net Revenues and the other funds provided in the Installment Purchase Agreement for the payment of the Installment Payments, and other payments required to be made by it under the Installment Purchase Agreement, or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The District may, however, but in no event shall be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to pay the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments, or other payments required to be made under the Installment Purchase Agreement.

Limitation of Rights

Nothing in the Installment Purchase Agreement expressed or implied is intended or shall be construed to give to any person other than the District, the Authority, and the Trustee, as assignee of the Authority, any legal or equitable right, remedy or claim under or in respect of the Installment Purchase Agreement or any covenant, condition or provision therein or contained in the Installment Purchase Agreement, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Authority, and the Trustee, as assignee of the Authority.

Assignment

The District and the Authority hereby acknowledge the transfer, conveyance and assignment by the Authority to the Trustee of all of the Authority's rights, title and interest under the Installment Purchase Agreement (excepting its rights to indemnification under the Installment Purchase Agreement), including the right to receive Installment Payments under the Installment Purchase Agreement.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Best Best & Krieger LLP, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

July 8, 2020

Western Municipal Water District Facilities Authority
14205 Meridian Parkway
Riverside, CA 92518

Re: \$90,260,000 Western Municipal Water District Facilities Authority, Water Revenue Bonds, Series of 2020A (Tax-Exempt)

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Western Municipal Water District Facilities Authority (the "Authority") in connection with the issuance by the Authority of its \$90,260,000 Water Revenue Bonds, Series of 2020A (Tax-Exempt) (the "Bonds"). The Bonds are being issued under that certain Indenture of Trust, dated as of July 1, 2020 (the "Indenture"), by and between U.S. Bank National Association, as trustee, and the Authority, and are secured by certain installment payments to be made by the Western Municipal Water District of Riverside County (the "District") in accordance with the terms of the Master Installment Purchase Agreement dated as of May 1, 2009 (the "Master Agreement") and the Installment Purchase Agreement (Series 2020A) dated as of July 1, 2020 (the "Installment Purchase Agreement"), each by and between the Authority and the District.

In rendering our opinion, we have relied upon certain representations of fact and certifications made by the Authority, the District, the original purchasers of the Bonds and others, and such other information and documents as we consider necessary to render this opinion. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended (Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code) (the "Act"), and an authorizing resolution adopted by the Authority on June 3, 2020 (the "Resolution") approving the Indenture. The Bonds are dated as of their date of delivery and mature on the dates and in the amounts set forth in the Indenture. Interest on the Bonds is payable on the dates and at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture and are redeemable in the amounts, at the times and in the manner set forth in the Indenture.

All terms not defined herein have the meaning ascribed to those terms in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority. The Bonds are secured and payable solely from amounts comprising the Trust Estate (as defined in Indenture), as and to the extent provided for in the Indenture. The Bonds are enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent

conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases.

2. The Indenture, the Master Agreement and the Installment Purchase Agreement have been duly authorized by the Authority, are valid and binding obligations of the Authority and are enforceable on the Authority in accordance with their respective terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases; provided, however, that we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein.

3. The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that the enforceability of the Indenture may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases.

4. The Master Agreement and the Installment Purchase Agreement have been duly authorized by the District, are valid and binding obligations of the District and are enforceable on the District in accordance with their respective terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases; provided, however, that we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein.

5. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax.

6. Interest on the Bonds is exempt from State of California personal income tax.

The opinions expressed in paragraph (5) above as to the exclusion from gross income for federal income tax purposes of interest on the Bonds are subject to the condition that the Authority and the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the District each have covenanted to comply with all such requirements. Except as set forth in paragraph (5) above, we express no opinion as to any federal tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Master Agreement, the Installment Purchase Agreement and the Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth therein, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Best Best & Krieger LLP.

We are admitted to the practice of law in the State of California and our opinions are limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover matters not directly addressed by such authorities.

