NEW ISSUE - FULL BOOK-ENTRY

RATINGS: S&P: "AA+"
Fitch: "AA"
(See "RATINGS.")

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequence related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$64,010,000
LIVERMORE VALLEY WATER FINANCING AUTHORITY
Water Revenue Bonds,
2018 Series A

Dated: Date of Delivery **Due: July 1, as shown on inside cover**

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the Livermore Valley Water Financing Authority (the "Authority") under a resolution adopted by the Board of Directors of the Authority on March 21, 2018, and a Trust Agreement, dated as of April 1, 2018 (the "Trust Agreement") by and between the Authority and U.S. Bank National Association, as trustee for the Bonds (the "Trustee").

Use of Proceeds. The Bonds are being issued to provide funds to (i) pay the cost of the 2018 Water Project, which generally consists of a water treatment plant and related facilities; (ii) prepay the Agency's obligations in connection with the Cawelo Water District Certificates of Participation (Water Bank Project) Series 2006 (the "2006 Certificates"), currently outstanding in the principal amount of $15,290,000, and (iii) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security for the Bonds. The Bonds are payable from and secured by a first pledge of and lien on "Revenues" received by the Authority which consist of Installment Sale Payments (the "2018 Installment Sale Payments") to be made by the Alameda County Flood Control and Water Conservation District, Zone 7 (the "Agency") to the Authority under a 2018 Installment Sale Agreement, dated as of April 1, 2018 (the "2018 Installment Sale Agreement") and certain other moneys. The Agency's 2018 Installment Sale Payments are payable from and secured by "Net Water Revenues" of the Agency's Water System, which are generally defined as the "Water Revenues" received from the Water System (as defined herein), less the amount required to pay all "Operation and Maintenance Costs" of the Water System. The Agency is not required to advance any moneys derived from any source of income other than the Net Water Revenues for payment of the 2018 Installment Sale Payments, as described herein. The Bonds are also secured by certain funds on deposit under the Trust Agreement. No debt service reserve account will be established for the Bonds. See "SECURITY FOR THE BONDS." Pursuant to the 2018 Installment Sale Agreement, the Agency may enter into additional obligations payable from Net Water Revenues on a parity with the 2018 Installment Sale Payments.

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover, payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2019, and will be issued in fully registered form without coupons in the denomination of $5,000 or any integral multiple of $5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made by to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – General."

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption."

NOTWITHSTANDING ANYTHING CONTAINED HEREIN, THE AUTHORITY SHALL NOT BE REQUIRED TO ADVANCE ANY MONEY DERIVED FROM ANY SOURCE OTHER THAN THE REVENUES AS DESCRIBED HEREIN FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE, AS TO INTEREST THEREON, PRINCIPAL THEREOF AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, SOLELY FROM THE REVENUES AS DESCRIBED HEREIN, AND THE AUTHORITY IS NOT OBLIGATED TO PAY THEM EXCEPT FROM THE REVENUES. ALL THE BONDS ARE EQUALLY SECURED BY A PLEDGE OF AND CHARGE AND LIEN UPON THE REVENUES, AND THE REVENUES CONSTITUTE A TRUST FUND FOR THE SECURITY AND PAYMENT OF THE INTEREST ON AND PRINCIPAL OF AND REDEMPTION PREMIUMS, IF ANY, ON THE BONDS AS PROVIDED HEREIN. THE BONDS ARE NOT A DEBT OF THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER SAID STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREON, NOR IN ANY EVENT SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS PROVIDED HEREIN. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

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

The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Nossaman LLP, Irvine, California. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about April 11, 2018.

Wells Fargo Securities **Stifel**

The date of this Official Statement is March 28, 2018.

$64,010,000
LIVERMORE VALLEY WATER FINANCING AUTHORITY
Water Revenue Bonds,
2018 Series A

MATURITY SCHEDULE

Base CUSIP†: 53833P

Maturity (July 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2019	$1,305,000	5.000%	1.470%	104.258	AA4
2020	1,370,000	5.000	1.550	107.505	AB2
2021	1,445,000	5.000	1.650	110.467	AC0
2022	1,520,000	5.000	1.790	112.995	AD8
2023	1,595,000	5.000	1.910	115.285	AE6
2024	1,680,000	5.000	2.000	117.466	AF3
2025	1,770,000	5.000	2.090	119.410	AG1
2026	1,855,000	5.000	2.200	120.951	AH9
2027	1,955,000	5.000	2.310	122.224	AJ5
2028	2,055,000	5.000	2.400	121.391*	AK2
2029	2,165,000	5.000	2.500	120.473*	AL0
2030	2,275,000	5.000	2.600	119.563*	AM8
2031	2,395,000	5.000	2.680	118.841*	AN6
2032	2,405,000	5.000	2.730	118.392*	AQ9
2032	115,000	3.000	3.160	98.175	AP1
2033	2,640,000	5.000	2.780	117.946*	AR7
2034	2,765,000	4.000	3.150	106.753*	AS5
2035	1,765,000	5.000	2.880	117.058*	AT3
2036	1,835,000	3.250	3.420	97.705	AU0
2037	1,905,000	4.000	3.370	104.954*	AV8
2038	1,985,000	4.000	3.390	104.792*	AW6
2048	3,070,000	3.500	3.660	97.085	AX4

$11,195,000 4.000% 2018 Series A Bonds Due July 1, 2043 - Yield 3.520% Price 103.747* CUSIP Number AY2†

$10,945,000 5.000% 2018 Series A Bonds Due July 1, 2047 - Yield 3.120% Price 114.961* CUSIP Number AZ9†

* Priced to optional call at par on July 1, 2027.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the Authority, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers.

Zone 7 Water Agency Board of Directors and
Livermore Valley Water Financing Authority Board of Directors

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Sacramento, California

Municipal Advisor

Sperry Capital Inc.
Sausalito, California

Trustee

U.S. Bank National Association
Los Angeles, California

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* The Agency's prior General Manager retired effective March 30, 2018. A replacement has been appointed by the Agency Board effective April 22, 2018. In the interim Osborn Solitei, the current Treasurer/Assistant General Manager – Finance, will serve as Interim General Manager. See "THE AGENCY – Board of Directors and Management."

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. The information set forth in this Official Statement has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Authority or the Agency. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Agency since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended, and in effect on the date hereof, this Preliminary Official Statement constitutes an official statement of the Authority that has been deemed final by the Agency as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Agency or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. 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.

When used in this Official Statement and in any continuing disclosure by the Authority or the Agency, in any press release and in any oral statement made with the approval of an authorized officer of the Authority or the Agency, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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

In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain securities dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exception from the registration requirements contained in such Act. The Bonds have not been registered or qualified under the securities laws of any state.

The Agency maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds. References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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OFFICIAL STATEMENT

$64,010,000
Livermore Valley Water Financing Authority
Water Revenue Bonds,
2018 Series A

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Trust Agreement (as defined below). See "APPENDIX A."

Authority for Issuance. The Livermore Valley Water Financing Authority (the "Authority") is issuing the bonds captioned above (the "Bonds") pursuant to a Trust Agreement (the "Trust Agreement"), dated as of April 1, 2018, between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are being issued pursuant to Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584, resolutions adopted by the Board of Directors (the "Board") of the Authority on March 21, 2018, and by the Board of Directors (the "Agency Board") of the Alameda County Flood Control and Water Conservation District, Zone 7 (the "Agency"), on March 21, 2018.

Form of Bonds; Book-Entry Only. The Bonds will be dated their date of delivery and will be issued in fully registered form, without coupons, in the minimum denominations of $5,000 or any integral multiple thereof. See "THE BONDS – General." When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee. DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only in the principal amount of $5,000 each or any integral multiple thereof. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS - Book-Entry Only System" and "APPENDIX D –BOOK-ENTRY SYSTEM."

Purpose of the Bonds. The Bonds are being issued to provide funds to (i) pay the cost of the 2018 Water Project, which generally consists of a water treatment plant and related facilities; (ii) prepay the Agency's obligations in connection with the Cawelo Water District Certificates of Participation (Water Bank Project) Series 2006 (the "2006 Certificates"), currently outstanding in the principal amount of $15,290,000, and (iii) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security. The Bonds are limited obligations of the Authority payable solely from Revenues of the Authority. "Revenues" consist primarily of certain installment sale payments (the "2018 Installment Sale Payments") received by the Authority from the Agency under the 2018 Installment Sale Agreement (the "2018 Installment Sale Agreement") dated as of April 1, 2018, by and between the Authority and the Agency. The obligation of the Agency to make the 2018 Installment Sale Payments is a special obligation payable solely from Net Water Revenues. See "SECURITY FOR THE BONDS."

Rate Covenants. The Agency will make certain covenants in the 2018 Installment Sale Agreement with respect to rates, fees and charges for the Water System, all as further described under "SECURITY FOR THE BONDS – Rate Covenant."

Parity Obligations. Pursuant to the Trust Agreement, the Authority may issue Additional Bonds payable from the Revenues and secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing the Outstanding Bonds, but only subject to specific conditions, including a condition that such Additional Bonds shall be applied solely for (i) the purpose of financing the completion of the 2018 Water Project or an Additional Project (each as defined in the Trust Agreement), including payment of all costs incidental to or connected with such financing, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding. See "SECURITY FOR THE BONDS – Additional Debt."

Pursuant to the 2018 Installment Sale Agreement, the Agency may (i) issue any bonds the payments under and pursuant to which, or (ii) execute any contract the installment sale payments under and pursuant to which, as the case may be, are payable from the Net Water Revenues on a parity with the payment by the Agency of the 2018 Installment Sale Payments, provided that the conditions set forth in the 2018 Installment Sale Agreement are met. See "SECURITY FOR THE BONDS – Additional Debt."

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption."

The Authority. The Authority is a joint exercise of powers agency organized under the laws of the State and composed of the Agency and the California Statewide Communities Development Authority. The Authority was formed to assist in the financing and refinancing of capital improvement projects of, and working capital for, the Agency. See "THE AUTHORITY" herein.

Risks of Investment. The Bonds are limited obligations of the Authority and are payable solely from the Revenues as described herein. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

NOTWITHSTANDING ANYTHING CONTAINED HEREIN, THE AUTHORITY SHALL NOT BE REQUIRED TO ADVANCE ANY MONEY DERIVED FROM ANY SOURCE OTHER THAN THE REVENUES AS DESCRIBED HEREIN FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE, AS TO INTEREST THEREON, PRINCIPAL THEREOF AND ANY PREMIUMS UPON THE REDEMPTION OF ANY THEREOF, SOLELY FROM THE REVENUES AS DESCRIBED HEREIN, AND THE AUTHORITY IS NOT OBLIGATED TO PAY THEM EXCEPT FROM THE REVENUES. ALL THE BONDS ARE EQUALLY SECURED BY A PLEDGE OF AND CHARGE AND LIEN UPON THE REVENUES, AND THE REVENUES CONSTITUTE A TRUST FUND FOR THE SECURITY AND PAYMENT OF THE INTEREST ON AND PRINCIPAL OF AND REDEMPTION PREMIUMS, IF ANY, ON THE BONDS AS PROVIDED HEREIN. THE BONDS ARE NOT A DEBT OF THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER SAID STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREON, NOR IN ANY EVENT SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS PROVIDED HEREIN. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

FINANCING PLAN

The Agency plans to apply a portion of the net proceeds of the Bonds and certain other available funds to (i) pay the cost of the 2018 Water Project and (ii) prepay the Agency's obligations in connection with the 2006 Certificates.

2018 Water Project

Following is a description of significant elements of the 2018 Water Project.

Del Valle Water Treatment Plant Ozone Project. This portion of the 2018 Water Project consists of improvements to the Del Valle Water Treatment Plant including, but not limited to: new ozone generation facility, new ozone contactor structure, new chemical facilities including liquid oxygen and carbon dioxide, new electrical facilities, new water softening facility, new utility water pump station, new emergency generator, new chlorine contact pipeline, modifications to existing filters, chemical systems, piping, utilities, structures and site. The estimated construction cost for this portion of the 2018 Water Project is approximately \$38 million, which is expected to be paid with a portion of the proceeds of the Bonds. This portion of the 2018 Water Project is expected to be complete by May 2020.

Patterson Pass Water Treatment Plant Ozone Project. This portion of the 2018 Water Project consists of improvements to the Patterson Pass Water Treatment Plant including, but not limited to: new ozone generation facility, new ozone contactor structure, new chemical facilities including liquid oxygen and carbon dioxide, new electrical facilities, new emergency generator, new chlorine contactor structure, modifications to existing filters, chemical systems, piping, utilities, structures and site. The estimated construction cost for this portion of the 2018 Water Project is approximately \$38 million, of which approximately \$19 million is expected to be paid from the proceeds of the Bonds. This portion of the 2018 Water Project is expected to be complete by mid-2021.

Cawelo Prepayment

In 2006, the Agency and the Cawelo Water District ("Cawelo") entered into an Agreement between Alameda County Flood Control and Water Conservation District, the Agency and Cawelo Water District for a Water Banking and Exchange Program, dated June 21, 2006 (the "Cawelo Water Banking Agreement"), pursuant to which the Agency agreed to make certain capital payments (the "Capital Payments") to Cawelo. See "WATER SUPPLY – Kern County Groundwater Banking Programs – Cawelo Water District." In addition, Cawelo and CSDA Finance Corporation (the "Corporation") entered into an Installment Purchase Contract, dated as of August 1, 2006 (the "2006 Installment Purchase Contract"), pursuant to which Cawelo agreed to make certain installment payments (the "2006 Installment Payments") to the Corporation payable from the Capital Payments.

Pursuant to the Assignment Agreement, expected to be effective upon the issuance of the Bonds, the Agency will assign its rights under the Cawelo Water Banking Agreement (the "Cawelo Agreement Rights") and, as payment for the Cawelo Agreement Rights, the Authority, on behalf of the Agency, will cause to be transferred a portion of the proceeds of the Bonds to Wells Fargo Bank, National Association, as escrow agent under the Escrow Agreement, dated as of April 1, 2018 (the "Escrow Agreement") by and between Cawelo and the Escrow Agent, in an amount which, together with other available funds, will be sufficient to prepay the remaining Capital Payments (the "Cawelo Prepayment"). In addition, pursuant to the Assignment Agreement, Cawelo will agree to prepay all remaining 2006 Installment Payments, which will result in the prepayment of the remaining 2006 Certificates, which are currently outstanding in the principal amount of \$15,290,000.

Upon the deposit of the portion of the Bond proceeds in the Escrow Fund established under the Escrow Agreement, together with other available moneys, as described above, the 2006 Certificates will be discharged in accordance with the legal documents executed in connection with the delivery of the 2006 Certificates.

Estimated Sources and Uses of Funds

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

Sources:	
Principal Amount of Bonds	$ 64,010,000.00
Plus Net Original Issue Premium	7,506,831.70
Available Agency Funds	1,313,887.24
TOTAL SOURCES	**$ 72,830,718.94**
Uses:	
Deposit to Acquisition Fund	$ 57,000,000.00
Deposit to Escrow Fund	15,404,989.00
Costs of Issuance(1)	425,729.94
TOTAL USES	**$ 72,830,718.94**

(1) Represents funds to be used to pay costs of issuance, which include legal fees, underwriters' discount, municipal advisor's fee, printing costs, rating agency fees and other miscellaneous expenses.

THE BONDS

General

The Bonds will be dated their date of delivery and interest thereon will be payable on January 1 and July 1 of each year, commencing January 1, 2019, at the rates per annum set forth on the inside cover page hereof. The Bonds will mature on July 1, as set forth on the inside cover. Interest shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

Redemption

Optional Redemption. The Bonds maturing on July 1, 2032 and bearing interest at 3.00% per annum, the Bonds maturing on July 1, 2036 and the Bonds maturing on July 1, 2048 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from moneys deposited by the Authority or the Agency from any source of available funds, as a whole on any date, or in part (in such maturities as are designated by the Authority at the written direction of the Agency) on any date on or after July 1, 2025, at a redemption price equal to the principal amount of Bonds called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

The Bonds, other than those identified in the preceding paragraph, are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from moneys deposited by the Authority or the Agency from any source of available funds, as a whole on any date, or in part (in such maturities as are designated by the Authority at the written direction of the Agency) on any date on or after July 1, 2027, at a redemption price equal to the principal amount of Bonds called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on July 1, 2043 are subject to redemption prior to their respective stated maturities, on any July 1 on or after July 1, 2039, in part by lot, from mandatory sinking account payments at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as set forth below.

Sinking Fund Redemption Date (July 1)	Principal Amount
2039	$2,065,000
2040	2,150,000
2041	2,235,000
2042	2,325,000
2043*	2,420,000

* Final Maturity

The Bonds maturing on July 1, 2047 are subject to redemption prior to their respective stated maturities, on any July 1 on or after July 1, 2044, in part by lot, from mandatory sinking account payments at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as set forth below.

Sinking Fund Redemption Date (July 1)	Principal Amount
2044	$2,535,000
2045	2,665,000
2046	2,800,000
2047*	2,945,000

* Final Maturity

Partial Redemption. If less than all Outstanding Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Bonds of such maturity date to be redeemed by lot in any manner that it deems appropriate and fair.

Notice of Redemption. Notice of redemption will be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to the respective Holders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee.

Each notice of redemption shall state the date of such notice, the redemption price, if any, the CUSIP number, if any, of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on such date there will become due and payable on each of said Bonds the redemption price, if any, thereof and in the case of a Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

Rescission of Redemption. The Authority may, at its option, prior to the date fixed for redemption in any notice of optional redemption, rescind and cancel such notice of redemption by Written Request of the

Authority to the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

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

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple of $5,000, under the book- entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX D –BOOK-ENTRY SYSTEM" for further information regarding DTC and the book-entry system.

SECURITY FOR THE BONDS

This section provides summaries of certain provisions of the 2018 Installment Sale Agreement and the Trust Agreement. See "APPENDIX B – Summary of Principal Legal Documents" for a more complete summary of the 2018 Installment Sale Agreement and the Trust Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX B.

Pledge Under the Trust Agreement

All Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. This pledge constitutes a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds. Pursuant to the Trust Agreement, the Authority has assigned to the Trustee all of the Authority's rights and remedies under the 2018 Installment Sale Agreement.

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

2018 Installment Sale Agreement

Obligation to Make 2018 Installment Sale Payments. Pursuant to the 2018 Installment Sale Agreement, the Agency is obligated to make 2018 Installment Sale Payments, but solely from Net Water Revenues (as defined below).

The Agency shall, subject to prepayment as provided in the 2018 Installment Sale Agreement, pay the Authority the Purchase Price (as defined below), without offset or deduction of any kind, by paying the principal installments of the 2018 Installment Sale Payments due annually on July 1, together with interest installments of the 2018 Installment Sale Payments, which interest installments shall be paid semiannually on each January 1 and July 1, commencing January 1, 2019.

The obligation of the Agency to pay the Purchase Price by paying the 2018 Installment Sale Payments is, subject to the 2018 Installment Sale Agreement, absolute and unconditional, and until such time as the 2018 Installment Sale Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2018 Installment Sale Agreement), the Agency will not discontinue or suspend any 2018 Installment Sale Payments required to be paid by it when due, whether or not the Water System or any part thereof is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

"Net Water Revenues" means, for any Fiscal Year, the Water Revenues during such Fiscal Year less the Operation and Maintenance Costs during such Fiscal Year.

"Water Revenues" means all gross income and revenue received or receivable by the Agency from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees and charges) received by the Agency for the Water Service and the other services of the Water System and all other income and revenue howsoever derived by the Agency from the ownership or operation of the Water System or arising from the Water System, plus deposits to the Water Revenue Fund in such period from amounts on deposit in the Rate Stabilization Fund, but only as and to the extent specified in the 2018 Installment Sale Agreement, less amounts (other than the Initial Rate Stabilization Fund Deposit) transferred to the Rate Stabilization Fund, and also including all income from the investment of any money in the Water Revenue Fund and the Rate Stabilization Fund, but excluding in all cases any proceeds of taxes and any refundable front footage charges and refundable deposits made to establish credit and advances or contributions in aid of construction.

"Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the Agency for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Agency that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the Agency or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Bonds or of such Bonds, or of any resolution authorizing the execution of any Contract or of such Contract, such as compensation, reimbursement and indemnification of the trustee for any such Bonds or Contracts and fees and expenses of Independent Consultants, Insurance Consultants and the Finance Officer, but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles and intragovernmental transfers by the Agency which are not reimbursements or payments for overhead or other administrative expenses incurred by the Agency, (3) interest expense and (4) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).

"Initial Rate Stabilization Fund Deposit" means an amount equal to $8,600,000 transferred by the Agency to the Rate Stabilization Fund concurrently with the execution and delivery of the 2018 Installment Sale Agreement.

"Purchase Price" means the principal amount plus the interest thereon owed by the Agency to the Authority under the conditions and terms hereof for the payment of the costs of the acquisition and construction of the 2018 Water Project, the acquisition of the Cawelo Agreement Rights and the incidental costs and expenses related thereto paid by the Authority.

THE OBLIGATION OF THE AGENCY TO MAKE THE 2018 INSTALLMENT SALE PAYMENTS UNDER THE 2018 INSTALLMENT SALE AGREEMENT IS A SPECIAL OBLIGATION OF THE AGENCY PAYABLE SOLELY FROM THE NET WATER REVENUES AS DESCRIBED HEREIN AND DOES NOT CONSTITUTE A DEBT OF THE AGENCY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Allocation of Water Revenues under the 2018 Installment Sale Agreement. Pursuant to the 2018 Installment Sale Agreement, the Agency agrees and covenants that all Water Revenues received by it shall be deposited when and as received in trust in the Water Revenue Fund. The Agency shall pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs the payment of which is not then immediately required) from the Water Revenue Fund as they become due and payable, and all remaining money on deposit in the Water Revenue Fund shall be set aside and deposited by the Agency at the following times in the following order of priority:

(a) Debt Service Fund Deposits. On or before the Business Day before each date on which a 2018 Installment Sale Payment becomes due and payable under the 2018 Installment Sale Agreement, whether on a 2018 Installment Sale Payment Date or upon acceleration pursuant to the 2018 Installment Sale Agreement, the Agency shall, from the money in the Water Revenue Fund, transfer to the Trustee for deposit in the Debt Service Fund a sum equal to the 2018 Installment Sale Payments becoming due and payable under the 2018 Installment Sale Agreement on such due date, except that no such deposit need be made to the extent the Trustee then holds money for such purpose in the Debt Service Fund available to pay the 2018 Installment Sale Payment becoming due and payable under the 2018 Installment Sale Agreement on such date. The Agency shall also, from such remaining moneys in the Water Revenue Fund, pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account for any Parity Obligations, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, on the dates specified in the proceedings relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations in accordance with the terms of such Parity Obligations.

(b) Debt Service Reserve Fund Deposits. On or before the Business Day before each Installment Sale Payment Date, the Agency shall, from the remaining money on deposit in the Water Revenue Fund after deposits and transfers pursuant to paragraph (a) above, transfer to the Trustee for deposit in the Debt Service Reserve Fund that sum, if any, necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement and to make any payments required to reimburse any draw under a Debt Service Reserve Account Facility. The Agency shall also, from such remaining moneys in the Water Revenue Fund, transfer or cause to be transferred to any applicable reserve fund or account for any Parity Obligations for which a separate reserve has been funded, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, the sum or sums, if any, equal to the amount required to be deposited

therein in accordance with the terms of such Parity Obligations. **No Debt Service Reserve Account within the Debt Service Reserve Fund will be established for the Bonds.** See also "—Debt Service Reserve Fund."

After making the foregoing deposits and transfers, the Agency shall apply any remaining money in the Water Revenue Fund for any lawful purpose of the Agency, including for the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations; provided, however, that no moneys in the Water Revenue Fund shall be applied to any purpose not related to the expansion of the facilities or business of the Water System or replacement of facilities thereof, including the payment of any Subordinate Obligations, in any Fiscal Year unless amounts remaining on deposit in the Water Revenue Fund shall be sufficient to make the remaining transfers hereinabove required to be made in such Fiscal Year with respect to 2018 Installment Sale Payments and Parity Obligations.

The Agency shall distribute Net Water Revenues available for outstanding 2018 Installment Sale Payments and debt service on all outstanding Parity Obligations on a pro rata basis without regard to whether each such Parity Obligations has a funded debt service reserve or a surety bond or other similar funding instrument.

Rate Stabilization Fund. Pursuant to the 2018 Installment Sale Agreement, the Agency shall maintain and hold a Rate Stabilization Fund. From time to time the Agency may deposit in the Rate Stabilization Fund from Water Revenues such amounts as the Agency shall determine, provided that deposits for each Fiscal Year may be made until (but not after) 270 days following the end of such Fiscal Year. The Agency may withdraw amounts from the Rate Stabilization Fund only for inclusion in Water Revenues for any Fiscal Year, such withdrawals to be made until (but not after) 270 days after the end of such Fiscal Year. All interest or other earnings upon deposits in a Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Water Revenues.

Rate Covenant

The Agency covenants under the 2018 Installment Sale Agreement to at all times fix and prescribe rates, fees and charges for the Water Service which will be at least sufficient to yield Net Water Revenues during the next succeeding Fiscal Year of the Agency equal to 120% of the Debt Service for such Fiscal Year.

The Agency may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but covenants not to reduce the rates, fees, charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements described in this paragraph.

The Agency further covenants to have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Water System to pay the rates, fees and charges applicable to the Water Service to such premises and providing for the billing thereof and for a due date and delinquency date for each bill. The Agency will not permit any part of the Water 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 of California, and any city, county, district, political subdivision, public corporation or agency of any thereof); provided that the Agency may without charge use the Water Service.

"Water Service" means the municipal water service furnished, made available or provided by the Water System.

Debt Service Reserve Fund

The Trust Agreement provides for the establishment of a Debt Service Reserve Fund and reserve accounts therein, including a Common Debt Service Reserve Account (each, a "Debt Service Reserve Account"), which shall be used solely for the purpose of paying bonds secured by the Debt Service Reserve Accounts. **However, pursuant to the Trust Agreement, no Debt Service Reserve Account within the Debt Service Reserve Fund will be established for the Bonds.**

Additional Debt

Authority Bonds. Pursuant to the Trust Agreement, the Authority may at any time issue Additional Bonds payable from the Revenues and secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing the Bonds, but only subject to specific conditions, including a condition that such Additional Bonds shall be applied solely for (i) the purpose of financing the completion of the 2018 Water Project or an Additional Project, including payment of all costs incidental to or connected with such financing, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding.

Agency Obligations Payable From Net Water Revenues. Pursuant to the 2018 Installment Sale Agreement, the Agency may at any time (i) issue any Bonds the payments under and pursuant to which, or (ii) execute any Contract the Installment Sale Payments under and pursuant to which, as the case may be, are payable from the Net Water Revenues on a parity with the payment by the Agency of the 2018 Installment Sale Payments as provided in the 2018 Installment Sale Agreement; provided, that prior to the issuance of such bonds or the execution and delivery of such contract the Agency shall file a written certificate of the Agency with the Authority and the Trustee to the effect that (defined terms in the following are as defined in the 2018 Installment Sale Agreement):

(a) the Agency is in compliance with all agreements and covenants contained in the 2018 Installment Sale Agreement; and either

(b) the audited Adjusted Net Water Revenues for the Fiscal Year or for any more recent consecutive 12-month period designated by the Agency next preceding the date of the adoption by the Board of Directors of the Agency of the resolution authorizing the issuance of such Bonds or the execution of such Contract, as the case may be (as evidenced by a calculation prepared by the Agency and confirmed by an Independent Consultant's Report accompanying such written certificate of the Agency) shall be not less than 120% of the Maximum Annual Debt Service on all Bonds and Contracts outstanding after the issuance of such Bonds or the execution of such Contracts, as applicable; or

(c) the projected Adjusted Net Water Revenues for any one of the next three full Fiscal Years (beginning with the full Fiscal Year following the issuance of such Bonds or the execution of such Contract, as the case may be, or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such Bonds or such Contract is to be paid from the proceeds of such Bonds or Contract), as evidenced by a calculation prepared by the Agency and confirmed by an Independent Consultant's Report accompanying such written certificate of the Agency, are projected to be at least equal to the sum of one hundred twenty percent (120%) of the Maximum Annual Debt Service on all Bonds and Contracts outstanding after the issuance of such Bonds or the execution of such Contract, as the case may be. For purposes of such calculations, Water Revenues shall reflect only rate increases adopted by the Agency Board that would be in effect in such Fiscal Year.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the Agency to execute any Contract or to issue any Bonds at any time to refund any outstanding Bonds or any outstanding Contract, or to execute and deliver Reimbursement Agreements.

"Bonds" (as used in this section under "*—Agency Obligations Payable From Net Water Revenues"*) means all revenue bonds of the Agency authorized, executed, issued and delivered by the Agency under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of the 2018 Installment Sale Payments.

"Contracts" (as used in this section under "*—Agency Obligations Payable From Net Water Revenues"*) means all installment sale agreements, capital leases or similar obligations of the Agency authorized and executed by the Agency under and pursuant to applicable law, the interest and principal and prepayment premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of the 2018 Installment Sale Payments.

"Adjusted Net Water Revenues" means, for any Fiscal Year, Net Water Revenues excluding any deposits to the Water Revenue Fund from the Rate Stabilization Fund with respect to such Fiscal Year.

"Reimbursement Agreement" means an agreement between the Agency and a bank or financial institution providing for the issuance of a letter of credit, credit agreement, guaranty, surety bond or similar instrument for the purpose of making Installment Sale Payments and requiring the Agency to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water Revenues on a parity with all Contracts and Bonds.

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DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds.

Year Ending June 30	***Principal***	***Interest***	***Total Bonds Debt Service***
2019		$2,124,443.75	$2,124,443.75
2020	$1,305,000	2,908,912.50	4,213,912.50
2021	1,370,000	2,842,037.50	4,212,037.50
2022	1,445,000	2,771,662.50	4,216,662.50
2023	1,520,000	2,697,537.50	4,217,537.50
2024	1,595,000	2,619,662.50	4,214,662.50
2025	1,680,000	2,537,787.50	4,217,787.50
2026	1,770,000	2,451,537.50	4,221,537.50
2027	1,855,000	2,360,912.50	4,215,912.50
2028	1,955,000	2,265,662.50	4,220,662.50
2029	2,055,000	2,165,412.50	4,220,412.50
2030	2,165,000	2,059,912.50	4,224,912.50
2031	2,275,000	1,948,912.50	4,223,912.50
2032	2,395,000	1,832,162.50	4,227,162.50
2033	2,520,000	1,710,437.50	4,230,437.50
2034	2,640,000	1,582,587.50	4,222,587.50
2035	2,765,000	1,461,287.50	4,226,287.50
2036	1,765,000	1,361,862.50	3,126,862.50
2037	1,835,000	1,287,918.75	3,122,918.75
2038	1,905,000	1,220,000.00	3,125,000.00
2039	1,985,000	1,142,200.00	3,127,200.00
2040	2,065,000	1,061,200.00	3,126,200.00
2041	2,150,000	976,900.00	3,126,900.00
2042	2,235,000	889,200.00	3,124,200.00
2043	2,325,000	798,000.00	3,123,000.00
2044	2,420,000	703,100.00	3,123,100.00
2045	2,535,000	591,325.00	3,126,325.00
2046	2,665,000	461,325.00	3,126,325.00
2047	2,800,000	324,700.00	3,124,700.00
2048	2,945,000	181,075.00	3,126,075.00
2049	3,070,000	53,725.00	3,123,725.00
	$64,010,000	**$49,393,400.00**	**$113,403,400.00**

THE AUTHORITY

The Authority is a joint exercise of powers authority, organized pursuant to the provisions of Article 1, Chapter 5, Division 7, Title I of the California Government Code, commencing with Section 6500, and a Joint Exercise of Powers Agreement, dated as of November 1, 2017, between the Agency and the California Statewide Communities Development Authority. The Authority is a separate entity constituting a public instrumentality of the State of California and was formed for the public purpose of assisting in the financing of public projects.

The Authority is governed by a Board of Directors, which consists of the Board of Directors of the Agency.

THE AGENCY

Organization, Purpose and Powers

The Agency is a dependent special district established under the Alameda County Flood Control and Water Conservation District Act (the "District Act"). The District Act (Act 20 of the Uncodified Acts of the California Water Code) was passed by the state Legislature in 1949. The Agency was established by a vote of the residents of the Livermore-Amador Valley (the "Livermore Valley") area in 1957, with its own independently-elected board to provide local control of integrated water resources. The Agency is responsible for providing wholesale treated (drinking) and untreated (agricultural irrigation) water, flood control and groundwater management throughout eastern Alameda County.

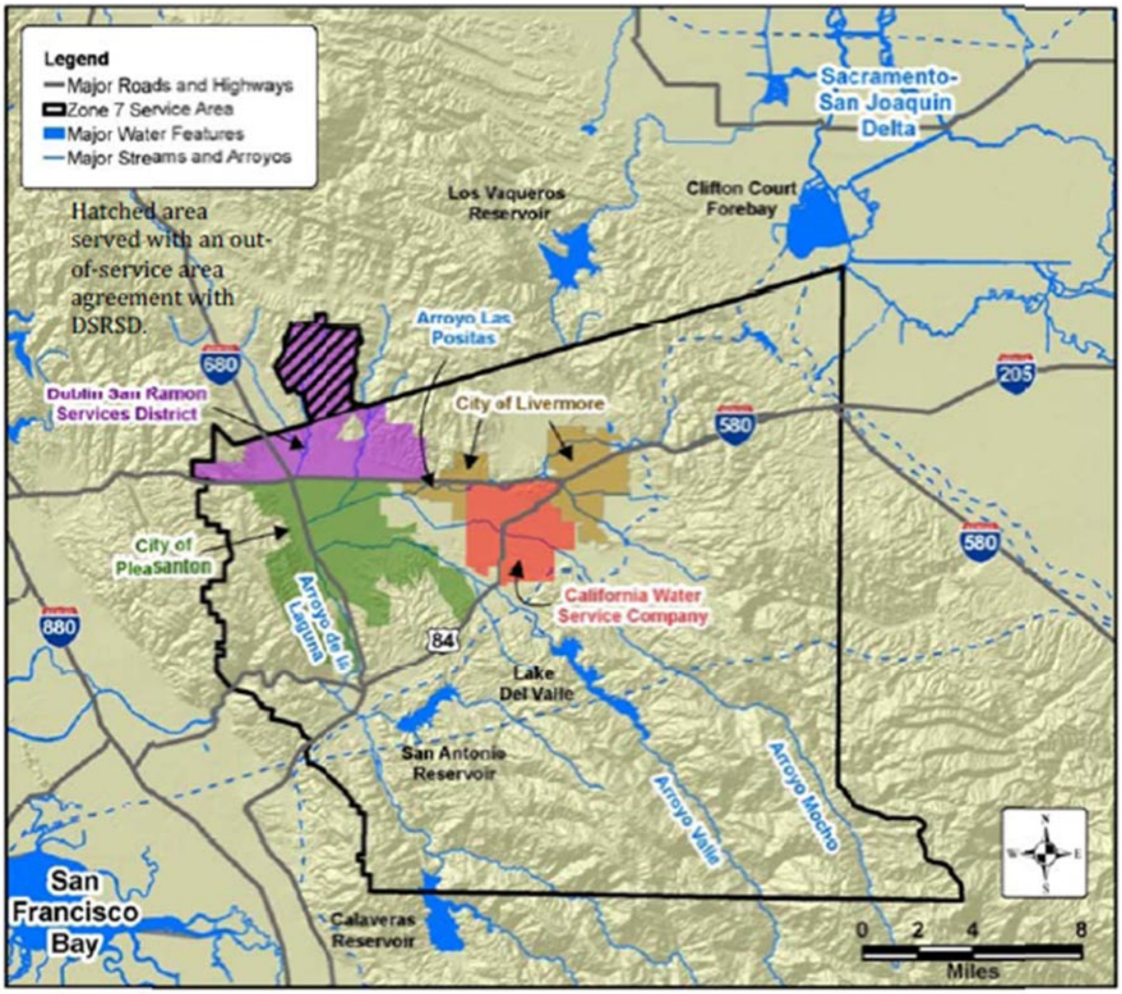
The Agency is further authorized by the District Act to prevent interference with or diminution of, or to declare rights in the natural flow of any stream or surface or subterranean supply of waters used or useful for any purpose of the Agency and to prevent contamination, pollution or otherwise rendering unfit for beneficial use the surface or subsurface water used or useful in the Agency. The Agency has broad powers to finance, construct and operate a system for the transportation, storage, treatment and distribution of water. The Agency is also authorized to levy replenishment assessments upon the production of groundwater from all water-producing facilities, whether public or private, within the Agency's service area.

In 2003, the legislature passed Assembly Bill 1125 and gave the Agency Board full authority and autonomy to govern matters solely affecting the Agency independently of the Alameda County Board of Supervisors. The Alameda County Board of Supervisors, acting as the Board of Supervisors of the Alameda County Flood Control and Water Conservation District (the "District"), governs the other nine zones of the District. The other zones are operationally and financially independent from the Agency.

Service Area

The Agency's service area covers 425 square miles of eastern Alameda County. The Agency supplies treated drinking water to retailers serving over 240,000 people and businesses in Pleasanton, Livermore, Dublin, and through a special agreement with the Dublin San Ramon Services District, the Dougherty Valley area in San Ramon. The Agency also supplies untreated irrigation water to local vineyards, farms and golf courses, and provides both flood protection and groundwater management to all of eastern Alameda County. Of the approximately 55,000 acre-feet of water used in the Agency's service area on average in a normal rainfall year, the Agency estimates that approximately 53% of water use in the Agency's service area is residential, approximately 11% is commercial/industrial, approximately 14% is agricultural, approximately 18% is landscape/other and approximately 4% is public water use. The 55,000 acre-feet of water referred to above includes treated water provided by the Agency, local groundwater pumped by the water retailers, water provided by the State Water Project, and local surface water.

The map below shows the Agency's service area.



Water System

The Agency provides wholesale potable (treated) water to four retail water suppliers, untreated water to Livermore-Amador Valley irrigation customers (primarily vineyards) and flood protection services to eastern Alameda County. The service territory includes 425 square miles of eastern Alameda County and, by special agreement with Dublin San Ramon Services District ("DSRSD"), the Dougherty Valley portion of San Ramon. The Agency's major potable (treated) water customers are the cities of Pleasanton and Livermore; DSRSD (serving Dublin and the Dougherty Valley portion of San Ramon); and California Water Service Company-Livermore District (serving a portion of Livermore) ("Cal Water"). These customers are collectively referred to as the "Agency Retailers."

The Agency's water supply has two major components: (1) incoming water supplies available through contracts and water rights and (2) accumulated water supplies in storage. Incoming water supplies consist of annually allocated imported surface water supply and local surface water runoff. Accumulated or "banked" water supplies are available in local and non-local storage locations.

Three of the Agency's retailers — DSRSD, Livermore, and Pleasanton—also produce and/or supply recycled water to their service areas. Two retailers, Pleasanton and Cal Water, pump groundwater directly in addition to the water supply provided by the Agency. DSRSD has a contract with the Agency to pump groundwater on its behalf.

Purchased water from the State Water Project —the nation's largest publicly-built water storage and conveyance system and serving over 25 million people throughout California—is by far the Agency's largest water source, providing over 80% of the treated water supplied by the Agency to its customers on an annual average basis. See "STATE WATER PROJECT."

Other Agency Operations

In addition to the Agency's water operations, the Agency also undertakes flood protection and other activities, as described below. These operations are financially independent from the Water System, and are funded from other sources of funding for the Agency, which do not constitute Water Revenues, and are not pledged to payment of the Bonds or the 2018 Installment Sale Payments. Following is a description of certain of the Agency's other operations.

<u>Flood Protection</u>. The Agency owns and maintains 37 miles of local flood-protection channels, about a third of all the Livermore Valley's channels and creeks. The remaining channels are owned either privately or by other public agencies, which are responsible for repairs and maintenance.

The Valley's flood-protection system begins at city-owned storm drains on local streets. Storm water flows through underground pipelines into creeks or man-made channels feeding into Arroyo Mocho, Arroyo las Positas and Arroyo del Valle. These larger channels converge with Arroyo de la Laguna, which ultimately drains into San Francisco Bay through Alameda Creek. In addition to flood protection, the channels also have recreational benefits and protect natural habitat.

To ensure that its flood-protection channels are ready for the next big storm, the Agency conducts routine maintenance such as inspections, embankment and drain structure repairs, vegetation management, silt removal and pest control.

<u>Emergency Repairs</u>. The Agency also administers an emergency response program that prepares it to act quickly and minimize the loss of life and property should a flood occur. For federally declared storm disasters, the Agency may apply for reimbursement from the Federal Emergency Management Agency or the U.S. Army Corps of Engineers.

<u>Watershed and Environment</u>. The Agency undertakes various activities to protect and enhance the local watershed, local drinking-water supplies, and the flood-protection system, including the following: development of stream and watershed management plans, public education, community engagement events, and partnerships with other organizations. The Agency is a participant in a multi-agency partnership (Living Arroyos) designed to enhance and maintain the urban streams and streamside habitats of the Livermore-Amador Valley, while continuing to protect drinking water supplies and prevent flooding.

Board of Directors and Management

Board of Directors. The Agency Board is composed of seven members (each, a "Director"). Members of the Agency's Board of Directors are elected every two years in June of even-numbered years. The office is non-partisan and the seven directors serve "at-large," meaning they represent all customers within the Agency's boundaries rather than geographic sub-areas. Their four-year terms are staggered, with four terms expiring in one even-numbered year and with the other three terms expiring the following even-numbered year. The current Directors are:

John Greci, President -- Term Expires June 30, 2018. Mr. Greci lives in Livermore, has served on the Agency Board since 1994 and previously served as the Agency Board President four other times. He is a retired Lawrence Livermore National Laboratory supervisor overseeing groundwater cleanup projects and environmental quality.

James (Jim) McGrail, Vice President -- Term Expires June 30, 2018. Mr. McGrail is a Livermore resident, attorney and vineyard owner who has served on the Agency Board since 2014.

Richard (Dick) Quigley, Member -- Term Expires June 30, 2020. Mr. Quigley is a retired senior logistics coordinator at Lawrence Livermore National Laboratory. He previously served as Agency Board President for Fiscal Year 2016-17. Mr. Quigley is a Pleasanton resident, has served on ACWA's Board of Directors and currently is a Region 5 board member and a past chair.

Angela Ramirez Holmes, Member -- Term Expires June 30, 2020. Ms. Ramirez Holmes is a Pleasanton resident, and a political consultant who has served on the Agency Board since 2012.

Sands Figuers, Member -- Term Expires June 30, 2020: Mr. Figuers is a Livermore resident and groundwater geologist. He previously served on the Agency Board for 12 years in the late 1980s, and once again starting in 2008.

William (Bill) Stevens, Member -- Term Expires June 30, 2018. Mr. Stevens is a Livermore resident and a geotechnical and civil engineer who has served on the Agency Board since 1998.

Sarah Palmer, Member -- Term Expires June 30, 2018. Ms. Palmer is a Livermore resident, has a Ph.D in biochemistry, and teaches Advanced Placement Environmental Science at Foothill and Dublin High Schools with the Tri-Valley Regional Occupational Programs. She has served on the Agency Board since 2006.

Management. The Agency is headed by a General Manager, Treasurer/Assistant General Manager – Finance, Agency Counsel, Integrated Water Resources Manager, Production Manager and Engineering Manager. The Agency's prior General Manager retired effective March 30, 2018. Valerie Pryor has been appointed by the Agency Board to serve as General Manager effective April 22, 2018. In the interim Osborn Solitei, the current Treasurer/Assistant General Manager – Finance, will serve as Interim General Manager.

Valerie Pryor, Incoming General Manager. Ms. Pryor will become Zone 7 Water Agency General Manager effective April 22, 2018. Prior to joining Zone 7, she was the Assistant General Manager for Santa Clarita Valley Water Agency from 2017 and before that she was the Administrative Service Manager for the Santa Clarita Valley Water Agency and also served as Chief Financial Officer and Treasurer. At Santa Clarita Valley Water Agency she held the position of Administrative Service Manager since 2003. Prior to working with Santa Clarita Valley Water Agency, Ms. Prior worked for the City of Los Angeles, as the head of Administrative Services for the Department of Transportation. She also worked for the City of Los Angeles City Administrative Officer, performing budget and policy analysis for a number of City of Los Angeles departments.

Ms. Pryor holds a Master of Arts in Urban Planning and a Bachelor of Arts in Geography from the University of California at Los Angeles as well as a post-graduate Diploma in Economics from Bristol University, England. She is a member of the California Municipal Treasurer's Association, the California Society of Municipal Finance Officers and the Government Finance Officers Association. She serves as an Alternate Director for the State Water Project Contractors Authority.

Osborn Solitei, Treasurer/Assistant General Manager – Finance. Mr. Solitei joined the Agency as Assistant General Manager, Finance in August 2015. Mr. Solitei's experience spans nearly 20 years in a wide range of areas including: finance and budgets, accounting, economic development, technology, auditing, capital projects and administration. Prior to joining the Agency, Mr. Solitei was with the City of Oakland from 2005 to 2015 serving in various capacities including as Director of Finance/Controller. As the Assistant General Manager, Finance, Mr. Solitei serves as the Treasurer for the Agency and is also responsible for managing human resources administration, labor relations, municipal finance and budget development, information technology and retailers engagement.

Mr. Solitei holds a Master of Business Administration (MBA), Finance and a Bachelor of Science degree in Business Administration and Finance from California State University, East Bay. He currently serves as an alternate on the Board of California Urban Water Agencies and is a member of the Government Finance Officers Association and the Association of California Water Agencies.

Ms. Carol Mahoney, Manager of Integrated Water Resources. Ms. Mahoney joined the Agency in the Water Resources section in 2000. From 2006 to 2011, she worked on special projects and other agency negotiations. In 2011 she assumed a supervisory role over the Integrated Planning Section and, subsequently in 2015, the Integrated Water Resources Division. During her tenure at the Agency, she has been involved extensively with the Capital Improvement Plan, the Stream Management Master Plan, the Chain of Lakes and Livermore's El Charro Specific Plan. She also served as chair of the Bay Area Flood Protection Agencies Association, providing an important bridge between flood protection and water supply at the Agency. Ms. Mahoney also participated in the San Francisco Bay Area Integrated Regional Water Management group (for tracking grant opportunities).

Ms. Mahoney has both a Bachelor of Science degree in Geology from Centenary College of Louisiana and Master in Geology from Vanderbilt University, and holds Registered Geologist and Certified Hydrogeologist registrations in California.

Mr. Jarnail Chahal, Engineering Manager. Mr. Chahal has been the Agency's Engineering Manager since July 2011. Mr. Chahal has a long career with the Agency starting in September 1990 as a Junior Engineer and progressing to Assistant Engineer, Associate Engineer, Senior Engineer and Principal Engineer for the Water Supply Engineering Section. During his tenure at the Agency, Mr. Chahal has successfully led capital improvement plans related to water systems, water resources and groundwater basin management. Mr. Chahal holds a Master of Science degree in Civil Engineering with a Water Resources focus from San Jose State University and a Bachelor of Science degree in Civil Engineering degree from Punjab University in India.

Mr. Colter Andersen, Production Manager. Mr. Andersen came to the Agency in March 2005 from the City of Antioch starting as a Water Plant Operator III holding Grade 4 Treatment and Grade 2 Distribution licenses. Mr. Anderson was promoted to Water Facilities Supervisor in December 2005 and received his Grade 5 Treatment license in August 2006. In October 2010, Mr. Anderson was promoted to the position of Operations Manager and in August 2015 he earned his Grade 5 Distribution license and subsequently promoted to Production Manager in 2017.

Employee Relations

As of June 30, 2017 the Agency has an authorized staff of 126 full-time employees of which 20 are unrepresented management employees. The remainder of the Agency's employees are currently represented by four labor organizations:

Northern California Public Sector Region Local 1021 of the Service Employees International Union, CTW ("SEIU Local 1021"), represents 48 of the Agency's employees in the Administrative Services, Engineering, Integrated Water Resources, Office of the General Manager and Production departments with benefits and conditions of employment covered by a memorandum of understanding ("MOU") between SEIU Local 1021 and the County of Alameda dated December 21, 2015 – December 14, 2019. Wages are covered by a MOU between SEIU Local 1021 and the Agency dated July 3, 2016, which expires June 29, 2019.

Alameda County Management Employees Association, General Government and Confidential Units ("ACMEA"), represents 21 of the Agency's employees in the Administrative Services, Engineering, Integrated

Water Resources, Office of the General Manager and Production departments with benefits and conditions of employment covered by a MOU between ACMEA and Alameda County dated April 9, 2017 – June 25, 2022 and approved by the Alameda County Board of Supervisors on February 6, 2018. Wages are covered by a MOU between ACMEA and the Agency dated July 3, 2016, which expires June 29, 2019.

International Federation of Professional and Technical Engineers, Local 21, Unit 60 ("IFPTE Local 21"), represents 19 of the Agency's employees in the Engineering and Integrated Water Resources departments with benefits and conditions of employment covered by a MOU between IFPTE Local 21 and the County of Alameda dated March 4, 2012 – June 3, 2017. A successor MOU between IFPTE Local 21 and Alameda County is in the process of being negotiated. Wages are covered by a MOU between IFPTE Local 21 and the Agency dated July 2, 2017, which expires June 29, 2019.

Alameda County Building and Construction Trades Council ("Building Trades"), represents 18 of the Agency's employees in the Production department with benefits and conditions of employment covered by a MOU between Building Trades and Alameda County dated December 23, 2012, which expires July 28, 2018. Wages are covered by a MOU between Building Trades and the Agency dated July 3, 2016, which expires June 29, 2019.