Respectfully submitted,

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APPENDIX D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the District and the Underwriters believe to be reliable, but none of the Authority, the District or the Underwriters take any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual 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 its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts

such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

Upon the issuance of the Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

This Continuing Disclosure Agreement, dated as of July 1, 2020 (the “**Disclosure Agreement**”) is executed and delivered by the Western Municipal Water District Facilities Authority (the “**Authority**”), the Western Municipal Water District of Riverside County (the “**Obligor**”) and U.S. Bank National Association, as trustee (the “**Trustee**”) and dissemination agent (the “**Dissemination Agent**”), in connection with the issuance of the Western Municipal Water District Facilities Authority Water Revenue Bonds, Series of 2020A (Tax-Exempt) (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2020 (the “**Bond Indenture**”), by and between the Authority and the Trustee. The Authority, the Obligor, the Trustee and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the parties hereto for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Bond 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 report provided by the Obligor pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” shall mean any person which: (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 General Manager or the Assistant General Manager/Chief Financial Officer of the Obligor, or the designee thereof, or such other officer or employee as the Obligor shall designate in writing to the Dissemination Agent from time to time.

“**Dissemination Agent**” shall mean, initially, U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the Obligor and which has filed with the then current Dissemination Agent a written acceptance of such designation.

“**Financial Obligation**” shall mean a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

“**Fiscal Year**” shall mean the period from July 1 to June 30, or any other period selected by the Obligor as its fiscal year.

“**Listed Events**” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“**Official Statement**” shall mean the Official Statement relating to the Bonds, dated June 23, 2020.

“**Rule**” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**State**” shall mean the State of California.

“**Underwriter**” shall mean the original underwriters of the Bonds that are required to comply with the Rule in connection with the offering of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The Obligor shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, upon delivery of the Annual Report to the Dissemination Agent (if other than the Obligor), not later than April 1 of each year, commencing April 1, 2021, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement (provided that the first Annual Report may consist solely of the Official Statement). 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 the audited financial statements of the Obligor may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Obligor’s Fiscal Year changes, it shall give notice of such change to the Dissemination Agent and the Obligor shall, or shall cause the Dissemination Agent, by written direction to such Dissemination Agent, to give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) business days prior to each April 1, the Obligor shall provide the Annual Report to the Dissemination Agent (if other than the Obligor). The Obligor shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Obligor and shall have no duty or obligation to review such Annual Report. If: (i) the Obligor is acting as Dissemination Agent and an Annual Report has not been provided to the MSRB by the date required in subsection (a); or (ii) if the Dissemination Agent is other than the Obligor and is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), then the Obligor or the Dissemination Agent (if other than the Obligor), as applicable, shall send a notice to the MSRB in a timely manner in substantially the form prescribed by the MSRB.

(c) The Dissemination Agent shall:

(i) determine each year prior to April 1 the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Obligor, promptly after receipt of the Annual Report, file a report with the Obligor certifying that the Annual Report has been filed with the MSRB pursuant to this Disclosure Agreement, and stating, to the extent that it can confirm such filing of the Annual Report, the date that it was filed.

SECTION 4. Content of Annual Reports. The Obligor’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligor 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 Obligor’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 come available.

(b) To the extent not contained in the audited financial statements filed pursuant to subsection (a), and provided that financial and operating data shall be provided in a format that is substantially similar to that provided in the corresponding tables and charts in the Official Statement:

(1) outstanding indebtedness of the Obligor as of the last day of the prior Fiscal Year;

(2) The Obligor’s budget for the prior Fiscal Year and actual results for the prior Fiscal Year;

(3) the information for the prior Fiscal Year presented in Tables 1, 2, 3, 5 and 7 and the information for the prior Fiscal Year regarding rates and charges (other than comparisons to nearby service providers and capacity charges) under the captions “THE WATER SYSTEM” and “THE SEWER SYSTEM” in the Official Statement;