Insurance

The Agency maintains insurance through the County of Alameda's overall insurance policies. The County is exposed to various risks of loss related to torts (theft, damage, and/or destruction of assets, errors and omissions, injuries to employees, natural disasters or medical malpractice). The County maintains risk-financing internal service funds in which assets are set aside for claim settlements associated with general, automobile, and medical malpractice liability; workers' compensation; unemployment; and dental benefits to employees. The County uses a combination of self-insurance, participation in insurance pools, and purchased insurance coverage for protection against adverse losses. Excess general liability, workers' compensation, and medical malpractice coverage are provided by CSAC-Excess Insurance Authority ("CSAC-EIA"), a joint powers authority whose purpose is to develop and fund programs of excess and primary insurance for its member counties and other California public entities. Purchased insurance includes primary all-risk property insurance for the entire County's real and personal property, equipment and vehicles; and earthquake insurance for selected real property. The coverages procured by the County through CSAC-EIA include for "all risk" coverage for casualty of up to $3 million per occurrence, with excess insurance in excess of $100 million. Since the coverages relate to the entire County's real and personal property in addition to the real and personal property of the Agency, in the event of a natural disaster or casualty affecting the County as well as the Agency, there can be no assurances coverage amounts will be available to the Agency.

Budgeting Process

The Agency's budget for each fiscal year is required to be adopted by June 30 of the year prior to such fiscal year. The budget process begins at the "Section" level. Supervisors prepare their respective budgets and submit them to the Section Managers, which are then provided to the governing Assistant General Managers for analysis and consideration. Assistant General Managers eventually propose their respective draft budgets to the General Manager, who considers Agency priorities, overall impact and ultimate direction regarding each of the Agency's funds to develop the full budget draft. The vetted budget draft is then presented to the Agency Board for review and adoption prior to June 30. The current two-year budget was adopted on June 15, 2016. A proposed mid-cycle budget amendment for Fiscal Year 2017-18 was adopted on June 21, 2017.

The budget is a management tool intended to aid in the planning efforts of the Agency and to serve to guide expenditures to ensure the fiscal health and financial future of the agency. To aid in the management of the budget, certain "rules" or "controls" have been established that require appropriate levels of approval on the expenditure of Agency funds as well as reporting requirements of financial information to the Agency

Board and the public. All budget transfers are documented and tracked in the Agency's computerized financial system.

Once the budget is approved by the Agency Board, staff implements and manages operations in accordance with the approved budget. Each section supervisor is accountable for their respective budget performance which is also monitored by finance staff and executive management. Quarterly reports produced by finance staff are provided to the Agency Board updating them on the agency's expenditure of public funds.

Once the budget is adopted, managers are expected to stay within the constraints of the approved section budgets. Line items in each section budget can be modified during the year; however the total departmental budget cannot be exceeded without the Agency Board's approval.

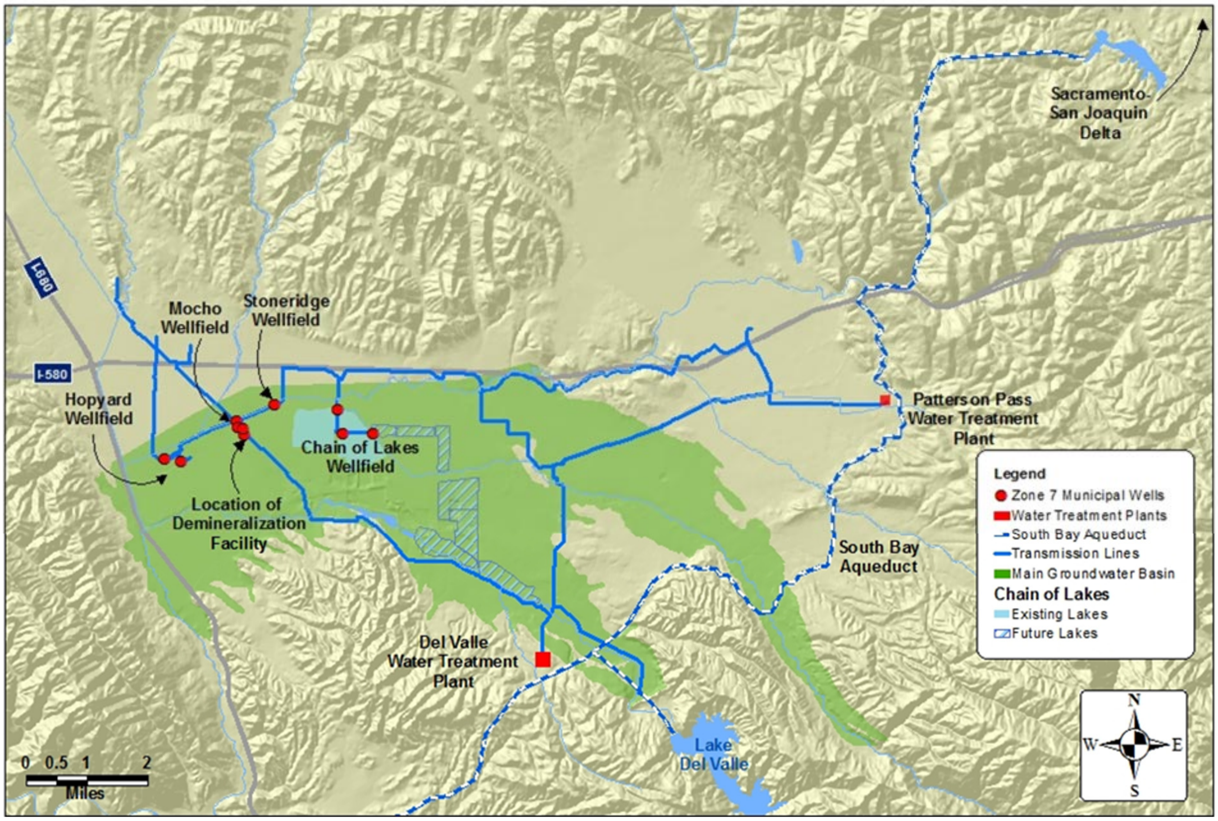
In addition, the budget provides the annual authorization for positions, employee pay and benefits. Staff reports the status of expenditures and revenues compared to the budget each quarter.

AGENCY FACILITIES

The Agency owns and operates three drinking surface water treatment plants (each, a "WTP"): the Del Valle Water Treatment Plant, the Patterson Pass Water Treatment Plant, and the Patterson Pass Ultrafiltration Water Treatment Plant. The Agency treats surface water imported from outside the Livermore Valley, along with runoff collected in Del Valle Reservoir, at one of the WTPs to make it ready for drinking before distribution. The WTPs are strategically located in the eastern and southern portions of the Livermore Valley because the elevation is higher and gravity helps distribute the water to customers without high pumping costs; in addition, surface water enters the water system in those locations.

The Agency owns and operates ten municipal supply wells located in four wellfields which access the Main Basin (most productive portion of the local groundwater basin). The wells are used for meeting peak hourly and seasonal demands and to meet demands when imported surface water supplies are not sufficient due to drought or other raw water conveyance facility outages. During dry years, the wells pump more groundwater as needed. Imported water recharged to the groundwater basin is filtered through the soils over a very long travel time before being pumped and delivered to customers. This process removes most surface water contaminants and biodegrades most pollutants, making groundwater from deep production wells one of the safest water supplies available. As water percolates through the soils, it also picks up naturally occurring minerals, including calcium and magnesium that can make the water hard. At the Mocho wellfield, there is a reverse osmosis membrane-based demineralization facility (Mocho Groundwater Demineralization Plant) designed to improve delivered water quality (i.e., make it less hard) and mitigate salt build-up in the groundwater basin. As with treated surface water, chloramines are added to groundwater to maintain transmission-system disinfectant residuals. A map of the Agency's facilities is below.

Zone 7 Major Water System Facilities



Agency Treatment Facilities

The following table contains certain information relating to the Agency's treatment facilities.

TABLE 1
Treatment Facilities

Facility	Location	Average Capacity
Del Valle Water Treatment Plant	Southern Livermore	36 million gallons per day ("MGD")
Patterson Pass Water Treatment Plant	Eastern Livermore	12 MGD
Patterson Pass Ultrafiltration Water Treatment Plant	Eastern Livermore	7 MGD
Mocho Groundwater Demineralization Plant	Northern Pleasanton	6 MGD of demineralized groundwater, blended with other water supplies for delivery to retailers

Surface Water Treatment Plants. The Agency operates two water treatment plants: the Del Valle Water Treatment Plant and the Patterson Pass Water Treatment Plant. As described in "FINANCING PLAN" a portion of the proceeds of the Bonds is being used to pay the cost of significant improvements to the Del Valle Water Treatment Plant and the Patterson Pass Water Treatment Plant.

Del Valle Water Treatment Plant ("DVWTP"). The DVWTP is located along the South Bay Aqueduct, just south of Lake Del Valle, and has an average capacity of 36 MGD, (permitted up to 40.9 MGD). It can receive water either directly from the South Bay Aqueduct or from Lake Del Valle. The treatment processes include coagulation, flocculation, clarification, multi-media filtration, and chlorine disinfection. In addition, chloramine is added to maintain a disinfectant residual in the distribution system.

Patterson Pass Water Treatment Plant ("PPWTP") and Patterson Pass Ultrafiltration Water Treatment Plant. The PPWTP is located along the South Bay Aqueduct, just south of Interstate 580, and has an average capacity of 19 MGD (permitted up to 21. 5 MGD). Because PPWTP is upstream of Lake Del Valle, it is not able to physically receive water from this water supply source. There is a small 30-MG raw water reservoir onsite operated by the Department of Water Resources ("DWR"). There are currently two separate but parallel treatment plants at the plant site: a conventional plant and an ultrafiltration plant. The two plants share the same water source, finished-water clearwell, and solids handling facilities, but are operated independently of each other by the Agency.

The treatment processes in the conventional system include coagulation, flocculation, sedimentation, dual-media filtration, and chlorine disinfection. The ultrafiltration plant consists of coagulation, flocculation, sedimentation, an ultrafiltration membrane system, and chlorine disinfection. In addition, chloramine is used to maintain a disinfectant residual in the distribution system. The current filtration system at PPWTP is designed for 7 MGD net plant production, although the upstream solids contact clarifier has a 12 MGD design capacity (sized for future plant expansion). The ultrafiltration membrane filtration system was designed to be a temporary pilot facility to test ultrafiltration membranes for a future, larger water treatment plant and has become obsolete.

In 2015, Agency staff completed the PPWTP Expansion Feasibility Report, which concludes that expansion at the PPWTP site with conventional multi-media filtration treatment is the preferred alternative for meeting treated surface water production needs (along with production from DVWTP) through buildout of the Agency's service area. The recommendations are based upon the Agency's experience with treating the challenging source water quality and a detailed cost comparison with construction of a new treatment plant at an alternate site. Additionally, the 10-acre parcel located on the east side adjacent to PPWTP, which the Agency acquired from the DWR in 2013, could provide additional space for expansion at the PPWTP site.

The PPWTP Upgrades project will be constructed concurrently with the PPWTP Ozone project, using the same construction firm. The PPWTP Upgrades project includes construction of a new above-ground steel treated water storage clearwell with 5 MG of usable storage and new nominal 12 MGD media filtration system to provide additional capacity and replace the ultrafiltration plant membrane system, increasing the plant's capacity to 24 MGD by 2021. The PPWTP Upgrades project (with an estimated cost of approximately $39 million) is being financed with cash reserves and is not being financed with proceeds of the Bonds. The ultimate PPWTP capacity at build-out is planned at 36 MGD by 2028. This schedule may be adjusted based upon periodic updates to demand projections. This cost of the increased Treatment Plant Capacity project is currently projected to be approximately $128 million and is expected to be funded from water connection fees. See "CAPITAL IMPROVEMENT PLAN."

Mocho Groundwater Demineralization Plant

The Mocho Groundwater Demineralization Plant, located at the Mocho wellfield, is a reverse osmosis membrane-based demineralization facility designed to improve delivered water quality and mitigate salt build-up in the groundwater basin. Construction of this facility, which can produce up to 6.1 MGD of demineralized water, was completed in 2009. Under normal operation, 20 percent of the influent to the Mocho Groundwater Demineralization Plant is lost through brine disposal.

Wells

The Agency owns and operates ten municipal supply wells located in four wellfields. The Hopyard, Mocho, Stoneridge, and Chain of Lakes wellfields are situated in the west side of the service area. Their rated capacities are summarized in the table below. The total combined pumping capacity of all wells is approximately 42.3 MGD. Of the total pumping capacity, 10.8 MGD is intended primarily for use in emergency and drought conditions. Therefore, total groundwater pumping capacity under normal operating conditions is approximately 31.5 MGD.

TABLE 2
Groundwater Extraction Wells and Capacities

Facility	**Rated Capacity**	
	GPM[b]	**MGD**
Hopyard 6	3,817	5.5
Hopyard 9	1,110	1.6
Mocho 1	2,290	3.3
Mocho 2	2,221	3.2
Mocho 3	4,164	6
Mocho 4	3,678	5.3
Stoneridge Wellfield	4,580	6.6
Chain of Lakes 1	2,498	3.6
Chain of Lakes 2	3,470	5
Chain of Lakes 5	1,527	2.2
TOTAL	29,356	42.3

a. Note that there is lower net water production due to brine concentrate losses when the demineralization facility is operating.

b. GPM refers to Gallons per Minute

Storage and Transmission System

The Agency has four treated water storage reservoirs within the system: Dougherty Reservoir (which is a joint use facility with DSRSD), DVWTP Clearwells 1 and 2, and PPWTP Clearwell. These four facilities provide a total storage volume of 13.5 MG.

The Agency's transmission system consists of approximately 35 miles of pipeline ranging from 12 to 42 inches in diameter. Elevations across the transmission system range from 600 to 680 feet above mean sea level on the eastern side of the service area, to approximately 330 feet above mean sea level on the western side of the service area.

Local Storage

The Agency has three options for local storage: Lake Del Valle, the Main Basin, and, in the future, Chain of Lakes.

Lake Del Valle is used to store runoff from the Arroyo Valle watershed above the lake and also to store imported surface water deliveries from the State Water Project.

The Main Basin is used conjunctively and is artificially recharged with State Water Project water and local runoff. The Agency typically relies on the operational storage capacity of 126,000 acre feet ("AF"), with a typical recharge and extraction rate of about 9,200 AF per year. Lake Del Valle and the Main Basin are further described under "WATER SUPPLY."

The future Chain of Lakes is a series of former or active gravel quarry pits located in the heart of the Livermore-Amador Valley. The Chain of Lakes will ultimately consist of ten lakes named Lakes A through I and Cope Lake, connected through a series of conduits. The Agency currently owns Lake I and Cope Lake, and expects Lakes A and H to be dedicated to the Agency within the next few years once reclamation is completed. The remaining lakes (B through G) will be transitioned to the Agency over the next decades, likely through 2060. The Chain of Lakes will ultimately cover approximately 1,500 acres and have 150,000 AF of total storage volume; 31,000 AF is estimated to be available for operational storage.

Envisioned as a large facility to be used for water management and related purposes by the Agency, use of the Chain of Lakes will include surface storage of local runoff, State Water Project water, other potential future sources of surface water, stormwater, and, possibly, recycled water. With the surface water storage capability, the key functions of the Chain of Lakes are to facilitate increased recharge of the Main Basin and to allow the Agency to perfect its water right on the Arroyo Valle, thereby increasing future yields from this local supply. Lake I is currently planned to be the key recharge lake.

The main uncertainties or risks regarding the Agency's ability to use all of the remaining lakes within the Chain of Lakes area for water management are the timing of property transfer of the lakes to the Agency and the final physical lake configurations at reclamation (e.g., depth, areal extent). The agreements between the Agency and individual quarry operators require the property transfer, at no cost to the Agency, but do not specify a certain date, rather a timeframe when quarry reclamation is complete. Nor do the agreements specify storage volume requirements for the lakes. The Agency has no control over specific quarry mining operations, which are largely determined by gravel pricing and demand, and overseen by Alameda County. The Agency works closely with quarry operators and Alameda County to evaluate changes in mining and reclamation that may impact future use.

Seismic Considerations

In 1994, the Agency conducted a water system reliability assessment to provide an assessment of how the water system may respond under various earthquake conditions. The assessment examined several scenario earthquakes on different faults of varying magnitude, and identified and recommended facility upgrades that would improve the seismic reliability of the water system. An additional study was completed in 1996 to evaluate and further develop the seismic upgrades proposed in the earlier report and to prepare a preliminary design report for the recommended upgrades.

The majority of the recommended improvements for DVWTP, the groundwater wells, and the distribution system have been completed. Additionally, the DVWTP Ozone Project is expected to replace some older facilities at DVWTP. For some facilities, the storage of spare parts and other preparatory work for post-earthquake repairs were recommended in lieu of pre-earthquake upgrades as such facilities could be restored within a reasonable time. Some of the recommended improvements at PPWTP had been deferred as a facilities plan for the plant was to be developed to meet the increasing future water demands. This plan was completed in May 2017, as part of the PPWTP Upgrade Project and PPWTP Ozone Project. This project will eliminate the need for seismic upgrades to some existing facilities at PPWTP and will provide redundant facilities to allow other existing facilities at the plant to be taken offline for seismic upgrades following project completion.

The Agency proactively assesses its facilities and regularly updates renewal/replacement and system-wide improvement needs through the Capital Improvement Plan. Since 1996, additional groundwater production wells have been constructed to provide more water production reliability. Also, in 2009, the Agency completed approximately 5.6 miles of 42-inch diameter welded steel pipeline, which provides a pipeline loop in the distribution system. Most of the Agency's distribution system is now looped for increased operational flexibility to provide water using either groundwater wells or treatment plants, or a combination of these water production facilities.

WATER SUPPLY

Overview

Existing Supplies. Each year, the Agency's incoming water supplies are primarily comprised of State Water Project water in the form of the Table A allocation (as specified in the Agency's contract with DWR relating to the State Water Project (the "State Water Supply Contract")); a transfer agreement with Byron Bethany Irrigation District ("BBID"); and local surface water from Arroyo Valle captured in Lake Del Valle. Other minor sources of incoming supplies include the State Water Project Article 21 (surplus water) and the State Water Project Turnback Pool. Water from the Yuba Accord and the Dry Year Transfer Program is also available during dry years. These are all surface water supplies, delivered to the Agency service area via the State Water Project's South Bay Aqueduct ("SBA"). Summary information is presented below. Additional information concerning these supplies is presented later in this section.

Incoming Supplies:

Imported Supplies:	*State Water Project – Table A:* Table A amount of 80,619 AF, average of 50,000 AF per year; additional minor amounts available from Article 21 (surplus), and Turnback Pool; Yuba Accord water is also available during dry years
	Dry Year Transfers: As needed, when available
	BBID: In 1999, the Agency executed an agreement with the Byron-Bethany Irrigation District (BBID) to purchase up to 5,000 AF of water per year (pre-1914 water rights), with a minimum of 2,000 AF per year, when available
Local Surface Water:	Arroyo Valle: Runoff during the year captured in Lake Del Valle, average of 7,300 AF per year

To meet demands during dry years and emergencies (e.g., Sacramento-San Joaquin Delta pumping restrictions, SBA outage), the Agency places excess water supplies in storage both locally and outside its service area. Water is stored in the Livermore-Amador Valley Groundwater Basin (the Main Basin is the most productive portion of the basin) through artificial recharge when excess surface water is available from either the State Water Project or from Arroyo Valle runoff. State Water Project Table A water in excess of demand is also "carried over" (i.e., stored in State Water Project facilities, such as the San Luis Reservoir, as State Water Project Carryover) or transferred to offsite storage in Kern County groundwater banks as described below. Arroyo Valle runoff is captured and stored in Lake Del Valle for use during the following year. While the groundwater banks are treated as long-term storage (i.e., typically only accessed during dry years), State Water Project Carryover and Arroyo Valle runoff are typically only carried over from one year to the next. The Main Basin is used both for normal operations (to meet peak hourly demands and seasonal demands) and for long-term storage.

Supplies In Storage

State Water Project Carryover:	Typically target 7,000-10,000 AF; as of end of 2017: 10,100 AF (unused Table A)
Lake Del Valle:	Varies depending on hydrology up to about 7,500 AF; as of end of 2017: 5,600 AF
Main Basin	Water artificially recharged by the Agency into the local groundwater basin using imported and local supplies with total capacity of 254,000 AF; emergency storage capacity: 128,00 AF; operational storage capacity: 126,000 AF; storage as of end of 2017: 246,000 AF
Kern County Groundwater Banks:	Agreements with Semitropic Water Storage District and Cawelo Water District provides 198,000 AF of storage capacity; storage as of end of 2017: 104,100 AF

During a normal year, imported surface water (State Water Project Table A, State Water Project Carryover, BBID) directly provides 80% of the water that the Agency supplies, Arroyo Valle runoff makes up on average 10%, and local groundwater makes up the rest.

During dry years, water from storage—a combination of surface water and groundwater—is used to supplement that year's incoming water supplies to meet demands. Water from the Kern County groundwater banks, State Water Project Carryover, and Lake Del Valle are used to supplement incoming dry year supplies such as dry year transfers and Yuba Accord. Additional groundwater is also pumped locally.

Future Supplies. Along with California WaterFix (the State of California's planned comprehensive upgrades to the State Water Project; see "FACTORS AFFECTING WATER SUPPLIES – California WaterFix"), the Agency is currently pursuing potential alternative supplies to ensure reliability and meet future demands. Decisions on which projects to ultimately implement will be made over the next few years as projects evolve. These alternative supplies are briefly described below and described in more detail in later sections.

Sites Reservoir: The Sites Reservoir is envisioned to provide from 1.3 to 1.8 million AF of new storage capacity, and 500 thousand AF per year of average water supply yield. The project yield and associated costs are planned to be shared between the water agencies (including the Agency) and the State. The projected in-service date is around 2030. Along with the Sites Project Joint Powers Authority (the "Sites JPA") and a number of water agencies, the Agency is participating at 14,300 AF per year of Class 1 water (currently projected yield for public water agencies) and 5,700 AF per year of Class 2 water (potentially available additional yield depending on State's participation).

Los Vaqueros Reservoir Expansion: Contra Costa Water District ("CCWD") is planning for further expansion (+115,000 AF) of the reservoir to 275,000 AF and construction of the Transfer-Bethany Pipeline, which would connect the reservoir to the SBA system. The projected in-service date is around 2026. Along with CCWD and a number of public water agencies, the Agency is pursuing potential storage of State Water Project water (similar to Kern County groundwater banks) and potential yield to the Agency of up to 5,000 AF per year of CCWD's Delta surplus water.

Potable Reuse: In partnership with the retailers, the Agency is completing a feasibility study that shows 5,500 to 10,000 AF per year of potential yield. If a project is pursued, potentially could be in-service by 7-10 years.

Bay Area Regional Desalination Project: In partnership with four other Bay Area water agencies, the Agency has been evaluating the feasibility of a 10-20 MGD desalination facility using CCWD's water rights. If a project is pursued, potentially could be in-service by 7-10 years. This project is expected to result in about 5,000 AF per year of yield to the Agency.

The Agency is also exploring water transfers from north of the Delta (e.g., River Garden Farms) to supplement water supplies during shortages or to replenish storage.

Imported Supplies: State Water Project

Purchased water from the State Water Project —the nation's largest publicly-built water storage and conveyance system serving over 25 million people throughout California—is by far the Agency's largest water source, providing over 80% of the treated water supplied by the Agency to its customers on an annual average basis. See "STATE WATER PROJECT" for a description of the State Water Project.

Imported Supplies: Byron Bethany Irrigation District

The Agency and BBID have a long-term transfer agreement dating back to the original transfer demonstration project in 1994. Under this agreement, 2,000-5,000 AF of BBID's surplus water (pre-1914 water right) derived from land fallowing, long-term land use conversion, and conservation is transferred to the Agency. Transfer water is delivered to the Agency via State Water Project facilities (Banks Pumping Plant and the South Bay Aqueduct), which requires a Conveyance Agreement with DWR. The current contract with BBID extends through 2030, with option to extend through 2039.

Local Surface Water: Arroyo Valle

The Agency, along with the Alameda County Water District ("ACWD"), has a water right to divert flows from Arroyo Valle. Runoff from the Arroyo Valle watershed above Lake Del Valle is stored in the lake, which is managed by DWR as part of the State Water Project. Lake Del Valle stores imported surface water deliveries from the State Water Project and serves a flood control function, as well as a recreational one. In late fall, DWR typically lowers lake levels in anticipation of runoff from winter storm events. Water supply in Lake Del Valle is made available to the Agency via the South Bay Aqueduct through operating agreements with DWR. Inflows to Lake Del Valle, after accounting for permit conditions, are equally divided between ACWD and the Agency. During major storm events, the Agency is also able to access released stormwater from the lake directly at the WTPs.

Storage: State Water Project Carryover

Through the Agency's State Water Supply Contract, the Agency is able to store excess State Water Project Table A water in San Luis Reservoir. The Agency typically targets 7,000-10,000 AF of storage every year.

Storage: Lake Del Valle – Arroyo Valle Carryover

As described under "Local Surface Water: Arroyo Valle,", the Agency stores Arroyo Valle runoff, up to about 7,500 AF, in Lake Del Valle under an agreement with DWR. The runoff collected in any given year is required to be delivered to the Agency by the end of the following year. This stored water is referred to as "Arroyo Valle Carryover."

Storage: Local Groundwater Basin and Recharge Facilities

The Agency overlies the Livermore Valley Groundwater Basin, which extends from the Pleasanton Ridge east to the Altamont Hills and from the Livermore Uplands north to the Tassajara Uplands. The portion of the Livermore Valley Groundwater Basin that contains high-yielding aquifers and good quality groundwater is called the "Main Basin," which is composed of the Castle, Bernal, Amador, and Mocho II sub-basins.

The Main Basin has an estimated storage capacity of 254,000 acre-feet and receives an annual average natural recharge of approximately 13,400 AFA through percolation of rainfall, natural stream flow, and irrigation waters, and inflow of subsurface waters. This natural recharge is considered the long-term natural sustainable yield of the Main Basin, or the amount that can be pumped without lowering the long-term average groundwater volume in storage. The long-term natural sustainable yield is based on over a century of hydrologic records and projections of future recharge conditions.

The Agency uses the Main Basin as a storage facility and not a source of long-term water supply because the Agency only pumps groundwater it has artificially recharged using its surface water supplies. Natural recharge is allocated to users pre-dating the formation of the Agency. As the groundwater basin manager, the Agency's policy is to maintain groundwater levels above historical lows in the Main Basin through artificial recharge operations. State Water Project water or runoff from Arroyo Valle (stored in and released from Lake Del Valle) is used to recharge the Main Basin by releasing water from turnouts along the South Bay Aqueduct and the Del Valle Branch Pipeline into the Arroyo Mocho, Arroyo Valle, and Arroyo Las Positas for percolation down to the aquifers. The streams' total recharge capacity varies depending on hydrologic conditions, with higher recharge capacities occurring during dry years.

In 2016, the Agency officially accepted the role of Groundwater Sustainability Agency ("GSA") for the local groundwater basin under the Sustainable Groundwater Management Act ("SGMA"). Through continued coordination with other local agencies in the region and neighboring groundwater basins or subbasins, the Agency will continue to manage groundwater for the entire portion of the Livermore Valley groundwater basin that is within the Agency's service area as well as a small portion of Contra Costa County that is within the Agency water distribution area. The Agency will implement the groundwater management plan it submitted in compliance with SGMA to continue to responsibly and sustainably manage groundwater resources. On June 21, 2017, the Agency Board adopted the Sustainable Groundwater Management Ordinance (the "Sustainable Groundwater Management Ordinance"). The Sustainable Groundwater Management Ordinance was created to enhance existing sustainable management programs for the local groundwater basin. In the 2014 California Sustainable Groundwater Management Act , the Agency was recognized as the exclusive Groundwater Sustainability Agency in this area since it has been actively managing the local groundwater basin since 1962.

The Sustainable Groundwater Management Ordinance also includes provisions that allow the Agency to continue to collect groundwater monitoring information from everyone, including public water agencies, that extracts groundwater within the Agency's service area for the purposes of monitoring the existing condition of groundwater resources within the service area, determining trends, or developing effective sustainable groundwater management plans and policies.

Storage: Kern County Groundwater Banking Programs

The Agency participates in two groundwater banking programs (Semitropic and Cawelo Water District) located in Kern County. During normal or wet years, the Agency can send excess water to Kern County via the California Aqueduct for storage. However, the Agency must use exchanges with other State Water Project contractors located south of Kern County (e.g., Metropolitan Water District) to recover previously stored water supplies during times of need (e.g., drought) because the Agency's location is upstream of Kern County. There must be sufficient water flowing through the State Water Project to facilitate exchanges between the Agency and State Water Project contractors located south of Kern County. All recovered groundwater from these programs must be delivered to the Agency via the Banks Pumping Plant in the Delta and then the South Bay Pumping Plant to the South Bay Aqueduct. Therefore, if Delta conveyance is unavailable (e.g., earthquakes, salinity intrusion, etc.), then the Agency would not have access to the banked water.

Additional information concerning these groundwater banking programs is set forth below.

Semitropic Water Storage District. The Agency originally acquired a storage capacity of 65,000 AF in the Semitropic Water Storage District ("Semitropic") groundwater banking program in 1998. Subsequently, the Agency agreed to participate in Semitropic's Stored Water Recovery Unit, which increased pumpback capacity. The Agency currently has a total of 78,000 AF of groundwater banking storage capacity available to augment water supplies during drought conditions. During non-drought periods, the Agency can store up to 5,883 AF in the Semitropic groundwater bank. However, a 10% loss is associated with water stored in Semitropic. The agreement is in effect through December 31, 2035.

Under the contract terms, the Agency can request up to 9,100 AF of pumpback and up to 8,645 AF of exchange water. Pumpback is water that is pumped out of the Semitropic aquifer and into the State Water Project system. Exchange water is water that is transferred between the Agency and Semitropic by adjusting the amounts of Table A water delivered to the Agency and Semitropic; the availability of this type of water depends on sufficient projected State Water Project allocations. During the recent drought, the Agency was able to recover 9,900 AF of exchange water in 2014 and approximately 12,500 AF of pumpback water in 2015. See "- Imported Supplies: State Water Project."

Cawelo Water District. Similar to the arrangements with Semitropic, the Agency has 120,000 AF of groundwater banking storage capacity available with Cawelo pursuant to the Cawelo Water Banking Agreement. During non-drought periods, the Agency can store up to 5,000 AFA in the bank. The Agency has the ability to request up to 10,000 AFA of pumpback (or State Water Project exchange water) from Cawelo. During the recent drought, the Agency was able to recover 9,700 AF , delivered evenly over 2014 and 2015; most of this water was used directly while the rest was stored in San Luis Reservoir for future use. The agreement is in effect through December 31, 2035.

Historical Water Deliveries

The Agency records the volume of water delivered by the Agency. The following table presents a summary of historical water deliveries for the five most recent calendar years.

TABLE 3
Historical Water Deliveries

	2013		2014		2015		2016		2017	
	Treated Water	Retailer GW[(1)]	Treated Water	Retailer GW[(1)]	Treated Water	Retailer GW[(1)]	Treated Water	Retailer GW[(1)]	Treated Water	Retailer GW[(1)]
Pleasanton	14,566	3,516	9,650	3,486	7,729	3,630	8,646	3,426	9,007	4,538
DSRSD	10,603	645	7,905	645	6,821	645	7,474	645	8,664	645
CalWater	8,752	2,667	5,405	2,821	4,545	2,360	5,135	2,424	6,273	1,878
Livermore	6,731	0	5,064	0	4,556	0	4,818	0	5,326	0
Direct Customers[(2)]	186		196		270		604		905	
Subtotal	40,838	6,828	28,220	6,952	23,921	6,635	26,677	6,495	30,175	7,061
Untreated Water	6,174		4,981		5,635		4,678		4,555	
Total	47,012	6,828	33,201	6,952	29,556	6,635	31,355	6,495	34,730	7,061

(1) Retail GW is refers to Retailer Groundwater Pumping Quota. For more information see "Groundwater Recharge Fee"

(2) Direct customers include Lawrence Livermore National Laboratory, Livermore Area Parks and Recreation Department, Veteran's Hospital, State of California Department of Water Resources, East Bay Regional Parks and Wente Brothers.

As discussed under "WATER SUPPLY—Overview", the Agency uses a variety of supplies to meet demands. Incoming supplies (new supplies) are combined with water recovered from storage to meet demands. Differences in water deliveries or demands and supplies may vary significantly from one year to the next. Factors such as voluntary and mandatory water use reductions, weather conditions (rainfall, temperature), environmental conditions, new development, and the local economy affect water demands. Water supplies are generally affected by hydrology, State Water Project facility conditions, and environmental regulations.

Table 4 shows the use of various supplies over the last five years. When available supplies exceed demands, water goes into storage; water supplies may also be transferred from one storage location to another to support operational needs and increase system reliability. Table 4 also shows the Agency's storage levels over the last five years as storage is drawn down and replenished over time.

TABLE 4
HISTORICAL WATER SUPPLY AND DEMAND

SUPPLIES (acre-feet)	**2013**	**2014**	**2015**	**2016**	**2017**
State Water Project, Table A	28,200	4,000	16,100	48,400	68,500
Yuba Accord/Other[(1)]	5,320	380	350	800	710
Byron Bethany Irrigation District	2,240	0	0	0	0
Arroyo Valle[(2)]	3,490	480	2,860	100	9,520
Groundwater	9,830	7,620	2,040	1,810	4,610
State Water Project - Carryover	22,780	17,530	8,800	13,400	2,940
Kern County Groundwater Banks	4,000	14,910	16,490	320	0
Total Supplies	**75,860**	**44,920**	**46,640**	**64,830**	**86,280**
				DEMANDS (acre-feet)	
Retailer Demand	41,300	28,670	24,307	26,535	29,703
Untreated Water Demand	6,170	4,980	5,590	4,660	4,560
Direct Retail Demand	190	200	270	604	905
Groundwater Recharge	8,970	1,440	4,230	10,360	9,050
Kern County Groundwater Banks Recharge	0	0	0	12,000	30,000
State Water Project Carryover or Other Storage	18,290	9,120	10,856	9,350	10,040
Transmission System Loss	940	510	1,387	1,321	2,022
Total Demands	**75,860**	**44,920**	**46,640**	**64,830**	**86,280**
			Supplies in Storage (End of the Year)[(3)]		
SWP Carryover	18,300	5,700	13,400	9,400	10,100
Arroyo Valle Carryover	200	2,300	100	8,900	5,600
Groundwater-Emergency	128,000	128,000	128,000	128,000	128,000
Groundwater-Operational	106,000	103,000	96,000	99,000	109,000
Kern Banks	107,100	92,200	74,400	82,100	104,100
Total Supplies in Storage	**359,600**	**331,200**	**311,900**	**327,400**	**356,800**

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(1) Other includes sources like Yuba Accord, Dry Year Transfer Program, and Turnback Pool.

(2) Amounts used directly by the Agency. Excess supplies become Arroyo Valle Carryover.

(3) Supplies in storage reflect net amounts after storage losses are accounted for.

Agency incoming water supplies were below normal in 2011 through 2015 as a result of Statewide drought conditions. Drought conditions affect local surface water runoff as well as State Water Project allocations. As described herein, the Agency offset certain of the reductions in State Water Project allocations through exchanges, transfers, and other supplemental supplies. See the caption "FACTORS AFFECTING WATER SUPPLIES — Receipt Drought Response." Storage was drawn down over 2014 to 2016 but has essentially recovered to pre-drought 2013 levels in 2017. Note that the Agency has reserved 128,000 AF of the Main Basin for emergency storage and typically does not rely on this supply for long-term planning purposes; even during the recent major drought event, the Agency stayed well above emergency storage at a lowest point of 224,000 AF in the Main Basin.

Projected Water Deliveries and Sources of Water Delivered

Table 5 presents long-term average water supply and demand projections through buildout. During wet years the Agency stores excess supply in Kern County water banks. These tables incorporate updates since the Agency's 2015 Urban Water Management Plan and 2016 Water Supply Evaluation were completed. The State Water Project Table A average allocation is projected to decrease from 62% to about 48.5% of the Agency's Table A amount of 80,619 AF due to more stringent environmental regulations in the Delta. As noted above, the Agency is pursuing a number of potential alternative supplies to bolster reliability and meet future demands. Retailer demands reflect recovery from the drought and compliance with the Water Conservation Act of 2009 (20% reductions by 2020) but do not reflect the potential effects of the Governor's proposed long-term conservation framework, which will require further reductions in water use in California.

TABLE 5
PROJECTED WATER SUPPLY AND DEMAND THROUGH BUILD-OUT

SUPPLIES (acre-feet)	2020	2025	2030	2035
State Water Project Table A	39,100	39,100	39,100	39,100
Yuba Accord	100	100		
Byron Bethany Irrigation District	2,000	2,000	2,000	2,000
Arroyo Valle	7,300	7,300	10,300	10,300
California Water Fix				14,100
Potential Alternative Supplies: Short-term Transfer, Sites Reservoir, Los Vaqueros Reservoir, Potable Reuse and/or Desalination	3,000	5,500	10,000	10,000
Groundwater	9,200	9,200	9,200	9,200
State Water Project - Carryover	10,000	10,000	10,000	10,000
Total Supplies	70,700	73,200	80,600	94,700
DEMANDS (acre-feet)				
Retailer Demand	39,100	42,850	46,600	47,600
Untreated Water Demand	6,200	6,600	7,800	8,300
Direct Retail Demand	200	300	300	300
Groundwater Recharge	10,100	10,100	10,100	10,100
State Water Project Carryover or Other Storage	10,000	10,000	10,000	10,000
Transmission System Loss	2,200	2,400	2,600	2,600
Total Demands	67,800	72,200	77,400	79,000
DIFFERENCE (SUPPLIES – DEMANDS)	2,900	100	3,200	15,700

Source: 2015 Urban Water Management Plan (with updates)

Agency Response to Drought

The recent state-wide drought created challenges to the Agency both from a water supply and from a financial perspective. On January 17, 2014, Governor Brown declared a State of Emergency in California due to drought conditions and asked all residents to cut back water use by 20%. On January 29, 2014 at a special meeting of the Agency Board, a local Drought Emergency was declared and a Drought Emergency Response Plan was accepted. The Agency Board approved three emergency projects at that time to bolster system reliability: (i) Lake I - Cope Lake Pipeline, which will allow captured groundwater from mining activities to be recharged back into the Main Basin, (ii) Chain of Lakes Well No. 5, which will increase groundwater production capacity during droughts and facility outages, and (iii) design of Busch Valley Well No. 1, a new well which is expected to increase groundwater production capacity (planned for completion in 2020).

As a result of the local state of drought emergency declaration, the Agency's retailers were directed to achieve 25% conservation. In calendar year 2014, 29% savings was actually achieved. On April 1, 2015, Governor Brown issued an Executive Order, requiring 25% water conservation measures statewide for residential use relative to 2013 use. Agency customers responded with conservation levels of 40% for calendar year 2015 relative to their 2013 usage. Conservation of this magnitude significantly reduced volume-based revenues, with no fixed component. In calendar years 2014 and 2015, the low water allocations from the State Water Project were countered by withdrawing stored groundwater both from the local groundwater basin and from out-of-basin groundwater banks in Kern County.

During fiscal years 2013-14 through 2015-16, the Agency's water enterprise fund used $26 million in cash reserves in lieu of rate increases to fund operations while experiencing significant losses in water rate revenue during the drought. In order to recover from significant financial losses during four years of drought, in June 2015, Raftelis Financial Consultants was hired to analyze the Agency's cost of service and propose a three-year wholesale water rate schedule. In October 2015, the Agency Board approved a three-year rate increases of 13% annually for calendar years 2016, 2017 and 2018. The Agency Board also approved a temporary surcharge for calendar 2016 of $0.57 per 100 cubic foot ("CCF"), which was extended to 2017. In 2017, the Agency restructured then current treated water rate structure to include a fixed revenue component. See " - New Water Rate Setting Methodology; Current Water Rates."

In addition, on March 16, 2016, the Agency Board adopted the 2015 Urban Water Management Plan including a Water Shortage Contingency Plan. The plan analyzed the impacts of a water shortage on revenues and identified measures to minimize financial impacts, including separate declaration of water shortage stages, with surcharges for each stage. These surcharges could be implemented during water shortages at the discretion of the Agency Board in the event that a declared water shortage stage generates a projected reduction in water usage and corresponding sales. The Agency plans to cover a percentage of the revenue losses with reserves and the remainder of losses not covered through reserves could be generated through a water shortage surcharge in accordance with the table below.

TABLE 6
Water Shortage Surcharge Rates

Stage	Demand Reduction Targets	Water Shortage Surcharge Rate (per CCF)
1 – Minimal Shortage	Up to 20% (Voluntary)	Use of Reserves
2 – Moderate Shortage	Up to 20% (Mandatory)	$0.35
3 – Severe Shortage	Up to 35% (Mandatory)	$0.75
4 – Critical Shortage	Greater than 35% (Mandatory)	$1.40

A water shortage surcharge adopted by the Agency Board becomes effective on the first day of the month following thirty days after adoption. The adopted water shortage surcharge will sunset after six months, unless extended or modified by action of the Agency Board.

Quality of the Agency's Water

The Agency operates its water system under water supply permit no. 02-04-96P-0110010 dated May 15, 1996, which is issued by the California State Water Resources Control Board - Division of Drinking Water (DDW).

All of the Agency's drinking water delivered to its customers meets State and federal health-related drinking water standards.

A source water assessment, also known as the California State Water Project Watershed Sanitary Survey (sanitary survey), is conducted on each drinking water source as required by DDW. Surface water is most vulnerable to contaminants as it travels through the Sacramento and San Joaquin watersheds and Delta. The five previous sanitary surveys have documented the contaminant sources and water quality issues for each area. The 2016 sanitary survey focused on updating the source water quality evaluation of the State Water Project through 2015, as well as two special topics on Grazing and Impacts of the 2012 to 2015 Drought.

The Agency applies a multi-barrier approach to treat and remove pollutants from surface water, and the water is then disinfected using chloramination to minimize microbial risks. Groundwater is simply chloraminated to maintain a consistent residual disinfectant throughout the distribution system. Some groundwater may also be treated by reverse osmosis to reduce the concentration of minerals.

Control strategies for seasonal taste-and-odor control caused by algal growth in SBA water include periodic copper sulfate application to source water by DWR and use of Powdered Activated Carbon at both conventional treatment plants. A portion of the proceeds of the Bonds will be used to fund a portion of the costs of an advanced ozone treatment process at each of its surface-water treatment plants to provide more effective treatment for taste-and-odor control and algal toxins while reducing disinfection by-products and improving overall water quality. The new ozone treatment process is expected to be completed in 2020 at DVWTP and 2021 at PPWTP.

To address corrosion of lead and copper piping into drinking water, U.S. Environmental Protection Agency is currently considering revisions to the 1991 Lead and Copper Rule ("LCR") to improve public health protection. The Agency and its retailers have been in compliance with the LCR requirements for many years and are actively monitoring for lead and copper in our delivered water. In addition, the Agency recently completed a corrosion control treatment evaluation study to review existing processes and ensure that they are optimized for corrosion control.

Toxic Sites Surveillance. The Agency documents and tracks polluted sites across the groundwater basin that pose a potential threat to drinking water and interfaces with lead agencies to assure the Main Basin is protected. Information is gathered from state, county, and local agencies, as well as from the Agency's well permitting program and the State Water Resources Control Board's GeoTracker website, and compiled in a database. This tracking program is designated the "Toxic Sites Surveillance Program" and a report is generated annually to give updates on the progress of the various investigations and clean-ups within the Agency's service area.

There is a threat posed by some of the contamination cases, but none have impacted the Agency's wells to-date, and the Toxic Site Surveillance ("TSS") program is designed to minimize the threat. The Agency is not currently under any regulatory order to treat the well water for any of the TSS constituents. Surface water sanitary survey have identified several potential contaminating activities from grazing, agricultural runoffs, sea water intrusion etc., and the Agency is proactively engaged in minimizing any impacts in collaboration with other SBA contractors and DWR.

STATE WATER PROJECT

Purchased water from the State Water Project, which is the nation's largest publicly-built water storage and conveyance system serving over 25 million people throughout California, is by far the Agency's largest water source, providing over 80% of the treated water supplied to its customers on an annual average basis.

DWR provides water supply from the State Water Project to 29 State Water Project Contractors ("State Water Project Contractors"), including the Agency, in exchange for State Water Project Contractor payment of all costs associated with providing that supply. DWR and each of the State Water Project Contractors entered into substantially uniform long-term water supply contracts ("State Water Project Contracts") in the 1960s with initial 75-year terms, which begin to expire in 2035. The Agency's contract with DWR was executed in 1961. While the State Water Project Contracts provide for continued water service to the State Water Project Contractors beyond the initial term, efforts are currently underway to extend the State Water Project Contracts to improve financing conditions for the State Water Project.

The majority of the capital costs associated with the development and maintenance of the State Water Project is financed using revenue bonds. These bonds have historically been sold with 30-year terms. It has become more challenging in recent years to affordably finance capital expenditures for the State Water Project because DWR bonds used to finance these expenditures are limited to terms that only extend to the year 2035. To ensure continued affordability of debt service to State Water Project Contractors, negotiations and related regulatory actions are currently proceeding in order to extend the term of the State Water Project Contracts. The contract extension negotiations are in progress and are expected to be substantially complete by the end of 2018.

State Water Project water originates within the Feather River watershed, is captured in and released from Lake Oroville, and flows through the Sacramento-San Joaquin Delta (the "Delta") before it is conveyed by the South Bay Aqueduct to the Agency. Much of the State Water Project water continues on to southern California via the California Aqueduct. The South Bay Aqueduct also delivers water to two other water agencies: Santa Clara Valley Water District and ACWD. Lake Del Valle is part of the South Bay Aqueduct system and is used for storage of State Water Project water, as well as local runoff.

At the Agency, State Water Project water is directly used to meet treated water demands from municipal and industrial customers—primarily wholesale and some direct retail—and untreated water demands from agricultural customers. It is also used to artificially recharge the local groundwater basin and fill non-local storage in Kern County.

The Agency has access to several types of water from the State Water Project as described below.

Table A Allocation. Each State Water Project Contractor is limited to a maximum annual contract amount as specified in the State Water Project Contract; this amount is therefore commonly referred to as "Table A." As noted above, the Agency first entered into the State Water Project Contract in November 1961; as the State Water Project was expanded and as the Agency's demands increased over the years, the Agency's Table A amount was increased, reaching the amount of 46,000 acre-feet annually (AFA) in 1997. Since then, the Agency has increased its supply from the State Water Project through a series of five permanent transfers. In December 1999, the Agency secured Table A State Water Project allocations from Lost Hills Water District of 15,000 AFA and Berrenda Mesa Water District of 7,000 AFA. In December 2000, 10,000 AFA of State Water Project allocation from Belridge Water Storage District was acquired. An additional 2,219 AFA was obtained from the same source in October 2003. Finally, 400 AFA of water was acquired from the Tulare Lake

Basin Water Storage District in 2003. Together, these transfers have raised the Agency's current Table A allocation to 80,619 AFA.

In practice, the actual amount of State Water Project water available to the Agency under the Table A allocation process varies from year to year due to hydrologic conditions, water demands of other contractors, existing State Water Project stored water, State Water Project facility capacity, and environmental/regulatory requirements.

In July 2015, DWR issued the "State Water Project Final Delivery Capability Report 2015" (the "2015 Delivery Capability Report"). Since 2002, DWR has been publishing 'Delivery Reliability Reports' to provide contractors and other local agencies a single source of the most current data available on State Water Project delivery reliability that can be used for the development of local plans such as urban water management plans ("UWMPs"). There were notable changes in 2015. First, DWR renamed the report "Delivery Capability Report." Second, and more importantly, DWR provided multiple alternatives for the reliability of the State Water Project under future conditions. Under the "Early Long-Term" alternative in the 2015 Delivery Capability Report, the State Water Project's projected long-term average yield is 62% of Table A, equivalent to approximately 50,000 AFA for the Agency. Under more stringent environmental regulations, the projected reliability is expected to range between 46% and 51% or about 48.5% without California WaterFix. This has been incorporated into recently updated long-term projections for the Agency – see Table 5.

As a State Water Project Contractor, the Agency has the option to store unused Table A water from one year to the next in State Water Project surface storage facilities—specifically San Luis Reservoir in the case of the Agency—when there is storage capacity available. This "carryover" water is also called Article 12e or 56c water, in reference to the relevant contract terms. Article 12e water must be taken by March 31 of the following year, but Article 56c water may remain as carryover as long as San Luis Reservoir storage is available. The Agency typically maintains between 10,000 to 15,000 acre-feet (AF) of carryover water. The analysis in the Agency's most recent UWMP assumes the Agency carries over 10,000 AF of water each year.

Yuba Accord. In 2007, the Agency entered into a contract with DWR to purchase additional water under the Lower Yuba River Accord (the "Yuba Accord"). The original contract expires in 2025, and a number of amendments have been made to the original agreement over the years, including a new pricing agreement executed in 2014.

There are four different types (each, a "Component") of Yuba water available; the Agency has the option to purchase Components 2 and 3 water during drought conditions, and Component 4 water when the Yuba County Water Agency has determined that it has water supply available to sell.

Water is primarily available during dry years under the Yuba Accord, and the amount is relatively small: 400 AF in 2014 and approximately 300 AF in 2015. For planning purposes, the Agency currently assumes a long-term average yield of 145 AFA under the Yuba Accord; in the future, this amount may increase given the recently renegotiated terms in 2014. Any such increase will be reflected in future planning efforts.

Oroville Spillway Update: Record rainfall in February 2017 resulted in significant erosion and damage to the Lake Oroville main and emergency spillways. On April 6, 2017 DWR released the Oroville Spillway Recovery plan describing the approach to repair and restore the spillways to original design capacity by November 1, 2017. On April 17, 2017, DWR awarded Kiewit Infrastructure West Co. the contract to reconstruct both the main and emergency spillways for $275 million. As a State Water Project facility, repairs to the Lake Oroville spillways will be paid for by State Water Project contractors per the long-term water supply contracts for any costs not recoverable from federal grants or other sources. The Agency's share is estimated to be $5.5 million or 2%, which will be amortized through 2035. The Agency has not been billed for any of the repairs as of February 28, 2018. On November 1, 2017, DWR announced that it has met its goal of repairing and reconstructing the main spillway to handle flows of 100,000 cubic-feet per second this winter.

Information Concerning DWR and the State Water Project. DWR has entered into certain continuing disclosure agreements in connection with its issuances of bonds pursuant to which it is contractually obligated for the benefit of owners of certain outstanding obligations to file annual reports, notices of certain material events as defined under Rule 15c2-12 of the Securities Exchange Act of 1934 ("Rule 15c2-12") and annual audited financial statements (collectively, the "DWR Information"). This information is to be filed by DWR with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained at http://emma.msrb.org/. DWR disclosure documents and annual reports should be reviewed for information pertaining to water supply matters. DWR has not entered into any contractual commitment with the Agency, the Trustee or the Owners of the Bonds to provide DWR Information to the Agency or the Owners of the Bonds. The Agency has not incorporated by reference the information filed by DWR described above and neither the Agency nor the Underwriters assumes any responsibility for the accuracy of DWR Information.

DWR HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO DWR. DWR IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH DWR INFORMATION, FOR THE BENEFIT OF THE AGENCY OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

See the caption "FACTORS AFFECTING WATER SUPPLIES" for further information with respect to the State Water Project water deliveries.

FACTORS AFFECTING WATER SUPPLIES

Investing in Long-Term Reliability

While the recent drought accelerated the projects described above, the Agency continues to implement a multi-pronged strategy for securing the long-term reliability of the water supply system to meet the needs of both existing and future customers. This strategy includes conservation to manage long-term demands; increased yield from the Arroyo Valle local water right using the Chain of Lakes; maximized groundwater storage locally and in Kern County groundwater banks; access to emergency water supply in the Chain of Lakes; California Water Fix ("California WaterFix") to secure the Livermore Valley's major source of water, the State Water Project; pursuit of alternative water supply (e.g., Sites Reservoir, potable reuse) and storage (e.g., Los Vaqueros Expansion) options; and construction of an emergency intertie with another water agency. See "- California WaterFix."

The Agency will continue to work closely with the retailers on the Livermore Valley-wide conservation program, offering rebates and public education, and securing grants to support the program. The Agency regularly updates the program to focus on the most cost-effective elements and to implement the latest regulations.

Local water is a key component of the Agency's water supply portfolio. The Agency continues to work on a petition to extend the Agency's water permit for diverting from the Arroyo Valle (discussed further below). Under the existing water right permit, the average yield from the Arroyo Valle is 7,300 acre-feet with the use of existing facilities. A new diversion structure and pipeline (Chain of Lakes – Cope Lake to DVWTP Pipeline) in the Chain of Lakes will facilitate capture of stormwater released from Lake Del Valle, potentially increasing the Agency's average yield by about 3,000 acre-feet.

Using the groundwater basin as a storage reservoir is critical for long-term reliability in the Livermore Valley. Through conjunctive use of the local groundwater basin, excess water imported in wet years is banked in the groundwater basin via artificial recharge and subsequently recovered in dry years to augment low State Water Project allocations, as well as during emergencies and facility outages. The Arroyo Mocho Diversion Facility Coordination and Implementation and the Chain of Lakes – Cope Lake to DVWTP Pipeline support increased groundwater recharge; furthermore, the Chain of Lakes pipeline will also allow the Agency to access stored water in the Chain of Lakes during emergencies and droughts. New wells (Busch-Valley Well 1, Chain of Lakes Wells 3 and 4, Bernal Wells 1 and increase the Agency's ability to access groundwater during emergencies and droughts. Past investments in groundwater banks in Kern County (Cawelo Groundwater Banking Program and Semitropic Stored Water Recovery Unit) augment water supplies during times of low State Water Project allocations (e.g., the recent drought).

In a normal year, over eighty percent of the Agency's supply is derived from the State Water Project. The State Water Project reliability has been declining over the years due to increasingly stringent regulations, declining infrastructure and Delta conditions, and climate change. To protect the Livermore Valley's major water supply, the Agency has been supporting the California WaterFix (described below).

While the Agency's current plan includes participation in the California WaterFix, the findings from the 2016 Water Supply Evaluation Update (WSE Update) indicated the Agency's need to pursue additional water supply options to bolster interim reliability until California WaterFix is in place, to address the uncertainties of future regulatory requirements and impacts on Delta water supply, to potentially replace a water transfer agreement with BBID and to meet the demands of future customers. To that end, the Agency continues to evaluate alternative water supply and storage options such as the Bay Area Regional Desalination Project, potable reuse, Los Vaqueros Expansion, Sites Reservoir, and water transfers. Ultimately, the Agency may choose to implement one or a portfolio of these options depending on the results of the studies and planning efforts, the amounts and timing of development and conservation, and the determination of costs and benefits to the Livermore Valley. The costs of these studies and planning efforts are included under the CIP project Water Supply and Bay Area Regional Projects.

Finally, the Agency has been evaluating the feasibility of an intertie with another major water agency (e.g., East Bay Municipal Utilities District ("EBMUD") or San Francisco Public Utilities Commission). Approximately 90% of the Agency's long-term average water supplies are conveyed to the Livermore Valley via the Delta and the South Bay Aqueduct; moreover, access to the Agency's non-local storage in Kern County during droughts is also dependent on the Delta and the South Bay Aqueduct. Consequently, an outage of the South Bay Aqueduct or major disruptions in the Delta would prevent Agency access to most of its water supplies, leaving only groundwater and water in Lake Del Valle available. This is one of the main reasons why the Agency has been supporting California WaterFix, which will provide critical upgrades to the aging State Water Project infrastructure in the Delta. An intertie with another agency could also provide another source of water during an emergency or drought, and could also facilitate water transfers. For planning purposes, the intertie cost estimate is based on a seven-mile pipeline connecting the west side of the Agency's transmission system to EBMUD (currently estimated at $65 million).

Arroyo Valle Water Right – Petition for Extension of Time

As described in "WATER SUPPLY," a key source of water supply for the Agency is Arroyo Valle, a local arroyo or creek. The Agency has a water right for Arroyo Valle water captured in Lake Del Valle, which becomes available for use once it has been stored for 30 days. The current annual average yield of this source is 7,300 AF. Water captured in Lake Del Valle during the current year needs to be used within the following year. The Agency has a permit from the State Water Resources Control Board ("State Board") to put runoff diverted from the Arroyo Valle to beneficial use. The Agency's beneficial uses currently include supplying water to its retail agencies and agricultural customers, and replenishing the Livermore-Amador Valley Groundwater Basin to manage salt loading and improve water supply reliability and water quality.

The Agency cannot fully exercise all of the diversion limits within the permit until several gravel quarry companies dedicate the remaining Chain of Lakes to the Agency, which is anticipated to be after 2030. These additional facilities could increase the Agency's estimated long-term average yield from 7,300 acre-feet annually (AFA) to 10,300 AFA. However, the Agency has no control over quarry operations and, therefore, cannot expedite dedication of the lakes. Consequently, before the permit expired in 2007, the Agency filed a petition with the State Board to extend the time for the Agency to put this water to reasonable and beneficial use to 2040.

Four protests were filed against the Agency's petition in 2010. Protestors include: (1) California Department of Fish and Wildlife; (2) Jointly filed – Alameda Creek Alliance, AquAlliance, California Sportfishing Protection Alliance, California Water Impact Network; (3) San Francisco Public Utilities Commission; and (4) ACWD. The protest filed by ACWD over a senior water right concern was resolved in February 2012, and ACWD is essentially the Agency's partner at this time. The three remaining protests are associated with potential stream flow requirements and habitat impacts to anadromous fish (e.g., steelhead), amphibians (e.g., red-legged frogs), and avian/riparian areas along the Arroyo Valle and Arroyo de la Laguna. The Agency is currently working to resolve the remaining three protests so that the State Board can grant the petition. If the Agency cannot resolve the protests, then the State Board will hold a public hearing to listen to arguments from all sides, then make a ruling based on the testimony.

The Agency has made good progress towards resolving the protest issues and the protestors have expressed a generally positive view of the Agency and the work being completed to address their concerns. Working closely with these protesting organizations and ACWD, the Agency staff has completed a number of key technical documents (baseline environmental information and a hydrologic model) that have received positive feedback from the protestors. The Agency is now developing concepts for management strategies (e.g., flow regimes) that minimize impacts to both water supply and sensitive habitats. The Agency will discuss these concepts with the protestors and continue to work with them to explore resource goals for fish, amphibians, and riparian bird species in the Arroyo Valle and in the Arroyo de la Laguna. Ultimately, the Agency hopes to attain a management strategy that protects and enhances environmental resources, can be supported by the protestors, and promote the Agency's water supply interests.

The goal is to have the protests resolved and the petition granted by the State Board by 2020, allowing the Agency to have more time to perfect its water right, and obtain an additional 3,000 AFA of yield from this local water supply by 2030.

Transfer Agreement with Byron Bethany Irrigation District

As described in "WATER SUPPLY," the Agency and BBID have a long-term transfer agreement dating back to the original transfer demonstration project in 1994. Under this agreement, 2,000-5,000 AF of BBID's surplus water (pre-1914 water right) derived from land fallowing, long-term land use conversion, and conservation is transferred to the Agency. Transfer water is delivered to the Agency via State Water Project facilities (Banks Pumping Plant and the South Bay Aqueduct), which requires a Conveyance Agreement (the "Conveyance Agreement") with DWR. The current contract extends through 2030, with an option to extend through 2039.

In 2002, DWR and the Agency actively pursued an amendment to the Conveyance Agreement to cover periods beyond 2001 and the Agency obtained approvals from the Agency Board for execution of the amendment; however, the Agency never received a final amendment for execution from DWR. In 2007 DWR prepared an amendment to extend the agreement through 2014 and the Agency again obtained Agency Board approval to execute it; however, the Agency did not receive a final amendment for execution from DWR. The Agency continued to submit delivery schedules to DWR each year requesting delivery of BBID water to the Agency. DWR has been aware of these water transfers and has been billing and accounting for this water accordingly.

In 2012, DWR contested the water transfers that have occurred after 2001, when the last DWR conveyance agreement had been in place. Since then, the Agency and BBID have been working with DWR and the US Bureau of Reclamation (the "Bureau of Reclamation") to work through the legal and policy issues associated with the transfer. A 2013 transfer was approved in the interim. The long-term transfer agreement discussions have been delayed due to drought and the lack of surplus water. The Agency intends to continue to work with DWR and the Bureau of Reclamation to resolve this issue over the next couple of years. The Agency and BBID are also investigating the availability of groundwater in the BBID service area that could potentially be available for transfer.

California WaterFix

California WaterFix (formerly the Bay Delta Conservation Plan as described below), would provide a significant upgrade to the aging through-Delta conveyance currently used by the Agency to import roughly 80 percent of the Livermore Valley's supplies. The 50-year-old system is currently vulnerable to disruptions due to levee failure and salinity intrusion from seismic events, climate change or even large storms, which would immediately impact the Agency's operations. Pumping capacity of the existing system has diminished significantly in the last 30 years due to regulatory restrictions and increasing maintenance-related outages/breakdowns in the 50-year-old infrastructure. Supply reliability (primarily related to endangered species) is expected to decrease further due to changes in snowpack and frequency and intensity of precipitation related to climate change. While the Agency continues to pursue alternative water supplies such as potable reuse and desalination, studies indicate that reliance on the State Water Project could only be reduced to about 70 percent of the Agency's supplies in the future; the vast majority of the water for the Agency's service area will continue to be imported water conveyed through the Delta and delivered via the State Water Project facilities.

California WaterFix would be implemented by DWR and is expected to be ultimately financed through the issuance of multiple revenue bonds. State Water Project Contractors, including the Agency, would be billed for their share of the project's capital costs through DWR's statement of charges and payable from the property tax override (and not from Water Revenues). Capital payments are currently expected to be spread over about 50 years through 2071. California WaterFix is discussed further below. As described below, litigation is currently pending relating to the implementation of California WaterFix. As a result, the Agency may participate in the Finance Joint Powers Authority and the Delta Conveyance and Construction Joint Powers Authority ("DCA") (described below). In such case, costs relating to California WaterFix may be funded from Water Revenues through the Agency's future water rates.

On July 25, 2012, Governor Brown and Secretary of the Interior Ken Salazar announced key proposed elements to advance the Bay Delta Conservation Plan ("BDCP") planning process, including diversions in the north Sacramento San Joaquin Delta with a total capacity of 9,000 cubic-feet per second ("cfs"), two tunnels to the existing Clifton Court Forebay and a "decision tree" process for unresolved operation criteria such as fall and spring outflows. The Draft BDCP and associated Draft Environmental Impact Report/ Environmental Impact Statement ("EIR/EIS") were completed on December 13, 2013.

The Delta Habitat Conservation and Conveyance Program ("DHCCP") and the BDCP are programs consisting of joint efforts by agencies of the federal government and the State and local agencies to fund and plan habitat conservation and water supply activities in the Delta, including water conveyance options with respect to certain water conservation and conveyance facilities. In 2016, the State separated the focus of the BDCP into two efforts: the California EcoRestore ("EcoRestore") Project and the California WaterFix. California EcoRestore aims to accelerate and implement a comprehensive suite of habitat restoration actions to support the long-term health of the Sacramento San Joaquin Delta's native fish and wildlife. California WaterFix focuses on protecting the State's water supplies from climate change through water system upgrades that protect against the impacts of sea level rise and earthquakes while improving river flows and reducing entrainment for threatened fish species. The Sacramento San Joaquin Delta northern diversion facilities previously proposed in the BDCP are now captured within the California WaterFix.

The State released the Recirculated Draft Environmental Impact Report ("RDEIR")/Supplemental Draft Environmental Impact Statement ("SDEIS") for California WaterFix on July 10, 2015, and comments were due August 31, 2015. On July 22, 2015, the comment period was extended to October 30, 2015. The RDEIR/SDEIS addresses the environmental impacts of the diversion facilities under the initial operating criteria. The final Environmental Impact Report/Environment Impact Statement for California WaterFix was released in December 2016. In June 2017, the U.S. Fish and Wildlife Service and National Marine Fisheries Services each issued Biological Opinions under the Federal Endangered Species Act and made a determination that California WaterFix is not likely to jeopardize the continued existence of any listed species or destroy or adversely modify those species' designated critical habitat. On July 21, 2017, DWR signed a Notice of Determination, certified the Final EIR, and approved California WaterFix pursuant to the California Environmental Quality Act. At this time, the Bureau of Reclamation has not certified the Environmental Impact Statement under the National Environmental Policy Act.

California WaterFix is currently facing legal challenges. The Agency is aware of two lawsuits that have been filed in federal court seeking judicial review of the Biological Opinions issued for California WaterFix under the federal Endangered Species Act. Additionally, 18 lawsuits have been filed in State courts seeking judicial review of the California WaterFix EIR. To the extent these challenges are successful, it is possible that the federal and/or State courts could issue decisions directing the preparation of new biological opinions, a new or revised EIR/EIS, and/or the potential set aside in whole or in part of the California WaterFix approvals. Finally, DWR filed a validation action in the state court with respect to its authority to issue bonds to finance California WaterFix. A number of public agencies and other entities filed answers to the validation action on and prior to September 15, 2017. In addition, DWR entered into a stipulation with a variety of entities to extend the time to file an answer to the validation action to November 15, 2017. However, if DWR is ultimately unsuccessful in their validation action and certain State Water Project contractors continue the project in some modified form, it may have an impact on project cost and the Agency's rates. However, these lawsuits are in their infancy and the Agency cannot determine the likely outcomes at this time.

DWR and the Bureau of Reclamation are also actively involved in proceedings before the State Board to change the point of diversion for the state and federal water projects right to allow for new diversion points to implement California WaterFix. A decision on this is expected in late 2018.

The current capital cost of California WaterFix, as estimated by the California Natural Resources Agency, is approximately $11.1 billion. Annual operating costs are currently estimated at approximately $31.1 million annually during construction, and approximately $49.5 million annually thereafter. There can be no assurance that such projected costs will not increase as a result of revisions to the project, increases in construction or other costs related thereto. Any changes could be material and impact the costs of the Agency's State Water Project supplies.

DWR, State Water Project Contractors and certain Central Valley Project contractors are currently considering their participation in California WaterFix and how to finance the next phase of the California WaterFix, which involves the cost of design, engineering and certain other pre-construction costs. The cost of the pre-construction phase is estimated to be $1,200,000,000, with 55% of such costs expected to be allocated to DWR. The Agency's share of DWR's pre-construction phase costs would be approximately 2%. The Agency does not anticipate any pay-as-you-go contributions or contributions toward debt service for the pre-construction phase payable from ad valorem taxes, and therefore such amounts would be payable from Water Revenues. There can be no assurance that the pre-construction phase will be undertaken.

Pursuant to existing contractual arrangements, a portion of the Agency's pay-as-you-go contributions that was already paid is expected to be refunded to the Agency if and when revenue bonds for construction of California WaterFix are issued. Until such date, the Agency is expected to pay its share of the costs to finance pre-construction costs through water rates or reserves specifically set aside for water supply.

Design and construction of California WaterFix is anticipated to take 17 years, if commenced in 2018 as currently projected, and would not be completed until around 2035. There can be no assurance that projected costs of California WaterFix referred to above will not increase as a result of revisions to the project, increase in construction or other costs related thereto or otherwise, including the final allocation of costs among the parties. Any change could be material. In addition, there can be no assurance that California WaterFix, if undertaken, would be completed within the timeframe currently projected. Any such delay in completion could be material.

On September 20, 2017, the Agency Board adopted a resolution to support California WaterFix and authorized the Agency to contribute up to $250,000 for the next phase in 2018. The resolution also allowed for negotiation of participation in the Finance Joint Powers Authority (the "Finance JPA") and the Delta Conveyance and Construction Joint Powers Authority ("DCA") which will implement California WaterFix and provide oversight and fiscal control of the public's investment. State Water Project and Central Valley Project contractors who choose to participate in California WaterFix are expected to contribute interim funding in order to move the project forward until the Finance JPA issues the bonds needed to fund the project.

The DCA would manage the design and construction phases of the project. This joint powers authority approach has been used successfully for the design and construction of a portion of the Coastal Branch of the California Aqueduct in the mid-1990s.

California WaterFix costs will be split among the State Water Project and Central Valley Project contractors that receive the benefits from the project. An analysis of the cost impacts to the Agency suggests that, if costs are placed entirely on water rates, treated water rates would increase over the next ten to fifteen years by a total of about 20 percent to pay for the Agency's share of California WaterFix. Additionally, those alternatives could not address the continuing decline in reliability of the Agency's primary water source or the susceptibility of the aging State Water Project infrastructure to failures resulting from earthquakes, climate change and continuing subsidence in the Delta.

Potential Alternative Supplies

Sites Reservoir

In 2016, the Agency identified the proposed Sites Reservoir Project as a possible source of additional water supply and storage. As envisioned, the Sites Reservoir is a new off-stream reservoir to be located 75 miles northwest of Sacramento, in the Antelope Valley of the Coast Range, on rangeland approximately 10 miles west of Maxwell in Colusa County. Sites Reservoir is overseen by the Sites Joint Powers Authority (the "Sites JPA"). The Sites Reservoir is envisioned to provide 1.3-1.8 million AF of new storage capacity, and 500 thousand acre-feet (TAF) per year of average water supply yield. The project yield and associated costs are planned to be shared between the State of California (with grant funding through the Proposition 1 Water Storage Investment Program ("WSIP")) and water agencies.

As proposed, the Sites Reservoir would be in a unique position to 1) divert surplus flows—water that would otherwise flow into the ocean—for storage and later use for both water supply and ecosystem benefits and 2) through exchanges, make releases that will enable Central Valley Project and State Water Project reservoirs to maintain higher end-of-year storage levels and cold water pool reserves. The public benefit water (i.e., fraction of project potentially funded through WSIP) could improve the Delta's ecology and help to address Department of Fish and Wildlife and State Board flow requirements.

The current project schedule assumes five phases—from planning through transfer to the ultimate operation authority—with estimated in-service date around 2030 under optimal conditions. Phase 1, to be completed by mid-2018, was focused on preparing a proposal for WSIP funding. Phase 2 (2018-2022) will advance the planning, permitting, and design stages.

On December 21, 2016, the Board authorized the General Manager to negotiate and execute the Phase 1 Reservoir Project Agreement for funding, based on the request for 20,000 AF previously approved by the Agency Board on July 20, 2016, with a total not-to-exceed cost of $850,000 including contingency. Based on current participation, the Agency's Class 1 amount is 14,269 AF with another 5,731 AF of Class 2 water. Class 1 water represents 50% of the reservoir's expected yield (250,000 AF out of 500,000 AF total yield annually) and is allocated to participating water agencies while Class 2 water represents the remaining expected yield, which is currently reserved for "public benefit" environmental uses, but may become available at a later time depending on the state's level of participation. The Agency executed the agreement on February 1, 2017, with a weighted vote of about 5% in the Reservoir Project Committee, which will be undertaking specific work activities for the development of the Sites Reservoir Project under the Sites JPA.

The application for WSIP funding is currently being reviewed by the California Water Commission ("CWC"). The preliminary funding decisions are currently expected in June 2018. As part of the preparation for Phase 2, Site JPA staff is updating the estimated cost of the delivered project (by phase), developing conceptual delivery options (including financing) and procurement packages, and refining the operational assumptions to evaluate the range of potential project water yields. The updated cost estimates and water yield estimates will provide a potential range of $/acre-foot that participants can consider as the project moves into Phase 2. Furthermore, Sites JPA staff continues to coordinate with landowners, media outlets, state and federal elected officials, and coalitions of regional and statewide organizations to build support for the project.

The Sites Reservoir unit cost range is currently estimated up to around $1,250/AF of delivered water south of the Delta; the financing (including potential State funding) of the overall project is still under discussion so it is unknown at this time what the payment structure for the Agency will look like. The Agency's ultimate share is also still to be determined. At 20,000 AF, the Agency would represent 8% of Site Reservoir's projected average yield to water agencies (250,000 AF/yr), or 4% of the total projected yield (500,000 AF/yr). The project is currently estimated to cost $5.2 billion, with a portion of that potentially to be funded by the State of California. In the next few months, the Agency will be evaluating continued participation in the Sites Reservoir Project as it moves into Phase 2. The potential benefits and costs of this project will be weighed against those of other options that the Agency is pursuing.

Los Vaqueros Reservoir Expansion

Los Vaqueros Reservoir, Contra Costa Water District's ("CCWD") reservoir in northeastern Contra Costa County, has been identified by the Agency as a facility that could reduce risk of water supply shortage to the Agency by providing State Water Project storage upstream of the Agency and facilitating a regional desalination project. Los Vaqueros Reservoir currently has a capacity of 160,000 AF following its expansion from 100,000 AF in 2012. CCWD is planning for possible further expansion of the reservoir to 275,000 AF and possible construction of the Transfer-Bethany Pipeline, which would connect the reservoir to the South Bay Aqueduct system. These improvements would provide additional storage regionally and strengthen the interconnection of water systems in the Bay Area. Because of these benefits, the Los Vaqueros Reservoir Expansion Project and the Transfer-Bethany Pipeline have been included in the Bay Area Regional Reliability Partnership list of projects. The Agency Board approved participation in Los Vaqueros Reservoir Expansion Project Planning as a "Local Agency" partner on September 21, 2016 with a $100,000 contribution towards preparation of required environmental documents using consulting services managed by CCWD.

Like the Sites Reservoir Project, the Los Vaqueros Reservoir Expansion Project is undergoing the grant application review process by the CWC, with preliminary funding decisions expected in June 2018. A draft funding agreement for the remainder of the planning phase will be prepared in early 2018, with planned execution by participating agencies soon after the preliminary CWC funding decision to avoid schedule impact. The potential formation of a joint powers authority for project implementation and operation is currently being evaluated by a consultant. A joint powers authority would provide a more formal 'seat-at-the-table' for Local Agencies. The Agency will be evaluating continued participation in the Los Vaqueros Reservoir Expansion Project throughout 2018.

Potable Reuse

Potable reuse is one of the water supply options being considered by the Agency, with wastewater potentially derived from the City of Livermore and/or Dublin San Ramon Services District ("DSRSD"). The Joint Tri-Valley Potable Reuse Feasibility Study was initiated in October 2016. The study is a partnership among the Agency and the Agency Retailers. Its primary goals are to evaluate the feasibility of potable reuse for the Livermore Valley; to identify the most promising options based on technical, financial, and regulatory considerations; and, assuming that potable reuse is found to be feasible, to recommend next steps for the agencies. The project is overseen by a Steering Committee on managerial issues and a Project Management Committee on technical issues. Both committees have representatives from all of the agencies, with the designated project manager from the Agency. The Agency is serving as the contract administrator for consulting services. The final report is expected in Spring 2018. The Liaison Committee (consisting of elected officials of the cities and water agencies in the Livermore Valley) discussed the project's key findings in early March 2018. The Agency and the Agency Retailers' respective governing bodies will be considering the findings from the project and considering next steps over the next few months. The preliminary findings indicate that potable reuse is feasible, with potential yield as high as 10,000 acre-feet per year and costs ranging from $2,200 to $2,500 per acre-foot based on the range of options evaluated; the associated capital costs range from $112 million to $222 million. Ultimately, the decision to pursue potable reuse will depend on agreements reached among the Agency, the wastewater providers (City of Livermore and/or DSRSD), and the rest of the Agency Retailers (Cal Water and the City of Pleasanton). If a project is pursued, it could conceivably be constructed within eight to ten years.

AGENCY'S RETAILERS

Following is certain information concerning the Agency's Retailers. Certain economic and demographic information concerning the Agency's Retailers as well as the County of Alameda generally is included in Appendix C hereto.

Agency Retailer Agreements

The Agency has entered into contracts with each of the Agency Retailers. The DSRSD and CalWater contracts expire in 2024 and the Livermore contract expires in 2026. The Agency has a "Term and Conditions of Service" agreement with the City of Pleasanton which expires in 2024. Pursuant to the agreements, the Agency's Retailers take water under take-and-pay agreements and are not committed nor limited to a certain amount of water, but the agreements require the Retailers to purchase all water required for use within their service areas except for groundwater, which is limited by specified groundwater pumping quotas ("GPQ"). The GPQs are: City of Pleasanton – 3,500 AF; Cal Water Service – 3,069 AF; and DSRSD – 645 AF. The Agency pumps DSRSD's GPQ. Livermore has not had any groundwater pumping capability for many years, and has therefore not been using their GPQ. Averages are maintained by allowance of "carryover"—limited to 20% of the GPQ—when less than the GPQ is used in a given year. The Retailers can use other sources only under certain conditions, including but not limited to water for 1) fire flows or emergencies, 2) the Agency's non-compliance with drinking water standards; and 3) the Agency's inability to deliver water, or recycled water. DSRSD, Livermore, and Pleasanton also produce and/or supply recycled water to their service areas.

There can be no assurances that agreements will be extended or renewed prior to their current expiration dates. However, the Agency believes that, due to the Agency's robust water supply sources and the Retailers' lack of significant alternatives to water supply from other sources, the Retailers will continue to utilize water from the Agency upon termination of the contract.

General Description of Agency Retailers

The information in this section concerning the Agency Retailers has been derived from publicly available sources, including the respective Agency Retailer websites. The Agency does not guarantee the accuracy of such information.

City of Pleasanton. The City of Pleasanton occupies a land area of 24.2 square miles and serves a residential population of 79,510. Pleasanton is a full service general law city providing police, fire, sewer, water, street, parks, support services, economic development, community development (planning, building and inspection services), community services (recreation, sports, senior center, preschool, etc.) and library services.

Payments to the Agency are made from the City of Pleasanton's Water Enterprise Fund, which is funded primarily by water sales revenue from a pass through of Agency wholesale fixed and variable charges to purchasers of water from the City of Pleasanton. The City's audited financial report can be found at http://www.cityofpleasantonca.gov/gov/depts/finance/audits.asp The information on such website is not incorporated by reference into this Official Statement, and the Agency and the Underwriters are not responsible for the accuracy or completeness of such information.

Cal Water. Cal Water is the largest investor-owned American water utility west of the Mississippi River and the third largest in the country. Cal Water's Livermore District was formed in 1927 with the purchase of the water system from Pacific Gas and Electric Company. Cal Water serves approximately 17,900 customer connections in the agency service area. Cal Water is a public company. Financial statements and certain regulatory filings of Cal Water with the Securities Exchange Commission are available on California Water Group's website at http://ir.calwatergroup.com/Investor-Relations/Financial-Reports/Annual-Reports. The information on such website is not incorporated by reference into this Official Statement, and the Agency and the Underwriters are not responsible for the accuracy or completeness of such information.

City of Livermore. The City of Livermore, incorporated on April 1, 1876, is located on the southeasterly boundary of Alameda County near the intersection of Interstate 580 and Interstate 680 freeways. Livermore is situated approximately 50 miles east of San Francisco.

Payments to the Agency are made from the City of Livermore's Water Enterprise Fund, which is funded primarily by water sales revenue from a pass through of Agency wholesale fixed and variable charges to purchasers of water from the City of Livermore. The City's audited financial report can be found here: http://www.ci.livermore.ca.us/citygov/admin/finance/reports.htm The information on such website is not incorporated by reference into this Official Statement, and the Agency and the Underwriters are not responsible for the accuracy or completeness of such information.

DSRSD. DSRSD was formed in 1953 as the Parks Community Service District. By 1988, the cities of Dublin and San Ramon had incorporated and assumed responsibility for many of the services originally provided by the District. This allowed DSRSD to focus on water and wastewater services. In 1999, DSRSD began providing a third service, recycled water. DSRSD currently provides water, recycled water, and wastewater services to more than 173,000 residents in Dublin, southern San Ramon, Dougherty Valley, and Pleasanton. DSRSD is governed by a board of directors that sets policy, adopts budgets, and appoints a general manager to run operations. Five directors are elected at-large to overlapping four-year terms.

Payments to the Agency are made from the DSRSD's Water Enterprise Operations Fund, which is funded primarily by water sales revenue from a pass through of Agency wholesale fixed and variable charges to purchasers of water from DSRSD. DSRSD's audited financial reported can be found here: http://www.dsrsd.com/about-us/library/financial-information. The information on such website is not incorporated by reference into this Official Statement, and the Agency and the Underwriters are not responsible for the accuracy or completeness of such information.

CAPITAL IMPROVEMENT PLAN

The Agency prepares a Capital Improvement Plan ("CIP") that outlines the plans for capital projects and programs needed to carry out the goals and policy objectives of the Agency. Formerly, the CIP incorporated the projects, costs, schedules, and priorities for both the Water System and the Flood Protection System. (The CIP for the Agency's flood operations and facilities is funded from sources other than Revenues pledged to the Bonds, and is not described in this section.) The Agency Board adopted the Fiscal Year 2018-19 Water System CIP Update in October 2017 (the "Fiscal Year 2018-19 Water System CIP Update").

The Agency's Asset Management Plan ("AMP") documents how the Agency will fund and implement renewal and replacement projects for existing or planned assets. As part of the CIP update process, the Agency engaged HDR, Inc., to complete the 2017 Asset Management Plan Long-Term Funding Forecast Update ("2017 AMP Update"). The 2017 AMP Update incorporated CIP projects that have been completed, assets that have been renewed since the last AMP update in 2011, future projects, and the long term renewal of assets. It also identified additional renewal and replacement projects. The 2017 AMP Update was adopted by the Agency Board in October 2017 as part of the Fiscal Year 2018-19 Water System CIP Update.

Funding for multi-benefit projects may be split between the Water System and the Flood System, and between existing and new customers. Summary information concerning the Fiscal Year 2018-19 Water System CIP Update is shown in the table below. Costs of the participation of the Agency in California WaterFix or other projects in connection with the Bay Delta Conservation Plan (including the issuance of any potential additional debt related thereto) over the next five years are not included in the following tables. As described in "FACTORS AFFECTING WATER SUPPLY," such costs could be significant. In addition, as described below, the table includes expansion costs. Expansion activities are subject to change depending on actual growth as well as available water connection fees. More information on water connection fees can be found in "WATER CONNECTION FEES."

TABLE 7
CAPITAL IMPROVEMENT PLAN
(Fiscal Year Ending June 30)
(in Millions)

Program	2019	2020	2021	2022	2023	TOTAL Five-Year CIP	2024-28	TOTAL 10-Year CIP
Buildings and Grounds	$ 0.05	$ -	$ -	$ -	$ -	$ 0.05	$ 0.25	$ 0.30
Groundwater Basin Management	0.25	0.51	0.17	-	-	0.93	27.98	28.91
Program Management	0.11	0.19	0.15	0.22	0.44	1.11	1.72	2.83
Regulatory Compliance	0.14	0.14	0.15	0.15	0.16	0.74	0.89	1.63
Transmission & Distribution	5.33	6.06	33.19	31.63	22.11	98.32	7.20	105.52
Water Supply & Conveyance	23.25	29.63	36.99	33.51	30.55	153.93	259.45	413.38
Water Treatment Facilities	90.89	15.58	5.56	5.73	20.11	137.87	148.91	286.78
Wells	3.68	10.66	2.27	2.68	18.11	37.40	47.59	84.99
Grand Total[(1)]	$ 123.70	$62.77	$ 78.48	$73.92	$91.48	$430.35	$493.99	$ 924.34

(1) Totals may not add due to rounding.
Source: The Agency.

Water System Expansion

The following table shows the portion of the CIP related to expansion, renewal/replacement and system-wide improvements.

TABLE 8
Capital Improvement Plan Breakdown
(in Millions)

	Ten-Year Total	Percentage
Expansion	$718	78%
System-Wide Improvements	110	12
Renewal/Replacement	96	10
Total	**$925**	**100%**

The CIP plans for a total expenditure of $718 million in Expansion projects starting in Fiscal Year 2018-19 through Fiscal Year 2027-28. Of this amount, non-discretionary obligations for the ten-year CIP total approximately $200 million. Non-discretionary obligations are contractually-required payments to other agencies, such as DWR, for debt incurred on the Agency's behalf. A large percentage of the non-discretionary expenses are for DWR's capitalization of the South Bay Aqueduct Improvement and Enlargement Project with annual payments of about $15 million for the expansion portion of the project.

Based on current assumptions for connection fee revenues, sufficient funding is projected to fund expansion projects as planned in the CIP for the duration of the program.

The Agency analyzes connection fee revenue on an ongoing basis and makes adjustments to financial forecast and annual budgets based on recent trends, economic conditions, and updated information from retailers, cities, etc. Furthermore, additional analysis was performed to determine the impact on the capital reserve if connection fee revenue does not materialize as projected at this rate. If Water Connection Fee revenue does not increase as projected, certain capital construction projects may be delayed. Construction projects are planned to meet demand growth, so if development slows and/or if conservation is greater than expected, construction schedules can be adjusted and deferred as necessary. If deferring projects is not a feasible alternative, debt-financing could be considered.

AGENCY FINANCIAL INFORMATION

Primary Sources of Revenues

The Water System has two primary sources of revenues: water charges and connection fees. These sources are described below.

Water Charges

Water charges are established by the Agency Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. There are two types of water charges: one for treated water, and the other for untreated water.

Water Charge Setting Process. Pursuant to the Agency's contracts with the Agency Retailers, the Agency charges for water in accordance with a rate schedule for water service, as such rate schedule is established or amended by the Agency Board. The Agency Board reviews the rate schedule and establishes a rate schedule for each calendar year period in accordance with the most recent costs and revenues of the Agency. The Agency Board reviews the rate schedule at the September regular meeting and endeavors to establish the rate schedule at the November regular meeting prior to January 1 of the following calendar year for which the rate schedule is to be effective. The rates, including but not limited to the treated water, in-lieu treated water, meter fee, and recharge fee, to be so established, are based on the cost of providing service, and may not be unreasonable, arbitrary, or discriminatory. In the event the Agency Board fails to establish a new rate schedule for any calendar year the rate schedule in effect for the prior calendar year shall be continued in full force and effect until otherwise modified by the Agency Board.

Historical Water Rates. The following table shows rates for treated and untreated water from calendar year 2012 through 2016.

TABLE 9
Historical Water Rates
(in Acre Feet)

	Treated Water Rate		Untreated Water Rate	
Calendar Year	**Rate/AF**	**% Change**	**Rate/AF**	**% Change**
2012	$945	5.0	$92	-5.2
2013	945	0.0	110	19.6
2014	945	0.0	110	0.0
2015	999	5.7	130	18.2
2016	1,372	37.3	130	0.0

New Water Rate Setting Methodology; Current Water Rates. In 2015, Raftelis Financial Consultants, Inc. ("RFC") was hired to analyze cost of service for the Water System and develop a three-year wholesale water rate schedule for calendar years 2016, 2017 and 2018. In October 2015, the Agency Board approved a three-year rate schedule with a temporary conservation surcharge of $0.57 per 100 cubic feet ("CCF") for calendar year 2016. Continued revenue losses due to drought conditions and State-mandated water use restrictions prompted staff to rehire RFC in 2016 to revisit restructuring rates to include a fixed component and to determine whether to extend the temporary conservation surcharge. Based on the study findings and staff recommendations, in October 2016 the Agency Board approved an extension of the temporary surcharge through December 31, 2017. The Agency Board also approved restructuring of rates to include a 35% fixed charge component. The resulting rates and fixed charges for calendar years 2017 and 2018 are shown in Table 10.

In 2017, the Agency implemented a fixed charge for each Agency Retailer and other customers to recover 35% of the Agency's revenue requirements. The fixed charge provides increased revenue stability for the Agency and increase rate stability for its customers. In order to equitably recover the fixed charge, the fixed charge for each Agency Retailer and other customer is allocated proportionally to their average usage based on the previous two years. The Agency collects the fixed charge evenly over the course of 12 months from each Retailer and Direct Customer in order to ensure financial stability.

With the establishment of a fixed charge in 2017, the volume-based rate was adjusted to recover nearly 100% of revenue from volume-based rates to 65% cost recovery. The volume-based rate is a uniform rate charge to each Agency Retailer and other customers per each unit of water delivered.

Table 10 shows the water rates charged by the Agency for calendar years 2017 and 2018 reflecting the fixed charge and volume-based rate described above.

TABLE 10
Adopted Water Rates

Calendar Year	*Volume-Based Treated Water Rate per AF*	*Total Fixed Charges**
2017	$1,359**	$14,367,286
2018	$888	$15,849,610

* Actual monthly billing will be 1/12 of the annual amount.
** Includes $248 Drought Surcharge

See "WATER SUPPLY – Agency Response to Drought" for additional information related to Agency efforts in response to the drought, including measures providing for Water Shortage Surcharge Rates.

Projected Water Rates. The following table shows projected water charges for calendar years 2019 through 2022. The projected water charges have not been approved by the Agency Board and there can be no assurance that the water charges will be approved by the Agency Board as currently projected.

TABLE 11
Projected Water Rates

Calendar Year	*Treated Water Rate per AF*	*Total Fixed Charges*
2019	$915	$16,325,100
2020	$941	$16,814,856
2021	$967	$17,319,300
2022	$997	$17,838,876

Historical Water Charge Revenues. The following table shows a five-year history of Agency's receipts of Water Charges from Agency Retailers and other customers for Fiscal Years 2012-13 through 2016-17.

TABLE 12
AGENCY RECEIPTS FROM WATER CUSTOMERS FOR TREATED WATER
(Fiscal Year)

Customer	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
California Water Service Company	$7,699,224	$7,117,782	$4,983,910	$5,425,924	$8,211,286
City of Livermore	6,312,471	5,928,763	4,652,093	5,324,926	7,549,062
City of Pleasanton	13,582,926	12,155,609	8,849,619	7,957,260	13,354,894
Dublin San Ramon Services District	9,650,976	9,567,801	7,082,009	8,367,597	12,216,755
Direct Customers(1)	249,096	256,443	294,008	442,896	1,084,045
Temporary Treated Water	4,290	3,174	2,948	6,591	2,297
Treated Water Total	**$37,498,982**	**$35,029,572**	**$25,864,587**	**$27,525,194**	**$42,418,339**
Untreated Water Total	631,282	587,015	687,981	585,780	557,621
Grand Total	**$38,130,264**	**$35,616,588**	**$26,552,568**	**$28,110,974**	**$42,975,960**

(1) Direct Customers include Lawrence Livermore National Laboratory, Livermore Area Parks and Recreation Department, Veteran's Hospital, State of California Department of Water Resources, East Bay Regional Parks and Wente Brothers.

Projected Sales Revenues. The following table shows the annual water sales revenues projected by the Agency for Fiscal Year 2017-18 and the next four fiscal years. The projections reflect an assumption by the Agency that water charges will be increased in each Fiscal Year from 2018-19 through 2021-22 through the rate setting process described herein and the projected deliveries under the "WATER SUPPLY- Projected

Water Deliveries and Sources of Water Delivered." Such increases would be required to be approved by the Agency Board and there can be no assurance that such increases will be implemented as currently projected.

TABLE 13
Water Sales by Category
Five-Year Projection
(In Millions)

Fiscal Year	Municipal/Industrial (Treated) Water Revenue	Untreated Water Revenue	Total
2018	$47.8	$0.7	$48.5
2019	45.8	0.7	46.5
2020	50.3	0.7	51.0
2021	53.1	0.7	53.8
2022	55.8	0.7	56.5

Source: The Agency

Billing and Payment of Water Charges. The Retailer Contracts provide that the Agency Retailers shall be invoiced on a calendar month basis for charges. The Agency Retailers are required to pay all charges invoiced within 30 days from date of the invoice from the Agency. In the event that an Agency Retailer in good faith contests the accuracy of any invoices submitted to it, it is required to give the Agency notice thereof at least ten days prior to the day upon which payment of the stated amount is due. To the extent that the Agency finds the Agency Retailer's contentions regarding the statement to be correct, the Agency is required to revise the statement accordingly and the Agency Retailer is required to make payment of the revised amounts on or before the due date. To the extent that the Agency does not find Agency Retailer's contentions to be correct or where time is not available for a review of such contentions prior to the due date, the Agency Retailer is required to make payment of the invoiced amount on or before the due date and make the contested part of such payment under protest and seek to recover the amount thereof from the Agency. For Agency customers other than the Agency Retailers, such customers are billed monthly.

Water Connection Fees

Water connection charges began in 1972 with the adoption of Ordinance No. FC 72-1 (the "Water Connection Ordinance"). The ordinance is applicable over the Agency area that includes Livermore, Pleasanton, Dublin, and surrounding communities. The Water Connection Ordinance has been amended several times and requires a one-time water connection fee for all new water services from a water system that is directly connected to the Agency's water supply system. This fee is used for funding the costs of expanding the Agency's water treatment and distribution system to serve new development. The connection fees the Agency charges are intended to assure that development pays its own way and to place new utility customers on equal basis from a financial perspective with existing customers. Once new customers are added to the system, they incur the obligation to pay the same service charges that existing customers pay. The Agency's connection fees are calculated using an "incremental cost" methodology, as existing system assets have been funded through property tax revenue, water rates and earlier connection fees.

In 2017, the Agency Board adopted the Fiscal Year 2016-17 Municipal and Industrial Connection Fee Program Update. The update undertook a comprehensive re-evaluation of projected demands, and new connections in the Agency's service area, and the necessary Water System expansion projects to meet the needs of future customers. The study resulted in a 7.3% increase in the Alameda County Connection Fee and an 11.3% increase in the Dougherty Valley Connection Fee, which became effective May 1, 2017. The study recommended annual inflationary adjustments to the fee to keep pace with inflation.

Effective January 1, 2018 the Agency Board set the connection fees for a 5/8-inch meter as stated below.

TABLE 14
Water Connection Fees

Fee Factor	Connection Fee (Alameda County)	Connection Fee (Dougherty Valley)
1.0	$28,170	$27,030

For meter types larger than a 5/8-inch basic meter, the basic charge is multiplied by specified fee factor.

The payments of water connection fees in Livermore and Pleasanton, are collected by the Building Departments of the Cities of Livermore and Pleasanton, and for Dublin by DSRSD. Connection fees in the Dougherty Valley are paid by DSRSD and are due within 30 days of issuance of a building permit for the property receiving the new connection or 30 days from the date the new connection is made, whichever is earlier; and payable to the Agency Capital Expansion Program.

The table below represents connections (Dwelling Unit Equivalents "DUES") recorded for Fiscal Year 2012-13 to Fiscal Year 2016-17.

TABLE 15
Historical Actual Connections and Total Revenue from Water Connection Fees

Fiscal Year	EQUIVALENT CONNECTIONS (5/8" Meter)	ACTUAL REVENUE
2012-13	1,187	$26,907,174
2013-14	928	21,570,977
2014-15	1,196	28,521,399
2015-16	1,600	39,135,444
2016-17	1,338	33,128,281

Source: Fiscal Year 2016-17 Municipal and Industrial Connection Fee Program Update

After a downturn in growth due to the recession starting in 2008, the Agency's service area has experienced stronger growth in more recent years and is expected to continue growing for at least the next 15 years. Using 2015 as a base year, the Agency's service area population is projected to grow from 244,000 to 301,000 people by buildout in 2040, which is a 23 percent increase. Using 2013 as a base year for projected water demand, the service area's water demand is expected to grow by about 20 percent by 2040, from about 45,000 to about 54,400 acre-feet per year, consistent with the Water Conservation Act of 2009, which requires 20% reduction in per-capita water usage by year 2020. Through buildout in 2040, a total of 24,533 new dwelling unit equivalents ("DUEs") are expected.

DUE projections taper off significantly after Fiscal Year 2028-29; however, the data from the Agency Retailers indicate there is additional expected population and demand growth through 2040. The projected total DUEs through buildout are assumed to occur through buildout to provide a more conservative project planning and implementation timeline and ensure that demands do not outpace the Agency's system capacity.

TABLE 16
Projected Connections and Revenue

Fiscal Year	EQUIVALENT CONNECTIONS (5/8" Meter)	PROJECTED REVENUE
2017-18	1,354	$37,617,480
2018-19	1,493	42,528,519
2019-20	1,230	36,182,131
2020-21	1,100	33,317,909
2021-22	1,458	45,498,694

Source: The Agency

The Agency believes the growth projections described above and used for purposes of the projected operating results are reasonable. However, there can be no assurances that prevailing economic conditions, natural disasters, availability of water, potential future limitations on development, or any combination of the foregoing or other factors, will not result in less growth in the service area of the Agency than the Agency currently projects. See "CERTAIN RISK FACTORS — Rate Covenant Not a Guarantee; Failure to Meet Projections" and "– Earthquake, Flood or Other Natural Disasters."

Groundwater Recharge Fee

Each retailer has an established "Groundwater Pumping Quota" (GPQ), formerly referred to as the "Independent Quota" in the original Municipal and Industrial water supply contract between the Agency and each retailer. Pleasanton and Cal Water pump their own GPQ. The Agency pumps DSRSD's GPQ. Livermore has not had any groundwater pumping capability for many years, and has therefore not been using their GPQ. Averages are maintained by allowance of "carryover"—limited to 20% of the GPQ—when less than the GPQ is used in a given year. A retailer must pay a "recharge fee" for all groundwater pumped exceeding their GPQ and any carryover. This practice helps avoid a repeat of historical over-drafting of the basin by the larger municipal users. The fee covers the cost of importing and recharging additional water into the Main Basin. The 2018 Recharge Fee is $839 per acre-foot.

Agency Revenue Derived from Property Taxes Not Pledged to Bonds

<u>Agency Portion of 1% Property Tax</u>. The County levies a 1% property tax on behalf of all taxing agencies in the County, including the Agency. All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

The taxes collected are allocated to taxing agencies within the County, including the Agency, on the basis of a formula established by State law enacted in 1979 and modified from time to time. 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 (due to new construction, change of ownership, or a 2% inflation allowance allowed under Article XIIIA of the State Constitution) prorated among the jurisdictions which serve the tax rate area within which the growth occurs. Tax rate areas are groups of parcels which are taxed by the same taxing entities. Cities, counties, special districts and school districts share the growth of "base" revenues from each tax rate area. Assessed valuation growth is cumulative, i.e., each year's growth in property value becomes part of each agency's allocation in the following year.

Under applicable law, the Agency uses its portion of the 1% property tax for flood control operations. **Such amounts are not available for payments of the Bonds or 2018 Installment Sale Payments.**

Property Tax Override. Article XIIIA of the California Constitution exempts ad valorem property tax levies to make payments upon indebtedness approved by voters prior to July 1, 1978, from the limitations set forth in Section 1 (a) of Article X111A; and the Agency's indebtedness from its State Water Supply Contract falls within such exemption. The Agency levy property tax within the Agency sufficient to raise the sum of to meet that portion of the Agency State Water Supply Contract fixed cost obligation, which was $20.9 million in Fiscal Year 2016-17. All funds received by the Agency pursuant to the aforementioned property tax levy are placed in separate fund identified for the indebtedness.

The property tax revenues of the Agency and the property tax override described above are not pledged to, or available for, payment of the Bonds or 2018 Installment Sale Payments.

Outstanding Obligations of the Agency

The Agency currently has no long term bonds outstanding. However, the Agency does have significant long term obligations payable from Water Revenues, including obligations payable to other agencies for debt by such agencies issued on the Agency's behalf. These obligations are described below.

South Bay Aqueduct Improvement and Enlargement Project. Amendment No. 24 to the Water Supply Contract between DWR and the Agency, effective November 7, 2003 (the "South Bay Aqueduct Agreement") was executed in connection with the development and construction of the South Bay Aqueduct Enlargement. The Agency's estimated obligation, including interest, is $358 million. The Agency's annual payment in Fiscal Year 2016-17 was $20.2 million and in Fiscal Year 2017-18 is estimated to be $19.4 million. Payments in subsequent years (through 2035) range from $6.5 million to $22.4 million, and average $20 million annually. Property taxes fund 20% of the annual debt service to which covers the improvement components of the project and are therefore recoverable from the property tax override. Water Revenues consisting of water connection fees fund the remaining 80%, which covers the enlargement. Amounts payable by the Agency from Water Revenues constitute Operations and Maintenance Expenses of the Agency.