(4) the information for the prior Fiscal Year presented in the table under the caption “WATER SYSTEM AND SEWER SYSTEM FINANCIAL INFORMATION—Historical Operating Results and Debt Service Coverage” in the Official Statement;

(5) information relating to assessed valuations and property tax collections of the Obligor for the prior Fiscal Year; and

(6) information for the prior Fiscal Year regarding the investment policies and practices with respect to Obligor funds and the status of the investment of Obligor funds, similar to the information included in the Official Statement for the Bonds under the caption “THE DISTRICT—Governance and Management—Management Policies—Investment Policy,” together with the most recent monthly report for any investment pool, so long as the Obligor has money on deposit therein.

In addition to any of the information expressly required to be provided under paragraphs (b)(1) through (6) of this Section, the Obligor shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements for debt issues of the Obligor or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Obligor 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 5, the Obligor shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

(i) Principal and interest payment delinquencies.

(ii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iii) Unscheduled draws on credit enhancements reflecting financial difficulties.

(iv) Substitution of credit or liquidity providers, or their failure to perform.

(v) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB).

(vi) Tender offers.

- (vii) Defeasances.
- (viii) Rating changes.
- (ix) Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(x) Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the Obligor, any of which reflect financial difficulties.

(b) Pursuant to the provisions of this Section 5, the Obligor shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not more than ten (10) Business Days after occurrence:

(i) Unless described in Section 5(a)(v), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds.

(ii) Modifications to the rights of Bondholders.

(iii) Optional, unscheduled or contingent Bond calls.

(iv) Release, substitution or sale of property securing repayment of the Bonds.

(v) Non-payment related defaults.

(vi) The consummation of a merger, consolidation or acquisition involving the Obligor or the sale of all or substantially all of the assets of the Obligor, 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.

(vii) Appointment of a successor or additional trustee or the change of the name of a trustee.

(viii) Incurrence of a Financial Obligation of the Obligor, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligor, any of which affect security holders.

(c) If the Obligor determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the Obligor, the Obligor shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(vii) and (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (c) prior to the occurrence of such Listed Event.

(d) If the Obligor determines that a Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Obligor, the Obligor shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The Obligor hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Obligor and, if the Dissemination Agent is other than the Obligor, the Dissemination Agent shall not be responsible for determining whether the Obligor's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Obligor and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Obligor shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The Obligor 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. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Obligor pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days' written notice to the Obligor and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Obligor and shall have no duty to review any information provided to it by the Obligor. The Dissemination Agent shall have no duty to prepare any information report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Obligor in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligor may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule, and provided further that the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Obligor 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 Obligor. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (a) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a); and (b) the Annual Report for the year in which the change is made shall 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. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligor 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 Obligor 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 Obligor shall have no obligation under this Disclosure Agreement to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure by the Obligor or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner 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 Obligor 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 Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligor or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Owner or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Obligor satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Obligor shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligor agrees, to the extent permitted by law, 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligor for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Obligor, the Owners, or any other party. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under the Bond Indenture. The obligations of the Obligor under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given to the Dissemination Agent (if other than the Obligor) and to the Obligor as follows:

Disclosure Representative
or Authority:

c/o Western Municipal Water District of Riverside County
General Manager
14205 Meridian Parkway
Riverside, California 92518

Dissemination Agent or Trustee:

U.S. Bank National Association
633 West Fifth Street, 24th floor
Los Angeles, California 90071

SECTION 13. Beneficiaries. This Disclosure Agreement inures solely to the benefit of the Obligor, the Dissemination Agent, the Authority, the Trustee the Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the Obligor to the undertaking herein provided.

WESTERN MUNICIPAL WATER DISTRICT OF
RIVERSIDE COUNTY

By: _____
Its: General Manager

WESTERN MUNICIPAL WATER DISTRICT FACILITIES
AUTHORITY

By: _____
Its: Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION, as Dissemination
Agent

By: _____
Its: Authorized Officer

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Its: Authorized Officer

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