Cawelo Water Banking Agreement. Pursuant to the Cawelo Water Banking Agreement, the Agency is required to pay specified "Capital Payments" in an amount sufficient to pay debt service with respect to 2006 Certificates, which are currently outstanding in the principal amount of $15,290,000. The Capital Payments are approximately $1.3 million annually, through 2035. The Capital Payments are being refunded with a portion of the proceeds of the Bonds. See "FINANCING PLAN-Cawelo Prepayment."

Reserve Policy and Balances

On September 28, 2016, the Agency Board adopted Resolution No. 16-166, approving a reserve policy to maintain fiscal health and better position the Agency to obtain a favorable credit rating. The table below provides a summary of the various Water Enterprise Reserves, the policy requirements and balances relative to targets at June 30, 2017. The reserves are described in the sections following the table.

Reserve	Policy		Balance at June 30, 2017 (Percentage of Target)
Operating	Minimum	60 days of operating expenses	$5,653,337 (60 days)
	Target	90 days of operating expenses	
	Maximum	120 days of operating expenses	
Emergency	Minimum	2% of Water Enterprise Assets	$2,601,454 (1.3%)
	Target	2.5% of Water Enterprise Assets	
	Maximum	3% of Water Enterprise Assets	
Drought Contingency	Minimum	5% of budgeted water sales	$-
	Target	10% of budgeted water sales	
	Maximum	20% of budgeted water sales	
Rate Stabilization(1)	Minimum	10% of budgeted water sales	$-
	Target	15% of budgeted water sales	
	Maximum	20% of budgeted water sales	
Vehicle Replacement	n/a	No min/target/max	$942,864
Renewal/Replacement &System-Wide Improvements Capital Projects Reserve	Minimum	100% of the estimated capital budget for the following fiscal year	$36,515,967 (206%)
	Target/Max	No target or maximum	
Capital Expansion	Minimum	60% of the following year's non-discretionary expenditures	$68,555,416 (348%)
	Target/Max	No target or maximum	
Capital Expansion SBA Sinking Fund	n/a	No min/target/max	$10,215,437
Capital Expansion FCSBA Sinking Fund	n/a	No min/target/max	$2,776,759
State Water Facilities Operating	Minimum	50% of the following year's projected annual operating expenses	$16,363,657 (65%)
	Target	No target	
	Maximum	100% of the following year's projected annual operating expenses	

(1) Concurrently with the issuance of the Bonds, the Rate Stabilization Reserve will be funded with an initial deposit of $8.6 million.

Operating Reserve. This reserve is designated to maintain a reserve for current operations and to meet routine cash flow needs. Money on deposit in this reserve may be used for unanticipated operating expenses, daily cash flow requirements and minor emergencies such as unanticipated infrastructure failures.

Emergency Reserve. Funds in the Emergency Reserve can be used for any operating or capital purpose (i) to begin repair of the water enterprise system after a catastrophic event or disaster, such as, but not limited to, an earthquake, fire, terrorist event, or storm while insurance claims are being processed or (ii) in the event of severe financial events that impact the financial soundness of the Agency.

Drought Contingency. The Drought Contingency Reserve supplements losses to water sales revenue resulting from impacts of drought conditions due to hydrologic, regulatory or State and Federal mandated reductions in supply.

Rate Stabilization Reserve. The Rate Stabilization Reserve serves as a means to temper the need for significant water rate increases and to meet debt service coverage requirements. The reserve accumulates revenues for use during periods of unanticipated fluctuations in treated water rate revenues and cost of service in order to offset significant increases in water rates. This reserve would be used in any year when revenues are not sufficient to meet debt service coverage ratios as required by bond covenants. Funds on deposit within this reserve may be treated as revenues for the purpose of computing debt service coverage ratios. Concurrently with the issuance of the Bonds, the Rate Stabilization Reserve will be funded with an initial deposit of $8.6 million.

Vehicle Replacement Reserve. The purpose of this reserve is to fund planned replacement of vehicles and equipment that have reached the end of their useful lives.

Water Enterprise Renewal and Replacement And System-Wide Improvements Reserve. The Renewal and Replacement System-Wide Improvements Reserve funds capital projects, including the renewal or replacement of water system infrastructure as it reaches the end of its useful life and system-wide improvements and upgrades such as those related to regulatory changes. Within this fund is a separate reserve to be used for a portion of the acquisition of the Agency's administrative-engineering building (the "Building Sinking Fund"). Contributions are made to the Water Enterprise Renewal & Replacement and System-Wide Improvement Sinking Fund at the discretion of the Agency and money therein is designated for the purpose of acquiring the Agency's future administrative-engineering building. The Agency utilized a portion of then-current amounts in this fund in Fiscal Year 2016-17 in connection with the purchase of the North Canyons Administrative-Engineering building.

Water Enterprise Capital Expansion Reserve. The Agency has employed a pay-as-you-go funding strategy to minimize debt borrowing and interest expenses, therefore capital reserve funds are accumulated to provide for current and future funding needs. Money in the Water Enterprise Capital Expansion Reserve is earmarked for capital projects to meet additional demands created by development. In furtherance of meeting such needs the Agency incurred certain non-discretionary financial obligations associated with capital expansion projects. Within this fund are three separate reserves to be used for:

- A portion of the acquisition costs for the Agency's administrative-engineering building, (the "Building Sinking Fund"); Contributions are made to the Building Sinking Fund at the discretion of the Agency and moneys therein are designated for the sole use of acquiring the Agency's administrative-engineering building. The Agency utilized a portion of then-current moneys in this fund in Fiscal Year 2016-17, in connection with the purchase of the North Canyons Administrative-Engineering building.
- The construction of improvements and enlargements to the South Bay Aqueduct (the "SBA Sinking Fund"); and
- The Future Contractors' share of the South Bay Aqueduct construction (the "FCSBA Sinking Fund").

Historical Operating Results

The following table summarizes the Agency's revenues and expenses relating to the Water System recorded in Fiscal Year 2012-13 through Fiscal Year 2016-17. Historical results have been derived from the financial statements of the Agency but exclude certain non-cash items and include certain other adjustments. The table reflects application of the provisions of the 2018 Installment Sale Agreement to historical results (including characterization of revenues and expenses for purposes of the determination of "Net Revenues" in the table), although the requirements of the 2018 Installment Sale Agreement are not effective until the issuance of the Bonds.

The Agency accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the Agency ("GAAP"). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See Appendix A "— AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017." Except as otherwise provided by the provisions of the 2018 Installment Sale Agreement, all financial information derived from the Agency's audited financial statement reflect the application of GAAP.

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TABLE 17
HISTORICAL OPERATING RESULTS
FISCAL YEAR ENDING JUNE 30

	2012-13	2013-14	2014-15	2015-16	2016-17
Operating Revenues					
Water Sales[1]	$ 38,130,264	$ 35,616,588	$ 26,552,568	$ 28,110,974	$ 42,975,960
Connection and development fees[2]	27,483,527	21,973,245	28,521,399	39,135,444	33,128,280
Charges for Services[2]	70,587	2,938	720,670	976,853	1,201,296
Intergovernmental Revenues[3]	-	306,063	369,679	9,227,359	6,666,935
Interest and rental income	311,674	315,762	308,692	474,139	830,347
Other Revenues[3]	3,305,555	2,957,983	3,328,251	245,323	404,044
Total Revenues	**$ 69,301,607**	**$ 61,172,579**	**$ 59,801,259**	**$ 78,170,092**	**$ 85,206,862**
Maintenance & Operations Costs					
Labor Costs[4]	$ 14,113,249	$ 15,785,516	$ 16,980,052	$ 17,309,917	$ 17,158,105
Contractual services[5]	3,748,673	4,046,747	4,088,031	5,920,812	2,999,280
Technical supplies	128,160	126,647	103,651	117,754	120,612
Chemical Purchases	1,777,427	1,788,873	2,025,912	1,861,443	1,767,573
Water Purchases[6]	19,075,820	21,192,647	20,237,005	21,274,946	22,088,330
Water Storage[7]	3,496,894	2,049,152	4,043,018	3,989,716	2,068,664
Utilities	2,393,857	2,286,718	1,779,476	1,376,686	1,414,039
Maintenance and repairs	1,312,559	1,419,527	1,454,090	1,366,627	1,093,932
Equipment and building rents	1,078,747	1,047,397	1,121,585	1,221,495	953,053
Other services and supplies	1,915,595	1,766,905	1,406,629	1,940,636	2,103,060
Total Operating Expenses	**$ 49,040,981**	**$ 51,510,129**	**$ 53,239,449**	**$ 56,380,032**	**$ 51,766,648**
Net Revenues	**$ 20,260,626**	**$ 9,662,450**	**$ 6,561,810**	**$ 21,790,060**	**$ 33,440,214**

Notes:

(1) Water Sales Revenue is comprised of: treated, temporary and untreated water revenue. FY 2015-16 and FY 2016-17 includes temporary surcharge revenue. FY 2016-17, includes treated water fixed charges (35% of revenue requirement) and 65% of volume-based rate, implemented January 1, 2017.

(2) FY 2012-13 through FY 2014-15 Connection fees and development impact fees include water connection fees and Dougherty Valley Facility Use Fees. In FY 2014-15, Dougherty Valley Facility Use Fees were reclassified to Charges for Services.

(3) Intergovernmental revenue includes DWR refunds and grant proceeds. In Fiscal Year 2012-13 through Fiscal Year 2014-15, Intergovernmental Revenue was classified as Other Revenues.

(4) Labor costs includes salaries, wages and benefits. Governmental Accounting Standard Board Statement No. 68 was implemented in Fiscal Year 2015-16 and the pension expense is included in the Comprehensive Annual Financial Reports for Fiscal Year 2015-16 and Fiscal Year 2016-17, but it is excluded in this reporting.

(5) Contractual Services includes Professional Services, County Services and Risk Management.

(6) Water purchases includes water purchases from DWR and capital payments for the South Bay Aqueduct Improvement and Enlargement Project.

(7) Water storage incudes costs associated with Cawelo and Semitropic groundwater banking including recovery, storage, operations & maintenance and capital payments of $1.3 million (Cawelo) and $50,000 (Semitropic).

Totals may not add due to rounding.
Source: Agency

Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the Water System for Fiscal Year 2017-18 through Fiscal Year 2021-22 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the estimate of projected financial results of the Agency based upon the Agency's judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of the financial projections of the Agency, 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 projected operating results do not include future costs which may be incurred by the Agency in connection with the California WaterFix. See "FACTORS AFFECTING WATER SUPPLY – California WaterFix." As described therein, such costs may be significant, and may constitute Maintenance and Operations Costs of the Agency. See "BOND OWNERS RISKS – Projected Operating Results" and "-Limited Obligations." The property taxes levied by the Agency to pay costs under its State Water Project Contract are not included in Water Revenues in the table below and the costs paid with such taxes are not included in Operation and Maintenance Costs in the table below.

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TABLE 18
PROJECTED OPERATING RESULTS & DEBT SERVICE COVERAGE
FISCAL YEAR ENDING JUNE 30

	2017-18	2018-19	2019-20	2020-21	2021-22
Operating Revenues					
Water Sales[1]	$ 48,363,550	$ 46,462,666	$ 50,990,321	$ 53,808,924	$ 56,221,606
Connection and development fees [2]	38,217,480	42,948,519	36,602,131	33,737,909	45,918,694
Intergovernmental Revenues[3]	3,068,144	3,092,803	3,085,790	3,083,860	3,070,445
Interest and rental income	753,669	746,710	1,210,433	1,021,719	867,287
Other Revenues[4]	277,435	277,435	1,377,435	277,435	277,435
Total Revenues	**$ 90,680,279**	**$ 93,528,133**	**$93,266,111**	**$ 91,929,847**	**$106,355,467**
Maintenance and Operations Costs					
Labor Costs[5]	$ 14,982,290	$ 15,431,759	$ 15,894,711	$ 16,371,553	$ 16,862,699
Contractual services[6]	3,745,025	3,857,376	3,973,097	4,092,290	4,215,059
Chemical Purchases	2,870,605	2,956,723	3,045,425	3,136,788	3,230,891
Water Purchases[7]	22,570,011	23,603,011	23,872,223	24,131,138	24,459,368
Water Storage[8]	3,598,892	1,111,023	1,124,554	1,138,490	1,195,415
Utilities	1,775,726	1,864,512	1,957,738	2,055,625	2,158,406
Maintenance and repairs	1,865,132	1,921,086	1,978,719	2,038,080	2,099,222
Other services and supplies	4,336,694	4,391,795	4,448,549	4,507,005	4,567,215
Total Operating Expenses[9]	**$ 55,744,375**	**$ 55,137,285**	**$ 56,295,016**	**$ 57,470,969**	**$ 58,788,276**
Revenues Available For Debt Service	**$34,935,904**	**$38,390,849**	**$36,971,095**	**$34,458,878**	**$47,567,190**
Debt Service on Bonds	$ -	$2,124,444	$4,213,913	$4,212,038	$4,216,663
Debt Service Coverage Ratio	**n/a**	**18.07x**	**8.77x**	**8.18x**	**11.28x**

Notes:

(1) Water Sales Revenue includes treated, untreated and temporary water rate revenue. Treated Water Rates assumes a 2% average growth rate in consumption and 3% annual adjustments to rates and fixed charges. See "- Water Rates."

(2) Connection Fees and Development Fees include water connection fees and Dougherty Valley Facility Use Fees. Dougherty Valley Facility Use Fees were formerly classified as Charges for Services. Projected Connection Fee Revenue is based on the Agency's Fiscal Year 2016-17 Municipal and Industrial Connection Fee Study. See "- Water Charges."

(3) Intergovernmental revenue includes DWR refunds and other grants.

(4) Other revenue includes miscellaneous revenue. Fiscal Year 2019-20 includes a one-time reimbursement from Dublin San Ramon Service District for the Dougherty Reservoir Recoating Project ($1.2 million).

(5) Labor costs include salaries, wages and benefits and excludes pension expense.

(6) Contractual Services includes Professional Services, County Services and Risk Management.

(Notes continued on following page.)

(Notes continued from prior page.)

(7) Water Purchases include water purchases from DWR (approximately $5 million annually for variable water purchases from DWR not payable from the property tax override) and fixed expansion capital payments for the South Bay Aqueduct (approximately $15 million annually) and Future Contractors Share of the South Bay Aqueduct (approximately $3.0 million annually).

(8) Water storage incudes costs associated with Cawelo and Semitropic groundwater banking including recovery, storage, operations & maintenance. Fiscal Year 2017-18 includes and capital payments of $1.3 million (Cawelo). Cawelo capital payments are being prepaid upon the issuance of the Bonds.

(9) Total Operating Expenses are assumed to increase by an average of 2% annual inflation. Inflation rates may vary by expense type.

Totals may not add due to rounding.

Source: The Agency

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Financial Statements

A copy of the most recent audited financial statements of the Agency prepared by Agency staff and audited by Maze & Associates, Pleasant Hill, California (the "Auditor") is attached as Appendix A hereto (the "Comprehensive Annual Financial Report"). The Auditor letter concludes that the audited financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

See the Comprehensive Annual Financial Report attached hereto as Appendix A for a discussion of accounting practices of the Agency.

Retirement Plan

Salaries and benefits costs of the Agency include funding of retirement benefits for employees assigned to the Agency who, as County employees, participate in the Alameda County Employee Retirement Association ("ACERA"). The ACERA retirement plan requires employees to pay a portion of the basic retirement benefit and a portion of costs relating to cost-of-living adjustments. However, the Agency has paid the majority of the employees' basic contributions in accordance with existing collective bargaining arrangements.

Retirement payments, with respect to employees assigned to the Agency (which includes payments to ACERA, were approximately \$3.3 million in Fiscal Year 2013-14, approximately \$3.5 million in Fiscal Year 2014-15, approximately \$3.8 million in Fiscal Year 2015-16, and approximately \$3.8 million in Fiscal Year 2016-17. The Agency estimates that the required contribution for Fiscal Year 2017-18 will be approximately \$4.0 million. For a variety of reasons, including prior investment losses and changes in actuarial assumptions, ACERA has experienced increased unfunded liabilities and retirement costs in recent years. The Agency's retirement costs are expected to continue to increase in the future.

See APPENDIX A — "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2017" — Note 6 to the Basic Financial Statements" for a discussion of retirement liabilities payable by the Agency and a discussion of benefits, actuarial assumptions and matters related to ACERA and the Agency's retirement related obligations.

For Fiscal Year 2016-17, pursuant to GASB 68, a proportional allocation of the County's Net Pension Liability in the aggregate amount of approximately \$25.4 million was allocated to the Agency. In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the Agency. GASB 68 revised and established new financial reporting requirements for most governments that provide their employees with pension benefits, including the Agency. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' fiduciary net position (the amount held in a trust for paying retirement benefits, generally the market value of assets) and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also revised and implemented new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual employer pension contributions, which continue to be determined actuarially by each plan. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. GASB 68 addresses the disclosure of pension liability only and does not impose any funding requirements.

LITIGATION

No litigation is pending or, to the knowledge of the Agency, threatened, in any way questioning or affecting the validity or enforceability of the Bonds, the 2018 Installment Sale Agreement or the Trust Agreement. Neither the creation, organization or existence of the Agency, nor the title of the present directors or officers of the Agency to their respective office is being contested.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

Rate Covenant Not a Guarantee; Failure to Meet Projections

The ability of the Agency to make the 2018 Installment Sale Payments and thereby pay the principal of and interest on the Bonds depends on the ability of the Agency to generate Net Revenues in the levels required by the 2018 Installment Sale Agreement. Although, as more particularly described herein, the Agency expects that sufficient revenues will be generated through the imposition and collection of water charges and connection fees and other Water System Revenues described herein, there is no assurance that such imposition of water charge, connection fees, or other Water System Revenues will result in the generation of Net Revenues in the amounts required by the 2018 Installment Sale Agreement. As a result, the Agency's covenant does not constitute a guarantee that sufficient Net Revenues will be available to make debt service payments on the Bonds.

In addition, the Agency's projected operating results are based on a number of assumptions, including timely receipt of various payments from the Agency Retailers, the capital and operating costs of the capital improvements, and are based on current regulatory requirements. Changes in circumstances, including but not limited to higher than expected capital or operating costs, and increasing regulatory requirements, could have a material adverse impact on the ability of the Agency to make the 2018 Installment Sale Payments and thereby pay the principal of and interest on the Bonds.

Operation and Maintenance Expenses

There can be no assurance that operation and maintenance expenses of the Agency related to the Water System will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in water quality standards, increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenants in the 2018 Installment Sale Agreement. Such rate increases could drive down demand for water and related services.

Projected Operating Results

The projected operating results included herein are based on certain assumptions and forecasts. Any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

The Agency's projected operating results include an assumption that there will be significant growth in connections in the Agency's service area, with significant revenues resulting from the imposition of connection fees. In the event that growth is significantly below the levels assumed in the Projected Operating

Results, such circumstances could have a material adverse impact on Water Revenues, and the ability of the Agency to make 2018 Installment Sale Payments.

Accordingly, the projected operating results are not necessarily indicative of future performance, and the Agency does not assume any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Agency are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the Bonds are cautioned not to place undue reliance upon the projected operating results. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Net Revenues may be materially less than expected and consequently, the ability of the Agency to make timely payment of the principal of and interest on the Bonds may be materially adversely affected.

Neither the Agency's independent auditors, nor any other independent accountants have compiled, examined or performed any procedures with respect to the projected operating results, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, projected operating results, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, projected operating results.

Risks Relating to Water Supply and Drought

There are a variety of factors that can adversely affect the supply of water available to the Agency. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, Water Revenues may diminish and Net Water Revenues available to pay the 2018 Installment Sale Payments securing the Bonds may be adversely affected. In addition, lower water usage by customers in response to potential/future drought measures adopted by the Agency or the Agency Retailers could result in reduced water consumption and consequently lower Net Water Revenues. See "WATER SUPPLY" and "FACTORS AFFECTING WATER SUPPLIES."

Additional Obligations

As described in "CAPITAL IMPROVEMENT PLAN," the Agency's CIP is significant. The 2018 Installment Sale Agreement permits the issuance of additional obligations payable from Net Water Revenues on parity with the 2018 Installment Sale Agreement. See "SECURITY FOR THE BONDS – Additional Debt."

In addition, the Agency is considering participation in California WaterFix or a similar program with other agencies in connection with contemplated upgrades to the State Water Project. It has not been determined at this time if payments by the Agency with respect to California WaterFix or a related program will be payable from the property tax override available to pay State Water Project costs payable by the Agency (and therefore would not be payable from Water Revenues) or if such costs would be payable from Water Revenues. If such costs are payable from Water Revenues, there can be no assurances that such payments would not constitute Operation and Maintenance Costs of the Agency, payable prior to 2018 Installment Sale Payments. Payments of the Agency in connection with these additional obligations could materially adversely affect the financial condition of the Agency. See "FACTORS AFFECTING WATER SUPPLIES-California WaterFix."

Limitations on Remedies Available to Bond Owners

The ability of the Agency to comply with its covenants under the 2018 Installment Sale Agreement and to generate Net Water Revenues sufficient to pay the 2018 Installment Sale Payments may be adversely affected by actions and events outside of the control of the Agency, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "–Proposition 218" below. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under a 2018 Installment Sale Agreement or the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the 2018 Installment Sale Agreement and the Trust Agreement, the rights and obligations under the Bonds, the 2018 Installment Sale Agreement and the Trust Agreement may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Seismic Considerations

The Agency is located in a seismically active area of California. If there were to be an occurrence of severe seismic activity in the area of the Agency, there could be an interruption in the service provided by the Water System, resulting in a temporary reduction in the amount of Net Water Revenues available to pay 2018 Installment Sale Payments when due.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority or the Agency in violation of their respective covenants in the 2018 Installment Sale Agreement and the Trust Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Trust Agreement.

Proposition 218

Although the Agency does not believes that the rates and charges for water it provides to the Agency Retailers and other customers is subject to the requirements of Proposition 218, the Agency Retailers are required to comply with the provisions of Proposition 218 with respect to the rates and charges imposed by the Agency Retailers on the respective Retail Agency's customers. Following is a discussion of Proposition 218 and related limitations on the ability of governments in California to impose rates, fees and charges.

General. On November 5, 1996, California voters approved Proposition 218, the so- called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

Specifically, under Article XIIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIIIC states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In Richmond v. Shasta Community Services District (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIID to certain charges related to water service. In Richmond, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIIID.

In Howard Jarvis Taxpayers Association v. City of Fresno (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIIID before imposing or increasing such fees. The California Supreme Court denied the Agency of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in Bighorn-Desert View Water Agency v. Verjil (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in Richmond that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIIC and was therefore invalid.)

The court in Bighorn specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Conclusion. It is not possible to predict how courts will further interpret Article XIIIC and Article XIIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the Bighorn case, local voters could adopt an initiative measure that reduces or repeals the Agency Retailer's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIIC and Article XIIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for water or wastewater services, or to call into question previously adopted water or wastewater rate increases.

Environmental Regulation

The kind and degree of drinking water and wastewater treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System and the Wastewater System, and mandate their use of technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter water quality standards upon the Water System, the Agency's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or state regulation will take with respect to drinking water and wastewater quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Secondary Market for Bonds

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

APPROVAL OF LEGALITY

Orrick, Herrington & Sutcliffe LLP, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the proposed form of which is included as Appendix E hereto. Certain legal matters will be passed upon for the Underwriters by Nossaman LLP. Certain legal matters will be passed upon for the Authority and for the Agency by its General Counsel. A copy of such approving opinions will be available at the time of delivery of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain compensation of Bond Counsel is contingent upon the execution of the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of Underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Agency have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and 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), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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 amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Agency, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Agency have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Agency or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Agency and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Agency legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Agency or the Beneficial Owners to incur significant expense.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance of the Bonds or the 2018 Installment Sale Agreement or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the Agency taken with respect to any of the foregoing.

RATINGS

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") and Fitch Ratings Inc. ("Fitch") has assigned municipal bond ratings of "AA+" and "AA", respectively, to the Bonds. These ratings reflect only the view of the respective rating agencies, and an explanation of the significance of this rating, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agencies.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Agency has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agencies if in their judgment, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The Agency will covenant in a continuing disclosure certificate, the form of which is set forth in APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE," for the benefit of holders and beneficial owners of the Bonds, to provide certain financial information and operating data relating to the Agency and the Bonds by not later than nine months after the end of the Agency's fiscal year, resulting in a deadline of March 31 of each year, beginning with an initial deadline of March 31, 2019. The Continuing Disclosure Certificate also requires the Agency to provide notices of the occurrence of certain enumerated events.

The covenants of the Agency in the Continuing Disclosure Certificate will be made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"). The Continuing Disclosure Certificate is the Agency's first undertaking to provide continuing disclosure in connection with the Rule.

A default under the Continuing Disclosure Certificate will not, by itself, constitute an event of default under the Trust Agreement, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the Agency to comply will be an action to compel specific performance.

UNDERWRITING

The Authority and Agency have entered into a Bond Purchase Agreement with Wells Fargo Bank, National Association, as representative of itself and the underwriters listed on the cover page of this Official Statement (collectively, the "Underwriters") under which the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Authority at a price of $71,398,058.70 (being an amount equal to the principal amount of the Bonds ($64,010,000), plus a net original issue premium of $7,506,831.70, less an underwriters' discount of $118,773.00).

The Underwriters are obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

The following paragraphs have been provided by Wells Fargo Securities:

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the senior underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC

("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of the Authority and the Board of the Agency.

LIVERMORE VALLEY WATER FINANCING AUTHORITY

By: /s/ Osborn Solitei
Secretary/Treasurer

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

By: /s/ Osborn Solitei
Treasurer

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APPENDIX A

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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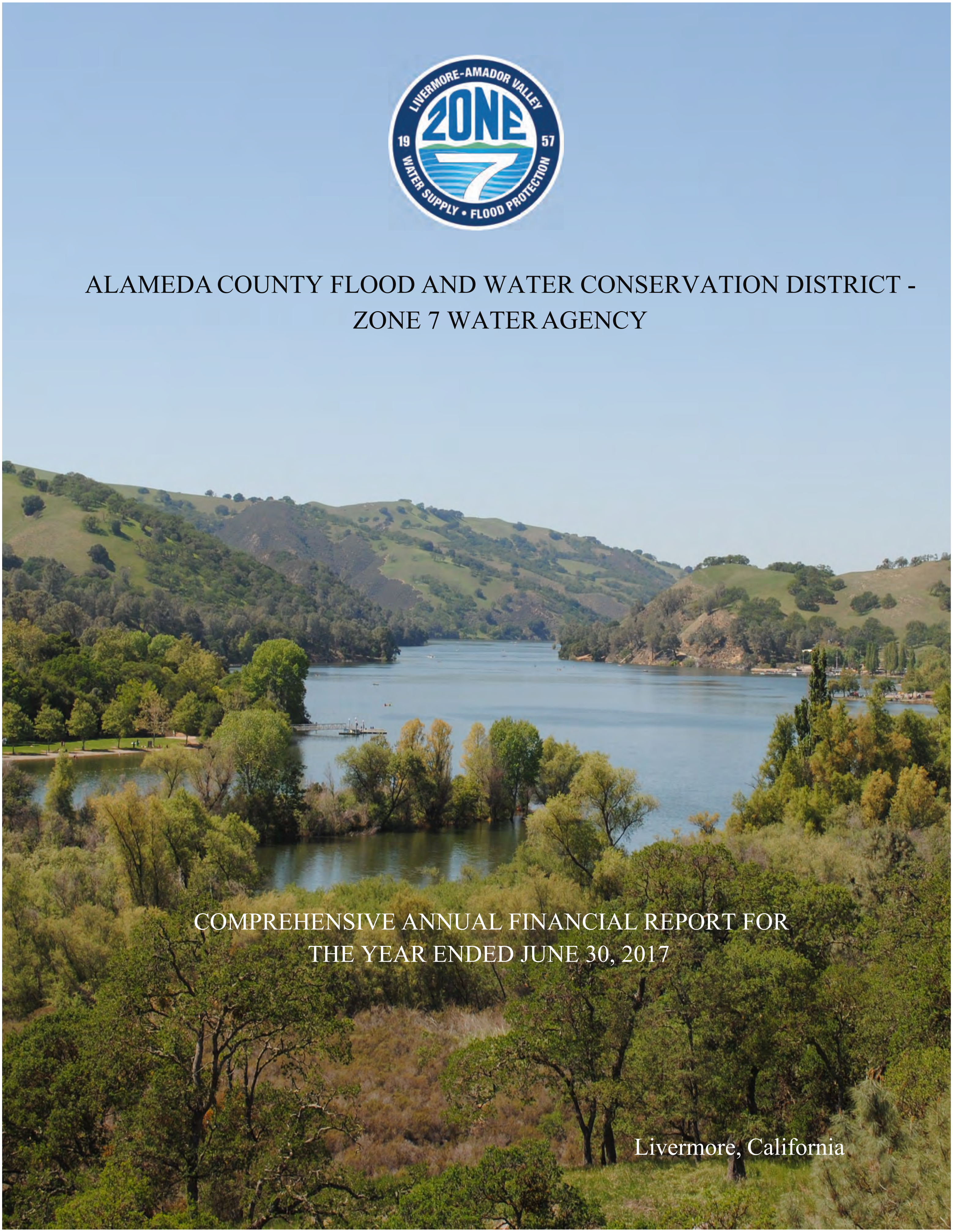

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2017

Livermore, California

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT- ZONE 7 WATER AGENCY,

CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017

PREPARED BY THE FINANCE AND MANAGEMENT DEPARTMENT

OSBORN K. SOLITEI, TREASURER/ASSISTANT GENERAL MANAGER – FINANCE

PRINTED ON RECYCLED PAPER

ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT– ZONE 7 WATER AGENCY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7
100 NORTH CANYONS PARKWAY, LIVERMORE, CA 94551-9486 • PHONE (925) 454-5000

December 4, 2017

To the Board of Directors:

The Comprehensive Annual Financial Report for the Zone 7 Water Agency

We are pleased to present the Comprehensive Annual Financial Report ("CAFR") of the Alameda County Flood Control and Water Conservation District, Zone 7, (Agency), for the fiscal year ended June 30, 2017.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

The intended purpose of the financial report is to provide the Board of Directors, the customers of the Agency, and other interested parties with reliable information on the finances of the Agency. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive internal control framework it established for this purpose. Because the cost of internal control should not surpass its benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of material misstatements.

Maze & Associates, a firm of licensed certified public accountants, have issued an unmodified ("clean") opinion on the Agency financial statements for the year ended June 30, 2017. The purpose of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2017, are free of material misstatement. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter is designed to complement and be read in conjunction with the MD &A.

The Comprehensive Annual Financial Report ("CAFR") follows the guidelines recommended by the Government Finance Officers Association of the United States and Canada ("GFOA") and the Agency is submitting this CAFR to GFOA for review and certification.

Agency Profile

Zone 7 Water Agency is a dependent special district established under the Alameda County Flood Control and Water Conservation District Act. The Act (Chapter 55 of the California Water Code Appendix) was passed by the State Legislature in 1949. Zone 7 was established by a vote of the residents of the

Livermore-Amador Valley area in 1957, with its own independent elected board to provide local control over the area's water resources. The Agency's Administrative Office is located in the City of Livermore in Alameda County. Livermore was founded in 1869 and is one of California's oldest wine regions. The Agency currently serves a population of approximately 240,000 people and it is responsible for providing wholesale treated (drinking) and untreated (agricultural) water, regional flood control services and sustainable groundwater management throughout eastern Alameda County.

The Agency's territory includes 425 square miles of eastern Alameda County. The Agency has broad powers to finance, construct and operate a system for the transportation, storage, treatment and distribution of water.

Lake Oroville Reservoir

The Agency imports water to the Valley from the State Water Project (SWP), operated by the California Department of Water Resources (―DWR"). The State issued bonds to finance the SWP. Zone 7 is one of 29 water contractors who share the cost of the debt service for the SWP bonds.

The Agency's four retail water customers are: the City of Livermore, the City of Pleasanton, Dublin-San Ramon Services District (DSRSD) and California Water Service Company – Livermore District. These retailers distribute the water to municipal and industrial customers in Dublin, Livermore, Pleasanton, and, through special agreement with Dublin-San Ramon Services District, the Dougherty Valley portion of San Ramon in Contra Costa County.

History and Services

Since long before the Zone 7 Water Agency was created, the critical issues of water supply, water quality and flood protection have shaped the region's ability to prosper. Although the Tri-Valley was far less populated during the first half of the 20th Century than it is today, a declining groundwater table and periods of drought in that period had local farmers, vintners and residents alike worried about their livelihoods, according to reports published in 1948. There was frequent flooding, particularly in northern Pleasanton, where Hacienda Business Park and various residential developments are now located.

The Agency was established in 1957 by local voters demanding local control over local water-resource planning, flood protection and financing. Zone 7 has taken the Tri-Valley a long way to resolving many of its most pressing water-supply, water-quality and flood-protection problems. The locally-elected, seven-member Board of Directors has continually formulated and implemented needed programs for flood protection and water-resource management, incorporating recreational and environmental benefits where feasible. Many issues have persisted over the decades, and their implications on local land use, local control and local financing continue to surface. Indeed, challenges continue as the agency works to improve water reliability and quality, along with flood protection, in the most economical and environmentally sound ways possible, and to accommodate new development being approved by Tri-Valley cities and/or the County at no cost or harm to existing residents.

Zone 7 has long been known for its proactive groundwater basin stewardship. Continuing in that tradition, on December 21, 2016, the Zone 7 Water Agency Board of Directors adopted a resolution officially accepting the role of Groundwater Sustainability Agency (GSA) for the Livermore Valley Groundwater Basin under the Sustainable Groundwater Management Act (SGMA). Zone 7 was one of several agencies recognized in the legislation as being a trusted groundwater basin manager and identified as the exclusive local agency eligible to perform the GSA role within its service area.

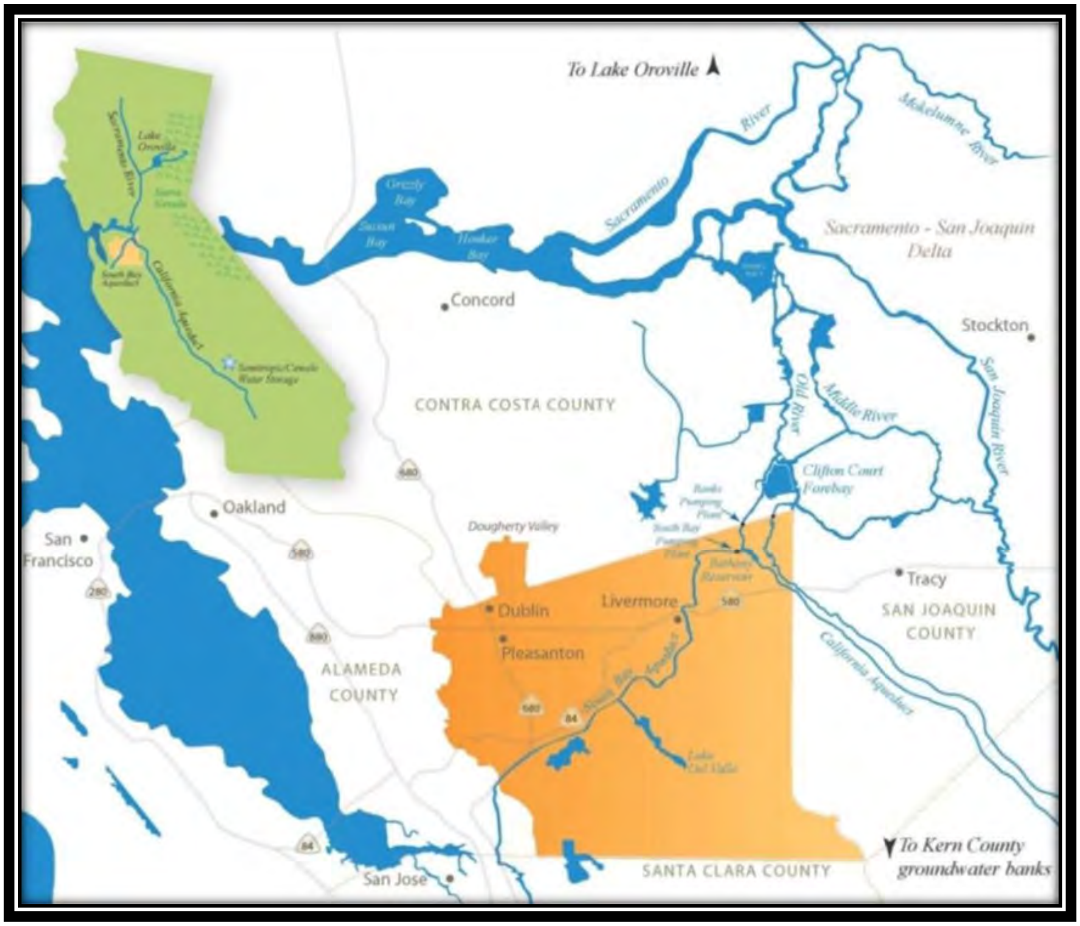
Through coordination with other local agencies in the region and neighboring groundwater basins, Zone 7 was able to notify the State that it will continue sustainable groundwater management for the entire portion of the Livermore Valley groundwater basin that is within the Agency's service area as well as a small portion that lies within Contra Costa County

Since its formation, the Agency has continued to take steps to expand its level of local control and autonomy. Most recently, in 2003, state legislation granted the Agency more authority over issues and projects of exclusive interest to the Agency, allowing the Board to improve economic efficiencies and reduce administrative duplication with the county.

Local control has allowed the Agency to develop master plans that sustainably integrate and optimize water supply reliability, water quality, flood management and environmental stewardship. Meanwhile, the Agency has participated with other water, recycled water, sewer and storm water utilities in the Tri-Valley to explore potential opportunities to pool services/equipment for increased efficiency.

Zone 7's Service Area

The Agency supplies treated drinking water to retailers serving approximately 240,000 people and businesses in Pleasanton, Livermore, Dublin, and through special agreement with the Dublin San Ramon Services District, the Dougherty Valley area in San Ramon. The Agency also supplies untreated irrigation water to local vineyards, farms and golf courses, and provides both flood protection and groundwater management to all of eastern Alameda County. Below is a map of Zone 7's service area (shown in orange):



Mission

Zone 7 Water Agency is committed to providing a reliable supply of high-quality water and an effective flood-control system to the Livermore – Amador Valley. In fulfilling our present and future commitments to the community, we will develop and manage our water resources in a fiscally responsible, innovative, proactive, and environmentally sensitive way.

Vision

To be recognized as the platinum standard water and flood control district in which to live, work and do business by enhancing the quality of life, economic vitality and environmental health of the communities we serve.

Values

- ***Open and Transparent* -** The Board's meetings and communications shall be open and public, except when the Brown Act authorizes otherwise.
- ***Customer Service* -** Our commitment to the community requires prompt, respectful and courteous relations with our customers, both internal and external, as well as pursuing community partnerships and collaboration with other area public agencies when beneficial to the public.
- ***Integrity* -** We practice the highest ethical standards and maintain open, honest communications at all levels of the organization at all times.

- ***Fiscally Responsible*** **-** We will operate in a productive, cost effective, transparent and efficient manner to ensure sound financial stability.
- ***Environmentally Sensitive*** **-** In carrying out our mission, we are dedicated to preserving and enhancing the environment while complying with regulations.
- ***Innovative/Proactive*** **-** We encourage innovation, creativity and ingenuity, seeking constant improvement and keeping up with the latest economical technologies and management practices.
- ***Safety*** **-** We are committed to public and employee safety to maintain a healthy work environment. We work safely and provide safe products and services.
- ***Employee Development*** **-** We foster a respect for diversity, equality, a spirit of performance-based accountability and productivity along with personal and professional growth for all team members so as to achieve excellence through the collective energy that comes from a work environment where each employee can flourish and succeed to their highest potential.

Economic Condition and Fiscal Outlook

Although the Statewide drought continued through the first part of 2016, Northern California largely recovered its surface water supplies by the year's end. By April 2016, water supply conditions had vastly improved, leading Governor Jerry Brown to reassess conservation mandates. Given Zone 7's supply and storage conditions at that time, there was no need to continue mandatory conservation within the service area. In June 2016, the Zone 7 Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts. Despite the improved conditions, Zone 7 staff continued working with the water retailers to promote wise use of water throughout 2016.

Actual 2016 water demand on Zone 7 was 34,000 acre-feet. Conservation was about 31 percent Valley-wide compared to 2013 demands, far exceeding the state average. Zone 7 strives to maximize the amount of water placed into storage both locally and outside its service area. In addition to minimizing groundwater pumping, Zone 7 maximized recharge in 2016 by recharging the main groundwater basin and by sending surplus water to Kern County groundwater banks. Zone 7 can recover water from these offsite groundwater banks in dry years, just as it did in 2014 and 2015 to augment supplies.

Most of the Agency's service area lies within the County of Alameda which possesses a large and diverse economic base, consisting of research and high technology, professional services, agriculture, finance, retail trade, medical and health services, government services and many others. The Alameda County Assessor's office reported a 6.99 percent increase above FY 2015-16's assessment roll for FY 2016-17. The net local roll, after all legal exemptions have been applied, totals $252.3 billion. The primary reason for this year's assessed value growth is again attributed to the recovery in real estate market values, and is the second largest percentage increase within the past eight years. Properties that were afforded temporary reduced assessments in prior years due to market value declines are now receiving increases in their assessed value due to market value increases. These properties are not limited to the mandatory 2% maximum increase on Proposition 13 base year assessments.

Other factors leading to this year's total assessed value growth included the 1.01525% mandatory inflation index being applied to all properties' assessed values that were not affected by assessment declines in prior years. This factor added $3.6 billion. Sales/transfers of real estate also added $8.5 billion, new construction activity added $1.4 billion, and business personal property assessments increased by

$1.5 billion. The 2016-17 assessment roll accurately reflects assessments of more than 502,000 taxable properties[1].

The non-seasonally adjusted unemployment rates reported through June 2017 for all of Alameda County was 4.0 percent versus 4.9 percent for all of California and 4.4 percent for all of the United States[2].

All cities within the Agency service area continue to grow, with the cities of Livermore and San Ramon supporting the largest overall populations. Zone 7 provides potable water through special agreement with the Dublin San Ramon Services District, to the Dougherty Valley area in San Ramon. The cities of Dublin and San Ramon have grown the most over the period from 2016 to 2017, at the rate of 4.0 percent and 2.3 percent respectively while the city of Pleasanton has grown 1.2 percent and the city of Livermore has grown 1.7 percent. The population growth from January 1, 2016 to January 1, 2017 in Alameda County (1.0 percent) has outpaced the overall state growth of 0.9 percent[3].

Declaration of Local State of Flood Emergency: In order to comply with the California Disaster Assistance Act (CDAA), the Agency declared a Local State of Flood Emergency and requested assistance from the Director of the California Governor's Office of Emergency Services (Cal OES). Cal OES administers the assistance program that provides financial assistance from the state for costs incurred by local governments as a result of a disaster or emergency situation.

Funding is available for the repair, restoration, or replacement of public facilities and properties that are damaged by the emergency event(s). The program also provides for reimbursement of costs associated with certain emergency activities undertaken in response to a state of emergency proclaimed by the Governor. The program may provide matching fund assistance for cost sharing required under federal public assistance programs in response to a Presidential Emergency Declaration. Thus far, Zone 7 staff estimate that construction costs to address the damage incurred in January and February is approximately $44 million - plus engineering, planning, biological assessment, CEQA, permitting, construction management and mitigation costs. Staff engaged personnel from the State Office of Emergency Services, U.S. Army Corps of Engineers, and Federal Emergency Management Agency to explore funding assistance opportunities and submitted initial application and cost estimates to meet required external deadlines.

Winter storms occurring January-February 2017 resulted in significant damage to Zone 7's regional flood control facilities. Through the spring of 2017, over 208 bank slides have been documented. This does not include numbers for estimates of toe erosion of slopes or minor toe-of-slope slumping because such damage may not have immediate impacts to slope stability or be an impediment to flow. For contrast, in recent years Zone 7 has experienced about eight bank slides annually. These exceptional circumstances necessitated a different approach to stream maintenance in order to return the expected level of service to Zone 7 owned or maintained channels.

Oroville Spillway Update: Record rainfall in February 2017 resulted in significant erosion and damage to the Lake Oroville main and emergency spillways. On April 6, 2017 DWR released the Oroville Spillway Recovery plan describing the approach to repair and restore the spillways to original design capacity by November 1, 2017. On April 17, 2017, DWR awarded Kiewit Infrastructure West Co. the contract to reconstruct both the main and emergency spillways for $275 million. As a State Water Project facility, repairs to the Lake Oroville spillways will be paid for by SWP contractors per the long-term water supply contracts for any costs not recoverable from federal grants or other sources. Zone 7's share is estimated to be $5.5M or 2%, which will be amortized through 2035. Zone 7 has not been billed for any of the repairs as of 06/30/2017. On November 1, 2017, DWR announced that it has met its goal of repairing and reconstructing the main spillway to handle flows of 100,000 cubic-feet per second this winter.

[1] County of Alameda County Assessor's Office FY 2016-17

[2] US Department of Labor, Bureau of Labor Statistics, 2017

[3] California Department of Finance, Demographic Research Unit, 2016/17 City Populations, E-1

Long-Term Financial Planning/Strategic Planning

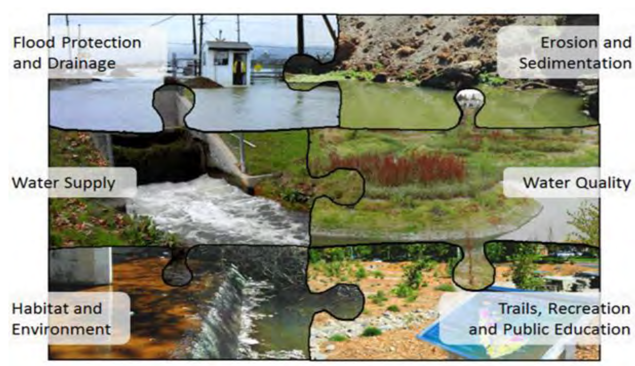
Water Rates

The Agency's largest revenue source is the sale of water, acting as a wholesaler for four water supply retailers in Livermore, Pleasanton, Dublin and by a special agreement with the Dublin San Ramon Services District, the Dougherty Valley area in San Ramon. Treated water sales for FY 2016-17 were $42.5 million.

- For calendar year 2016, the Board adopted a 13 percent increase plus a Temporary Conservation surcharge of $0.57 per hundred cubic feet in the wholesale treated water rate. The Board also approved the elimination of a four-tiered variable rate structure and approved a uniform or one-tiered volume-based rate structure for treated water.
- For calendar year 2017, the Board adopted a 13 percent increase and extended the CY 2016 Temporary Conservation surcharge of $0.57 per hundred cubic feet in the wholesale treated water rate to recover previous and projected revenue shortfalls as part of Calendar Year 2017 rates. The Agency also implemented a fixed rate component that would recover 35% of the Agency's revenue requirements, thereby adjusting its volume-based rate cost recovery proportion from nearly 100% to 65%.

Strategic Planning

As part of the Agency's strategic planning five general strategic planning priorities were identified. These priorities were developed to ensure all of the Agency's efforts are focused on fulfilling the mission of the agency, and to further ensure the most immediate needs are addressed in an efficient and cost-effective manner. The five general priorities (listed below) include a number of specific strategic planning sub-priorities and form the basis for master plans, budgets, capital plans and other resource allocation planning.



- Provide customers with a reliable, cost-effective and safe water supply.
- Provide Eastern Alameda County with an effective system of flood protection.
- Provide the Agency with effective organization, administration and governance.
- Operate the Agency in a fiscally-responsible manner.
- Increase public understanding of the Agency and its functions.

Capital Improvement Plan

The Capital Improvement Plan (CIP) describes the capital investments the Agency intends to make over a multi-year period. The CIP is the basis from which final capital budgeting decisions flow. The Agency prepares a ten-year CIP for the Water System and a five-year CIP for the Flood Protection System. The CIP is updated about every other year. The CIP document is presented to the Board for acceptance and approval.

MGDP Flush Line

For the purpose of the CIP, capital outlay is distinguished from capital projects. Capital outlay includes only those projects or equipment purchases between $5,000 and $50,000 and having more than one year of useful life (see Note 1G). Capital outlay is funded through the operating budget. All capital projects or equipment purchases of at least $50,000 or over and having five years of useful life are included in the capital improvement planning process. The last comprehensive CIP update, the Fiscal Year 2015-16 Capital Improvement Plan: Ten-Year Water System Plan and Five-Year Flood Protection Plan (FY 2015-16 CIP Update), was adopted in October 2014. Normally, Zone 7 updates this document every two years. However, the recent drought—for which the Board declared a Local Drought Emergency from January 29, 2014 to June 16, 2016—required emergency actions such as the acceleration of capital projects (e.g., construction of Chain of Lakes Well No. 5) and the addition of new projects (e.g., Stoneridge Cross Valley Isolation Valve). Furthermore, the combination of reduced revenues from water sales and the increased costs of water supplies and treated water production negatively affected Zone 7's budget, requiring the deferral of a number of planned projects. Consequently, Zone 7 decided to defer the update of the CIP until water operations stabilized.

The Agency has completed the Fiscal Year (FY) 2018/19 Ten-Year Water System CIP. The Ten-Year Flood System CIP will be developed separately to incorporate the emergency response and funding needs to address major damage to the flood protection system from the past winter and the latest information from the Stream Management Master Plan update.

<u>Asset Management Plan</u>

The purpose of an Asset Management Plan (AMP) is to proactively plan for and implement asset renewal projects. Zone 7 initiated its formal AMP in 2004 (2004 AMP Study), including the development of an asset registry and proposed methodology for forecasting long-term renewals. As part of the 2011 Asset Management Plan Update (2011 AMP Update) the Board adopted Resolution #11-4092 accepting the AMP update to sustain water infrastructure and establishing the needed funding levels via a transfer from the Water Enterprise Fund to the Renewal/Replacement & System-wide Improvements Fund.

The AMP update identified short and long-term renewal/improvement needs and the associated annual funding level necessary to implement these projects. The Board approved an annual funding level of $11.4 million (in 2011 dollars) with a six-year ramp up to this amount by FY 2016-17. The AMP is updated about every five years.

The 2017 AMP Update is incorporating CIP projects that have been completed, assets that have been renewed since the last AMP update in 2011, future projects, and the long-term renewal of assets. It also identified additional Renewal and Replacement projects. Findings from the 2017 AMP update have been incorporated into the CIP.

DVWTP 3 MG Clearwell Roof

Significant Accomplishments

Water Supply, Reliability and Quality

A mindful management of limited supplies: With improved water supply conditions during the latter part of the year, Zone 7 was able to meet all its retailers' demands and even lifted conservation requirements. Zone 7 continued to urge the community to be mindful of water use and continue to conserve water wherever possible. The community continued to curb water use but after nearly five years of drought, water use was up slightly from 2015. Water use for the region was still down approximately 30 percent relative to 2013 levels, far exceeding the state's average urban water conservation of 19.5 percent.

The statewide Sierra snowpack was estimated to be 163% of the April 1st average as of March 31, 2017, compared to 86% the same time last year. April 1st is normally when the snowpack level peaks before the spring melt begins. The snowpack level in northern California, the main source of supply for the SWP during the spring and summer, was at 148% of the April 1st average. Northern Sierra precipitation, which is a strong constituent in SWP allocation, was 83.4 inches and at 201% of average as of March 31, 2017; this is trending higher than the wettest 1982-1983 water year conditions.

Reservoir Conditions in 2017 statewide are good with all reservoirs generally full. Oroville and San Luis Reservoir, the main reservoirs for the SWP, were at 76% and 99% of capacity as of March 31, 2017, equivalent to 99% and 109% of historical averages for this date, respectively.

Bolstering future reliability: Zone 7 made significant investments toward supporting the planning and development of Sites Reservoir, a proposed new off-stream reservoir located 75 miles northwest of Sacramento, California, at a participation level of 20,000 acre-feet (11,380 AF Class 1 water and 8,620 AF of Class 2 water). Investments were also made in studies to evaluate expanding the storage capacities of Lake Del Valle and Los Vaqueros reservoirs.

Water quality: All water supplied during 2016 met the regulatory standards set by the state and federal governments and, in almost all cases, the quality was significantly better than required. To ensure continued high quality, safe drinking water, Zone 7 has begun designing ozonation facilities for both the Del Valle and Patterson Pass water treatment plants.

Capital projects: Zone 7 initiated several significant projects to maintain critical water supply and water quality infrastructure, including 1) rehabilitation project for the Mocho 1 groundwater well; 2) filter valve replacements at the Del Valle Water Treatment Plant; 3) clearwell roof replacement at the Del Valle Water Treatment Plant; 4) replacement of the disinfection equipment at Hopyard Well No. 6; and 5) addition of a new 5 million gallon storage reservoir and a new 12 million gallon per day filtration system at the Patterson Pass Water Treatment Plant.

Delta sustainability: Efforts to improve water reliability for 25 million Californians, including those living in Zone 7's service area, reached a milestone with release of the BDCP/California WaterFix Final Environmental Impact Report/Environmental Impact Statement at the end of 2016. Certification and permits are expected to be granted in 2017. The California WaterFix is identified as being the least costly per acre-foot of water developed of all the measures evaluated in the WSE Update.

Sustainable Groundwater Management: As part of its longstanding, proactive groundwater basin stewardship, Zone 7 formally announced its intention to become the local GSA and submitted an alternative groundwater management plan that substantially complies with the Sustainable Groundwater Management Act (SGMA). SGMA is historic legislation that allows local agencies to adopt groundwater sustainability plans, to monitor and manage groundwater. If local agencies don't pursue GSA formation, the State can step in and assume management responsibilities.

Flood Protection/Stream Management Master Plan

Flood protection work: Repairs to creek banks, debris removal, vegetation management and facility inspections were part of an extensive effort throughout the summer months to prepare for the 2016-17 rainy season. As they do each year, Agency staff worked to ensure the flood control channels were in good working condition to convey stormwater.

Stream Management Master Plan Update (SMMP): The SMMP addresses the challenges of balancing flood protection with water supply, water quality, habitat and environment, and recreation and trails objectives for the Livermore-Amador Valley. Zone 7 continued to implement key aspects of the SMMP and to work on system-wide hydraulic and hydrology models that identify and help prioritize potential problem areas that may require a regional solution to address the impact.

Arroyo Mocho Floodplain and Riparian Forest Restoration Project (Mederios Parkway): Concept development for the Medeiros Parkway Project began in 2016. The project is aimed at improving regional flood protection and addressing regional sediment management issues by reconnecting the stream with more of its adjacent floodplain

Additional Stream Gauges: The Agency completed the installation of two additional stream gauges to Zone 7's stream gauging network. The new gauges are located on Altamont Creek in Livermore and South San Ramon Creek in Dublin, respectively. These new gauges provide real-time flow-related information during storm events, with daily base flows and temperature readings for ongoing studies. Coupled with the incorporation of new rain gauges that measure precipitation, data from the stream gauges also helps Zone 7 staff track flows in the flood-control channels and respond accordingly. The public can access real-time stream-flow information at the Storm Central website: https://stormcentral.waterlog.com/public/Zone7.

Local Hazard Mitigation Plan (LHMP): The process of completing a 5-year update to Zone 7's Local Hazard Mitigation Plan (LHMP) began in spring of 2016. The proposed Plan was shared with the Administrative Committee in May 2017, who directed staff to submit to CalOES and FEMA for review. Once comments are received, the LHMP will go through the final stages of acceptance by the General Manager, Zone 7 Board, State and Federal agencies. The federal Disaster Mitigation Act of 2000 requires cities, counties and special districts to have a LHMP to minimize damage and quicken recovery from disasters such as earthquakes and floods, and to be eligible for federal hazard mitigation funds. The update included a public survey to get public input on the highest priority issues and areas of greatest concern and a review of impacts from natural and manmade disasters to see where infrastructure and services can be strengthened or improved to reduce potential effects and thereby reduce costs after disasters.

Multi- Benefit Projects/Environmental/Community Partnerships

Living Arroyos Program: The Living Arroyos partnership with the City of Livermore, the City of Pleasanton, and Livermore Area Recreation and Park District continued to grow. Volunteers and Living Arroyos staff harvested and planted over 500 willow stakes and performed other maintenance activities along the Arroyo Mocho at the Stanley Reach Project.

Creek cleanups: Zone 7 collaborated extensively with other agencies to help keep local creeks clean by teaming up on debris removal and by helping to promote community creek cleanups w

Financial Accountability & Cost Efficiency

Water rates: Calendar Year 2016 was the first year of the three-year treated water rate increase adopted in 2015. The three-year horizon for the wholesale rate increase provided greater predictability/stability for the Agency and its customers, improved the ability of the Agency to plan for and finance deferred and badly needed equipment replacements, infrastructure maintenance, capital projects and streamlined the rate-setting process to improve efficiency. In October 2016, the board voted to extend the temporary drought surcharge for calendar year 2017 to help the Agency recover from deep financial losses experienced during the drought. The Agency also implemented a fixed rate component that would recover 35% of the Agency's revenue requirements, thereby adjusting its volume-based rate cost recovery proportion from nearly 100% to 65%.

North Canyons Building Purchase: On April 28, 2017, the agency closed escrow on the purchase of its administration building for $9.6M. This purchase eliminated the $1M per year lease payment and saved approximately $3M in purchase cost by purchasing the building in advance of the year 2020 end of lease and pre-agreed price.

Transparency: In August 2017, the Agency was awarded a District Transparency Certificate of Excellence by the Special District Leadership Foundation. In 2015, the Board of Directors also approved a one-year trial for video recording/televising monthly board meetings on community television and posting archived video links to the Agency's website. Videotaping and subsequent replay on TV30 began in 2016.

Financial Policies

Financial Management Framework

The financial management framework adopted by Zone 7 on November 16, 2011, assures that Zone 7 prudently manages and adequately plans for the funding of current and future operational requirements and capital resources necessary to achieve the Agency's mission and maintains financial and accounting records of all transactions in accordance with general law and generally accepted accounting principles and practices. It provides staff with a framework to develop policies and procedures to ensure Zone 7's mission by providing financial health and stability to the Agency. The framework guides staff in the assessment, levy and collection of taxes, the adoption of the Agency budget, and the appropriation, accounting, and transfer of funds. All relevant financial policies are available on the Agency's website at http://www.zone7water.com/publications-reports/financial-documents. Here is a summary of some of the policies:

Financial Reserves

The Financial Reserve policy was initially adopted by the Board in 2005 and updated with the adoption of an Interim Reserve policy on April 17, 2013. On September 28, 2016, the Board adopted a Final Reserve Policy (Resolution No. 16-166). The 2016 revisions help to further strengthen the Agency's financial position.

The policy covers reserves for: Water Enterprise Fund Operating, Emergency Rate Stabilization and Drought Contingency Reserves, Flood Protection Operating and Capital Project Reserves, Water Renewal, Replacement & System-wide Improvements Capital Reserves, and Water Expansion Capital Reserves.

Investment Policy

The Investment policy was adopted by the Board in May 2017 (Resolution No. 17-42). The Agency's Investment Policy is in compliance with the California Government Code, Section 53600 et seq. The investment of idle funds is delegated by Agency's Board to the Assistant General Manager – Finance as the Treasurer who assumes full responsibility for the transactions of the investment program. The objectives of the investment policy are safety of principal, liquidity, return on investment or yield and diversity. The Investment Policy applies to the Agency's pooled investment fund which encompasses all monies under the direct oversight of the Agency Treasurer. As of June 30, 2017, the Agency did not have any investments independent of those managed by the County Treasurer.

Debt Policy

The Debt policy was adopted by the Board in June 2017 (Resolution No. 17-52). This Debt Policy provides the guidelines under which specific projects outlined in the biennial planning process and documented in the Capital Improvement Plan may be best financed. Debt issuance should be evaluated on a case-by-case basis as well as within the Agency's general debt management program. The Agency recognizes that changes in the capital markets and other unforeseen circumstances may require action deviating from this Debt Management Policy. In cases requiring any exception to this policy, approval from the Board will be required. The Debt Management Policy is not applicable to intra-agency borrowing. As of June 30, 2017, the Agency did not have any outstanding debt.

Budget Controls

The Agency maintains budgetary controls, the objectives of which are to ensure compliance with legal provisions, embodied in the annually-appropriated budget approved by the Board. Activities of the governmental funds and proprietary funds are included in the annual appropriated budget. Additionally, as a management tool, project-length financial plans are included in the annual Capital Improvement Program. The legal level of budgetary control (that is the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level, further limited by two categories, the operating budget (consisting of total operations and operating projects) and the capital budget (consisting of capital project expenditures).

The Agency also maintains an encumbrance accounting system as one process to accomplish budgetary control. Budget adjustments that increase or decrease revenue projections, appropriations or reserves of any fund at the fund level require Board approval. Budget and actual comparisons are provided in this report for the Governmental Fund (Flood Protection). The guidelines used by the Agency in developing this formal budget process are those recommended by the Government Finance Officers Association (GFOA).

Internal Control

The Agency management is responsible for establishing and maintaining adequate internal controls to assure the Agency operations are effective and efficient, that applicable laws and regulations are followed, and financial reports are reliable. Existing internal controls are monitored and changes are implemented as needed. These controls are designed to provide reasonable, but not absolute, assurance that (1) assets are safeguarded against waste, fraud and inefficient use; and (2) the Agency's financial records can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and that cost-benefit analyses require estimates and judgments by management. We believe that the Agency's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Independent Audit

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

Awards

The Agency has received the following awards:

- For the fourth consecutive year, the Agency received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for the FY 2016-18 budgets. Additionally, the Agency received the "Excellence Award in Operating Budget" for the third time from the California Society of Municipal Finance Officers (CSMFO) for its FY 2016-17 Budget Book.

- The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the 1st year that the Agency has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance and Accounting Departments, Office of the General Manager, and other departmental staff, who have demonstrated their professionalism, dedication and efficiency in the preparation of this report. We also thank the Agency's auditors, Maze & Associates, for their assistance and guidance. Finally, we wish to express our sincere appreciation to the Agency's Board of Directors for providing policy direction and a firm foundation of support for pursuit of excellence in all realms of professional endeavors.

Respectfully submitted,

G.F. Duerig

General Manager

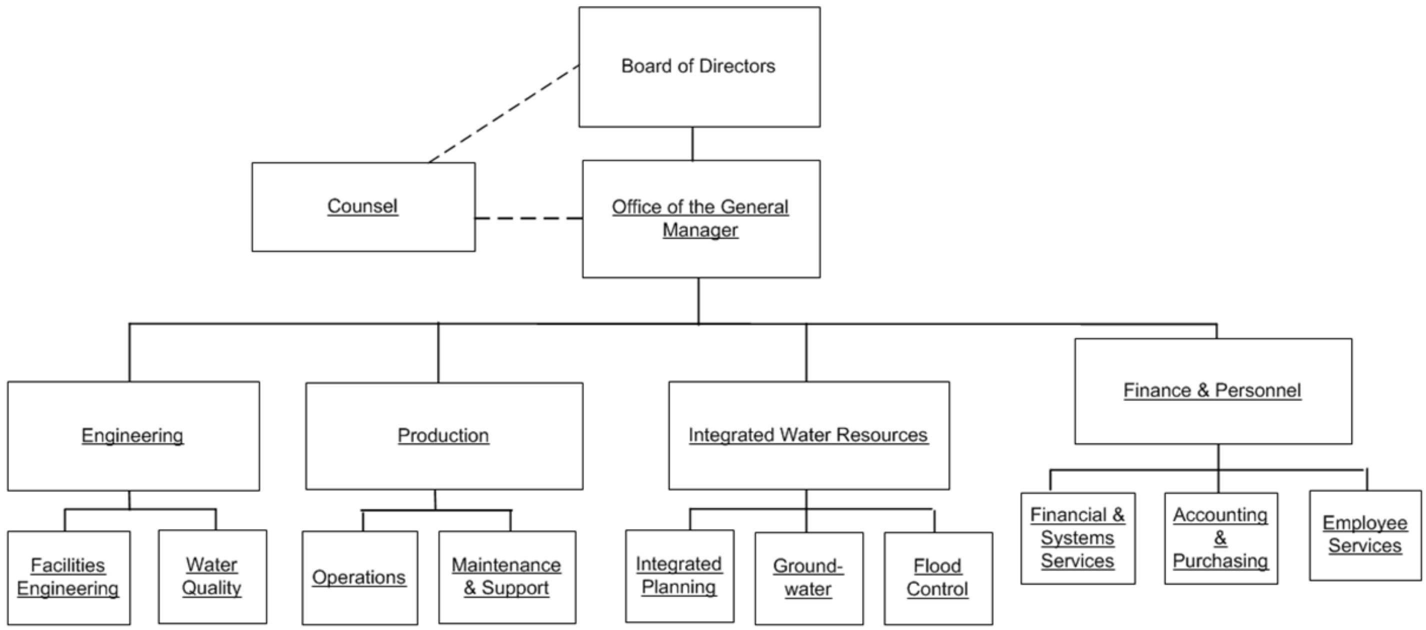
Osborn K. Solitei

Treasurer/Assistant General Manager – Finance

Alameda County Flood Control & Water Conservation District -
Zone 7 Water Agency

Functional Organizational Chart

FY 16/17



LIST OF ELECTED OFFICIALS AND AGENCY MANAGEMENT

John Greci, *President*
Board Member since 1994 -- Term Expires June 30, 2018

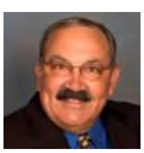
Jim McGrail, *Vice President*
Board Member since 2014 -- Term Expires June 30, 2018

Angela Ramirez Holmes
Board Member since 2012 -- Term Expires June 30, 2020

Sandy Figuers
Board Member since 2008 -- Term Expires June 30, 2020

Bill Stevens
Board Member since 1998 -- Term Expires June 30, 2018

Sarah Palmer
Board Member since 2006 -- Term Expires June 30, 2018



Dick Quigley
Board Member since 2004 -- Term Expires June 30, 2020

AGENCY MANAGEMENT

G.F. Duerig, General Manager

Osborn Solitei, Treasurer/Assistant General Manager – Finance

Alameda County Flood Control and Water Conservation District, Zone 7

2017 Comprehensive Annual Financial Report

Project Team

Audit/Financial Statement Coordinator

Osborn K. Solitei, Treasurer/Assistant General Manager – Finance

Tamara Baptista
Financial & Systems Services & Manager

Margaret Chun
Accounting Services Manager

Teri Yasuda
Senior Auditor/Accountant

JaVia Green
Staff Analyst

Mike Wallace
Staff Analyst

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alameda County Flood Control

& Water Conservation District - Zone 7

Water Agency, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alameda County Flood Control and
Water Conservation District – Zone 7 Water Agency
Livermore, California

Report on Financial Statements

We have audited the accompanying financial statements of governmental activities, business-type activities and major funds of the Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (Agency), California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities and major funds of the Agency as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Agency's June 30, 2016 financial statements, and we expressed an unmodified audit opinions on those audited financial statements in our report dated December 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principle

Management adopted the provisions of the following Governmental Accounting Standards Board Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which became effective during the year ended June 30, 2017 as discussed in Note 1N to the financial statements.

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section, listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

Maze + Associates

Pleasant Hill, California
December 4, 2017

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The Government Accounting Standards Board Statement Number 34 requires that management prepare a Management's Discussion and Analysis ("MD&A") section as a component of the audited Financial Statements.

The Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency ("Agency") MD&A presents management's analysis of the Agency's financial condition and activities for the year ended June 30, 2017 and 2016. The MD&A is intended to serve as an introduction to the Agency's basic Financial Statements. This information should be read in conjunction with the audited financial statements that follow this section. A narrative overview and comparative analysis of fiscal year 2017 to 2016 information is presented in this report. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

The information in this MD&A is presented in the following order:

- Financial Highlights
- Overview of Financial Statements
- Capital Assets
- Debt Administration
- Request for Information

Financial Highlights

- The Agency's net position increased by $33.2 million or 8.2 percent from $407.4 million to $440.6 million mainly due to increased revenue from water sales and a slight increase in property tax.

- Total revenues increased by $2.9 million or 2.4 percent from $119.1 million to $122 million mainly due to increased revenue from water sales as a result of improved water demands and slight increase in property tax offset by a decrease in connection and development fee.

- Total expenses decreased by $19.2 million or 17.8 percent from $108 million to $88.8 million mainly due to a decrease in water enterprise operations by $3.8 million, previous year expenses includes $17.3 retirement of the Altamont Water Treatment Plant asset, the decreases were offset by increased Flood Protection activities due to a stormy season.

- Capital assets increased by $7.4 million or 3.4 percent from $219.3 million to $226.7 million due to the acquisition of the North Canyons administration office building.

- In June 2016, the Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts.

- In October 2016, the Board approved changing the water rate structure to include recovering 35 percent of revenue requirements through a fixed charge and 65 percent as volume-based rates. The Board also approved the continuation of the temporary conservation surcharge of $0.57 per 100 Cubic Feet (CCF) or $248 per AF in 2017 which will sunset on December 31, 2017.

Overview of Financial Statements

This discussion and analysis serves as an introduction to the Agency's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other required supplementary information in addition to the basic financial statements.

Agency-wide financial statements

The Agency-wide financial statements are designed to provide readers with an overview of the Agency's finances. The Agency-wide financial statements present the financial picture of the Agency from the economic resources measurement focus using the accrual basis of accounting.

The statement of net position presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide statements distinguish functions of the Agency that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include the Flood Protection Fund and Flood Protection Development Impact Fee Fund. The business-type (proprietary) activities include the Water Enterprise System.

The government-wide financial statements can be found in the financial section of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds

The Agency's governmental funds consist of two funds; Flood Protection Operations and Flood Protection Development Impact Fee. These funds are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed near-term view of the Agency's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Agency-wide financial statements. However, unlike the Agency-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the year. A reconciliation of both the *governmental funds balance sheet* and the *governmental funds statement of revenues, expenditures, and change in fund balances* to the *Agency-wide statements* are provided to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found in the financial section of this report.

Proprietary funds

The Agency's proprietary funds consist of five enterprise funds; Water Enterprise Operations, State Water Facilities, Water Enterprise Capital Expansion, Water Facilities and Water Supply. Proprietary funds are generally used to account for services for a government's business-type activities (activities supported by fees or charges). Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user rates, charges, and fees. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities, using the accrual method of accounting.

The basic proprietary fund financial statements can be found in the financial Section of this report.

Notes to the basic financial statements

The notes to the basic financial statements provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the financial section of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Agency's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplemental information can be found in the financial section of this report.

Government-wide Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of the Agency's financial condition and also indicate whether the financial condition of the Agency improved during the last fiscal year. The Agency's net position reflects the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. An increase in net position over time typically indicates an improvement in financial condition. A summary of the Agency's Statement of Net Position is presented below:

Statement of Net Position
June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Assets:						
Current assets	$ 80,709,495	$ 77,352,331	$ 155,503,933	$ 130,624,594	$ 236,213,428	$ 207,976,925
Capital assets	31,990,546	30,334,638	194,732,197	188,968,433	226,722,743	219,303,071
TOTAL ASSETS	112,700,041	107,686,969	350,236,130	319,593,027	462,936,171	427,279,996
Deferred Outflows of Resources						
Pension related	812,725	1,158,722	9,274,131	10,091,004	10,086,856	11,249,726
Liabilities:						
Current liabilities	662,001	626,967	3,715,573	3,935,175	4,377,574	4,562,142
Long-term liabilities	2,053,641	2,570,042	23,882,201	22,852,530	25,935,842	25,422,572
TOTAL LIABILITIES	2,715,642	3,197,009	27,597,774	26,787,705	30,313,416	29,984,714
Deferred Inflows of Resources						
Pension related	172,949	121,551	1,973,550	1,058,555	2,146,499	1,180,106
Net Position:						
Net Investment in capital assets	31,990,546	30,334,638	194,732,197	188,968,433	226,722,743	219,303,071
Restricted	58,149,272	56,059,067	97,494,721	82,151,910	155,643,993	138,210,977
Unrestricted	20,484,357	19,133,427	37,712,019	30,717,427	58,196,376	49,850,854
TOTAL NET POSITION	$ 110,624,175	$ 105,527,132	$ 329,938,937	$ 301,837,770	$ 440,563,112	$ 407,364,902

As the above table indicates, the total assets increased by $35.6 million from $427.3 million to $462.9 million during the fiscal year ended June 30, 2017. The increase is mainly due to increased revenue from water sales and property tax growth caused by increased construction activities in the service area. The government-wide statement of net position for the Agency's governmental and business-type activities indicates that as of June 30, 2017, total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $440.6 million compared to $407.4 million at June 30, 2016.

The largest portion of the Agency's net position, $226.7 million or 51 percent reflects its investment in capital assets (e.g. land, buildings, equipment and infrastructure). These capital assets are used to provide services to citizens; therefore, these assets are not available for future spending.

For governmental activities, net investment in capital assets increased by $1.7 million or 5.5 percent and the investment in capital assets for business-type activities increased by $5.8 million or 3.1 percent mainly due to the acquisition of the North Canyons Administration Office Building.

Deferred outflows of resources is the amount of the effect of the GASB Statement No. 68 that defers Alameda County Employees' Retirement Association ("ACERA") pension contributions after the measurement date until the next fiscal year as a subsequent offset to the net pension liability. The deferred outflows of resources due to GASB Statement No. 68 at June 30, 2017 and 2016 were $10.1 million and $11.2 million, respectively.

Deferred inflows of resources is the result of GASB Statement No. 68 and is the deferred difference between expected and actual investment returns in the ACERA pension fund which will be amortized as a component of pension expense over time. The deferred inflows of resources for June 30, 2017 and 2016 were $2.1 million and $1.2 million, respectively.

For Fiscal year ended June 30, 2017, total liabilities reflects an increase of $0.3 million from $30.0 million to $30.3 million mainly due to a $0.5 million increase the net pension liability.

The total net position increased by $33.2 million or 8.1 percent from $407.4 million to $440.6 million mainly due to increased revenues from water sales as a result of improved water demands and the Agency restructuring of the water rates to include a fixed charge component and offset by a slight decrease in water connection fees and development impact fee revenues.

Statement of Net Position
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Assets:						
Current assets	$ 77,352,331	$ 67,436,221	$ 130,624,594	$ 103,463,809	$ 207,976,925	$ 170,900,030
Capital assets	30,334,638	30,385,318	188,968,433	212,562,797	219,303,071	242,948,115
TOTAL ASSETS	107,686,969	97,821,539	319,593,027	316,026,606	427,279,996	413,848,145
Deferred Outflows of Resources						
Pension related	1,158,722	988,972	10,091,004	9,102,575	11,249,726	10,091,547
Liabilities:						
Current liabilities	626,967	249,075	3,935,175	4,059,034	4,562,142	4,308,109
Long-term liabilities	2,570,042	2,179,671	22,852,530	20,431,988	25,422,572	22,611,659
TOTAL LIABILITIES	3,197,009	2,428,746	26,787,705	24,491,022	29,984,714	26,919,768
Deferred Inflows of Resources						
Pension related	121,551	79,322	1,058,555	730,082	1,180,106	809,404
Net Position:						
Net Investment in capital assets	30,334,638	30,385,318	188,968,433	212,562,797	219,303,071	242,948,115
Restricted	56,059,067	49,177,969	82,151,910	50,917,217	138,210,977	100,095,186
Unrestricted	19,133,427	16,739,156	30,717,427	36,428,063	49,850,854	53,167,219
TOTAL NET POSITION	$ 105,527,132	$ 96,302,443	$ 301,837,770	$ 299,908,077	$ 407,364,902	$ 396,210,520

As the above table indicates, the total assets increased by $13.4 million from $413.8 million to $427.3 million during the fiscal year ended June 30, 2016. The increase is mainly due to an increase revenue from water connection and development impact fees and property tax growth caused by increased construction activities in the service area. The government-wide statement of net position for the Agency's governmental and business-type activities indicates that as of June 30, 2016, total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $407.4 million compared to $396.2 million at June 30, 2015.

The largest portion of the Agency's net position, $219.3 million or 54 percent reflects its investment in capital assets (e.g. land, buildings, equipment and infrastructure). These capital assets are used to provide services to citizens; therefore, these assets are not available for future spending.

For governmental activities, net investment in capital assets decreased slightly by $0.05 million or 0.2 percent and the investment in capital assets for business-type activities decreased $23.6 million or 9.7 percent mainly due to the retirement of the Altamont Water Treatment Plant asset.

Deferred outflows of resources is the amount of the effect of the GASB Statement No. 68 that defers Alameda County Employees' Retirement Association ("ACERA") pension contributions after the measurement date until the next fiscal year as a subsequent offset to the net pension liability. The deferred outflows of resources due to GASB Statement No. 68 at June 30, 2016 and 2015 were $11.2 million and 10.1 million, respectively.

Deferred inflows of resources is the result of GASB Statement No. 68 and is deferred difference between expected and actual investment returns in ACERA pension fund which will be amortized as a component of pension expense over time. The deferred inflows of resources for June 30, 2016 and 2015 were $1.2 million and $0.8 million, respectively.

For Fiscal year ended June 30, 2016, total liabilities reflects an increase of $3.1 million from $26.9 million to $30.0 million mainly due to a $2.7 million increase the net pension liability.

The total net position increased by $11.2 million or 2.8 percent from $396.2 million to $407.4 million mainly due to increased revenues from connection fees and development impact fee as a result of new development and offset by decreased revenues in water sales due to reduction in demand for water in response to mandated cutbacks.

Statement of Activities and Changes in Net Position

For the Years Ended June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Charges for services	$ 3,554,796	$ 7,432,934	$ 98,547,121	$ 87,940,258	$ 102,101,917	$ 95,373,192
Grants and other contributions	181,418	71,562	10,179,114	15,285,044	10,360,532	15,356,606
Capital grants and contributions	13,263	40,202	-	-	13,263	40,202
General revenues:						
Property taxes	7,895,448	7,329,117	-	-	7,895,448	7,329,117
Investment earnings and others	647,869	488,127	989,916	569,917	1,637,785	1,058,044
Total revenues	12,292,794	15,361,942	109,716,151	103,795,219	122,008,945	119,157,161
Expenses:						
Flood Protection Operations	5,341,751	5,328,998	-	-	5,341,751	5,328,998
Flood Protection Development Impact Fee	1,841,555	794,922	-	-	1,841,555	794,922
State Water Project	-	-	20,985,604	20,621,344	20,985,604	20,621,344
Water Enterprise	-	-	60,641,826	81,257,514	60,641,826	81,257,514
Total expenses	7,183,306	6,123,920	81,627,430	101,878,858	88,810,736	108,002,778
Change in net position before transfers	5,109,488	9,238,022	28,088,721	1,916,361	33,198,209	11,154,383
Transfers	(12,445)	(13,333)	12,445	13,333	-	-
Change in net position	5,097,043	9,224,689	28,101,166	1,929,694	33,198,209	11,154,383
Net position at beginning of year	105,527,132	96,302,443	301,837,771	299,908,077	407,364,903	396,210,520
Net position at end of year	$ 110,624,175	$ 105,527,132	$ 329,938,937	$ 301,837,771	$ 440,563,112	$ 407,364,903

The statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position. The Agency's overall net position increased $33.2 million from the prior year. The table above indicates the Agency total revenues increased by $2.9 million or 2.4 percent to $122 million from $119.1 million in the prior year. The increase is mainly due to increased revenues from water sales and property tax offset by a decrease in revenue from intergovernmental revenue, water connection fee and development impact fees.

Although the Statewide drought continued through the first part of 2016, Northern California largely recovered its surface water supplies by the year's end. By April 2016, water supply conditions had vastly improved, leading Governor Jerry Brown to reassess conservation mandates. Given the Agency's supply and storage conditions at that time, there was no need to continue mandatory conservation within the service area. In June 2016, the Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts. Despite the improved conditions, staff continued working with the water retailers to promote wise use of water throughout 2016. The improved water supply conditions, changes in the water rate structure, and lifting of the local drought emergency have significantly improved the Agency's water sales revenue.

Statement of Activities and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Charges for services	$ 7,432,934	$ 8,482,390	$ 87,940,258	$ 70,027,422	$ 95,373,192	$ 78,509,812
Grants and other contributions	71,562	112,334	15,285,044	5,012,899	15,356,606	5,125,233
Capital grants and contributions	40,202	713	-	-	40,202	713
General revenues:						
Property taxes	7,329,117	6,759,202	-	-	7,329,117	6,759,202
Investment earnings and others	488,127	260,490	569,917	365,112	1,058,044	625,602
Total revenues	15,361,942	15,615,129	103,795,219	75,405,433	119,157,161	91,020,562
Expenses:						
Flood Protection Operations	5,328,998	4,705,166	-	-	5,328,998	4,705,166
Flood Protection Development Impact Fee	794,922	499,169	-	-	794,922	499,169
State Water Project	-	-	20,621,344	16,359,406	20,621,344	16,359,406
Water Enterprise	-	-	81,257,514	59,122,995	81,257,514	59,122,995
Total expenses	6,123,920	5,204,335	101,878,858	75,482,401	108,002,778	80,686,736
Change in net position before transfers	9,238,022	10,410,794	1,916,361	(76,968)	11,154,383	10,333,826
Transfers	(13,333)	(13,333)	13,333	13,333	-	-
Change in net position	9,224,689	10,397,461	1,929,694	(63,635)	11,154,383	10,333,826
Net position at beginning of year	96,302,443	85,904,982	299,908,077	299,971,712	396,210,520	385,876,694
Net position at end of year	$ 105,527,132	$ 96,302,443	$ 301,837,771	$ 299,908,077	$ 407,364,903	$ 396,210,520

The statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position. The Agency's overall net position increased $11.1 million from the prior year. The table above indicates the Agency total revenues increased by $28.1 million or 30.9 percent to $119.1 million from $91 million in the prior year. The increase is mainly due to increased revenues from property tax and water connection.

On April 1, 2015, Governor Brown issued an Executive Order which was still in effect as of April 2016, requiring 25% water conservation measures statewide for residential use relative to 2013 use. Calendar year 2016 began with conservation levels hovering around 44%. The Governor reassessed the current State conservation mandate and issued Executive Order B-37-16 directing water suppliers to locally assess and set their water conservation targets. These cutbacks had a significant impact on the Agency's water sales revenue.

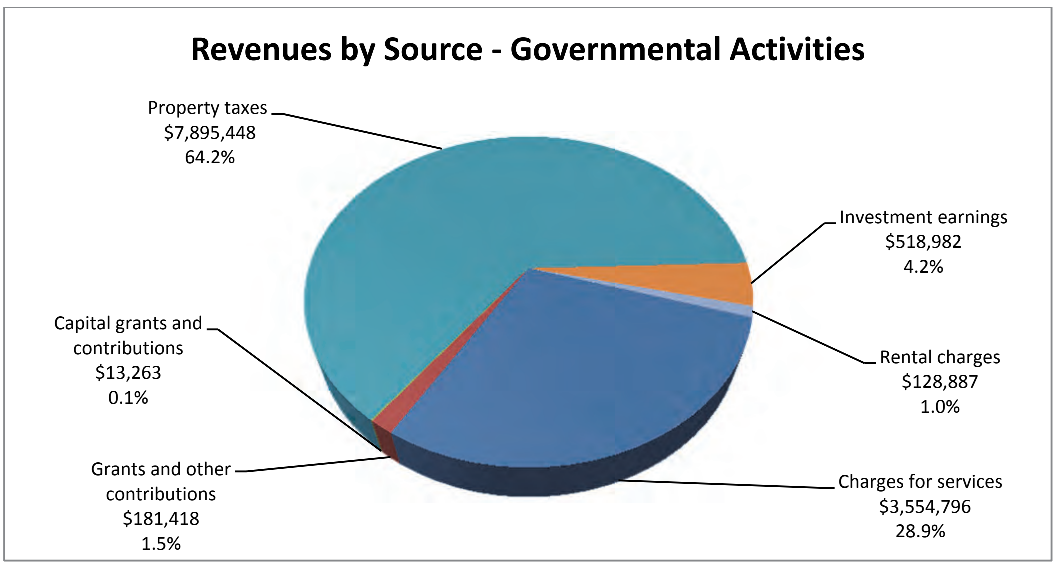
Governmental activities

The net position for the Agency's governmental activities increased by $5.1 million from $105.5 million to $110.6 million during the current year, mainly due to increase in property taxes, interest and investment income and offset by decrease in development impact fee and the recognition of the net pension liability pursuant to GASB Statement No. 68 at June 30, 2017. Total revenues were $12.3 million while total expenses, including transfers amounted to $7.2 million.

Revenues: Significant changes in revenue are as follows:

Total revenues decreased $3.1 million from the prior year or 20 percent.

- Charges for services decreased by $3.9 million or 52 percent mainly due to development impact fee revenue from the Livermore service area. In prior year, the Livermore service area received a $1.4 million in one-time development impact fee.
- Property taxes increased $0.6 million, or 7.7 percent because of slightly higher total assessed value.

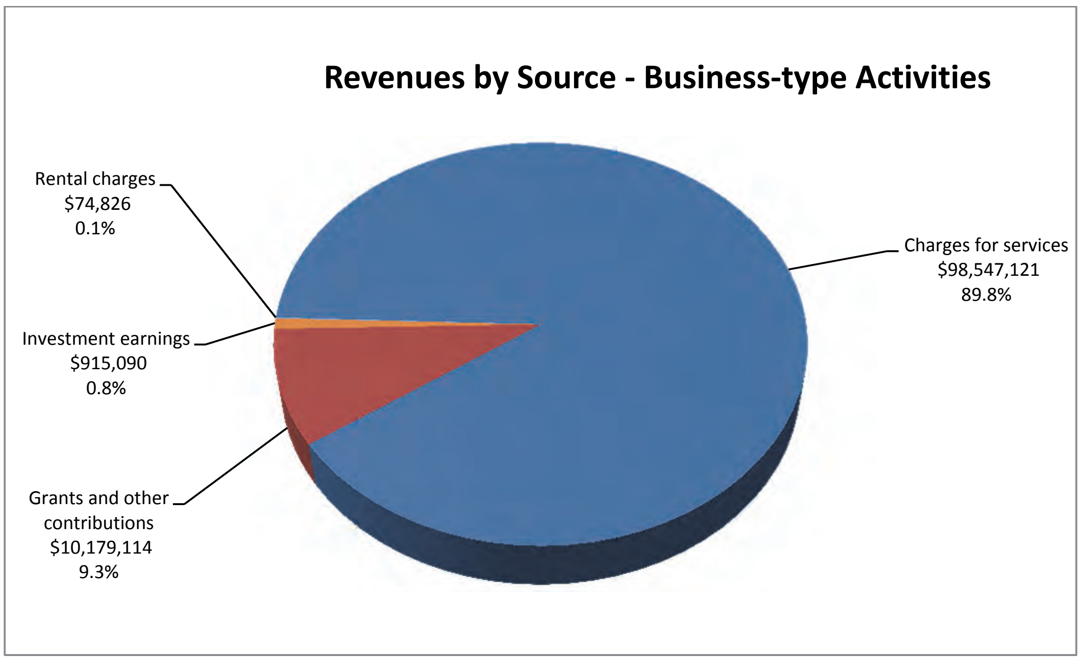


Expenses: Total expenses increased by $1.1 million or 17.3 percent in the governmental activities mainly due to to the acquisition of the North Canyons Administration building.

Business-type activities

The net position for the Agency's business-type activities increased by $28.1million from $301.8 million to $329.9 million during the current year. Operating revenues increased by $9.8 million from $70.2 million to $80.0 million. This increase in mainly due to a combination of several factors:

- Water sales increased by $14.9 million mainly due to $3.6 million increase in water demand and changes in the rate structure which include recovering 35 percent of revenue requirement through fixed charges and 65 percent as volume-based rates. The fixed charge generated $7.2 million in revenue. The Board also approved the continuation of the temporary conservation surcharge of $0.57 per 100 Cubic Feet (CCF) or $248 per AF in 2017 which generated $4.1 million in revenue.
- Water connection fee revenue decreased by $6.0 million mainly due to a slight decrease in the water connections from 1,600 connections in FY 2015-16 to 1,337 connections in FY 2016-17.
- Other revenues increased by $0.7 million mainly due to increase in the Dougherty Valley surcharge assessment.
- Total revenues as of June 2017 were $109.7 million and total expenses (including transfers) were $103.8 million.



Expenses: Significant changes in expenses are as follows:

Total expenses decreased $20.3 million over the prior year or 19.9 percent.

- State water project costs slightly increased $0.3 million or 1.8 percent because of higher pass-through expenses incurred by the State of California ("State").
- Water enterprise expenses decreased $20.6 million or 25.4 percent mainly due to the retirement of the Altamont Water Treatment (AWTP) project ($17.3M) in the prior year.

Governmental funds

The Agency's governmental funds consist of two funds; Flood Protection Operations and Flood Protection Development Impact Fee. As of June 30, 2017, the Agency's governmental funds reported combined ending fund balance of $80.0 million.

- **Flood Protection Operations Fund** – This fund provides for general administration, maintenance and operation of regional flood protection facilities. The Agency manages a watershed of 425 square miles in eastern Alameda County, receiving drainage from parts of Contra Costa, Santa Clara and San Joaquin Counties. More than 37 miles of flood control channels and regional drainage facilities are owned and maintained by the Agency. This fund finances a comprehensive year-round maintenance program that includes repairing slides and erosion, refurbishing access roads and associated drainage ditches, installing and repairing gates and fences, and maintaining landscaped areas. This fund pays for renewal/replacement and improvement projects for the existing flood protection system. As of June 30, 2017, its fund balance was $21.9 million and increase of $1.2 million from prior fiscal year. The increase was mainly due to $0.6 million increase in property tax a result of growth in assessed property valuations in the service area The $21.9 million fund balance is committed as follows; $11.5 million for capital projects, $7.0 million for operating contingency and $3.4 million of encumbrances.

- **Flood Protection Development Impact Fee Fund –** The purpose of this fund is to ensure that the Agency is able to meet future needs for expansion-related flood control facilities. The program is primarily intended to provide funding for any flood control facilities required for new development. Funds are expended on the planning, design, lands and right of way acquisition, environmental review, permitting, and construction for drainage projects. As of June 30, 2017, its restricted fund balance was $58.1 million, an increase of $2.1 million from prior fiscal year. The increase in fund balance was mainly due to less expense incurred during the year than revenue received.

Proprietary funds

The Agency's proprietary fund statements provide the same type of information as is found in the government-wide financial statements, but in more detail.

- **State Water Facilities Fund –** This fund finances the "fixed cost" payment to the State Department of Water Resources ("DWR") to import water to the Agency. The purpose is to pay the costs for use of the State water delivery system, which includes repayment of voter approved, State incurred, long-term debt. Net position of the State Water Facilities Fund as of June 30, 2017 was $16.4 million, an increase of $3.4 million from the prior fiscal year.

  Operating revenue increased by $0.6 million due to an increase in the Dougherty Valley Surcharge Assessment. Intergovernmental revenue decreased by $2.5 million mainly due to DWR refunds offset by a slight increase of property tax override levy by $0.8 million and property. Operating expenses increased by $0.4 million or 1.8 percent due to a pass-through from DWR for fixed charges associated with the State Water Project, increased to cover DWR cash flow shortages.

- **Water Enterprise Operations** is a fund that accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss in the fund is intended to be entirely or predominately self-supported from user charges. The purpose of Water Enterprise Operations is to ensure that the current water treatment and delivery systems are maintained effectively and that capital replacement and improvement needs are funded. This also pays for capital projects including the renewal, replacement and improvement of the current water treatment and delivery system.

  Net position of the Water Enterprise Operations Fund as of June 30, 2017 was $224.8 million, an increase of $13.3 million from prior fiscal year. Operating revenues increased by $14.9 million, mainly due to higher water sales revenue as a result of improved water demand and changes in the rate structure which include recovering 35 percent of revenue requirement through fixed charges and 65 percent as volume-based rates.

The Board also approved the continuation of the temporary conservation surcharge of $0.57 per 100 Cubic Feet (CCF) or $248 per AF in 2017 which generated additional $4.1 million in revenue.

Intergovernmental revenue increased by $3.3 million primarily due to a $2.8 million state reimbursement grant for drought emergency projects. Operating expenses decreased by $3.8 million or 9.0 percent mainly due to decreased contractual services by $2.9 million and water storage costs by $1.9 million, offset by a slight increase in salaries and benefits of $0.6 million and water purchases of $0.8 million

- **Water Expansion** – The purpose of this fund is to ensure that the Agency is able to meet future needs for increased water demands. The program is primarily intended to provide funding for new facilities and additional water supplies to serve additional capacity requirements of new development, many of them fixed (i.e., bond payment obligations for debt incurred by others to increase capacity). As of June 30, 2017, the net position for the fund was $81.1 million, an increase of $11.9 million from prior fiscal year.

  Operating revenues were $5.7 million less than the prior fiscal year. The decrease is mainly due to a $6.0 million or 15.3 percent decrease in connection fee revenues for FY 2016-17 as a result of a decrease in the number of water connections from 1,600 connections in FY 2015-16 to 1,337 connections in FY 2016-17. Operating expenses were $0.4 million or 2 percent more than prior fiscal year primarily due to staff time spent on expansion related capital projects. Non-operating revenues (expenses) increased by $11.7 million from prior year mainly due to the retirement of the Altamont Water Treatment (AWTP) project ($17.3M) in the prior year.

Governmental Funds Budgetary highlights

A comparative budgetary statement for the Agency's governmental fund (Special Revenue Fund) follows:

	Final Budgeted	Actual	Budget Variance	
	Amounts	Amounts	June 30, 2017	June 30, 2016
Resources (inflows):				
Property Taxes	$7,725,739	$7,895,448	$169,709	$856,988
Intergovernmental revenues	64,700	137,326	72,626	6,862
Charges for services	47,544	34,589	(12,955)	(24,047)
Interest and rentals	54,146	280,408	226,262	130,933
Other	110,910	13,263	(97,647)	5,202
Amounts available for appropriation	$8,003,039	$8,361,034	$357,995	$975,938
Charges to appropriations (outflows):				
Flood Protection:				
Salaries and employee benefits	2,030,194	1,785,156	245,038	171,708
Services and supplies	6,649,236	3,796,882	2,852,354	3,897,597
Capital outlay:				
Equipment and capital structures	1,982,550	1,534,626	447,924	4,191,785
Total changes to appropriations	$10,661,980	$7,116,664	$3,545,316	$8,261,090
Excess of resources over charges to appropriations	(2,658,941)	1,244,370	3,903,311	9,237,029
Other Financing Sources (Uses)				
Transfers (out) (Note 3)	(13,333)	(12,445)	(888)	13,333
Net change in fund balance	($2,672,274)	1,231,925	$3,904,199	$9,223,696
Fund balance, beginning of year		20,666,297		
Fund balance, end of year		$21,898,222		

The Agency's actual special revenue fund revenues are over the budget by $0.4 million or 4.5 percent due to slightly higher assessed value and an increase in interest earnings and rentals.

Variations between budget and actual expenditures in the special revenue fund reflect overall expenditures less than the final budget by $3.5 million. The variance is primarily due the re-prioritization and deferral of capital projects whiles the Stream Management Master Plan (SMMP) and five-year Capital Improvement Program is being developed.

Capital assets

As of June 30, 2017, the agency's investment in capital assets totaled $226.7 million (net of accumulated depreciation) which is an increase of $7.4 million from the capital assets balance of $219.3 million at June 30, 2016. The increase in capital assets was primarily due to the acquisition of the North Canyons Administration Office Building.

There were many capital project activities in FY 2016-17. They include the Del Valle Water Treatment Plant (DVWTP) Filter Valves Replacement, 3 MG Clearwell Roof Replacement and Rehabilitation Project, flood control slope repairs and planning for major projects such as the Patterson Pass Water Treatment Plant (PPWTP) New Media Filters, Clearwell and the Ozone at PPWTP and DVWTP. Additional information on the Agency's capital assets is provided in Note 4 of the financial statements.

Capital Assets
Business-type Activities
For the Years Ended June 30, 2017, 2016 and 2015
($ Millions)

			2017 vs. 2016			2016 vs. 2015	
	2017	2016	$ Change	% Change	2015	$ Change	% Change
Easements	$ 1.4	$ 1.4	$ -	0%	$ 1.4	$ -	0%
Land	9.6	8.2	1.4	17%	8.2	-	0%
Treatment Plants	115.7	114.2	1.5	1%	109.9	4.3	4%
Construction in Progress	4.7	2.6	2.1	82%	24.7	(22.1)	-89%
Office Building	7.1	1.3	5.8	82%	1.3	-	0.0%
Pipelines	53.9	53.9	-	0%	54.1	(0.2)	-0.2%
Reserviors	1.9	1.9	-	0%	1.9	-	0%
Water Entitlements	36.7	36.7	-	0%	36.7	-	0%
Wellfields	30.7	30.3	0.4	1%	30.3	-	0%
Supervisory Control and Data Acquisition project	9.7	9.7	-	0%	9.7	-	0%
Other	5.5	5.1	0.4	8%	5.1	-	0%
Subtotal	276.9	265.1	11.8	4%	283.1	(18.1)	-6%
Less Accumulated depreciation/amortization	82.1	76.2	6.0	8%	70.6	5.6	8%
Capital assets, net	$ 194.7	$ 189.0	$ 5.8	3%	$ 212.6	$ (23.6)	-11%

Capital Assets
Governmental Activities
For the Years Ended June 30, 2017, 2016 and 2015
($ Millions)

			2017 vs. 2016			2016 vs. 2015	
	2017	2016	$ Change	% Change	2015	$ Change	% Change
Easements	$ -	$ -	$ -	0%	$ -	$ -	0%
Land	20.3	20.0	0.3	2%	20.0	-	0%
Treatment Plants	-	-	-	0%	-	-	0%
Flood Control Channels	12.4	12.4	-	0%	12.4	-	0%
Construction in Progress	0.4	0.3	0.1	46%	0.05	0.2	431%
Office Building	1.5	-	1.5	100%	-	-	0%
Pipelines	-	-	-	0%	-	-	0%
Reserviors	-	-	-	0%	-	-	0%
Water Entitlements	-	-	-	0%	-	-	0%
Wellfields	-	-	-	0%	-	-	0%
Supervisory Control and Data Acquisition project	-	-	-	0%	-	-	0%
Other	1.0	1.0	-	0%	1.0	-	0%
Subtotal	35.6	33.7	1.9	6%	33.5	0.2	1%
Less Accumulated depreciation/amortization	3.6	3.4	0.3	8%	3.1	0.3	8%
Capital assets, net	$ 32.0	$ 30.3	$ 1.7	5%	$ 30.4	$ (0.1)	-0.2%

Debt Administration

The Agency operates under a pay-as-you-go basis which minimizes any debt financing.

Currently, the Agency does not maintain any outstanding debt obligations. However, the Agency partners with other public agencies and pays for debt incurred on the Agency's behalf. For example, the Agency pays the debt service obligation for Cawelo Water District for the Groundwater Banking Program which is in the Capital Improvement Plan (CIP). Similarly, the State incurs debt for capital projects to maintain, improve or expand the State Water Project infrastructure. The Agency, under the terms of its contract with the State, is obligated to pay its share of the debt payments regardless of the amount of water purchased.

The Agency has a bonded indebtedness limit that shall not exceed 5 percent of the assessed valuation of all taxable property in any zone lying, in whole or in part of the agency's service area, per Alameda County Flood Control and Water Conservation District Act, (ACT 20), §36.6.

Economic factors and next year's budget and rates

- Although the Statewide drought continued through the first part of 2016, Northern California largely recovered its surface water supplies by the year's end. By April 2016, water supply conditions had vastly improved, leading Governor Jerry Brown to reassess conservation mandates. Given Zone 7's supply and storage conditions at that time, there was no need to continue mandatory conservation within the service area. In June 2016, the Board lifted the local drought emergency and set a voluntary 10 percent conservation target to support ongoing statewide water conservation efforts. Despite the improved conditions, staff continued working with the water retailers to promote wise use of water throughout 2016.
- Actual 2016 water demand on Zone 7 was 34,000 acre-feet. Conservation was about 31 percent Valley-wide compared to 2013 demands, far exceeding the state average. Zone 7 strives to maximize the amount of water placed into storage both locally and outside its service area. In addition to minimizing groundwater pumping, Zone 7 maximized recharge in 2016 by recharging the main groundwater basin and by sending surplus water to Kern County groundwater banks. Zone 7 can recover water from these offsite groundwater banks in dry years, just as it did in 2014 and 2015 to augment supplies.
- In FY2016-17, the service area continued to experience improvement in the number of new home and commercial permits being pulled, such as the Jordan, Schafer, Heritage, Wallis Ranch Development, Dublin, and KB Homes in Livermore. Also, development in the Gale Ranch development in Dougherty Valley, Commons at Gateway, Civic Gateway and Township Square Apartments in Pleasanton.
- Alameda County's average unemployment rates markedly improved, registering 4.0 percent as of June 2017 versus the 4.9 percent for California and 4.4 percent for all of the United States.
- Other economic issues facing the Agency include the fiscal impacts of per capita water demands decreasing while fixed costs remain high, declining reliability of the State Water Project resulting in higher imported water purchase costs from other sources combined with the continued increasing need to allocate funds to the Asset Management Program (AMP) for infrastructure maintenance and improvements.

- In October 19, 2016, the Board approved changing the water rate structure to include recovering 35 percent of revenue requirements through a fixed charge and 65 percent as volume-based rates. The Board also approved the continuation of the temporary conservation surcharge of $0.57 per 100 Cubic Feet (CCF) or $248 per AF in 2017 which will sunset on December 31, 2017. The Agency will recover $14.2 million and $15.7 million for CY 2017 and CY 2018, respectively as fixed charge to retailers and the adopted volume-based rates are as follows:

Volume-based Rate	CY 2017	CY 2018
Rate per CCF	$ 1.98	$ 2.04
Temporary Surcharge per CCF	0.57	-
Total per CCF	$ 2.55	$ 2.04

The above factors were considered in preparing the Agency's FY 2017-18 Budget and the water rates for calendar years 2017 and 2018.

Requests for Information

This financial report is designed to provide our customers, ratepayers, investors and creditors with a general overview of the Agency's finances and to demonstrate accountability for the money it receives. Requests for additional financial information should be addressed to the Finance Department, Zone 7 Water Agency, 100 N. Canyons Parkway, Livermore, CA 94551. This report is also available online at http://www.zone7water.com.

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ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total 2017	Total 2016
ASSETS				
Current assets				
Pooled Cash in County Treasury (Note 2)	$79,828,699	$143,603,619	$223,432,318	$189,081,183
Cash in bank (Note 2)	90,503	2,569,732	2,660,235	
Accounts receivable, net	790,293	8,342,082	9,132,375	14,185,811
Prepaid expenses		988,500	988,500	4,709,931
Total current assets	80,709,495	155,503,933	236,213,428	207,976,925
Noncurrent assets				
Capital assets (Note 4):				
Rights of way, water entitlements, easements and construction in progress	20,703,507	52,299,861	73,003,368	69,035,606
Depreciable, net	11,287,039	142,432,336	153,719,375	150,267,465
Total noncurrent assets	31,990,546	194,732,197	226,722,743	219,303,071
Total assets	112,700,041	350,236,130	462,936,171	427,279,996
DEFERRED OUTFLOW OF RESOURCES				
Pension related (Note 6)	812,725	9,274,131	10,086,856	11,249,727
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	662,001	2,572,503	3,234,504	3,430,940
Deposits-water facilities		342,940	342,940	332,725
Unearned revenue				
Compensated absences (Note 1K)		800,130	800,130	798,477
Total current liabilities	662,001	3,715,573	4,377,574	4,562,142
Noncurrent liabilities				
Compensated absences (Note 1K)		447,774	447,774	470,706
Net pension liability (Note 6)	2,053,641	23,434,427	25,488,068	24,951,866
Total noncurrent liabilities	2,053,641	23,882,201	25,935,842	25,422,572
Total liabilities	2,715,642	27,597,774	30,313,416	29,984,714
DEFERRED INFLOW OF RESOURCES				
Pension related (Note 6)	172,949	1,973,550	2,146,499	1,180,106
NET POSITION (Note 5)				
Net investment in capital assets	31,990,546	194,732,197	226,722,743	219,303,071
Restricted for				
Capital Projects and Water Expansion	58,149,272	97,494,721	155,643,993	138,210,977
Unrestricted	20,484,357	37,712,019	58,196,376	49,850,855
Total net position	$110,624,175	$329,938,937	$440,563,112	$407,364,903

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities:					
Flood Protection Operations	$5,341,751	$34,589	$137,326	$13,263	$185,178
Flood Protection Development Impact Fee	1,841,555	3,520,207	44,092		3,564,299
Total governmental activities	7,183,306	3,554,796	181,418	13,263	3,749,477
Business-type activities:					
State Water Project	20,985,604	20,795,420	3,512,179		24,307,599
Water Enterprise	60,641,826	77,751,701	6,666,935		84,418,636
Total business-type activities	81,627,430	98,547,121	10,179,114		108,726,235
Total	$88,810,736	$102,101,917	$10,360,532	$13,263	$112,475,712

General revenues:
Property taxes:
Secured
Unsecured
Supplemental
Investment earnings
Rental charges
Other

Total general revenues

Transfers, net

Change in net position

Net position-beginning of year

Net position-end of year

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total 2017	Total 2016
($5,156,573)		($5,156,573)	($5,193,631)
1,722,744		1,722,744	6,614,409
(3,433,829)		(3,433,829)	1,420,778
	$3,321,995	3,321,995	4,855,567
	23,776,810	23,776,810	(3,509,123)
	27,098,805	27,098,805	1,346,444
(3,433,829)	27,098,805	23,664,976	2,767,222
7,290,201		7,290,201	6,772,787
361,388		361,388	364,167
243,859		243,859	192,163
518,982	915,090	1,434,072	838,827
128,887	74,826	203,713	196,861
			22,356
8,543,317	989,916	9,533,233	8,387,161
(12,445)	12,445		
5,097,043	28,101,166	33,198,209	11,154,383
105,527,132	301,837,771	407,364,903	396,210,520
$110,624,175	$329,938,937	$440,563,112	$407,364,903

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Flood Protection Operations	Flood Protection Development Impact Fee	Totals 2017	Totals 2016
ASSETS				
Current assets				
Cash in County treasury (Note 2)	$22,548,470	$57,280,229	$79,828,699	$75,970,975
Cash in Agency treasury (Note 2)		90,503	90,503	
Accounts receivable, net	446	789,847	790,293	1,381,356
Total assets	$22,548,916	$58,160,579	$80,709,495	$77,352,331
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	$650,694	$11,307	$662,001	$626,967
Total liabilities	650,694	11,307	662,001	626,967
FUND BALANCES (Note 5)				
Restricted		58,149,272	58,149,272	56,059,067
Committed:				
Flood Protection Capital Projects	11,484,627		11,484,627	15,683,435
Flood Protection Operating Contingency	7,035,225		7,035,225	4,333,049
Flood Protection Encumbrances	3,378,370		3,378,370	649,813
Total fund balances	21,898,222	58,149,272	80,047,494	76,725,364
Total liabilities and fund balances	$22,548,916	$58,160,579	$80,709,495	$77,352,331

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
RECONCILIATION OF
GOVERNMENTAL FUNDS - FUND BALANCE
WITH THE GOVERNMENTAL ACTIVITIES
STATEMENT OF NET POSITION
JUNE 30, 2017

	2017
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$80,047,494
Amounts reported for Governmental Activities in the Statement of Net position are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	31,990,546
LONG TERM LIABILITIES	
Net pension liability and related deferred inflows and outflows of resources	(1,413,865)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$110,624,175

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Flood Protection Operations	Flood Protection Development Impact Fee	Totals 2017	Totals 2016
REVENUES				
Property taxes	$7,895,448		$7,895,448	$7,329,117
Intergovernmental revenues	137,326	$44,092	181,418	71,562
Charges for services	34,589	3,520,207	3,554,796	7,432,934
Interest and rentals	280,408	367,461	647,869	465,771
Other revenues	13,263		13,263	62,558
Total revenues	8,361,034	3,931,760	12,292,794	15,361,942
EXPENDITURES				
Current:				
Flood protection:				
Salaries and employee benefits transferred from district-wide	1,785,156	176,568	1,961,724	2,455,453
Services and supplies	3,796,882	390,361	4,187,243	3,354,938
Capital outlay:				
Equipment and capital infrastructure	1,534,626	1,274,626	2,809,252	
	7,116,664	1,841,555	8,958,219	5,810,391
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,244,370	2,090,205	3,334,575	9,551,551
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 3)	(12,445)		(12,445)	(13,333)
NET CHANGE IN FUND BALANCES	1,231,925	2,090,205	3,322,130	9,538,218
FUND BALANCES, BEGINNING OF YEAR	20,666,297	56,059,067	76,725,364	67,187,146
FUND BALANCES, END OF YEAR	$21,898,222	$58,149,272	$80,047,494	$76,725,364

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	2017
The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.	
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$3,322,130
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance	1,919,946
Depreciation expense is deducted from the fund balance	(264,038)
ACCRUAL OF NONCURRENT ITEMS	
Net pension liability and related deferred inflows and outflows of resources	119,005
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$5,097,043

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
FLOOD PROTECTION OPERATIONS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
REVENUES				
Property taxes	$7,725,739	$7,725,739	$7,895,448	$169,709
Intergovernmental revenue	64,700	64,700	137,326	72,626
Charges for services	47,544	47,544	34,589	(12,955)
Interest and rentals	54,146	54,146	280,408	226,262
Other revenue	110,910	110,910	13,263	(97,647)
TOTAL REVENUES	8,003,039	8,003,039	8,361,034	357,995
EXPENDITURES				
Current:				
Flood protection:				
Salaries and benefits	2,030,194	2,030,194	1,785,156	245,038
Services and supplies	6,649,236	6,649,236	3,796,882	2,852,354
Capital outlay:				
Equipment and capital structure	1,022,550	1,982,550	1,534,626	447,924
TOTAL EXPENDITURES	9,701,980	10,661,980	7,116,664	3,545,316
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(1,698,941)	(2,658,941)	1,244,370	3,903,311
OTHER FINANCING SOURCES (USES)				
Transfers (out) (Note 3)	(13,333)	(13,333)	(12,445)	(888)
NET CHANGE IN FUND BALANCE	($1,712,274)	($2,672,274)	1,231,925	$3,904,199
Fund balance, beginning of year			20,666,297	
Fund balance, end of year			$21,898,222	

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Expansion	Non-Major Enterprise Funds	Totals 2017	Totals 2016
ASSETS						
Current assets:						
Cash in County treasury (Note 2)	$15,465,157	$42,373,396	$77,746,525	$8,018,541	$143,603,619	$113,110,208
Cash in Agency treasury (Note 2)		102,300	2,467,432		2,569,732	
Receivables, net		6,889,596	1,452,486		8,342,082	12,804,455
Prepaid deposits	898,500	90,000			988,500	4,709,931
Total current assets	16,363,657	49,455,292	81,666,443	8,018,541	155,503,933	130,624,594
Noncurrent assets:						
Capital assets (Note 4):						
Right of ways, water entitlements and construction in progress		52,299,861			52,299,861	48,792,289
Improvements, net of depreciation		142,432,336			142,432,336	140,176,144
Total noncurrent assets		194,732,197			194,732,197	188,968,433
Total assets	16,363,657	244,187,489	81,666,443	8,018,541	350,236,130	319,593,027
DEFERRED OUTFLOW OF RESOURCES						
Pension related (Note 6)		9,034,229	239,902		9,274,131	10,091,004
LIABILITIES						
Current liabilities:						
Accounts payable and accrued expenses		2,454,471	118,032		2,572,503	2,803,973
Deposits				342,940	342,940	332,725
Unearned Revenue						
Compensated absences (Note 1J)		800,130			800,130	798,477
Total current liabilities		3,254,601	118,032	342,940	3,715,573	3,935,175
Noncurrent liabilities:						
Compensated absences (Note 1J)		447,774			447,774	470,706
Net pension liability (Note 6)		22,828,229	606,198		23,434,427	22,381,824
Total noncurrent liabilities		23,276,003	606,198		23,882,201	22,852,530
Total liabilities		26,530,604	724,230	342,940	27,597,774	26,787,705
DEFERRED INFLOW OF RESOURCES						
Pension related (Note 6)		1,922,499	51,051		1,973,550	1,058,555
NET POSITION (Note 5)						
Net Investment in capital assets		194,732,197			194,732,197	188,968,433
Restricted for						
Capital Projects and Water Expansion	16,363,657		81,131,064		97,494,721	82,151,910
Unrestricted		30,036,418		7,675,601	37,712,019	30,717,428
Total net position	16,363,657	224,768,615	81,131,064	7,675,601	329,938,937	301,837,771
Total liabilities, deferred inflows and net position	$16,363,657	$253,221,718	$81,906,345	$8,018,541	$359,510,261	$329,684,031

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Expansion	Non-Major Enterprise Funds	Totals 2017	Totals 2016
OPERATING REVENUES						
Water sales		$42,975,960			$42,975,960	$28,110,974
Connection and development fees			$33,128,280		33,128,280	39,135,444
Charges for services		1,201,296			1,201,296	976,853
Other revenues	$2,270,670	76,152	327,892	$42,121	2,716,835	2,000,146
Total operating revenues	2,270,670	44,253,408	33,456,172	42,121	80,022,371	70,223,417
OPERATING EXPENSES						
Salaries, wages and benefits		19,282,818	659,758		19,942,576	18,969,911
Contractual services		2,101,745	322,112		2,423,857	5,485,599
Technical supplies		120,612			120,612	117,754
Chemical purchases		1,767,573			1,767,573	1,861,443
Water purchases	20,985,604	3,132,972	18,955,358		43,073,934	41,896,290
Water storage		722,455	1,346,209		2,068,664	3,989,716
Utilities		1,413,714	325		1,414,039	1,376,686
Maintenance and repairs		1,093,932			1,093,932	1,366,627
Equipment and building rents		581,483	371,570		953,053	1,221,495
Other services and supplies		1,474,626	628,434		2,103,060	1,940,636
Risk management		575,423			575,423	435,213
Depreciation (Note 4)		6,090,707			6,090,707	5,947,283
Total operating expenses	20,985,604	38,358,060	22,283,766		81,627,430	84,608,653
Operating income (loss)	(18,714,934)	5,895,348	11,172,406	42,121	(1,605,059)	(14,385,236)
NONOPERATING REVENUES and (EXPENSES)						
Retirement of capital assets						(17,270,205)
Property taxes	18,524,750				18,524,750	17,716,841
Intergovernmental revenue	3,512,179	3,457,917	3,209,018		10,179,114	15,285,044
Interest income and rental fees	105,139	333,977	496,370	54,430	989,916	569,917
Total nonoperating revenues (expenses)	22,142,068	3,791,894	3,705,388	54,430	29,693,780	16,301,597
Income (loss) before transfers	3,427,134	9,687,242	14,877,794	96,551	28,088,721	1,916,361
Transfers in (Note 3)		3,589,815	615,253		4,205,068	17,289,838
Transfers (out) (Note 3)			(3,577,370)	(615,253)	(4,192,623)	(17,276,505)
Change in net position	3,427,134	13,277,057	11,915,677	(518,702)	28,101,166	1,929,694
Net position, beginning of year	12,936,523	211,491,558	69,215,387	8,194,303	301,837,771	299,908,077
Net position, end of year	$16,363,657	$224,768,615	$81,131,064	$7,675,601	$329,938,937	$301,837,771

See accompanying notes to financial statements

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	State Water Facilities	Water Enterprise Operations	Water Enterprise Capital Expansion	Non-Major Enterprise Funds	Total 2017	Total 2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$3,015,796	$45,492,602	$3,302,397	$52,336	$51,863,131	$22,587,514
Connection and development fees			36,353,259		36,353,259	40,866,813
Payments to employees		(16,706,512)	(472,872)		(17,179,384)	(17,248,613)
Payments to suppliers	(20,985,604)	(13,323,476)	(21,516,537)		(55,825,617)	(59,779,916)
Net cash provided (used) by operating activities	(17,969,808)	15,462,614	17,666,247	52,336	15,211,389	(13,574,202)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in		3,589,815	615,253		4,205,068	17,289,838
Transfers (out)			(3,577,370)	(615,253)	(4,192,623)	(17,276,505)
Property tax	18,524,750				18,524,750	17,716,841
Intergovernmental	3,512,179	3,457,917	3,209,018		10,179,114	15,285,044
Cash flows from noncapital financing activities	22,036,929	7,047,732	246,901	(615,253)	28,716,309	33,015,218
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Gain (Loss) on disposal of capital asset.						(17,270,205)
Purchase of property, plant, and equipment		(11,854,471)			(11,854,471)	17,647,081
Cash flows from (used for) capital and related financing activities		(11,854,471)			(11,854,471)	376,876
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	105,139	333,977	496,370	54,430	989,916	569,917
Cash flows from investing activities	105,139	333,977	496,370	54,430	989,916	569,917
Net increase (decrease) in cash and cash equivalents	4,172,260	10,989,852	18,409,518	(508,487)	33,063,143	20,387,809
Pooled cash in County treasury at beginning of period	11,292,897	31,485,844	61,804,439	8,527,028	113,110,208	92,722,399
Pooled cash in County treasury at end of period	$15,465,157	$42,475,696	$80,213,957	$8,018,541	$146,173,351	$113,110,208
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	($18,714,934)	$5,895,348	$11,172,406	$42,121	($1,605,059)	($14,385,236)
Adjustments to reconcile operating income (loss) to cash flows						
Depreciation		6,090,707			6,090,707	5,947,283
Changes in assets and liabilities						
Receivables		1,237,394	3,224,979		4,462,373	(2,153,045)
Prepaids	745,126	1,800	2,974,505		3,721,431	(4,619,931)
Accounts payable and accrued expenses		(338,941)	107,471		(231,470)	(72,457)
Unearned revenue						(16,000)
Compensated absences		(21,279)			(21,279)	61,304
Deposits				10,215	10,215	3,886
Net pension liability, deferred inflows and deferred outflows		2,597,585	186,886		2,784,471	1,659,994
Net cash provided (used) by operating activities	($17,969,808)	$15,462,614	$17,666,247	$52,336	$15,211,389	($13,574,202)
Non cash transactions						
Capital asset retirements						(17,270,205)

See accompanying notes to financial statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (Agency) is a public corporation, organized and existing under the constitution and laws of the State of California. The Agency provides various services including the purchase, treatment and sales of water and the maintenance of flood control channels within the boundaries of its service area. The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for governmental accounting and financial reported purposes.

B. Basis of Presentation

Government-Wide Statements

The statement of net position and statement of activities display information about the primary government (the Agency). These statements distinguish between the *governmental* and *business-type activity* of the Agency. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from the business-type activity, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activity of the Agency and for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted net position are available, restricted resources are used for qualified expenditures for capital improvement projects before any unrestricted resources are spent.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The fund financial statements present all governmental funds and the water enterprise funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major governmental funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The Agency may also select other funds it believes should be presented as major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

- The *Flood Protection Operations Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the Agency that are not accounted for through other funds.

- The *Flood Protection Development Impact Fee Fund* is used for the acquisition, construction, engineering and improvement of the flood protection and /or storm water drainage elements of the Stream Management Master Plan of Zone 7, or to reduce the principal or interest of any bonded indebtedness thereof.

The Agency reports the following major proprietary funds:

- The *State Water Facilities Fund* is used for fixed State water charges and State water project bonded indebtedness.

- The *Water Enterprise Operations Fund* account for enterprise operation and administration, emergency and support services, variable State water charges, water facilities maintenance and operation, renewal and replacement program, water facilities, water resources and water supply planning.

- The *Water Enterprise Capital Expansion Fund* is used for Water Enterprise capital expansion projects and water purchases.

The Agency reports the following non-major proprietary funds:

- The *Water Facilities Fund* is used for Chain of Lakes mitigation and planning reserve, quarry discharge exports, miscellaneous fees and deposits, and permit inspection deposits.

- The *Water Supply and Reliability Fund* is used for future water, water storage and Delta-related projects.

C. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, benefit assessments and grants. On an accrual basis, revenues from property taxes and benefit assessments are recognized in the fiscal year for which the taxes and assessments are levied; revenue from grants is recognized in the fiscal year in which the grant revenue is received; and revenue from investments is recognized when earned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property taxes benefit assessments, interest, grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences are recorded when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Operations fund is the sale of water to outside customers. Operating expenses for the fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows the Agency defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition, including restricted assets, and all pooled deposits.

E. Fair Value Measurements

Fair value is defined as 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. The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

> Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
>
> Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
>
> Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Receivables

Accounts receivable arise from billings to customers for water and certain improvements made to customers' property. Uncollectible amounts from individual customers are not significant.

G. Capital Assets

Capital assets are those purchased or acquired with a useful life greater than one year and an original cost greater than $250,000 for infrastructure, buildings, building improvements, land improvements and software. The Agency capitalizes equipment and land with a useful life greater than one year and an original cost greater than $5,000. These assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Donated works of art and similar items and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Capital Assets	Useful Life
Treatment plants	40 years
Treatment plants improvements	10 - 40 years
Sludge drying ponds	40 years
Pipeline	40 years
Equipment	3-10 years
Reservoir	40 years
Office building	40 years
Wellfields	40 years
Flood control channels	50 years
Rights of way	Indefinite
Water entitlement	Indefinite

H. Budgets and Budgetary Accounting

Formal budgets are employed as a management control during the year for the Funds.

Budgets for the Governmental Funds are prepared to include encumbrances at year end. Budget comparisons presented are on this Non-GAAP budgetary basis.

I. Encumbrances – Governmental Fund Financial Statements

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the Flood Protection Operations Fund and Flood Protection Development Impact Fee Fund. Encumbrances at year end are reported as reservation of fund balances since they do not constitute expenditures or liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Property Taxes

The Agency receives property taxes and fixed state water charges from Alameda County. The Agency recognizes property taxes as revenue in the fiscal year of levy, based on the assessed value as of September 1 of the preceding fiscal year. They become a lien on the first day of the year they are levied. Secured property tax is levied on September 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and become delinquent on August 31. The Agency elected to receive the property taxes from the County under the Teeter Bill. Under this program the Agency receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

K. Compensated Absences

The Agency's policy allows employees to accumulate earned but unused vacation and overtime compensation, subject to a vesting policy. The cost of vacation is recorded in the period it is earned. The Agency will recognize accrued vacation to the maximum of vacation earned during the preceding two years prior to separation of service. Accumulated employee sick leave benefits are not recognized as liabilities of the Agency, as these benefits do not vest with the employee. Therefore, sick leave is recorded as an expenditure in the period that the benefit is taken. As of June 30, 2017, the balance of compensated absences is:

Beginning Balance	$1,269,183
Additions/Payments	(21,279)
Ending Balance	$1,247,904
Current Portion	$800,130
Non-current Portion	$447,774

L. Use of Estimates

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

M. Deferred Outflows/Inflows of Resources

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

N. Implementation of Governmental Accounting Standards Board (GASB) Pronouncement

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74) establishes new accounting and financial reporting requirements for OPEB plans, as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB Statement No. 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This statement did not have a significant impact to the Agency's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments that enter into tax abatement agreements to disclose additional information about the agreements including a brief descriptive information, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. This statement did not have a significant impact to the Agency's financial statements.

GASB Statement No. 78, Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). It also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for those pensions. This statement did not have a significant impact to the Agency's financial statements.

GASB *Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments, which was established in paragraph 53 of Statement No. 14, The Financial Reporting Entity. This statement did not have a significant impact to the Agency's financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement did not have a significant impact to the Agency's financial statements.

O. New GASB Pronouncements

In June 2014, **the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*** (GASB Statement No. 75), which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB plans improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. GASB Statement No. 75 is effective for the Agency's fiscal year ending June 30, 2018.

In March 2016, ***the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements***, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize revenues, assets, liabilities, and deferred inflows of resources. GASB Statement No. 81 is effective for the Agency's fiscal year ending June 30, 2018.

In November 2016, **the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*** (GASB Statement No. 83), to address accounting and financial reporting for certain asserts retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement No. 83 statement requires the current value of a government's AROs to annually be adjusted for the effects of general inflation or deflation, and relevant factors that may significantly change the estimated asset retirement outlays. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB Statement No. 83 is effective for the Agency's fiscal year ending June 30, 2019.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2017, **the GASB issued Statement No. 84, *Fiduciary Activities*** (GASB Statement No. 84), to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement establishes criteria for identifying fiduciary activities of all state and local governments. It also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB Statement No. 84 is effective for the Agency's fiscal year ending June 30, 2020.

In March 2017, **the GASB issued Statement No. 85, *Omnibus 2017*** (GASB Statement No. 85), to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 is effective for the District's fiscal year ending June 30, 2018.

In May 2017, **the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*** (GASB Statement No. 86), to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement requires additional disclosure for all in-substance defeasance transactions. It also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 is effective for the Agency's fiscal year ending June 30, 2018.

In June 2017, **the GASB issued Statement No. 87, *Leases*** (GASB Statement No. 87), to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. 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 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 is effective for the Agency's fiscal year ending June 30, 2021.

NOTE 2 – CASH AND INVESTMENTS

The Agency follows the County's practice of pooling cash and investments with the County Treasurer.

Summary of the cash and investments is as follows:

	2017	2016
Pooled Cash and Investment in County Treasury	$223,432,318	$189,081,183
Cash in Bank	2,660,235	
Total	$226,092,553	$189,081,183
Cash and Investments in Governmental Funds	$79,919,202	$75,970,975
Cash in Proprietary Funds	146,173,351	113,110,208
Total	$226,092,553	$189,081,183

Investment in the Alameda County Treasurer's Investment Pool

A portion of the Agency's cash is pooled with the Alameda County Treasurer, who acts as disbursing agent for the Agency. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the Treasurer is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter.

Investment Guidelines

The Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of principal, liquidity and yield.

The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the County investment policy is available upon request from the Alameda County Auditor-Controller's Office at 1221 Oak Street, Room 249, Oakland, California, 94612.

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. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2 – CASH AND INVESTMENTS (Continued)

As of June 30, 2017, approximately 58.6 percent of the securities in the Treasury Pool had maturities of one year or less as reported by Alameda County Treasurer.

Disclosures Relating to Credit Risk

Generally, 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. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

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 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.

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 the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2017 Alameda County Comprehensive Annual Financial Report.

Fair Value Hierarchy

The Agency 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 fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2017 the Agency had $223,432,318 of cash and investments pooled with the Alameda County Treasurer that is exempt from the fair value hierarchy. The fair value of the pooled investment fund is provided by the Alameda County Treasurer and is valued using quoted prices for identical instruments in markets that are not active. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources.

NOTE 3 – INTERFUND TRANSFERS

Transfers during the fiscal year ended June 30, 2017, comprised of the following:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
Governmental Fund			
Flood Protection Operations	Water Enterprise Operations Funds	$12,445	**(A)**
Enterprise Funds:			
Water Enterprise Capital Expansion	Water Enterprise Operations Funds	3,577,370	**(B)**
Water Enterprise Supply Trust	Water Enterprise Capital Expansion	615,253	**(A)**
		$4,205,068	

(A) Transfer to fund vehicle replacement.
(B) Transfer of completed construction projects and other fixed assets.

NOTE 4 – CAPITAL ASSETS

A. Summary

The following is a summary of capital assets as of June 30, 2017:

Governmental Activities	Balance at June 30, 2016	Additions	Balance at June 30, 2017
Capital assets not being depreciated:			
Rights of way	$19,987,928	$342,412	$20,330,340
Construction in progress	255,389	117,778	373,167
Total capital assets not being depreciated	20,243,317	460,190	20,703,507
Capital assets being depreciated:			
Flood control channels	12,393,619		12,393,619
Other infrastructure	1,048,885		1,048,885
Office building		1,459,756	1,459,756
Total capital assets being depreciated	13,442,504	1,459,756	14,902,260
Less accumulated depreciation for:			
Flood control channels	3,305,294	231,734	3,537,028
Other infrastructure	45,889	26,222	72,111
Office building		6,082	6,082
Total accumulated depreciation	3,351,183	264,038	3,615,221
Net capital assets being depreciated	10,091,321	1,195,718	11,287,039
Governmental activity capital assets, net	$30,334,638	$1,655,908	$31,990,546

NOTE 4 – CAPITAL ASSETS (Continued)

Business-Type Activities	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets not being depreciated:				
Rights of way	$8,183,433	$1,369,648		$9,553,081
Water entitlements	36,655,364			36,655,364
Easements	1,350,090			1,350,090
Construction in progress	2,603,403	2,137,923		4,741,326
Total capital assets not being depreciated	48,792,290	3,507,571		52,299,861
Capital assets being depreciated:				
Equipment	3,520,263	538,248	$125,167	3,933,344
Treatment plants	114,153,529	1,591,568		115,745,097
Office building	1,264,251	5,839,025		7,103,276
Reservoir	1,934,197			1,934,197
Pipelines	53,929,751			53,929,751
Wellfields	30,309,325	378,059		30,687,384
Supervisory Control and Data Acquisition project	9,704,664			9,704,664
Other infrastructure	1,536,435			1,536,435
Total capital assets being depreciated	216,352,415	8,346,900	125,167	224,574,148
Less accumulated depreciation for:				
Equipment	2,877,718	259,062	125,167	3,011,613
Treatment plants	43,856,478	3,204,445		47,060,923
Office building	911,556	55,936		967,492
Reservoir	1,102,706	48,355		1,151,061
Pipelines	15,216,863	1,241,532		16,458,395
Wellfields	6,489,402	757,733		7,247,135
Supervisory Control and Data Acquisition project	5,580,181	485,233		6,065,414
Other infrastructure	141,368	38,411		179,779
Total accumulated depreciation	76,176,272	6,090,707	125,167	82,141,812
Net capital assets being depreciated	140,176,143	2,256,193		142,432,336
Business-Type activity capital assets, net	$188,968,433	$5,763,764		$194,732,197

NOTE 4 – CAPITAL ASSETS (Continued)

B. Construction in Progress

Construction in Progress at June 30, 2017 comprises the following projects:

Governmental Activities:

Projects	
Arroyo Mocho Medieros	$316,958
Arroyo Mocho Granada/Murrieta	7,220
Arroyo Mocho-Stanley Reach	48,989
Total	$373,167

Business-Type Activities:

Projects	
Busch Valley Well #1	$1,820,077
Arroyo Mocho/Lake H Diversion	399,090
DVWTP Ozonation	1,507,915
Stoneridge Well NaOCI Tank R/R	249,346
DVWTP 4.5 MG Clearwell Interior Recoating	78,970
Patterson Pass Water Treatment Plant Ozonation	85,903
Patterson Pass Water Treatment Plant Upgrades	589,178
DVWTP Aqua Ammonia Facility	10,847
Total	$4,741,326

C. Depreciation Allocation

Capital depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Flood Protection	$264,038
Total depreciation governmental activities	$264,038
Business-Type Activities:	
Water Enterprise Operations	$6,090,707
Total depreciation business-type activities	$6,090,707

NOTE 5 – NET POSITION AND FUND BALANCES

Net Position

Net Position is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Position are divided into three captions under GASB Statement 34. These captions apply only to Net Position and are described below:

Net investment in capital assets describes the portion of Net Position which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position, if any, which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

Fund Balance

Governmental fund balances represent the net current position of each fund. Net current positions generally represent a fund's cash and receivables, less its liabilities.

The Agency's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Agency to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Agency prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Restricted fund balances, if any, have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the Board of Directors which may be altered only by formal resolution of the Board of Directors. Encumbrances and nonspendable amounts subject to Board commitments are included along with spendable resources.

NOTE 6 – RETIREMENT PLAN

A. *Alameda County Employees' Retirement Association Pension Plan*

Plan Descriptions – Substantially all Agency permanent employees are required to participate in the Alameda County Employees' Retirement Association (ACERA), a cost-sharing multiple employer public defined benefit retirement plan (Plan). The latest available actuarial and financial information for the Plan is for the year ended December 31, 2016. ACERA issues a publicly available financial report that includes financial statements and supplemental information of the Plan. That report is available by writing to Alameda County Employees' Retirement Association, 475 14th Street #1000, Oakland, California 94612.

Benefits Provided – The Plan provides for retirement, disability, and death and survivor benefits. Annual cost of living (COL) adjustments to retirement allowances can be granted by the Retirement Board as provided by State statutes. Retirement benefits are based on age, length of service, date of membership and final average salary.

Subject to vested status, employees can withdraw contributions plus interests credited, or leave them as a deferred retirement when they terminate, or transfer to a reciprocal retirement system.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Tier I	Tier 2	Tier 4
Hire date	Prior to July 1, 1983	July 1, 1983 to December 31, 2012	On or after January 1, 2013
Benefit formula	2.6% at 62	2.43% at 65	2.5% at 67
Benefit vesting schedule	Age 50 with 5 years of service and a total of 10 years of qualifying membership, or age 70 regardless of service, or after 30 years, regardless of age		Age 52 with 5 years of service or age 70 regardless of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Monthly benefits, as a % of eligible compensation	4% - 100%	2% - 100%	4% - 100%
Required employee contribution rates	7.33-15.37%	5.01-10.88%	8.06%
Required employer contribution rates	26%	25.2%	23.92%

Contributions **–** The Plan requires employees to pay a portion of the basic retirement benefit and a portion of future COL costs. However, the Agency has paid the majority of the employees' basic contributions in accordance with the Memorandum of Understanding (MOU). Employees must pay the COL portion of the employee rate. For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were $1,761,031.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions **–** As of June 30, 2017, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$25,488,068

NOTE 6 – RETIREMENT PLAN (Continued)

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of December 31, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plan is as follows:

Reporting Date for Employer under GASB 68 as of June 30	Proportion of the Net Pension Liability	Proportionate share of Net Pension Liability	Covered payroll	Net Pension Liability as a percentage of its covered payroll
2015	1.60%	$22,241,545	$12,505,557	177.85%
2016	1.18%	24,951,866	12,840,271	194.33%
2017	1.46%	25,488,068	12,351,170	206.36%

For the year ended June 30, 2017, the Agency recognized pension expense of $2,665,446. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$1,833,785	
Differences between expected and actual experience		$1,757,400
Changes of assumptions	4,276,591	
Change in proportion and differences between employer contributions and proportionate share of contributions	215,184	389,099
Net difference between projected and actual earnings on pension plan investments	3,761,296	
Total	$10,086,856	$2,146,499

The $1,833,785 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 year ended June 30, 2017.

NOTE 6 – RETIREMENT PLAN (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2018	$2,223,649
2019	2,223,648
2020	1,630,913
2021	(1,909)
2022	30,271

Actuarial Assumptions – The total pension liabilities in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	December 31, 2015
Measurement Date	December 31, 2016
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level percent of payroll
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation Rate	3.25%
Payroll Growth	3.75%
Projected Salary Increase	4.60% - 7.20% (1)
Cost of Living Adjustments	Tier 1: 3.00% Tiers 2 and 4: 2.00%
Investment Rate of Return	7.60% (2)
Mortality	RP-2000 Combined Healthy Mortality Table

(1) Vary by service, including inflation

(2) Net of pension plan investment expenses, including inflation

Discount Rate – The discount rate used to measure the total pension liability was 7.60% for the Plan. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as December 31, 2016.

NOTE 6 – RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined in 2014 using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap Equity	25.60%	5.91%
Domestic Small Cap Equity	6.40%	6.47%
Developed International Equity	20.25%	6.88%
Emerging Markets Equity	6.75%	8.24%
U.S. Core Fixed Income	11.25%	0.73%
High Yield Bonds	1.50%	2.67%
International Bonds	2.25%	0.42%
Real Estate	6.00%	4.95%
Commodities	2.00%	4.25%
Absolute Return (Hedge Fund)	7.50%	3.17%
Real Return	3.00%	0.70%
Private Equity	7.50%	11.94%
Total	100%	

A change in the discount rate would affect the measurement of the Total Pension Liability (TPL). A lower discount rate results in a higher TPL and higher discount rates results in a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the Net Pension Liability (NPL) can be very significant for a relatively small change in the discount rate. The following presents the Agency's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plan, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.60%
Net Pension Liability	$36,860,047
Current Discount Rate	7.60%
Net Pension Liability	$25,488,068
1% Increase	8.60%
Net Pension Liability	$15,948,196

NOTE 7 - POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT

The Agency, through the County of Alameda (County), is a participant under the Alameda County Employees' Retirement Association's (ACERA) defined contribution plan for other post employment benefits as established by the California Legislature under Article 5.5 of the County Employees Retirement Law of 1937. Retired employees from the Agency receive a monthly medical allowance toward the cost of their retiree health insurance from the Supplemental Retiree Benefit Reserve (SRBR). The SRBR is a funded trust that receives 50% of the investment earnings that are in excess of the target investment return of the ACERA pension fund. The Agency funds the premiums for current active employees while ACERA funds the premiums for retirees.

As the underlying cost for non-Medicare eligible retirees is higher than the blended average of actives and non-Medicare eligible retirees, there is an implicit subsidy inherent in the cost allocation process. GASB 45 requires employers using a blended rate for active and non-Medicare eligible retirees to recognize the implicit subsidy liability.

The SRBR is used to fund these benefits for eligible retirees, including retirees from the County and other employers who contribute to the ACERA pension fund, including the Agency. Accordingly, the Agency believes it has already accounted for the payments to be made from the SRBR indirectly through its pension contributions and therefore the Agency's only GASB 45 liability is for the implicit subsidy. Furthermore, as the Board of Retirement cannot make payments to retirees after the SRBR is exhausted, the liability for these benefits is capped at the amount of SRBR assets, therefore, the unfunded liability for these benefits is, by definition, zero.

The funding of these benefits is limited to investment earnings to a special reserve allocated in accordance with the statute. The Board of Retirement has no authority to demand funding from employers or member participants to fund these benefits. If these reserves were depleted, benefits provided by the program will cease. Under the current actuarial assumptions it is anticipated that the reserves will be sufficient to fund the program through the year 2038 based on the December 31, 2015 valuation. Because of the limitations on the Board of Retirement's ability to provide these benefits, this program is considered to be 100% funded through 2038.

NOTE 8 – INSURANCE

The Agency is self-insured for claims under the County of Alameda self-insurance/excess insurance program. The County is a member of the California State Association-Excess Insurance Authority (CSAC-EIA), a California Counties Joint Powers Authority whose purpose is to develop and fund programs of excess and primary insurance for its member counties.

Type of Coverage	Coverage Limit	Self-Insured/Deductible
General Liability, including Auto Liability	$25,000,000	$1,000,000
Workers' Compensation	Statutory Limit	3,000,000
Property	600,000,000	50,000
Crime	15,000,000	2,500
Pollution	10,000,000	250,000

NOTE 9 – COMMITMENT AND CONTINGENT LIABILITIES

A. Litigation

The Agency is subject to various lawsuits or claims in the normal course of business including challenges over certain rates and changes and from time to time is involved in lawsuits in which damages are sought. The ultimate outcome of these matters is not presently determinable. In the opinion of the Agency, these actions when finally adjudicated will not have a material adverse effect on the financial position of the Agency.

B. Water Supply Commitments

As part of its water management activities the Agency has entered into various water supply commitment contracts to reduce the risk of supply shortages. Under these water right agreements, the Agency has agreed to pay annual amounts for the delivery of committed levels of water supplies.

As part of its water management activities the Agency has entered into various water supply commitment contracts to reduce the risk of supply shortages. Under these water right agreements, the Agency has agreed to pay annual amounts for the delivery of committed levels of water supplies.

California Department of Water Resources: The Agency has a cost-sharing water supply contract with the Department of Water Resources (DWR) which provides for the annual allocation of 80,619 acre feet (AF) of water through 2035. DWR as project manager and administrator, developed, constructed, operates and maintains the State Water Project (SWP) to provide water to the Agency and the other water wholesalers. The Agency costs under the contract consists of a variable operating cost component and a semi-fixed capital cost component, including debt service on bonds issued by DWR to construct the project and it determines the cost annually. In fiscal years 2017 and 2016, the costs under the contract were $17.3 million and $17.2 million, respectively.

Effective November 7th, 2003, Amendment No. 24 to the Water Supply Contract between the DWR and the Agency was executed to set forth their agreement regarding the Agency's responsibility for the repayment of costs for the development and construction of the South Bay Aqueduct Enlargement. The Agency's estimated obligation, including interest, was $314.7 million. In fiscal years 2017 and 2016, the costs under Amendment No. 24 were $20.2 million and $19.9 million, respectively with a remaining obligation of $214.9 million as of June 30, 2017 to be paid by 2035.

Byron-Bethany Irrigation District: The Agency has a water supply agreement through December 31, 2030 with the District which provides for the annual delivery of water supplies from 2,000 acre-feet up to a maximum of 5,000 AF when BBID has surplus supplies available. The Agency is required to pay a flat rate cost per AF set forth in the agreement for water delivered, but has an annual take-or-pay minimum of $90,000 regardless of whether water is delivered. In fiscal years 2017 and 2016, the costs under the agreement were $90,000 each year.

NOTE 9 – COMMITMENT AND CONTINGENT LIABILITIES (Continued)

Groundwater Banking and Exchange Program (The "Program"): In June, 2006, the Agency entered into a Water Banking and Exchange Program Agreement whereby Cawelo stores up to 120,000 AF of water deposited by the Agency in facilities Cawelo developed, constructed, owns and operates. The Agency may request the return of up to 10,000 AF of stored water per year. In addition, the Agreement provides for an exchange of water acquired under the Agency's DWR agreement and Cawelo's own contract providing DWR water rights. The Program contemplated by this Agreement will provide additional groundwater storage for the Agency resulting in better use of its SWP supplies and will provide improved reliability of supplies and overall higher groundwater levels for Cawelo, by transferring to Cawelo, for Cawelo's sole use, up to one half of Agency's delivered water. In exchange for these water rights, the Agency reimburses Cawelo certain operating and maintenance costs, pays certain fees which vary based on water stored, returned or exchanged, and makes fixed capital payments. In fiscal years 2017 and 2016, the costs under the agreement were $1.3 million and $2.3 million, respectively.

Semitropic Water Storage District: In January 1998, the Agency, along with other water wholesalers entered into a Water Banking and Exchange Program Agreement with Semitropic Water Storage District and its Improvement District that entitles the Agency to storage of up to 65,000 AF, withdrawal, and exchange rights for the Agency's SWP supplies. In January 2005, an amendment was executed, enabling the Agency to participate in the Stored Water Recovery Unit Program. In fiscal years 2017 and 2016, the Agency's share of operating, maintenance and capital costs and certain fees under the agreement were $769,000 and $1.7 million, respectively.

C. Operating Lease

On June 4, 2003, the Agency executed a lease-buy-option agreement with a developer to build a new administrative-engineering building in Livermore, California. The agreement calls for a 15 year operating lease, with annual rents to start at $986,831 increasing to $1,302,133 in year 15, with a purchase option of $12,153,000. Occupancy started February 19, 2005. For the fiscal year ended June 30, 2017, the Agency paid $1,075,931. Purchase of the building was negotiated and completed in April 2017 in the amount of $9 million and the lease was terminated.

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REQUIRED SUPPLEMENTARY INFORMATION

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ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

COST-SHARING EMPLOYER DEFINED PENSION PLAN:

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

This schedule reports the proportion (percentage) of the collective net pension liability, the proportionate share (amount) of the collective net pension liability, the employer's covered employee payroll, the proportionate share (amount of the collective net pension liability as a percentage of the employer's covered employee payroll and the pension plan's fiduciary net position as a percentage of the total pension liability.

SCHEDULE OF CONTRIBUTIONS

This schedule reports the cost sharing employer's contributions to the plan which are actuarially determined, the employer's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered employee payroll.

ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*

SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIO AS OF THE MEASUREMENT DATE

	December 31, 2016	December 31, 2015	December 31, 2014
Plan's proportion of the Net Pension Liability (Asset)	1.5%	1.2%	1.6%
Plan's proportion share of the Net Pension Liability (Asset)	$25,488,068	$24,951,866	$22,241,545
Plan's Covered Payroll	12,536,863	13,014,942	12,318,588
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	203.30%	191.72%	180.55%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	1.5%	1.2%	1.6%
Plan's Proportionate Share of Aggregate Employer Contributions	3,770,297	3,808,259	3,415,865

*- Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT – ZONE 7 WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Cost-Sharing Multiple-Employer Defined Pension Plan
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially determined contribution	$4,616,119	$4,568,731	$4,324,438
Contributions in relation to the actuarially determined contributions	(4,616,119)	(4,568,731)	(4,324,438)
Contribution deficiency (excess)	$0	$0	$0
Covered payroll	$12,351,170	$12,840,271	$12,505,557
Contributions as a percentage of covered payroll	37.37%	35.58%	34.58%

Notes to Schedule

Valuation date:	December 31, 2015	December 31, 2014	December 31, 2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	(1)
Inflation	3.25%
Salary increases	(2)
Investment rate of return	7.60% (3)
Mortality	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020
Post Retirement Benefit Increase	Contract COLA 2.00% - 3.00% of retirement income

(1) The actuarial value of assets is determined by recognizing any difference between the actual and the expected market return over 10 six-month interest crediting periods. The actuarial value of assets is further adjusted, if necessary, to be within 40% of the market value of assets. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.

(2) Depending on age, service and type of employment

(3) Net of pension plan investment expenses, including inflation

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

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SUPPLEMENTARY INFORMATION

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
NON-MAJOR WATER ENTERPRISE FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Water Facilities	Water Supply and Reliability	Totals 2017	Totals 2016
ASSETS				
Current assets:				
Cash in County treasury	$3,801,330	$4,217,211	$8,018,541	$8,527,028
Total current assets	3,801,330	4,217,211	8,018,541	8,527,028
Total assets	3,801,330	4,217,211	8,018,541	8,527,028
LIABILITIES				
Current liabilities:				
Deposits	342,940		342,940	332,725
Total current liabilities	342,940		342,940	332,725
Total liabilities	342,940		342,940	332,725
NET POSITION				
Unrestricted	3,458,390	4,217,211	7,675,601	8,194,303
Total net position	3,458,390	4,217,211	7,675,601	8,194,303
Total liabilities and net position	$3,801,330	$4,217,211	$8,018,541	$8,527,028

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
NON-MAJOR WATER ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Water Facilities	Water Supply and Reliability	Totals 2017	Totals 2016
OPERATING REVENUES				
Other revenues	$42,121		$42,121	$52,438
Operating income	42,121		42,121	52,438
NONOPERATING REVENUES				
Interest income and rental fees	24,325	$30,105	54,430	40,438
Income (loss) before transfers	66,446	30,105	96,551	92,876
Transfers (out) (Note 3)		(615,253)	(615,253)	
Change in net position	66,446	(585,148)	(518,702)	92,876
Net position, beginning of year	3,391,944	4,802,359	8,194,303	8,101,427
Net position, end of year	$3,458,390	$4,217,211	$7,675,601	$8,194,303

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
ZONE 7 WATER AGENCY
NON-MAJOR WATER ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2016

	Water Facilities	Water Supply and Reliability	Total 2017	Total 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$52,336		$52,336	$56,324
Net cash provided (used) by operating activities	52,336		52,336	56,324
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (out)		($615,253)	(615,253)	
Cash flows from noncapital financing activities		(615,253)	(615,253)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	24,325	30,105	54,430	40,438
Cash flows from investing activities	24,325	30,105	54,430	40,438
Net increase (decrease) in cash and cash equivalents	76,661	(585,148)	106,766	96,762
Cash and investments at beginning of period	3,724,669	4,802,359	8,527,028	8,430,266
Cash and investments at end of period	$3,801,330	$4,217,211	$8,018,541	$8,527,028
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$42,121		$42,121	$52,438
Adjustments to reconcile operating income (loss) to cash flows				
Changes in assets and liabilities				
Deposits	10,215		10,215	3,886
Net cash provided (used) by operating activities	$52,336		$52,336	$56,324

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Alameda County Flood Control and
Water Conservation District – Zone 7 Water Agency
Livermore, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Alameda County Flood Control and Water Conservation District – Zone 7 Water Agency (Agency), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 4, 2017. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 4, 2017 which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze + Associates

Pleasant Hill, California
December 4, 2017

STATISTICAL SECTION

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Statistical Section

This part of the Agency's comprehensive annual financial statement report presents detailed information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the Agency's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Agency's financial performance and well-being have change over time. (Tables 1-4)

Revenue Capacity

These schedules contain information to help the reader assess the Agency's revenue sources and rate structure. (Pages Tables 4-13)

Debt Capacity

These schedules contain information to help the reader assess the affordability of the Agency's current levels of outstanding debt and the Agency's ability to issue additional debt in the future. (Tables 14-15)

Demographic and Economic Information

This schedule offers demographic, economic, and Agency indicators to help the reader understand the environment within which the Agency's financial activities take place. (Tables 16-18)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Agency's financial report relates to the services the Agency provides and the activities it performs. (Tables 18-20)

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(Table 1)

	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013 (a)**	**2014**	**2015**	**2016**	**2017**
Governmental activities										
Net investment in capital assets	$15,924,957	$14,860,651	$14,661,865	$14,479,216	$14,301,567	$16,232,189	$30,403,950	$30,385,318	$30,334,638	$31,990,546
Restricted	32,362,298	32,794,924	57,518,054	58,914,899	36,696,155	60,596,601	41,506,430	49,177,969	56,059,067	58,149,272
Unrestricted	17,109,262	21,506,376	477,102	3,928,002	23,559,397	4,406,909	15,260,267	16,739,156	19,133,427	20,484,357
Total governmental activities net position	$65,396,517	$69,161,951	$72,657,021	$77,322,117	$74,557,119	$81,235,699	$87,170,647	$96,302,443	$105,527,132	$110,624,175
Business-type activities										
Net investment in capital assets	$167,732,246	$208,712,439	$214,245,244	$208,841,658	$205,651,283	$202,295,691	$211,603,471	$212,562,797	$188,968,433	$194,732,197
Restricted	92,106,375	44,608,852	43,769,762	40,041,672	37,928,558	65,125,317	42,196,142	50,917,217	82,151,910	97,494,721
Unrestricted	36,005,753	41,038,344	39,299,226	39,394,747	41,291,980	40,127,373	57,821,385	36,428,063	30,717,428	37,712,019
Total business-type activities net position	$295,844,374	$294,359,635	$297,314,232	$288,278,077	$284,871,821	$307,548,381	$311,620,998	$299,908,077	$301,837,771	$329,938,937
Primary government										
Net investment in capital assets	$183,657,203	$223,573,090	$228,907,109	$223,320,874	$219,952,850	$218,527,880	$242,007,421	$242,948,115	$219,303,071	$226,722,743
Restricted	124,468,673	77,403,776	101,287,816	98,956,571	74,624,713	125,721,918	83,702,572	100,095,186	138,210,977	155,643,993
Unrestricted	53,115,015	62,544,720	39,776,328	43,322,749	64,851,377	44,534,282	73,081,652	53,167,219	49,850,855	58,196,376
Total primary governmental activities net position	$361,240,891	$363,521,586	$369,971,253	$365,600,194	$359,428,940	$388,784,080	$398,791,645	$396,210,520	$407,364,903	$440,563,112

(a) The Agency implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(Table 2)

	2008	2009	2010	2011	2012	2013 (a)	2014	2015	2016	2017
Expenses										
Governmental activities										
Flood Protection Operations	$4,036,466	$3,561,070	$3,547,907	$4,063,566	$8,499,485	$3,947,332	$1,488,735	$4,705,166	$5,328,998	$5,341,751
Flood Protection Drainage DIF	7,491,450	4,576,721	561,339	615,758	5,903,778	705,688	4,029,268	499,169	794,922	1,841,555
Total governmental activities expenses	11,527,916	8,137,791	4,109,246	4,679,324	14,403,263	4,653,020	5,518,003	5,204,335	6,123,920	7,183,306
Business-type activities										
State Water Project		8,015,944	8,787,104	10,670,494	13,858,280	14,002,380	13,681,891	16,359,406	20,621,344	20,985,604
Water Enterprise Funds	38,369,422	51,004,895	49,257,457	50,869,431	51,267,019	54,868,275	57,386,822	59,122,995	81,257,514	60,641,826
Total business-type activities	38,369,422	59,020,839	58,044,561	61,539,925	65,125,299	68,870,655	71,068,713	75,482,401	101,878,858	81,627,430
Total primary government expenses	$49,897,338	$67,158,630	$62,153,807	$66,219,249	$79,528,562	$73,523,675	$76,586,716	$80,686,736	$108,002,778	$88,810,736
Program Revenues										
Governmental activities										
Charges for Services	$35,466	$34,156	$11,078	$12,771	$40,851	$35,661	$57,142	$450,658	$7,432,934	$3,554,796
Operating grants and contributions	231,034	64,915	54,264	53,229	61,249	61,578	64,318	112,334	71,562	181,418
Other program revenues	465,947	10,493,106	1,191,832	3,187,574	5,505,787	5,095,420	4,953,372	8,032,445	40,202	13,263
Total governmental activities program revenues	732,447	10,592,177	1,257,174	3,253,574	5,607,887	5,192,659	5,074,832	8,595,437	7,544,698	3,749,477
Business-type activities										
Charges for Services:										
State Water Project	11,911,136	8,480,378	9,686,655	12,206,165	15,489,732	11,942,972	12,269,322	13,708,844	19,419,226	20,795,420
Water Enterprise Funds	29,972,803	30,059,518	30,857,470	31,855,389	35,528,292	38,200,851	58,073,146	56,318,578	68,521,032	77,751,701
Operating grants and contributions	109,599	80,073	808,207	444,139	106,194	68,416	4,347,897	5,012,899	15,285,044	10,179,114
Capital grants and contributions	5,196,887	12,322,711	20,787,373	11,810,379	13,700,090	30,824,513				-
Total business-type activities program revenues	47,190,425	50,942,680	62,139,705	56,316,072	64,824,308	81,036,752	74,690,365	75,040,321	103,225,302	108,726,235
Total primary government program revenues	$47,922,872	$61,534,857	$63,396,879	$59,569,646	$70,432,195	$86,229,411	$79,765,197	$83,635,758	$110,770,000	$112,475,712
Net (Expense)/Revenue										
Governmental activities	($10,795,469)	$2,454,386	($2,852,072)	($1,425,750)	($8,795,376)	$539,639	($443,171)	$3,391,102	$1,420,778	($3,433,829)
Business-type activities	8,821,003	(8,078,159)	4,095,144	(5,223,853)	(300,991)	12,166,097	3,621,652	(442,080)	1,346,444	27,098,805
Total primary government net revenues	($1,974,466)	($5,623,773)	$1,243,072	($6,649,603)	($9,096,367)	$12,705,736	$3,178,481	$2,949,022	$2,767,222	$23,664,976
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property	$11,911,136	$6,129,952	$5,918,281	$5,745,003	$5,773,050	$5,959,083	$6,201,653	$6,759,202	$7,329,117	$7,895,448
Investment earnings and rental charges	2,161,502	1,352,354	428,861	345,843	257,328	179,858	189,800	260,490	465,771	647,869
Transfers	1,995,057	(1,319)					(13,334)	(13,333)	(13,333)	(12,445)
Other									22,356	
Total governmental activities	16,067,695	7,480,987	6,347,142	6,090,846	6,030,378	6,138,941	6,378,119	7,006,359	7,803,911	8,530,872
Business-type activities										
Investment earnings	6,023,904	2,862,182	682,341	704,257	610,133	331,588	390,865	314,297	496,700	915,090
Rental charges	31,000	31,000	31,000	31,000	31,000	31,000	46,796	50,815	73,217	74,826
Transfers		1,319					13,334	13,333	13,333	12,445
Total business-type activities	6,054,904	2,894,501	713,341	735,257	641,133	362,588	450,995	378,445	583,250	1,002,361
Total primary government	$22,122,599	$10,375,488	$7,060,483	$6,826,103	$6,671,511	$6,501,529	$6,829,114	$7,384,804	$8,387,161	$9,533,233
Change in Net Position										
Governmental activities	5,272,226	9,935,373	3,495,070	4,665,096	(2,764,998)	6,678,580	5,934,948	10,397,461	9,224,689	5,097,043
Business-type activities	14,875,907	(5,183,658)	4,808,485	(4,488,596)	340,142	12,528,685	4,072,647	(63,635)	1,929,694	28,101,166
Total primary government	$20,148,133	$4,751,715	$8,303,555	$176,500	($2,424,856)	$19,207,265	$10,007,595	$10,333,826	$11,154,383	$33,198,209

(a) The Agency implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position".

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Table 3)

		------------------------Unreserved----------------------					
Fiscal Year	**Reserved**	**Capital project**	**Specific projects and programs**	**Unassigned**	**Restricted**	**Committed**	**Total**
2008		$32,362,298	$10,868,214	$6,241,048			$49,471,560
2009		32,794,924	20,185,762	1,320,614			54,301,300
2010	$179,791	33,505,378	23,832,885	477,102			57,995,156
2011					$26,027,983	$36,814,918	62,842,901
2012					36,696,155	23,559,397	60,255,552
2013					40,648,531	24,354,979	65,003,510
2014					41,506,430	15,260,267	56,766,697
2015					49,177,969	18,009,177	67,187,146
2016					56,059,067	20,666,297	76,725,364
2017					58,149,272	21,898,222	80,047,494

Note: FY 2009/10 and prior fund balance amounts have not been restated for the implementation of GASB Statement 54, which the Agency implemented in FY 2010/11

ALAMEDA COUNTY FLOOD AND WATER CONSERVATION DISTRICT - ZONE 7 WATER AGENCY
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(Table 4)

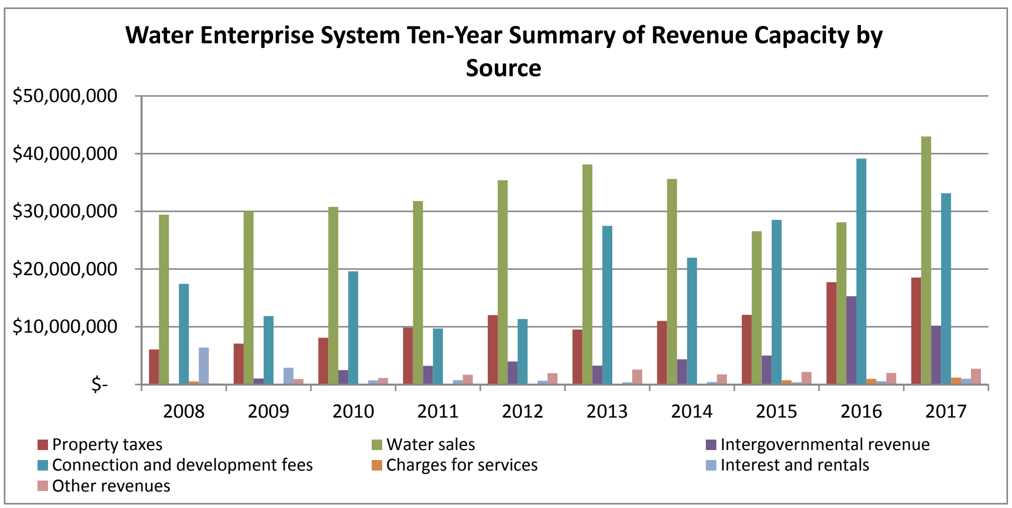
	Fiscal Year									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Revenues										
Property taxes	$11,911,136	$6,129,952	$5,918,281	$5,745,003	$5,773,050	$5,959,083	$6,201,653	$6,759,202	$7,329,117	$7,895,448
Intergovernmental revenues	231,034	64,915	54,264	53,229	61,249	61,578	64,318	144,691	71,562	181,418
Charges for services	499,630	10,423,524	1,178,982	3,178,719	5,505,177	5,117,561	4,823,378	8,450,033	7,432,934	3,554,796
Interest and rentals	2,161,502	1,352,354	428,861	345,843	257,328	179,858	189,800	260,490	465,771	647,869
Other revenues	1,783	103,738	23,928	21,626	41,461	13,520	187,136	713	62,558	13,263
Total revenues	14,805,085	18,074,483	7,604,316	9,344,420	11,638,265	11,331,600	11,466,285	15,615,129	15,361,942	12,292,794
Expenditures										
Salaries and employee benefits transferred from district-wide	2,048,297	1,857,126	1,703,900	1,937,436	2,243,556	2,631,352	2,535,779	2,252,655	2,455,453	1,961,724
Services and supplies	9,343,889	2,194,896	2,206,560	2,559,113	6,851,120	3,498,544	2,650,121	2,821,192	3,354,938	4,187,243
Equipment and capital structure		3,921,997		126	5,130,850	451,740	14,503,864	107,500		2,809,252
Other					88	2,006				
Total Expenditures	11,392,186	7,974,019	3,910,460	4,496,675	14,225,614	6,583,642	19,689,764	5,181,347	5,810,391	8,958,219
Excess of revenues over/(under) expenditures	3,412,899	10,100,464	3,693,856	4,847,745	(2,587,349)	4,747,958	(8,223,479)	10,433,782	9,551,551	3,334,575
Other Financing Sources (Uses)										
Transfers in		(1,319)								
Transfers out	1,995,057						(13,334)	(13,333)	(13,333)	(12,445)
Total other financing sources (uses)	1,995,057	(1,319)					(13,334)	(13,333)	(13,333)	(12,445)
Net change in fund balances	$5,407,956	$10,099,145	$3,693,856	$4,847,745	($2,587,349)	$4,747,958	($8,236,813)	$10,420,449	$9,538,218	$3,322,130

Source: Zone 7 Finance Department, Governmental Income Statement

Zone 7 Water Agency
Revenue Capacity
Ten-Year Summary of Revenue by Source
Fiscal Year Ended June 30
(Table 5)

Water Enterprise System

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Property taxes	$ 6,065,570	$ 7,077,008	$ 8,085,099	$ 9,860,412	$ 12,017,106	$ 9,517,243	$ 11,016,532	$ 12,060,478	$ 17,716,841	$ 18,524,750
Water sales	29,416,874	30,013,013	30,777,082	31,785,517	35,398,908	38,130,264	35,616,588	26,552,568	28,110,974	42,975,960
Intergovernmental revenue	155,339	1,023,004	2,479,844	3,223,559	3,972,942	3,263,820	4,347,890	5,012,899	15,285,044	10,179,114
Connection and development fees	17,433,022	11,852,496	19,601,871	9,697,595	11,345,942	27,483,527	21,973,245	28,521,399	39,135,444	33,128,280
Charges for services	520,463	46,505	80,388	69,872	129,384	70,587	2,938	720,670	976,853	1,201,296
Interest and rentals	6,396,019	2,893,182	713,341	735,257	641,133	362,588	437,661	365,112	569,917	989,916
Other revenues	174,631	930,654	1,115,421	1,679,117	1,960,026	2,571,311	1,733,172	2,172,307	2,000,146	2,716,835
Total Revenues	**$ 60,161,918**	**$ 53,835,862**	**$ 62,853,046**	**$ 57,051,329**	**$ 65,465,441**	**$ 81,399,340**	**$ 75,128,026**	**$ 75,405,433**	**$ 103,795,219**	**$ 109,716,151**

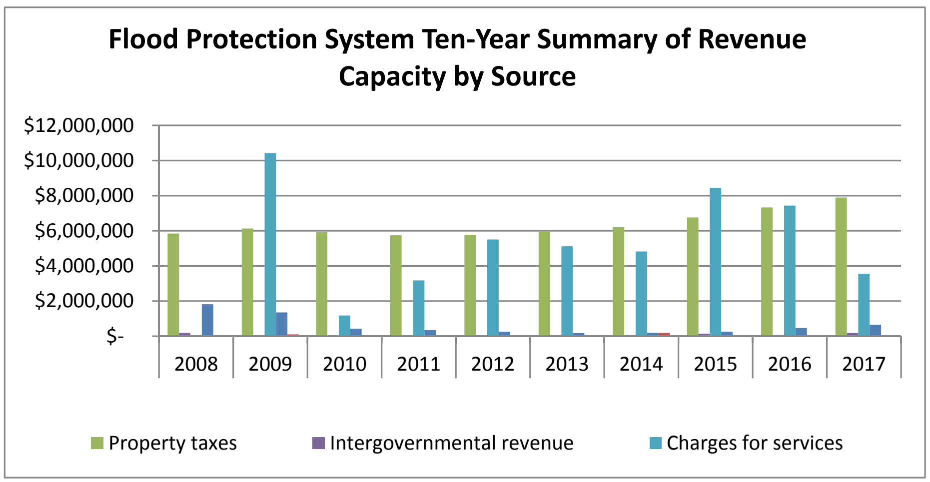


Source: Finance

Zone 7 Water Agency
Revenue Capacity
Ten-Year Summary of Revenue by Source
Fiscal Year Ended June 30
(Table 6)

Flood Protection System

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property taxes	$ 5,845,566	$ 6,129,952	$ 5,918,281	$ 5,745,003	$ 5,773,050	$ 5,959,083	$ 6,201,653	$ 6,759,202	$ 7,329,117	$ 7,895,448
Intergovernmental revenue	185,294	64,915	54,264	53,229	61,249	61,578	64,318	144,691	71,562	181,418
Charges for services	35,466	10,423,524	1,178,982	3,178,719	5,505,177	5,117,561	4,823,378	8,450,033	7,432,934	3,554,796
Interest and rentals	1,820,387	1,352,354	428,861	345,843	257,328	179,858	189,800	260,490	465,771	647,869
Other revenues	1,783	103,738	23,928	21,626	41,461	13,520	187,136	713	62,558	13,263
Total Revenues	**$ 7,888,496**	**$ 18,074,483**	**$ 7,604,316**	**$ 9,344,420**	**$ 11,638,265**	**$ 11,331,600**	**$ 11,466,285**	**$ 15,615,129**	**$ 15,361,942**	**$ 12,292,794**



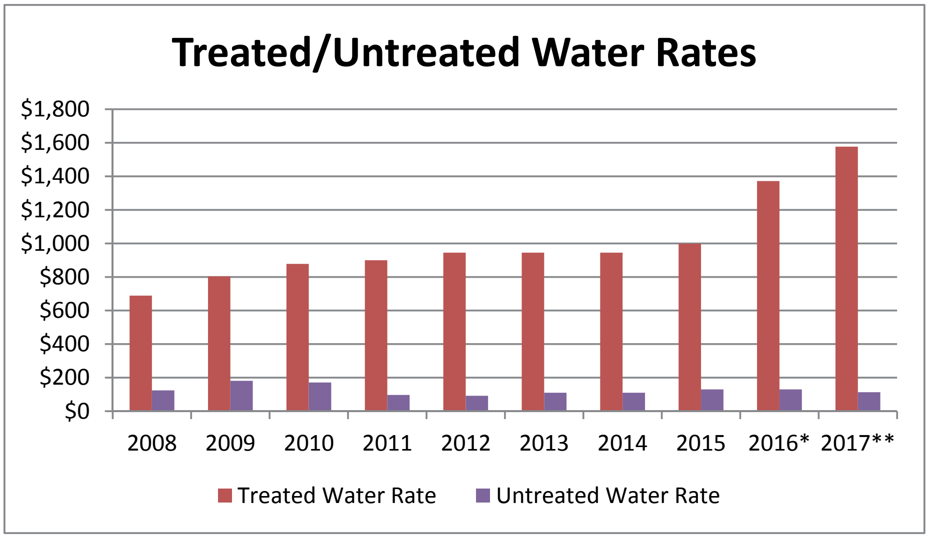
Source: Finance

Zone 7 Water Agency
Treated/Untreated Water Rates
Ten-Year History
(In Acre Feet)
(Table 7)

	Treated Water Rate		Untreated Water Rate	
Calendar Year	**Rate/AF**	**% Change Year over Year**	**Rate/AF**	**% Change Year over Year**
2008	$689	8.5%	$124	24.0%
2009	$804	16.7%	$181	46.0%
2010	$878	9.2%	$171	-5.5%
2011	$900	2.5%	$97	-43.3%
2012	$945	5.0%	$92	-5.2%
2013	$945	0.0%	$110	19.6%
2014	$945	0.0%	$110	0.0%
2015	$999	5.7%	$130	18.2%
2016*	$1,372	37.3%	$130	0.0%
2017**	$1,577	14.9%	$113	-13.1%

* Includes temporary surcharge of $248/AF

** Includes $1,111/AF for Variable and $466/AF for Fixed.

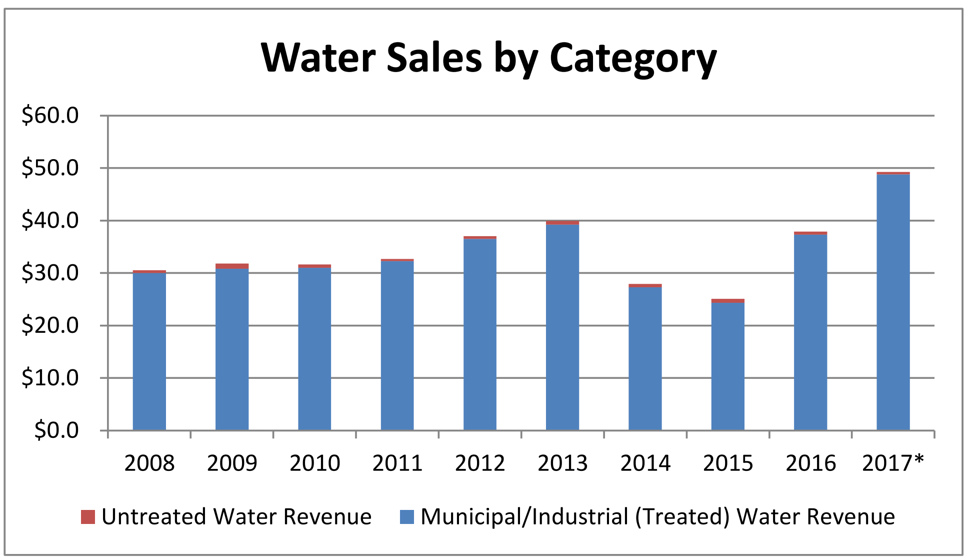


Source: Finance

Zone 7 Water Agency
Water Sales by Category
Ten-Year History
(In Millions)
(Table 8)

Calendar Year	Municipal/Industrial (Treated) Water Revenue	Untreated Water Revenue	Total
2008	$30.0	$0.5	$30.5
2009	$30.8	$1.0	$31.8
2010	$31.0	$0.6	$31.6
2011	$32.3	$0.4	$32.7
2012	$36.5	$0.5	$37.0
2013	$39.2	$0.7	$39.9
2014	$27.3	$0.6	$27.9
2015	$24.3	$0.8	$25.1
2016	$37.3	$0.6	$37.9
2017*	$48.8	$0.5	$49.3

* 2017 Revenue figures are forecasted in order to calculate a full calendar year.



Source: Finance

Zone 7 Water Agency

Principal Treated Water Customers

Current Complete Year Comparison to Nine Years Ago

(Calendar Year)

(Table 9)

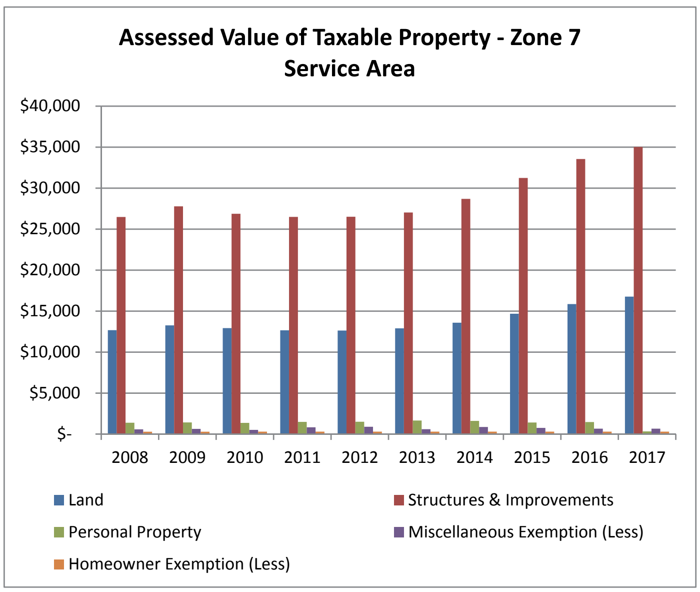
2016				2007			
Customer	**Annual Consumption (AF)**	**Rank**	**Percentage of Total Annual Consumption**	**Customer**	**Annual Consumption (AF)**	**Rank**	**Percentage of Total Annual Consumption**
City of Pleasanton	8,646	1	32%	City of Pleasanton	15,806	1	36%
Dublin San Ramon Services District	8,119	2	30%	Dublin San Ramon Services District	10,937	2	25%
City of Livermore	5,134	3	19%	California Water	9,186	3	21%
California Water	4,818	4	18%	City of Livermore	7,258	4	17%
All other treated water customers[1]	604	5	2%	All other treated water customers[1]	260	5	1%
Total Annual Consumption (AF)	27,321		100%	Total Annual Consumption (AF)	43,447		100%

Source: Finance

[1]Other treated customers include Lawrence Livermore Lab., Livermore Area Recreation and Park District, Veterans Hospital, Wente and East Bay Regional Park District.

Zone 7 Water Agency
Assessed Value of Taxable Property - Zone 7 Service Area
Last Ten Fiscal Years
Fiscal Year Ended June 30
($ Millions)
(Table 10)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed Value of Taxable Property										
Land	$ 12,677	$ 13,263	$ 12,927	$ 12,660	$ 12,635	$ 12,905	$ 13,587	$ 14,680	$ 15,861	$ 16,766
Structures & Improvements	26,484	27,777	26,874	26,492	26,507	27,029	28,695	31,246	33,555	35,024
Personal Property	1,388	1,424	1,372	1,491	1,508	1,652	1,611	1,419	1,473	326
Miscellaneous Exemption (Less)	580	637	512	831	891	599	867	755	661	664
Subtotal	39,969	41,827	40,661	39,812	39,759	40,987	43,026	46,590	50,228	51,452
Homeowner Exemption (Less)	292	295	298	297	298	297	299	300	303	304
Net Total	$ 39,677	$ 41,532	$ 40,363	$ 39,515	$ 39,461	$ 40,690	$ 42,727	$ 46,290	$ 49,925	$ 51,148



Source: Alameda County Assessors Office

Zone 7 Water Agency
Property Tax Rates (1)
Direct and Overlapping Governments
(Rates per $1,000 of Assessed value)
Last Ten Fiscal Years
(Table 11)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Direct Rates:										
City of Livermore Direct Rates	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Overlapping Rates (2):										
School District	0.0626%	0.0616%	0.0674%	0.0635%	0.0627%	0.0607%	0.0596%	0.0497%	0.0404%	0.0886%
Community College	0.0164%	0.0183%	0.0195%	0.0211%	0.0214%	0.0219%	0.0214%	0.0217%	0.0198%	0.0246%
Bay Area Rapid Transit	0.0076%	0.0090%	0.0057%	0.0031%	0.0041%	0.0043%	0.0075%	0.0045%	0.0026%	0.0080%
Zone 7 Flood Control	0.0150%	0.0169%	0.0203%	0.0250%	0.0307%	0.0228%	0.0257%	0.0250%	0.0343%	0.0333%
Total Direct and Overlapping Rate	**1.1016%**	**1.1058%**	**1.1129%**	**1.1127%**	**1.1189%**	**1.1097%**	**1.1142%**	**1.1009%**	**1.0971%**	**1.1545%**

Source: Alameda County Treasurer and Tax Collector

Note:
(1) The above data represents a single tax area within the Agency's jurisdiction and is presented herein to show readers general trends of property tax rates.
(2) Overlapping rates are those local and county governments that apply to property owners within the City of Livermore. Not all overlapping rates apply to all property owners. For an overlapping rate to apply, the property has to be located within that district's geographic boundary.

Zone 7 Water Agency

Property Tax Levies and Collections

Last Ten Fiscal Years

(Table 12)

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Delinquent Tax Collections
		Amount	Percentage of Levy	
2008	11,911,136	11,911,136	100%	0%
2009	13,206,960	13,206,960	100%	0%
2010	14,003,380	14,003,380	100%	0%
2011	15,605,415	15,605,415	100%	0%
2012	17,790,156	17,790,156	100%	0%
2013	15,476,326	15,476,326	100%	0%
2014	17,218,185	17,218,185	100%	0%
2015	18,819,680	18,819,680	100%	0%
2016	25,045,958	25,045,958	100%	0%
2017	26,420,199	26,420,199	100%	0%

Source: Finance

Zone 7 Water Agency

Principal Property Tax Payers
Current year and Ten Years Ago
(Fiscal Year)
(Table 13)

2017 [1]				2007 [2]			
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total Agency Assessed Value**	**Taxpayer**	**Taxable Assessed Value**	**Rank**	**Percentage of Total Agency Assessed Value**
Kaiser Foundation Health Plan	$ 309,936,863	1	0.62%	Stoneridge Properties	$ 212,780,782	1	0.64%
Stoneridge Properties	256,416,090	2	0.51%	Pleasanton Property LLC	198,645,778	2	0.60%
Stoneridge Creek Pleasanton CCRC LLC	209,496,089	3	0.42%	NNN Britannia Business Ctr	186,729,481	3	0.56%
Livermore Premium Outlets LLC	203,656,005	4	0.41%	Oracle America Inc/Peoplesoft	180,942,082	4	0.54%
6200 Stoneridge Mall Road Investors LLC	169,630,000	5	0.34%	6200 Stoneridge Mall Road Inv	177,576,444	5	0.53%
Avalon Dublin Station II LP	165,763,129	6	0.33%	Form Factor Inc.	153,562,000	6	0.46%
Stoneridge Residential LLC	156,696,600	7	0.31%	Kaiser Foundation Hospitals	142,060,000	7	0.43%
Tishman Speyer Archstone Smith Hacienda L	154,950,884	8	0.31%	Applera Corporation	135,262,272	8	0.41%
SFI Pleasanton LLC	150,179,616	9	0.30%	Safeway Inc.	126,296,597	9	0.38%
Peoplesoft Properties	133,593,989	10	0.27%	Shops at Waterford LLC	123,249,776	10	0.37%
	$ 1,910,319,265		3.83%		$ 1,637,105,212		4.93%

Source:
[1] County of Alameda 2017/18 FY Top 10 Taxpayers by Primary Tax Code Area (secured)
[2] FY 2015-16 City of Livermore, City of Pleasanton, and City of Dublin's Comprehensive Annual Financial Reports

Zone 7 Water Agency

Water Enterprise Outstanding Debt by Type

(Table 14)

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
60,000,000	60,000,000	60,000,000	30,500,000	30,500,000	30,500,000	-	-	-	-

Source: Finance

On January 15, 2008, the District signed an installment sale agreement with the Municipal Finance Corporation and Wells Fargo Bank for a tax-exempt revolving line of credit in the amount of $60,000,000 for a six-year term. Effective January 19, 2011, the board approved reducing the line to a maximum amount of $30,500,000. The line carried a variable interest rate based on a calculation of 81.41% of bank's Prime rate, less 2.3%.

Zone 7 Water Agency

Legal Debt Margin Information

Last Ten Fiscal Years

(millions)

(Table 15)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Limit	$ 1,984	$ 2,077	$ 2,018	$ 1,976	$ 1,973	$ 2,035	$ 2,136	$ 2,315	$ 2,496	$ 2,668
Total Net Debt Applicable to Limit	60	60	60	30.5	30.5	30.5	-	-	-	-
Legal Debt Margin	$ 1,924	$ 2,017	$ 1,958	$ 1,945	$ 1,943	$ 2,004	$ 2,136	$ 2,315	$ 2,496	$ 2,668
Total net debt applicated to the limit as a percentage of the debt limit	3%	3%	3%	2%	2%	1%	0%	0%	0%	0%

Source: Alameda County Assessors Office and Agency Finance

Zone 7 Water Agency

Demographic and Economic Statistics

For Alameda County and the Zone 7 Service Area

Ten Fiscal Years (2008-2017)

(Table 16)

Fiscal Year	Zone 7 Service Area (Acres)	Population Served within Zone 7's Service Area [1]	Total Population Alameda County [2]	Total Personal Income Alameda County ($ billions) [3]	Per Capita Personal Income Alameda County [3]	Unemployment Rate Alameda County [4]	Consumer Price Index Alameda County (% change in CPI)[5]
2008	272,000	211,000	1,491,781	73.50	55,832	6.1	3.0
2009	272,000	216,000	1,503,827	70.20	52,399	11.1	0.8
2010	272,000	220,000	1,513,228	72.40	53,047	11.3	1.3
2011	272,000	224,000	1,526,226	78.20	55,295	10.8	2.7
2012	272,000	229,000	1,539,145	84.50	57,739	9.5	2.7
2013	272,000	233,000	1,563,495	87.40	57,473	7.4	2.2
2014	272,000	239,000	1,583,979	92.40	58,364	5.8	2.7
2015	272,000	245,000	1,611,318	101.40	64,466	5.2	3.2
2016	272,000	247,000	1,629,233*	106.50	65,045	4.7	3.1
2017	272,000	252,315*	1,645,359*	113.6*	66,610*	4.0*	3.0

Source:

[1] Population of Service Area include cities of; Livermore, Pleasanton, Dublin and Dougherty Valley (Dougherty Valley figures are estimated as 0.336% of City of San Ramon) . CA Department of Finance, Demographic Research Unit (E-1, 1/1/2016-17 City Population Ranking) Demographics/Estimates.

[2] CA Department of Finance, Demographic Research Unit (E-1, 1/1/2016-17 City Population Ranking), figures are rounded to nearest five hundred.

[3] CA Department of Transportation County-level Economic Forecast, 2010-16 History and 2017-40 Forecast, and the Alameda County FY 2015-16 Comprehensive Annual Financial Report.

[4] Local Area Unemployment reported by US Department of Labor Bureau of Labor Statistics (rates reflected as of June).

[5] Consumer Price Index provided by US Department of Labor Bureau of Labor Statistics (reflected as of August each year).

* Figures are forecasted estimates.

Zone 7 Water Agency

Principal Employers In Alameda County

Current Complete Year and Nine Years Ago

(Table 17)

Company/Organization	**Business Type**	**Number of Employees January 1, 2016** [1]	**Rank**	**Percentage of Total County Employment** [2]	**Number of Employees June 30, 2007** [1]	**Rank**	**Percentage of Total County Employment** [2]
Kaiser Permanente Medical Group [3]	Health Care	28,481	1	3.59%	25,070	2	3.54%
Safeway Inc., [3]	Supermarkets & Other Grocery	11,530	2	1.46%	10,000	4	1.41%
County of Alameda	Local Government	8,690	3	1.10%	8,683	5	1.23%
Chevron Corporation [3]	Energy	6,244	4	0.79%	_	20+	_
John Muir Health [3]	Health Care	6,181	5	0.78%	_	20+	_
Wells Fargo Bank [3]	Financial Services	5,326	6	0.67%	_	20+	_
PG&E Corporation [3]	Energy	5,154	7	0.65%	_	20+	_
United States Postl Service [3]	Mailing and Shipping	4,980	8	0.63%	8,472	6	1.20%
Lam Research Corporation [3]	Manufacturing	4,500	9	0.57%	_	20+	_
Alta Bates Summit Medical Center [3]	Health Care	4,122	10	0.52%	_	20+	_
Total Alameda County top 10 Employees		85,208		10.76%	52,225		7.38%

Source: Alameda County FY 2015-16 Comprehensive Annual Financial Report

[1] The number of employees, except for County of Alameda and City of Oakland include Alameda County and Contra Costa County employees
Total employment within County of Alameda is unavailable.

[2] Percentage calculated based on Alameda County's Employment of 793,000 for 2016 and 708,200 for 2007 (Source: Employment Development Department)

[3] Information from InfoGroup USA as of January 1, 2016. Information as of June 30, 2016 is not available, except for County of Alameda employer.

[4] Information from County of Alameda's database as of June 30, 2016

Zone 7 Water Agency
Full-time Equivalent District Employees by Function/Program Budget
Last Ten Fiscal Years
(Table 18)

Division/Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Office of the General Manager	13.3	13.75	13	10	14	7	7	8	9	10
Integrated Planning						7.5	7.5	8.5	9.5	10.5
Finance:										
Finance and Accounting	14	12	11	10	11	9	9	10	10	10
Employee Services	4	6	6	6	6	7	7	7	4	3
Engineering:										
Facilities Engineering	19.5	16	16	16	15	13	14	12	13	12
Groundwater Protection	6	7	9	9	8	7	7	8.5	7.5	7.5
Water Quality	7	7	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Flood Control	8	3	7	7	6	5	5	6	7	7
Operations	29	29	25	24	24	24	24	24	27	27
Maintenance	10	19	18	19	19	19	19	20	20	20
Total FTE	110.8	112.75	112.5	108.5	110.5	106	107	111.5	114.5	114.5

Source: Finance

Zone 7 Water Agency
Operating Indicators
Fiscal Years 2008-2017
(Table 19)

	2008	2009	2010	2011	2012	2013	2014	2015	2016[4]	2017
Water Enterprise System										
Total Groundwater pumped (AF)[1]	6,855	10,084	8,919	6,264	12,105	9,555	8,782	2,565	2,002	2,300
Total Artificial Stream Recharge (AF)	2,229	3,984	6,773	4,555	8,778	7,887	3,826	3,766	8,910	8,300[2]
New water connections	797	539	544	412	489	1,187	928	1,196	1,600	1,338
Total drilling permits issued	182	100	130	140	149	159	176	171	133	155
Flood Protection System										
Flood Protection area managed (miles)	425	425	425	425	425	425	425	425	425	425
Flood Protection channels (miles)	37	37	37	37	37	37	37	37	37	45[3]
Flood Protection encroachment permits issued	20	30	34	30	36	36	30	31	34	24
Flood Protection development reviews	76	47	27	31	15	18	13	13	15	20

Source: Flood Protection, Groundwater and Operations

[1] Calculated on a Water Year basis (October 1 - September 30)
[2] Total Artificial Stream Recharge calculations are completed at calendar year end, therefore 2017 figure is an estimate.
[3] Adjustment based on GIS channel centerline length vs Developer SDA 7-1 Agreement lengths.

Zone 7 Water Agency
Operating Information
Capital Asset Statistics
Fiscal Years 2008-2017
(Table 20)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of treatment plants	2	3	3	3	3	3	3	3	3	3
Miles of pipeline	35	41	41	41	41	41	41	41	41	41
Number of treated water pumping stations	2	2	2	2	2	2	2	2	2	2
Number of wells operated	7	7	9	9	9	9	10	10	10	10
Total Groundwater storage (AF)[1,2]	231,000	228,000	231,000	235,000	227,000	220,000	209,000	213,000	226,000	240,000
Total Groundwater operational storage-water year (AF)[2]	103,000	100,000	103,000	107,000	99,000	92,000	81,000	85,000	98,000	115,000

Source: Groundwater and Operations

[1] 2017 Total and Operational Groundwater Storage are estimates based on August water levels. Actual values get calculated at end of year
[2] Calculated on a Water Year basis (October 1 - September 30)

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following brief summary of certain provisions of the Trust Agreement and 2018 Installment Sale Agreement is subject in all respects to all of the provisions of such documents. This brief summary does not purport to be a complete statement of said provisions and prospective purchasers of the 2018 Series A Bonds are referred to the complete text of said documents, copies of which is available upon request from the Trustee.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in the Trust Agreement, the 2018 Installment Sale Agreement and this Official Statement.

"**Accreted Value**" means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates, as of the date of calculation, the initial amount thereof plus the interest accrued thereon to such date of calculation, compounded from the date of initial delivery at the approximate interest rate thereof on each January 1 and July 1, as determined in accordance with the table of accreted values for any Capital Appreciation Bonds or Capital Appreciation Certificates prepared by the Agency at the time of sale thereof, assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of three hundred sixty (360) days composed of twelve (12) months of thirty (30) days each.

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

"**Agency**" means the Alameda County Flood Control and Water Conservation District, Zone 7, a public body, corporate and politic, duly organized and existing under and by virtue of the laws of the State of California.

"**Agency Bonds**" means all revenue bonds of the Agency authorized, executed, issued and delivered by the Agency under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of the 2018 Installment Sale Payments.

"**Assignment Agreement**" means the Assignment Agreement among the Authority, the Agency and the Cawelo Water District.

"**Authority**" means the Livermore Valley Water Financing Authority created pursuant to the Act and its successors and assigns in accordance with the Trust Agreement.

"**Bonds**" means the 2018 Series A Bonds and all Additional Bonds. "**2018 Series A Bonds**" means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the Trust Agreement. "**Additional Bonds**" means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the Trust Agreement. "**Serial Bonds**" means Bonds for which no sinking fund payments are provided. "**Term Bonds**" means Bonds which are payable on or before their specified maturing dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"**Business Day**" means any day on which the Trustee is open for business at its Principal Corporate Trust Office.

"**Capital Appreciation Bonds**" means any Agency Bonds described as such when issued.

"**Capital Appreciation Certificates**" means any certificates of participation in Installment Sale Payments described as such when issued.

"**Cawelo Agreement**" means the Agreement between Alameda County Flood Control and Water Conservation District, Zone 7 and Cawelo Water District for a Water Banking and Exchange Program, dated June 21, 2006, between the Agency and the Cawelo Water District.

"**Cawelo Agreement Rights**" means the rights of the Agency under the Cawelo Agreement assigned to the Authority pursuant to the Assignment Agreement.

"**Cawelo Prepayment**" means the prepayment by the Agency of Capital Payments pursuant to the Cawelo Agreement.

"**Certificate of the Authority**" means an instrument in writing signed by the President, Vice President, Secretary/Treasurer or Executive Director of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose.

"**Code**" means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

"**Common Debt Service Reserve Account**" means the account by that name established in the Debt Service Reserve Fund pursuant to the Trust Agreement to secure the Common Debt Service Reserve Bonds.

"**Common Debt Service Reserve Bonds**" means those series of Bonds secured by the Common Debt Service Reserve Account as provided in the Supplemental Trust Indenture providing for each such series of Bonds. The 2018 Series A Bonds do not constitute Common Debt Service Reserve Bonds.

"**Contracts**" means all installment sale agreements, capital leases or similar obligations of the Agency authorized and executed by the Agency under and pursuant to applicable law, the interest and principal and prepayment premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of the 2018 Installment Sale Payments.

"**Debt Service**" means, for any Fiscal Year, the sum of (1) the interest accruing during such Fiscal Year on all outstanding Agency Bonds, assuming that all outstanding serial Agency Bonds are retired as scheduled and that all outstanding term Agency Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Agency Bonds), (2) that portion of the principal amount of all outstanding serial Agency Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Agency Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Sale Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year if such Installment Sale Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Sale Payment Date of interest or principal or the date of the pertinent Contract, as the case may be; provided, that (a) if any of such Agency Bonds are Capital Appreciation Bonds or if the Installment Sale Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value payment shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate; (b) if any of such Agency Bonds or if the Installment Sale Payments due under any such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Agency Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (i) the actual rate on the date of calculation, or if such Agency Bonds or Contracts are not yet outstanding, the initial rate (if then established and binding), (ii) if the Agency Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii)(1) if interest on such Agency Bonds or Contracts is excludable from gross income under the applicable provisions of the Code, the most recently published "Bond Buyer 25 Bond Revenue Index" (or comparable index if no longer published) plus fifty (50) basis points, or (2) if interest is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points; (c) if any of such Agency Bonds or Contracts is secured by an irrevocable letter of credit issued by a bank having a combined capital and surplus of at least one hundred million dollars ($100,000,000), the principal payments or deposits with respect to such Agency Bonds or Contracts nominally due in the last Fiscal Year in which such Agency Bonds or Contracts mature may, at the option of the Agency, be treated as if they were due as specified in any loan agreement or reimbursement agreement issued in connection with such letter of credit or pursuant to the repayment provisions of such letter of credit and interest on such Agency Bonds or Contracts after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan agreement or reimbursement agreement or repayment provisions and (d) if any of such Agency Bonds or Contracts is not secured by a letter of credit as described in clause (c) of this definition and 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the Agency, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Installment Payments or twenty-five (25) years, whichever is greater.

"**Debt Service Fund**" means the fund by that name established within the Revenue Fund pursuant to the Trust Agreement.

"**Debt Service Reserve Account**" means each account by that name established pursuant to the Trust Agreement, which account may secure one or more series of Bonds as provided in the Trust Agreement or in the Supplemental Trust Indenture providing for the creation thereof.

"**Debt Service Reserve Account Credit Facility**" means a letter of credit, insurance policy, surety bond, or other credit facility provided to the Trustee by a bank, insurance company or other financial institution whose senior unsecured debt obligations are, or whose claims-paying ability is, rated in the two highest rating categories by each of at least two (2) Rating Agencies at the time of delivery thereof, which provides for payment when due, in accordance with the terms thereof, of the principal or redemption price of and/or interest on one or more series of Bonds.

"**Debt Service Reserve Fund**" means the fund by that name established within the Revenue Fund pursuant to the Trust Agreement.

"**Debt Service Reserve Requirement**" means, (a) with respect to the Common Debt Service Reserve Bonds, the least of (i) 10% of the stated principal amount of the Common Debt Service Reserve Bonds, (ii) the maximum Annual Debt Service on the Common Debt Service Reserve Bonds, and (iii) 125% of the average Annual Debt Service on the Common Debt Service Reserve Bonds, or such other amount as shall be specified in the first Supplemental Trust Indenture authorizing the issuance of such Common Debt Service Reserve Bonds, and (b) with respect to any other Bonds, such amount, if any, as shall be specified in the Supplemental Trust Indenture authorizing the issuance of such Bonds. "**2018 Debt Service Reserve Requirement**" means, with respect to the 2018 Series A Bonds, an amount equal to $0.

"**Event of Default**" means an event described as such in the 2018 Installment Sale Agreement.

"**Finance Officer**" means the Assistant General Manager – Finance of the Agency or his or her successor designated by the Board of Directors of the Agency.

“**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 of the Agency as the Fiscal Year of the Agency.

“**Fitch**” means Fitch Ratings, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “Fitch” shall be deemed to refer to any other nationally recognized municipal securities rating agency rating the Bonds pursuant to a Written Request of the Authority.

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

“**Independent Certified Public Accountant**” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Authority, and who, or each of whom (1) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority; (2) does not have a substantial financial interest, direct or indirect, in the operations of the Authority; and (3) is not connected with the Authority as a member, officer or employee of the Authority, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority.

“**Independent Consultant**” means (1) any registered engineer or firm of registered engineers of favorable reputation generally recognized to be well qualified in engineering matters relating to water systems, appointed and paid by the Agency, (2) any registered municipal advisor firm of registered municipal advisors as defined by the Municipal Securities Rulemaking Board well qualified in financial matters relating to municipal water system finances, appointed and paid by the Agency, or (3) any firm of certified public accountants appointed by the Agency which is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants, and who or each of whom (a) is in fact independent, (b) does not have a substantial financial interest, direct or indirect, in the operations of the Agency, and (c) is not connected with the Agency as a board member, officer or employee of the Agency, but may be regularly retained to make reports to the Agency.

“**2018 Installment Sale Agreement**” means the installment sale agreement by and between the Agency and the Authority, dated as of April 1, 2018, as originally executed and as it may from time to time be amended or supplemented in accordance with the 2018 Installment Sale Agreement and with the terms of the Trust Agreement.

“**Installment Sale Payments**” means the installment sale, rental or other periodic payments scheduled to be paid by the Agency under and pursuant to the Contracts. “**2018 Installment Sale Payments**” means the Installment Sale Payments scheduled to be paid by the Agency under and pursuant hereto.

“**Insurance Consultant**” means (a) the County of Alameda Risk Manager or (b) any insurance consultant or firm of insurance consultants generally recognized to be well qualified in insurance consulting matters relating to water and other municipal systems, appointed and paid by the Agency, and who or each of whom (1) is in fact independent and not under the domination of the Agency; (2) does not have a substantial financial interest, direct or indirect, in the operations of the Agency; and (3) is not connected with the Agency as a board member, officer, or employee of the Agency, but may be regularly retained to make reports to the Agency.

“**Net Water Revenues**” means, for any Fiscal Year, the Water Revenues during such Fiscal Year less the Operation and Maintenance Costs during such Fiscal Year.

“**Operation and Maintenance Costs**” means the reasonable and necessary costs paid or incurred by the Agency for maintaining and operating the Water System, determined in accordance with Generally Accepted

Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Agency that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the Agency or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Agency Bonds or of such Agency Bonds, or of any resolution authorizing the execution of any Contract or of such Contract, such as compensation, reimbursement and indemnification of the trustee for any such Agency Bonds or Contracts and fees and expenses of Independent Consultants, Insurance Consultants and the Finance Officer, but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor, (2) amortization of intangibles and intragovernmental transfers by the Agency which are not reimbursements or payments for overhead or other administrative expenses incurred by the Agency, (3) interest expense and (4) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).

"**Opinion of Counsel**" means a written opinion of counsel of national representation generally recognized to be well qualified in the field of law relating to municipal bonds, retained by the Authority.

"**Outstanding**," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement) all Bonds except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds paid or deemed to have been paid within the meaning of the Trust Agreement; and (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

"**Permitted Investments**" means any of the following to the extent permitted by the laws of the State (the Trustee is entitled to conclusively rely on any Written Request of the Authority directing investments as a certification to the Trustee that such investments are so permitted):

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America or evidences of ownership of proportionate interests in future interest and principal payments on non-callable direct obligations of the United States of America held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

<u>Farmers Home Administration (FmHA)</u>
Certificates of beneficial ownership

<u>Federal Housing Administration Debentures (FHA)</u>

<u>General Services Administration</u>
Participation certificates

<u>U.S. Department of Housing and Urban Development (HUD)</u>
Project Notes
Local Authority Bonds.

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations)

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation Certificates (Mortgage-backed securities)
Senior debt obligations

Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)

Resolution Funding Corp. (REFCORP)
Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable

Farm Credit System
Consolidated systemwide bonds and notes.

(4) Money market funds, including funds of the Trustee or any affiliate, registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor's of AAAm-G; AAAm; or AA-m and if rated by Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware ("Moody's"), rated Aaa, Aa1 or Aa2.

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by Standard & Poor's and "Prime-1" by Moody's. The collateral must be held by a third party and the Trustee on behalf of Holders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits, including deposits in the Trustee or any affiliate, which are fully insured by the Federal Deposit Insurance Corporation.

(7) Guaranteed investment contracts with entities the long-term, unsecured debt obligations of which are rated (1) in one of the two highest long-term rating categories by Moody's and Standard & Poor's (or whose payment obligations under such guaranteed investment contract are insured or guaranteed by an entity the unsecured obligations of which are so rated) or (2) in one of the three highest long-term rating categories by Moody's and Standard & Poor's (or whose payment obligations under such guaranteed investment contract are insured or guaranteed by an entity the unsecured obligations of which are so rated) if fully collateralized by collateral described in clauses (1) and (2) marked to market at least weekly.

(8) The Local Agency Investment Fund established pursuant to the laws of the State of California.

(9) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by Standard & Poor's.

(10) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest long-term rating categories assigned by such agencies.

(11) Money-market deposit accounts, federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1+" by Standard & Poor's.

(12) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date. Repurchase Agreements ("repos") must satisfy the following criteria:

Repos must be between the Trustee and a dealer bank or securities firm

Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by Standard & Poor's and Moody's, or

Banks rated "A" or above by Standard & Poor's and Moody's.

The written repo contract must include the following:

Securities which are acceptable for transfer are:

Direct U.S. governments Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

The term of the repo may be up to 30 days

The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee before/simultaneous with payment (perfection by possession of certificated securities).

The Trustee has a perfected first priority security interest in the collateral

Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo

Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral

Valuation of Collateral

The securities must be valued weekly, marked-to-market at current market price plus accrued interest.

The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

Legal opinion which must be delivered to the Trustee and the Authority:

Repo meets guidelines under state law for legal investment of public funds.

(13) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's. If, however, the issue is only rated by Standard & Poor's (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(14) Investment agreements, including guaranteed investment contracts, forward purchase agreements and flexible repurchase agreements with any domestic or foreign bank, corporation or insurance company, the senior long term unsecured debt obligations, deposit rating or claims-paying ability of which are rated (at the time the investment is entered into), or guaranteed by an entity whose obligations are rated (at the time the investment is entered into) not lower than "A3" by Moody's, or "A " by Fitch, or "A-" by S&P, or its equivalent from another nationally-recognized rating agency.

"**Principal Corporate Trust Office**" means the corporate trust office of the Trustee located in San Francisco, California (except for payments, exchanges, transfers and surrenders of the Bonds, in which case "Principal Corporate Trust Office" means the corporate trust office of the Trustee in St. Paul, Minnesota) or such other office or offices as the Trustee shall designate from time to time.

"**Purchase Price**" means the principal amount plus the interest thereon owed by the Agency to the Authority under the conditions and terms hereof for the payment of the costs of the acquisition and construction of the 2018 Water Project, the acquisition of the Cawelo Agreement Rights and the incidental costs and expenses related thereto paid by the Authority.

"**Rating Agencies**" means S&P and Fitch or, in the event that S&P or Fitch no longer maintain a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as S&P or Fitch or another nationally recognized rating agency then maintains a rating on the Bonds.

"**Rebate Fund**" means the fund by that name established pursuant to the Trust Agreement.

"**Revenues**" means all Installment Sale Payments and other payments paid by the Agency and received by the Authority pursuant to the 2018 Installment Sale Agreement and all interest or other income from, any investment of any money in any fund or account (other than the Rebate Fund) pursuant to the Trust Agreement.

"**Revenue Fund**" means the fund by that name established pursuant to the Trust Agreement.

"**S&P**" means S&P Global Ratings, a Standard & Poor's Financial Services LLC business, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then "S&P" shall be deemed to refer to any other nationally recognized municipal securities rating agency rating the Bonds pursuant to a Written Request of the Authority.

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

"**Surplus Fund**" means the fund by that name established within the Revenue Fund pursuant to the Trust Agreement.

"**Tax Certificate**" means the Tax Certificate and Agreement delivered by the Authority at the time of the issuance and delivery of a series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"**Trust Agreement**" means the Trust Agreement, dated as of April 1, 2018, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

"**Trustee**" means U.S. Bank National Association, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

"**Water Project**" means any additions, betterments, extensions or improvements to the Water System designated by the Board of Directors of the Agency as a designated Water Project, the design, acquisition or construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of any Agency Bonds or any Contracts. "**2018 Water Project**" means the improvements to the Water System designated by the Agency located at the Del Valle Water Treatment Plant and the Patterson Pass Water Treatment Plant and sold by the Authority to the Agency pursuant to the 2018 Installment Sale Agreement.

"**Water System**" means all facilities for the conveyance treatment and distribution of water currently owned by the Agency and all other properties, structures or works hereafter acquired and constructed by the Agency and determined to be a part of the Water System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

"**Written Request of the Authority**" means an instrument in writing signed by the President, Vice President, Secretary/Treasurer or Executive Director of the Authority or by any other officer of the Authority duly authorized by the Authority for that purpose.

TRUST AGREEMENT

Procedure for the Issuance of 2018 Series A Bonds; Deposit and Use of Proceeds of 2018 Series A Bonds

At any time after the sale of the 2018 Series A Bonds in accordance with the Act, the Authority shall execute the 2018 Series A Bonds for issuance under the Trust Agreement and shall deliver them to the Trustee, and thereupon the 2018 Series A Bonds shall be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Request of the Authority and upon receipt of payment therefor from the purchaser thereof. Upon receipt of payment for the 2018 Series A Bonds from the purchaser thereof, the Trustee shall set aside and deposit the proceeds received from such sale in the following respective accounts or funds or with the following respective persons, in the following order of priority:

The Trustee shall deposit a sum equal to the amount set forth in such Written Request of the Authority in a separate fund (the "**Costs of Issuance Fund**"), which fund the Authority agrees and covenants to maintain with the Trustee under the Trust Agreement. The moneys in the Costs of Issuance Fund shall be disbursed, upon the Written Request of the Authority filed with the Trustee, each of which shall be sequentially numbered and shall state the person(s) to whom payment is to be made, the amount(s) to be paid, the purpose(s) for which the obligation(s) was incurred and that such payment is a proper charge against said fund. On October 1, 2018, or upon the earlier Written Request of the Authority, any remaining balance in the Costs of Issuance Fund shall be transferred to the Agency.

The Trustee shall deposit a sum equal to the amount set forth in such Written Request of the Authority in a separate fund (the "**Acquisition Fund**"), which fund the Authority agrees and covenants to maintain with the Trustee under the Trust Agreement. The moneys in the Acquisition Fund shall be disbursed, upon the Written Request of the Authority filed with the Trustee for the payment of the costs of the design, acquisition and construction of the 2018 Water Project and the incidental costs and expenses related thereto. When the design, acquisition and construction of the 2018 Water Project have been completed (as evidenced by a Certificate of the Authority filed with the Trustee), the Trustee shall transfer any remaining balance in the Acquisition Fund to the Revenue Fund, unless the Authority provides an Opinion of Counsel to the effect that another use of such moneys will not cause the interest on the 2018 Series A Bonds to be included in the gross income of the Holders thereof for federal income tax purposes, in which case, such money may be expended by the Authority as provided in such opinion.

The Trustee shall transfer to Wells Fargo Bank, National Association, a sum equal to the amount set forth in such Written Request of the Authority to finance the Cawelo Prepayment in accordance with the terms and conditions of the 2018 Installment Sale Agreement and the Assignment Agreement.

The Trustee may establish a temporary fund or account in its records to facilitate such deposits and transfers.

Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund

All money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Revenue Fund in the following order of priority:

Debt Service Fund

Interest Account. On or before each January 1 and July 1, commencing January 1, 2019, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such January 1 or July 1, as the case may be.

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

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

Principal Account. On or before each July 1, commencing July 1, 2019, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the aggregate amount of all sinking fund payments required to be made on such July 1 into the respective sinking fund accounts for all Outstanding Term Bonds and the aggregate principal amount of all Outstanding Serial Bonds maturing on such July 1.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such July 1 plus the aggregate amount of all sinking fund payments required to be made on such July 1 for all Outstanding Term Bonds.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "____ Sinking Account" (the "**Sinking Account**"), inserting therein the series (if necessary) and maturity (if more than one such account is established for such series) designation of such Term Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Trustee may upon the Written Request of the Authority, apply moneys in such Sinking Account to the purchase of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Term Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking fund account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking fund account was created.

Debt Service Reserve Fund

The Debt Service Reserve Fund and the reserve accounts established therein, including the Common Debt Service Reserve Account (each, a "**Debt Service Reserve Account**"), shall be used solely for the purpose of paying the Bonds secured by the Debt Service Reserve Accounts in the manner provided in the Trust Agreement. The Authority obligates and binds itself irrevocably to set aside and to pay to the Trustee, after required deposits into the Debt Service Fund, in trust for the account of the respective Debt Service Reserve Accounts, certain fixed amounts sufficient to make the balance in the Debt Service Reserve Fund equal the aggregate Debt Service Reserve Requirements of the Bonds secured by the Debt Service Reserve Accounts. No Debt Service Reserve Account shall be established for the 2018 Series A Bonds to maintain the 2018 Debt Service Reserve Requirement.

The Common Debt Service Reserve Account may secure one or more series of Common Debt Service Reserve Bonds pursuant to the Trust Agreement and to any Supplemental Trust Agreement authorizing the issuance thereof. Promptly upon receipt thereof the Trustee shall deposit in the Common Debt Service Reserve Account proceeds of the sale of each series of Common Debt Service Reserve Bonds to be secured thereby or any other available money, Permitted Investments or Debt Service Reserve Account Credit Facilities, or any combination of the foregoing, in such amount as shall be necessary to bring the amount on deposit therein to the Debt Service Reserve Requirement for the Common Debt Service Reserve Bonds. Promptly upon receipt thereof the Trustee shall deposit in any other Debt Service Reserve Account proceeds of the sale of the Bonds to be secured thereby or any other available money, Permitted Investments or Debt Service Reserve Account Credit Facilities, or any combination of the foregoing, in such amount as shall be necessary to bring the amount on deposit therein to the Debt Service Reserve Requirement for such Bonds.

Each Debt Service Reserve Account shall thereafter be maintained at all times at the respective Debt Service Reserve Requirement of the Bonds secured by such Debt Service Reserve Account by additional deposits into such Debt Service Reserve Account from the Revenue Fund after required deposits into the Debt Service Fund, until such time as the principal or redemption price of the Bonds secured by such Debt Service Reserve Account, together with interest thereon to the date of retirement or redemption, can be paid from amounts in the Debt Service Fund established for such Bonds, together with amounts in such Debt Service Reserve Account. Each Debt Service Reserve Account shall be replenished in the following priority: first, to make all payments required under all reimbursement agreements with the providers of Debt Service Reserve Account Credit Facilities credited to such Debt Service Reserve Account (and if there is not sufficient money on deposit in such Debt Service Reserve Account to make all such payments, then on a pro rata basis to each provider); and second, after all such payments are made in full, the amount necessary to make the money, Permitted Investments, and Debt Service Reserve Account Credit Facilities or any combination of the foregoing deposited in or credited to such Debt Service Reserve Account equal to the aggregate Debt Service Reserve

Requirements of the Bonds secured by such Debt Service Reserve Account. If at any time there is not sufficient money to make all of the foregoing payments, such payments shall be made to the extent of available money into each Debt Service Reserve Account in the same ratio as the principal amount of the Outstanding Bonds secured thereby bears to the aggregate principal amount of all Outstanding Bonds secured by the Debt Service Reserve Fund.

In the event of a deficiency in the Debt Service Fund for Bonds secured by a Debt Service Reserve Account, the Trustee shall make up such deficiency from such Debt Service Reserve Account in the following priority: first, by the withdrawal of cash held therein; second, by the sale or redemption of Permitted Investments held therein; and third, from draws upon the Debt Service Reserve Account Credit Facilities credited thereto, on a pro rata basis, in sufficient amounts to make up such deficiency. Such draws shall be made at such times and under such conditions as provided in such Debt Service Reserve Account Credit Facilities.

At the option of the Authority, amounts on deposit in a Debt Service Reserve Account may be substituted at any time, in whole or in part, by the deposit with the Trustee of a Debt Service Reserve Account Credit Facility in a stated amount equal to the amounts so substituted. Any amounts released from a Debt Service Reserve Account as a result of such substitution shall be applied for any lawful purpose of the Authority as provided in a Written Request of the Authority.

Each Debt Service Reserve Account may be drawn upon for the sole purpose of paying the principal, mandatory sinking fund payments and redemption price of and interest on the Bonds secured by such Debt Service Reserve Account; provided, that excess amounts in any Debt Service Reserve Account may be withdrawn therefrom upon a Written Request of the Authority to the Trustee and applied to any lawful purposes of the Authority. Money set aside from time to time with the Trustee for the payment of such principal, mandatory sinking fund payments, redemption price and interest shall be held in trust equally and ratably for the Holders in respect of which the same shall have been so set aside.

Surplus Fund

The Trustee, on or before July 1 of each year shall deposit in the Surplus Fund all money remaining in the Revenue Fund after the deposits required by the Trust Agreement have been made. On July 16 of each year, the Trustee, if the Authority is not then in default under the Trust Agreement, shall disburse the money in the Surplus Fund to the Agency.

Deposit and Investments of Money in Accounts and Funds

Subject to the Trust Agreement, all money held by the Trustee in any of the accounts or funds established pursuant to the Trust Agreement shall be invested in Permitted Investments at the Written Request of the Authority. If the Authority fails to direct the Trustee to invest any such moneys, they shall be invested in Permitted Investments of the type described in paragraph (4) thereof. All investments under the Trust Agreement shall be valued by the Trustee as frequently as may be requested by the Authority and not less frequently than annually at the market value thereof, exclusive of accrued interest.

Against Encumbrances

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

Amendment of the Trust Agreement

The Trust Agreement and the rights and obligations of the Authority and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the

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

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

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

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

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Trust Agreement (which shall be deemed not to adversely affect Holders); or

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

Notwithstanding the foregoing, any amendment or supplement to the Trust Agreement shall only become effective fifteen (15) days after written notice of such amendment or supplement, together with a copy thereof, has been provided by the Authority to the Rating Agencies.

Events of Default and Acceleration of Maturities

If one or more of the following events shall happen, that is to say: (a) if default shall be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; (b) if default shall be made by the Authority in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption; (c) if default shall be made by the Authority in the performance of any of the agreements or covenants required in the Trust Agreement to be performed by the Authority, and such default shall have continued for a period of sixty (60) days after the Authority shall have been given notice in writing of such default by the Trustee; or (d) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; then and in each and every such case during the continuance of such event of default, the Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing and of which the Trustee has notice pursuant to the Trust Agreement. Such notice shall include a reference to or a summary of the rights and remedies available to the Holders as set forth in the Trust Agreement.

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

Application of Funds Upon Acceleration

All moneys in the accounts and funds provided in the Trust Agreement upon the date of the declaration of acceleration by the Trustee as provided in the Trust Agreement and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order—

First, to the payment of the fees, costs and expenses of the Trustee and then to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, and in carrying out the provisions of the Trust Agreement, including reasonable compensation to their advisors, agents, accountants and counsel; and

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

Limitation on Holders' Right to Sue

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

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

Discharge of Bonds

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

Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the preceding paragraph if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book-entry form on the books of the Agency or the Treasury of the United States of America) or tax exempt obligations of a state or political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, as set forth in a written report of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Trust Agreement and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Amendments to Agreement

The Authority shall not supplement, amend, modify or terminate any of the terms of the 2018 Installment Sale Agreement, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee. The Trustee shall give such written consent only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the Holders or result in any material impairment of the security given for the payment of the Bonds (provided that such supplement, amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of providing for the payment of Additional Bonds as required by the Trust Agreement, or (b) the Trustee first obtains the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Installment Sale Payments to be made to the Authority or the Trustee by the Agency pursuant to the 2018 Installment Sale Agreement, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the 2018 Installment Sale Agreement on Net Water Revenues (except as expressly provided in the 2018 Installment Sale Agreement), in each case without the written consent of all of the Holders of the Bonds then Outstanding.

2018 INSTALLMENT SALE AGREEMENT

Purpose

The purpose of the 2018 Installment Sale Agreement is to provide for the Agency's purchase from the Authority of the 2018 Water Project and the Cawelo Agreement Rights. To effect such purposes, the Agency shall cause the 2018 Series A Bonds to be sold and the proceeds of the sale thereof to be deposited and applied in accordance with the Trust Agreement.

Purchase of 2018 Water Project and Cawelo Agreement Rights by the Agency

In consideration of the obligation of the Agency to pay the Purchase Price as provided in the 2018 Installment Sale Agreement, the Authority sells, assigns and transfers to the Agency, and the Agency purchases from the Authority, all of the Authority's right, title and interest in the 2018 Water Project. Immediately upon completion of each separate component of the 2018 Water Project, all right, title and interest in and to each such completed component of the 2018 Water Project shall vest in the Agency without any further action by the Agency or the Authority.

In further consideration of the obligation of the Agency to pay the Purchase Price as provided in the 2018 Installment Sale Agreement, the Authority sells, assigns and transfers to the Agency, and the Agency purchases from the Authority, the Cawelo Agreement Rights.

Acquisition and Construction of the 2018 Water Project

The Authority agrees to acquire and construct the 2018 Water Project for the Agency. In order to implement this provision, the Authority appoints the Agency as its agent for the purpose of such acquisition and construction, and the Agency agrees to enter into such engineering and construction contracts and purchase orders as may be necessary, as agent for the Authority, to provide for the complete acquisition and construction of the 2018 Water Project. The Agency agrees that as such agent it will cause the acquisition and construction of the 2018 Water Project to be diligently completed after the deposit of funds in the Acquisition Fund for such purpose pursuant to the Trust Agreement.

Notwithstanding the foregoing, it is 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 Agency (whether as agent for the Authority or otherwise) for the acquisition and construction of the 2018 Water Project except from moneys in the Acquisition Fund and that all such costs and expenses shall be paid by the Agency, regardless of whether the funds deposited in the Acquisition Fund are sufficient to cover all such costs.

Purchase Price

The Purchase Price to be paid by the Agency to the Authority under the 2018 Installment Sale Agreement is the sum of the principal amount of the Agency's obligation under the 2018 Installment Sale

Agreement plus the interest to accrue on the unpaid balance of such principal amount from the date of the 2018 Installment Sale Agreement over the term of the 2018 Installment Sale Agreement, subject to prepayment as provided in the 2018 Installment Sale Agreement.

Pledge of Net Water Revenues

All Net Water Revenues are irrevocably pledged to the payment of the 2018 Installment Sale Payments; provided, that out of the Net Water Revenues there may be apportioned such sums for such purposes as are permitted by the 2018 Installment Sale Agreement. This pledge shall constitute a lien on the Net Water Revenues for the payment of the 2018 Installment Sale Payments, principal of and interest on all Bonds and Installment Sale Payments on all other Contracts and any other Parity Obligations in accordance with the terms of the 2018 Installment Sale Agreement.

Compliance with 2018 Installment Sale Agreement and Trust Agreement

The Agency will punctually pay the 2018 Installment Sale Payments in strict conformity with the terms of the 2018 Installment Sale Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 2018 Installment Sale Agreement required to be observed and performed by it, and will not terminate the 2018 Installment Sale 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 2018 Water Project or the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the 2018 Installment Sale 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 2018 Installment Sale 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, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The Agency will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the 2018 Installment Sale Agreement and the Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the Agency to pay the costs of the acquisition and construction of the 2018 Water Project, the costs of the acquisition of the Cawelo Agreement Rights and the costs and expenses incidental thereto paid by the Authority pursuant to, and in accordance with, and as authorized under law and the 2018 Installment Sale Agreement.

Against Encumbrances

The Agency will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the Agency in, upon, about or relating to the Water System and will keep the Water System free of any and all liens against any portion of the Water System. In the event any such lien attaches to or is filed against any portion of the Water System, the Agency will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the Agency desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Agency will forthwith pay or cause to be paid and discharged such judgment. The Agency will, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the Water System.

The Agency may pledge, encumber or otherwise secure its obligations with the Net Water Revenues, provided, that in all instances any such pledge, lien or security is wholly subordinate and junior to the obligations of the Agency contained in the 2018 Installment Sale Agreement.

Against Sale or Other Disposition of Property

The Agency will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Water Revenues, and will not enter into any agreement or lease which would impair the operation of the Water System or any part thereof necessary to secure adequate Net Water Revenues for the payment of the 2018 Installment Sale Payments, or which would otherwise impair the rights of the Authority with respect to the Net Water Revenues or the operation of the Water System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water Revenues below the requirements to be maintained under the 2018 Installment Sale Agreement.

Nothing in the 2018 Installment Sale Agreement shall restrict the ability of the Agency to sell any portion of the Water System if such portion is immediately repurchased by the Agency and if such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the Agency of or otherwise interfere with its right to own and operate such portion of the Water System.

Tax Covenants

The Agency will not directly or indirectly use or permit the use of any proceeds of the obligation provided in the 2018 Installment Sale Agreement or any other funds of the Agency or take or omit to take any action that would cause such obligation to be an “arbitrage bond” within the meaning of Section 148(a) of the Code or a “federal-guaranteed obligation” within the meaning of Section 149(b) of the Code or a “private activity bond” as described in Section 141 of the Code. The Agency will not allow 10% or more of the proceeds of the obligations provided in the 2018 Installment Sale Agreement to be used in the trade or business of any nongovernmental units and will not loan 5% or more of the proceeds of the obligations provided in the 2018 Installment Sale Agreement to any nongovernmental units.

To that end, as long as any 2018 Installment Sale Payments are unpaid, the Agency will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided in the 2018 Installment Sale Agreement. In the event that at any time the Agency is of the opinion that it is necessary to restrict or to limit the yield on the investment of any moneys held by the Agency under the 2018 Installment Sale Agreement or by the Trustee under the Trust Agreement, the Agency shall so instruct the Trustee in writing and the trustee, as appropriate, shall act in accordance with such instructions.

The Agency and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest on the 2018 Series A Bonds will not be included in gross income of the registered owners thereof for federal income tax purposes and will take no action that would result in such interest being so included.

The Agency will pay or cause to be paid the rebate requirement as provided in the Tax Certificate. This covenant shall survive payment in full of the 2018 Installment Sale Payments. The Agency shall establish and maintain a fund separate from any other fund established and maintained under the 2018 Installment Sale Agreement designated the “**Rebate Fund**.” The Agency will cause the rebate requirement to be deposited in the Rebate Fund as provided in the Tax Certificate. Subject to the provisions of the 2018 Installment Sale Agreement, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States of America. The Agency, the Authority and the owners of the 2018 Series A Bonds will have no rights in or claim to such moneys. The Agency will invest all amounts held in the Rebate Fund in Permitted Investments.

Upon receipt of the rebate instructions required by the Tax Certificate, the Agency shall remit part or all of the balance held in the Rebate Fund to the United States of America as so directed. In addition, if the rebate instructions so direct, the Agency will deposit, or cause to be deposited moneys into or transfer or cause to be transferred moneys out of the Rebate Fund from or into such accounts or funds as the rebate instructions direct.

Notwithstanding any provision of the 2018 Installment Sale Agreement, if the Agency receives an Opinion of Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes on the 2018 Series A Bonds, the Agency may conclusively rely on such opinion in complying with the requirements of the 2018 Installment Sale Agreement, and the covenants under the 2018 Installment Sale Agreement shall be deemed to be modified to that extent.

Acquisition and Construction of the 2018 Water Project and Acquisition of the Cawelo Agreement Rights

The Agency does represent and warrant that it has taken all necessary and appropriate steps to acquire and construct the 2018 Water Project, as agent of the Authority, and to acquire the Cawelo Agreement Rights.

Operation and Maintenance of the Water System; Budgets

The Agency will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Not later than September 1 of each year, the Agency will adopt and, if requested, make available to the Authority and the Trustee, a budget approved by the Board of Directors of the Agency setting forth the estimated Operation and Maintenance Costs and the estimated payments for Debt Service for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to the Authority and the Trustee.

Compliance with Contracts

The Agency 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 Water System and all other contracts affecting or involving the Water System to the extent that the Agency is a party thereto.

Insurance

The Agency will procure and maintain such insurance relating to the Water 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 connection with municipal water systems similar to the Water System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal water systems similar to the Water System and is, in the opinion of an Insurance Consultant, financially sound. All policies of insurance required to be maintained in the 2018 Installment Sale 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.

The Agency shall promptly advise the Authority and the Trustee in writing if any change in the insurance coverage occurs and provide a report as to all insurance policies maintained and self-insurance programs maintained by the Agency with respect to the Water System, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

Accounting Records and Financial Statements

The Agency will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

Payment of Taxes and Compliance with Governmental Regulations

The Agency will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water System or any part thereof when the same shall become due. The Agency will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the Agency 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.

Collection of Rates, Fees and Charges

The Agency will have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Water System to pay the rates, fees and charges applicable to the Water Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The Agency will not permit any part of the Water 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 of California and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the Agency may without charge use the Water Service.

Events of Default and Acceleration of Principal

If one or more of the following Events of Default shall happen, that is to say (1) if default shall be made in the due and punctual payment of any 2018 Installment Sale Payment when and as the same shall become due and payable; (2) if default shall be made by the Agency in the performance of any of the agreements or covenants contained in the 2018 Installment Sale Agreement required to be performed by it, and such default shall have continued for a period of sixty (60) days after the Agency shall have been given notice in writing of such default by the Authority or the Trustee; or (3) if the Agency 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 Agency 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 Agency 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 clause (1) above, the Trustee shall, and for any other such Event of Default the Trustee may, by notice in writing to the Agency 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 the entire principal amount of the unpaid 2018 Installment Sale Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the 2018 Installment Sale Agreement to the contrary notwithstanding. This subsection is subject to the condition, however, that if at any time after the entire principal amount of the unpaid 2018 Installment Sale Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Agency shall deposit with the Trustee a sum sufficient to pay the unpaid principal amount of the 2018 Installment Sale 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 of the 2018 Installment Sale Payments if paid in accordance with their terms, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of the entire principal amount of the unpaid 2018 Installment Sale Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee by written notice to the Agency, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Net Water Revenues

All Net Water Revenues upon the date of the declaration of acceleration by the Trustee as provided in the 2018 Installment Sale Agreement and all Net Water Revenues thereafter received shall be applied in the following order --

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the 2018 Installment Sale Agreement, 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 entire principal amount of the unpaid 2018 Installment Sale Payments and the interest then due and payable on the entire principal amount of the unpaid Agency Bonds and Contracts, and, if the amount available shall not be sufficient to pay in full all such interest then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference; and

Third, to the payment of the unpaid principal amount of the 2018 Installment Sale Payments and the unpaid principal amount of all Agency Bonds and Contracts which has become due and payable, whether on the original due date or upon acceleration, with interest on the overdue principal and interest amounts of the unpaid 2018 Installment Sale Payments and the unpaid principal amount of all Agency Bonds and Contracts at the rate or rates of interest then applicable to such 2018 Installment Sale Payments and such Agency Bonds and Contracts 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 2018 Installment Sale Payments and such Agency Bonds and Contracts 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.

Other Remedies

The Trustee shall have the right (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Agency or any board member, officer or employee thereof, and to compel the Agency or any such board member, officer or employee to perform and carry out its duties under law and the agreements and covenants required to be performed by it contained in the 2018 Installment Sale Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority or the Trustee; or (c) by suit in equity upon the happening of an Event of Default to require the Agency and its board members, officers and employees to account as the trustee of an express trust.

Discharge of Obligations

(a) If the Agency shall pay or cause to be paid all the 2018 Installment Sale Payments at the times and in the manner provided in the 2018 Installment Sale Agreement, the right, title and interest of the Authority in the 2018 Installment Sale Agreement and the obligations of the Agency under the 2018 Installment Sale Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied.

(b) Any unpaid principal installment of the 2018 Installment Sale Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the Agency makes payment of such 2018 Installment Sale Payments and the prepayment premium, if applicable, in the manner provided in the 2018 Installment Sale Agreement.

(c) All or any portion of unpaid principal installments of the 2018 Installment Sale Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (i) notice is provided by the Agency to the Trustee as required by the Trust Agreement, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Permitted Investments of the type described in clause (i) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book entry form on the books of the Agency or the Treasury of the United States of America) or tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal components of such 2018 Installment Sale 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) an Opinion of Counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest on the 2018 Series A Bonds to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all 2018 Installment Sale Payments and prepayment premiums, if any, as provided in the 2018 Installment Sale Agreement, and payment of all fees and expenses of the Trustee, the Trustee, upon request of the Agency, shall cause an accounting for such period or periods as may be requested by the Agency to be prepared and filed with the Agency and the Authority and shall execute and deliver to the Agency and the Authority all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of this 2018 Installment Sale Agreement, and the Trustee shall pay over and deliver to the Agency, as an overpayment of 2018 Installment Sale Payments, all such money or investments held by it pursuant hereto other than such money and such investments as are required for the payment or prepayment of the 2018 Installment Sale Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the 2018 Installment Sale Payments and shall be applied by the Trustee pursuant to the Trust Agreement.

Liability of Agency Limited to Net Water Revenues

Notwithstanding anything contained in the 2018 Installment Sale Agreement, the Agency shall not be required to advance any moneys derived from any source of income other than the Net Water Revenues for the payment of the 2018 Installment Sale Payments or for the performance of any agreements or covenants required to be performed by it contained in the 2018 Installment Sale Agreement. The Agency may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Agency for such purpose.

The obligation of the Agency to make the 2018 Installment Sale Payments is a special obligation of the Agency payable solely from the Net Water Revenues as provided in the 2018 Installment Sale Agreement, and does not constitute a debt of the Agency or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Assignment

The 2018 Installment Sale Agreement and any rights hereunder shall be assigned by the Authority to the Trustee as provided in the Trust Agreement; to which assignment the Agency expressly acknowledges and consents.

APPENDIX C

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE GEOGRAPHIC AREA OF THE RETAILERS

This Appendix contains certain economic and demographic information concerning the Cities of San Ramon, Dublin, Livermore and Pleasanton and the County of Alameda. As described in the Official Statement, the Agency's service area covers 425 square miles of eastern Alameda County and supplies treated drinking water to retailers serving approximately 240,000 people and businesses in Pleasanton, Livermore, Dublin, and through special agreement with the Dublin San Ramon Services District, the Dougherty Valley area in San Ramon. Certain of the information below relates to significant geographic areas outside of the Agency service area.

Population

The historic population estimates of the cities in the County of Alameda, as of January 1 of the past five years are shown in the following table:

ALAMEDA COUNTY
Population Estimates
Calendar Years 2013 through 2017 as of January 1

	2013	2014	2015	2016	2017
Alameda	76,074	76,785	77,657	79,277	79,928
Albany	18,668	18,682	18,841	18,893	18,988
Berkeley	116,074	117,399	118,923	119,915	121,238
Dublin	**50,079**	**53,512**	**56,014**	**57,349**	**59,686**
Emeryville	10,592	10,822	10,967	11,721	11,854
Fremont	221,397	224,836	227,582	229,324	231,664
Hayward	152,590	154,832	157,305	158,985	161,040
Livermore	**83,768**	**85,049**	**86,368**	**88,138**	**89,648**
Newark	43,464	43,835	44,284	44,733	45,422
Oakland	408,822	413,626	419,539	422,856	426,074
Piedmont	10,921	11,018	11,138	11,219	11,283
Pleasanton	**71,153**	**71,990**	**73,776**	**74,982**	**75,916**
San Leandro	85,847	86,453	87,209	87,700	88,274
Union City	71,172	71,719	72,412	72,952	73,452
Unincorporated County	145,718	147,079	148,750	149,821	150,892
County Total	**1,566,339**	**1,587,637**	**1,610,765**	**1,627,865**	**1,645,359**
State of California Total	**38,239,207**	**38,567,459**	**38,907,642**	**39,255,883**	**39,523,613**

Source: State Department of Finance estimates (as of January 1).

Employment and Industry

The Cities of Dublin and San Ramon are included in the Oakland-Hayward-Berkeley Metropolitan Division ("**MD**"). The unemployment rate in the Oakland-Hayward-Berkeley MD was 3.4 percent in October 2017, down from a revised 3.8 percent in September 2017, and below the year-ago estimate of 4.3 percent. This compares with an unadjusted unemployment rate of 4.3 percent for the State and 3.9 percent for the nation during the same period. The unemployment rate was 3.4 percent in the County and 3.5 percent in Contra Costa County.

The table below list employment by industry group for Alameda and Contra Costa Counties for the years 2012 to 2016.

OAKLAND-FREMONT-HAYWARD MD
(Alameda and Contra Costa Counties)
Annual Averages Civilian Labor Force, Employment and Unemployment,
Employment by Industry
(March 2016 Benchmark)

	2012	2013	2014	2015	2016
Civilian Labor Force (1)	1,336,300	1,344,100	1,355,600	1,374,800	1,394,400
Employment	1,218,700	1,245,500	1,275,000	1,308,100	1,334,200
Unemployment	117,500	98,600	80,600	66,700	60,200
Unemployment Rate	8.8%	7.3%	5.9%	4.8%	4.3%
Wage and Salary Employment: (2)					
Agriculture	1,500	1,400	1,300	1,200	1,300
Mining and Logging	900	900	800	900	900
Construction	52,000	56,400	58,600	62,400	67,500
Manufacturing	79,900	80,100	82,800	86,600	89,900
Wholesale Trade	43,700	45,200	46,200	47,600	49,000
Retail Trade	104,100	107,700	109,900	113,000	115,000
Transportation, Warehousing, Utilities	32,900	33,500	35,600	38,300	38,700
Information	22,100	21,500	21,300	22,400	26,400
Finance and Insurance	33,400	33,500	32,600	32,800	40,300
Real Estate and Rental and Leasing	15,400	16,200	16,800	16,800	17,000
Professional and Business Services	166,500	173,400	178,800	183,000	180,800
Educational and Health Services	164,700	170,500	173,100	178,400	184,900
Leisure and Hospitality	91,800	97,200	102,100	106,300	111,400
Other Services	36,400	37,000	37,500	38,000	39,200
Federal Government	14,200	13,800	13,800	13,800	13,900
State Government	38,500	38,900	39,300	39,800	39,800
Local Government	110,100	110,600	113,400	115,200	120,200
Total, All Industries (3)	1,008,000	1,037,500	1,063,600	1,096,300	1,136,200

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The table below lists the major employers in the Counties of Contra Costa and Alameda, listed alphabetically.

ALAMEDA COUNTY
Major Employers

Employer Name	Location	Industry
Alameda County Law Enforcement	Oakland	Government Offices-County
Alameda County Sheriff's Ofc	Oakland	Government Offices-County
Alta Bates Summit Medical Ctr	Berkeley	Hospitals
Alta Bates Summit Medical Ctr	Oakland	Hospitals
Bayer Health Care	Berkeley	Laboratories-Pharmaceutical (Mfrs)
Children's Hosp & Research Ctr	Oakland	Hospitals
Coopervision Inc Advanced	Pleasanton	Optical Goods-Wholesale
Dell Emc	Pleasanton	Computer Software
East Bay Water	Oakland	Transit Lines
Grifols Diagnostic Solutions	Emeryville	Pharmaceutical Research Laboratories
Highland Hospital	Oakland	Hospitals
Kaiser Permanente Oakland Med	Oakland	Hospitals
Lawrence Berkeley National Lab	Berkeley	Laboratories-Research & Development
Lawrence Livermore Natl Lab	Livermore	Laboratories
Lbnl	Berkeley	Research Service
Life Scan Inc	Fremont	Physicians & Surgeons Equip & Supls-Mfrs
Llnl St & T Staff	Livermore	Research Service
Merritt Pavilion Lab	Oakland	Laboratories-Medical
Safeway Inc	Pleasanton	Grocers-Retail
Tesla	Fremont	Automobile Dealers-Electric Cars
Transportation Dept-California	Oakland	Government Offices-State
University of Ca-Berkeley	Berkeley	Schools-Universities & Colleges Academic
University of Ca-Berkeley	Berkeley	Schools-Universities & Colleges Academic
Valley Care Health System	Livermore	Health Services
Western Digital Corp	Fremont	Electronic Equipment & Supplies-Mfrs

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2018 1st Edition.

Construction Activity

Provided below are the building permits and valuations for the Cities of Dublin, Pleasanton and Livermore, and the County of Alameda for calendar years 2012 through 2016.

CITY OF DUBLIN
Total Building Permit Valuations
(Valuations in Thousands)

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$ 214,736.6	$ 256,827.4	$ 199,190.9	$ 143,137.7	$ 182,687.1
New Multi-family	108,683.9	12,662.4	156,240.0	54,259.2	20,553.4
Res. Alterations/Additions	2,414.4	3,889.5	7,873.4	4,708.6	66,984.6
Total Residential	$ 325,834.9	$ 273,379.3	$ 363,304.30	$ 202,105.5	$ 207,225.1
New Commercial	$ 3,986.7	$ 6,687.6	$ 16,385.0	$ 5,619.2	$ 2,794.8
New Industrial	134.0	0.0	0.0	0.0	0.0
New Other	416.7	3,616.7	16,670.6	35,866.5	11,395.8
Com. Alterations/Additions	2,721.1	25,390.7	24,777.0	28,895.9	19,204.1
Total Nonresidential	$ 7,258.5	$ 35,695.0	$ 57,832.6	$ 70,381.6	$ 33,394.7
New Dwelling Units					
Single Family	586	634	481	414	528
Multiple Family	368	34	698	525	74
TOTAL	954	668	1179	939	602

Source: Construction Industry Research Board, Building Permit Summary.

CITY OF PLEASANTON
Total Building Permit Valuations
(Valuations in Thousands)

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$ 24,739.7	$ 45,271.0	$ $36,265.0	$ 43,220.8	$ 40,242.6
New Multi-family	75,463.5	56,157.0	42,023.6	116,698.4	62,641.8
Res. Alterations/Additions	7,057.6	12,981.0	22,426.2	20,889.5	21,180.5
Total Residential	$ 107,260.7	$ 114,409.0	$ 100,714.8	$ 180,808.7	$ 124,064.9
New Commercial	$ 874.0	$ 0.0	$ 4,206.9	$ 24,423.7	$ 47,318.8
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	10,711.2	0.0	1,232.1	7,397.5	17,637.2
Com. Alterations/Additions	34,904.1	0.0	14,103.6	79,763.0	80,288.8
Total Nonresidential	$ 46,489.3	$ 0.0	$ 19,542.6	$ 111,584.2	$ 145,244.8
New Dwelling Units					
Single Family	53	147	75	86	69
Multiple Family	303	297	225	804	268
TOTAL	356	444	300	890	337

Source: Construction Industry Research Board, Building Permit Summary.

CITY OF LIVERMORE
Total Building Permit Valuations
(Valuations in Thousands)

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$ 22,820.9	$ 23,533.1	$ 18,864.5	$ 75,992.9	$ 61,779.4
New Multi-family	25,036.7	9,110.7	1,273.2	24,096.1	38,314.6
Res. Alterations/Additions	10,749.6	9,403.2	14,823.6	18,024.3	19,149.0
Total Residential	$ 58,607.2	$ 42,047.0	$ 34,961.3	$ 118,113.3	$ 119,243.0
New Commercial	$ 3,254.3	$ 6,500.0	$ 4,727.0	$ 47,245.2	$ 10,841.1
New Industrial	2,145.0	0.0	0.0	51,350.9	0.0
New Other	7,497.3	9,020.2	7,506.9	11,894.1	9,129.5
Com. Alterations/Additions	44,640.3	18,352.5	19,294.3	43,503.3	27,865.5
Total Nonresidential	$ 57,536.9	$ 33,872.7	$ 31,528.2	$ 153,993.5	$ 47,836.1
New Dwelling Units					
Single Family	99	105	69	299	270
Multiple Family	134	56	9	102	176
TOTAL	233	161	78	401	446

Source: Construction Industry Research Board, Building Permit Summary.

ALAMEDA COUNTY
Total Building Permit Valuations
(Valuations in Thousands)

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$ 372,939.4	$ 451,279.5	$ 400,498.1	$ 576,948.5	$ 791,891.2
New Multi-family	343,669.8	300,514.9	392,331.4	456,361.3	497,341.3
Res. Alterations/Additions	235,264.8	227,675.7	325,493.9	344,975.9	466,239.3
Total Residential	$ 951,874.0	$ 979,470.2	$ 1,118,323.4	$ 1,378,285.7	$ 1,755,471.8
New Commercial	$ 94,705.8	$ 122,360.6	$ 175,958.9	$ 187,303.4	$ 444,307.9
New Industrial	29,808.2	140,059.5	102,926.6	92,470.2	53,242.1
New Other	6,764.1	49,801.8	147,944.7	193,029.9	87,213.3
Com. Alterations/Additions	352,261.1	364,237.6	599,941.3	673,633.6	775,031.8
Total Nonresidential	$ 483,539.2	$ 676,459.5	$ 1,026,771.5	$ 1,146,437.1	$ 1,359,795.1
New Dwelling Units					
Single Family	1,119	1,339	1,076	1,671	2,348
Multiple Family	1,508	2,023	2,048	3,370	3,171
TOTAL	2,627	3,362	3,124	5,041	5,519

Source: Construction Industry Research Board, Building Permit Summary.

Provided below are the building permits and valuations for the City of San Ramon and the County of Contra Costa for calendar years 2012 through 2016.

CITY OF SAN RAMON
Total Building Permit Valuations
(Valuations in Thousands)

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$ 901.7	$ 0.0	$ 1,518.0	$ 600.0	$ 0.0
New Multi-family	-	3,564.5	6,407.4	12,978.5	7,157.5
Res. Alterations/Additions	10,224.6	11,704.1	20,348.9	11,073.6	13,311.7
Total Residential	$ 11,126.3	$ 15,268.6	$ 28,274.3	$ 24,652.1	$ 20,469.2
New Commercial	$ 11,729.3	$ 10,034.3	$ 3,905.6	$ 30,927.2	$ 14,989.6
New Industrial	84.8	85.0	0.0	0.0	0.0
New Other	30.0	6,409.0	17,878.6	2,683.7	7,332.4
Com. Alterations/Additions	36,576.8	79,245.4	26,693.2	45,058.2	61,937.3
Total Nonresidential	$ 48,420.9	$ 95,773.6	$ 48,477.4	$ 78,669.1	$ 84,259.3
New Dwelling Units					
Single Family	2	0	12	1	0
Multiple Family	0	28	156	64	28
TOTAL	2	28	168	65	28

Source: Construction Industry Research Board, Building Permit Summary.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the median household effective buying income for Alameda County, California and the United States for 2012 through 2016.

ALAMEDA COUNTY, CALIFORNIA AND UNITED STATES
Effective Buying Income
Median Household
As of January 1, 2012 Through 2016

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2012	Alameda County	43,677,855	55,396
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	Alameda County	43,770,518	57,467
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	Alameda County	47,744,408	60,575
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	Alameda County	52,448,661	64,030
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	Alameda County	56,091,066	67,631
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043

Source: *The Nielsen Company (US), Inc.*

Taxable Transactions

Summaries of historic taxable sales within the cities of San Ramon, Dublin, Livermore and Pleasanton, and the County of Alameda during the past five years in which data is available are shown in the following tables. Annualized figures are not yet available for 2016.

Total taxable sales during the four quarters of calendar year 2016 in the City of Dublin were reported to be $1.76 billion, a 4.35% increase over the total taxable sales of $1.68 billion reported during calendar year 2015.

CITY OF DUBLIN
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	678	$ 1,042,872	1,033	$ 1,241,228
2012	716	1,213,278	1,071	1,436,142
2013	746	1,261,933	1,099	1,518,125
2014	763	1,329,250	1,125	1,606,966
2015[(1)]	824	1,379,206	1,273	1,683,547

[(1)] Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization.

Total taxable sales during the four quarters of calendar year 2016 in the City of Pleasanton were reported to be $2.05 billion, a 1.17% decrease from the total taxable sales of $2.08 billion reported during calendar year 2015.

CITY OF PLEASANTON
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	1,765	$ 1,191,633	2,646	$ 1,715,384
2012	1,859	1,245,151	2,752	1,779,335
2013	2,060	1,304,218	2,982	1,894,143
2014	2,121	1,334,937	3,068	1,985,221
2015[(1)]	2,162	1,363,897	3,333	2,078,459

[(1)] Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization.

Total taxable sales during the four quarters of calendar year 2016 in the City of Livermore were reported to be $2.51 billion, a 6.29% increase over the total taxable sales of $2.36 billion reported during calendar year 2015.

CITY OF LIVERMORE
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	1,251	$ 962,681	2,190	$ 1,816,943
2012	1,310	1,128,509	2,235	1,893,475
2013	1,486	1,425,791	2,437	2,055,757
2014	1,465	1,572,314	2,419	2,227,300
2015[(1)]	1,507	1,689,813	2,641	2,358,742

[(1)] Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: *State Board of Equalization.*

Total taxable transactions during the four quarters of calendar year 2016 in the County of Alameda were reported to be $30.96 billion, a 3.99% increase over the total taxable transactions of $29.8 billion reported during calendar year 2015.

ALAMEDA COUNTY
Taxable Transactions
Number Of Permits And Valuation Of Taxable Transactions
(Dollars In Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	24,809	$ 14,519,756	38,577	$ 23,430,799
2012	26,027	15,781,349	39,706	25,181,571
2013	27,017	16,893,102	40,662	26,624,571
2014	27,152	17,820,857	40,746	28,377,714
2015[(1)]	17,260	18,702,806	45,197	29,770,157

[(1)] Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: *State Board of Equalization.*

Total taxable sales during the four quarters of calendar year 2016 in the City of San Ramon were reported to be $821.4 million, a 1.52% decrease from the total taxable sales of $834.1 million reported during calendar year 2015.

CITY OF SAN RAMON
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	881	$ 507,090	1,444	$ 725,094
2012	901	538,555	1,468	754,934
2013	902	581,545	1,455	825,915
2014	880	584,082	1,420	856,442
2015[1]	889	558,657	1,604	834,099

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization.

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APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency believes to be reliable, but the Agency takes no responsibility for the accuracy or completeness thereof. The Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Agency and the Underwriters of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, or interest in the Bonds.

General

The Depository Trust Company ("DTC"), New York, New York, 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 maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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. The foregoing internet address is included for reference only, and the information on this internet site is not incorporated by reference herein.

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 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 affect 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Agency (or the Trustee on behalf thereof) 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).

Principal, premium, if any, and interest 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 Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

APPENDIX E

FORM OF BOND COUNSEL OPINION

[Closing Date]

Livermore Valley Water Financing Authority
Livermore, California

Livermore Valley Water Financing Authority
Water Revenue Bonds, 2018 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Livermore Valley Water Financing Authority (the "Authority") in connection with issuance of $64,010,000 aggregate principal amount of Livermore Valley Water Financing Authority Water Revenue Bonds, 2018 Series A (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and all laws of the State of California supplemental thereto and the Trust Agreement, dated as of April 1, 2018 (the "Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the 2018 Installment Sale Agreement, dated as of April 1, 2018 (the "Agreement"), between the Alameda County Flood Control and Water Conservation District, Zone 7, as purchaser (the "Agency"), and the Authority, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate") between the Agency and the Authority, opinions of counsel to the Authority, the Agency and the Trustee, certificates of the Authority, the Agency, the Trustee, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the Agency. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Agreement and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint exercise of powers agencies and other local government agencies in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Agreement or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens, on any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority and the Agency.

4. The Bonds are limited obligations of the Authority payable solely from Revenues and the other assets pledged therefor under the Trust Agreement. The obligation of the Agency to make payments pursuant to the Agreement is limited to the Net Water Revenues of the Water System. Neither the faith and credit nor the taxing power of the Agency, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds or the Agency's payments under the Agreement.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Alameda Flood Control and Water Conservation District, Zone 7 (the "Agency") in connection with the issuance of $64,010,000 Livermore Valley Water Financing Authority Water Revenue Bonds, 2018 Series A (the "Bonds"). The Bonds will be issued pursuant to a Trust Agreement, dated as of April 1, 2018 (the "Trust Agreement") by and between Livermore Valley Water Financing Authority and U.S. Bank National Association, as trustee for the Bonds (the "Trustee"). In connection therewith the Agency covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Agency for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which 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).

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access system, or such other electronic System designated by the MSRB.

"Listed Event" shall mean any of the events listed in Section 5(a) and 5(b) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board.

"Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Effective July 1, 2010, the Repository approved by the Securities and Exchange Commission is the Municipal Securities Rulemaking Board through its EMMA site.

"Rule" shall mean Rule 15c2-l2(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the United States Securities and Exchange Commission.

"State" shall mean the State of California.

"Participating Underwriters" shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The Agency shall, not later than the April 15th after the end of the Agency's Fiscal Year (presently June 30), commencing with the report for the 2017-18 Fiscal Year, provide to the Repository, in an electronic format and accompanied by identifying information all as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 Certificate; provided that the audited financial statements of the Agency 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 Agency's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) If the Agency is unable to provide to the Repository an Annual Report by the date required in subsection (a), the Agency shall send to the Municipal Securities Rulemaking Board and to the Repository in a timely manner a notice in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. The Agency's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Agency 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; provided, that if the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An annual updating (to reflect the most recently completed fiscal year) of the information of the type set forth in the Official Statement for the Bonds, dated March 28, 2018:

1. Table 3 – Historical Water Deliveries

2. Table 4 – Historical Water Supply and Demand

3. Table 10 – Adopted Water Rates

4. Table 12 - Agency Receipts from Water Customers for Treated Water

5. Table 14 – Water Connection Fees

6. Table 15 – Historical Actual Connections and Total Revenue from Water Connection Fees

7. Table 17 – Historical Operating Results

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to the MSRB.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Agency 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:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Bonds calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Agency obtains knowledge of the occurrence of a Listed Event described in subsection (b), the Agency shall determine if such event would be material under applicable federal securities laws.

(d) If the Agency determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Agency shall file a notice of such occurrence with the Repository in a timely manner not more than ten (10) business days after the event.

SECTION 6. Termination of Reporting Obligation. The Agency's obligations under this Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or (b) if, in the opinion of nationally recognized bond counsel, the Agency ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Bonds or the Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived; provided, that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Agency 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 Agency. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency 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 Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the Agency to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Disclosure Certificate shall be an action to compel performance hereunder.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Participating Underwriters and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: April 11, 2018.

Alameda Flood Control and Water Conservation District, Zone 7

By____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: Alameda Flood Control and Water Conservation District, Zone 7

Name of Issue: $64,010,000 Livermore Valley Water Financing Authority Water Revenue Bonds, 2018 Series A

Date of Issuance: April 11, 2018

NOTICE IS HEREBY GIVEN that the Alameda Flood Control and Water Conservation District, Zone 7 (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate executed by the Agency on _____ __, 2018. The Agency anticipates that the Annual Report will be filed by __________.

Dated: __________

Alameda Flood Control and Water Conservation District, Zone 7

By____
Authorized Representative

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LIVERMORE VALLEY WATER FINANCING AUTHORITY • WATER REVENUE BONDS, 2018 SERIES A

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